



To: <taxreform@fstb.gov.hk>  
cc:  
Subject: Tax Reform

05/08/2006 06:09

Urgent

Return Receipt

Dear Sir/Madam,

I am supportive of the introduction of GST subject to the following caveats:

1. There must be a clear commitment NOT to increase Government expenditure as a result; in fact there must be a commitment to reduce Government expenditure as a % of GDP over time. This means that, for example, there should be a general raising of tax thresholds so that the overall impact on resident taxpayers should be broadly neutral.
2. The system is simple to operate and does not require extensive filling of forms, returns, claims, etc. To effect this, the tax should have the minimum number of exempted categories, ie: in principle, all transactions should be captured by the GST and, where there are already existing taxes (FRT, etc) these should be reduced accordingly. The simplest system would operate with "GST registered" businesses which would be able to reclaim GST on registered inputs and pay GST on sales, and "unregistered" businesses which would neither pay GST nor be able to reclaim GST on input costs. For "registered" businesses, they should have to submit just 2 numbers each quarter: sales and qualifying registered inputs (offsetting the sales).
3. Consideration should be given to modifying Hong Kong's insolvency laws so that GST fraud becomes a criminal offence and any director/shareholder of a company which shuts down without paying its GST bills is disqualified from serving as a director or shareholder again. In addition, as part of the GST registration, consideration should be given to requiring personal guarantees and/or advance GST deposits.
4. The Revenue department would do well to look at VAT fraud cases in the UK and Europe so that measures can be designed into the scheme here to prevent such frauds occurring here.
5. The rate should be appropriate and justify the collection effort and costs. In other words, a 3% GST rate is probably NOT worth the effort. 5% is appropriately balanced between raising enough revenue to justify the cost of collection while not increasing prices to the consumer disproportionately.
6. There should be a refund scheme for visitors taking goods back to their home country so that the retail trade in Hong Kong is not unduly affected. This could be modelled on similar schemes in Thailand for example, which has minimum thresholds on claims, and organised procedures at airports and other border crossings. GST on services would of course not be subject to refund.

In addition to GST, I would like to see reform of the income tax system which unfairly favours high earners in the form of the housing allowance. Many companies are now offering the housing allowance as a form of "tax efficient pay" in the total remuneration package. An executive earning HK\$100k per month can take another \$50k in housing allowance and only be taxed on the "deemed value" of  $10\% \times \$100k = \$10k$ , ie: \$40k of the payment is free of tax!!! Alternatively, executives can be supplied with expensive housing with the same effect. It is high time that this benefit should be restricted only to rental allowances up to HK\$10k/month (ie: to assist teachers, medical workers and others) or withdrawn altogether to create a level playing field.

Yours faithfully,  
Paul Gardiner