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To: taxreform@fstb.gov.hk

cc:

Subject: Proposed GST Framework for Hong Kong

While I agree with many of the tax issues outlined in your consultation document, that is Hong Kong needs to broaden its tax base to prepare for future uncertainties and challenges, one point that is sorely missing and overlooked is the impact to the already widening gap between rich and poor in Hong Kong. GST, as in other tax policies, besides being a source of revenue for the government to sustain its expenses to support an economy and its people, is also a tool used to alleviate economic imbalances within a society. One does not need to dig too deeply to see the issues we are currently facing among the poor, just watch the news every night and that should tell you that we have many social issues caused by various factors, among which economic hardship is the most prevalent.

The introduction of GST, therefore, should be selective. It cannot be applied across the board to all goods and services. I believe levying GST on items that are considered basic needs, i.e. food, clothing and medical services, will hit the poor the hardest. My recommendation is to have certain categories of these goods and services be exempt from this tax. For example, basic food items such as rice, oil, meat, fish etc. should be exempt. Likewise, clothing and medical services should also be differentiated between discretionary versus non-discretionary. The latter being goods and services that meet basic living requirements. While this task of how and what to put in each category can be difficult and contentious, one can only use common sense and logic as the first approach. For example, one can use a dollar limit per item of clothing to measure whether it should fall in the discretionary or non-discretionary category. While most medical services should be exempt, there are categories which should not, i.e. cosmetic surgery. Should cosmetic surgery be required due to physical damage caused by accidents, the consumer can apply for exemption. We can learn and apply methodologies used by other countries, i.e. U.S.A., in differentiating which goods and services are considered discretionary/luxury and which are non-discretionary/basic staple.

The one service item that the Financial Secretary, Mr. Tang, indicated that may be exempt from GST, financial services, I totally disagree with. If you have enough wealth or resources to require financial services, then you can afford to pay taxes. Let's not lose sight for the fact that a badly conceived tax policy will cause social unrest and imbalances that ultimately leads to incurring more costs; hence outweighing the benefits such policy was to achieve.

Sincerely,
Sofia Yee