



To: taxreform@fstb.gov.hk
cc: etwbenq@etwb.gov.hk
Subject: View on proposed GST

28/08/2006 22:08

Urgent

Return Receipt

Dear Mr Tang and Dr Liao,

Please refer to the attached document for some suggestions on the proposed GST.

Sincerely,



KH Poon Concerning the proposal for GST.doc

28 August 2006

Mr Henry Tang
Financial Secretary,
The Government of the Hong Kong Special Administrative Region
taxreform@fstb.gov.hk

Dear Sir,

In principle, I agree to the proposal for GST as a means to broaden the tax base. However, please consider the possible *environmental implications* of the compensation measures. Tax policy could have great environmental impact!

First of all, "GST credit" for water bills would provide a maximum of \$500 annually per household. You quoted a figure of "*approximately half of all households incur less than \$500 in water and sewage charges a year*". What could likely result is that the "credit" may act as a negative incentive for citizens to conserve water. Why would anyone care to limit their water bills below \$500 annually if that is fully subsidized up to that amount? Your proposal would make the percentage of household with water charge below \$500 to drop substantially. It would take a very strong sense of environmental consciousness to continue conservation facing this disincentive. I reckoned that such a conscientious mind is hard to come by. Therefore, I strongly object to the proposed way of water charge "GST credit". Modification is needed.

Please simply add \$200 to the direct cash relief. Better still, use tax relief as an incentive for conservation – say, give a higher "GST credit" (e.g. \$400) to *reward water conservation* for household spending <\$500 per year and a lower "GST credit" (e.g. \$100) for those spending \$500 or more annually. You may be surprised how many household will begin to reduce water spending if they have been paying water bills in the ~ \$500 - \$700 range. Since every 10 units of energy output with water flowing at our tap means consuming 100 units of energy in fuel (coal), any decrease in water consumption will be translated into substantial reduction of coal energy use as well as gas emissions at our power plants for pumping water to us! [Amory B Lovins More profit with less carbon. *Scientific American* 2005 (Sep);52-61.]

I would like to illustrate the case with my own situation. My family belongs to the group of "high-income households". Our living space is ~1100 square feet with a

roof garden (with plants needing water) and a car to wash. My wife is housewife and we eat out only 2-3 dinners/week. We have 3 adults (one of whom a foreign domestic helper) and a toddler staying in that apartment. Our average daily water consumption has been only 0.3 cubic metres for the past 24 months. The annual water and sewage charge amounted to only \$431 for 7/05 – 7/06. If we have not been conserving water, we could easily have spent double that amount. I think we should encourage more people to stop wasteful practices.

Similarly, we could use GST relief to help *promote the use of environmentally sound electrical appliances*, such as lighting devices, refrigerators, air-conditioners, energy efficient motors and large solar panels, etc. These are generally much more expensive than the cheap wasteful counterparts. I suggest complete exemption from GST for recognized environmentally friendly electrical appliances. We could give consumers of these products either immediate GST reimbursement or refund by application, just like TRS refund mechanism for tourists.

Finally, I would also suggest GST exemption or refund for primary and secondary school textbooks as a gesture to support basic education.

Thank you for your kind attention.

Yours faithfully,

(Mr) Poon Kin Hung
Tai Po, NT

cc. Secretary for the Environment, Transport and Works, Dr Sarah Liao, JP
etwbenq@etwb.gov.hk