

28 August 2006

Financial Services and the Treasury Bureau  
4/F, Main Wing, Central Government Offices  
Lower Albert Road, Central, Hong Kong

Dear Sir,

Tax Reform

I am writing to vote against the imposition of a Goods and Services Tax (GST) in Hong Kong.

First of all, a GST would widen the divide between the rich and the poor, as both would be subjected to the same amount of tax. It might take a large proportion of lower-earners' incomes so that lower-income families might seriously suffer. Therefore, a GST should be more appropriate for countries where wealth is more evenly distributed than large poverty gap countries like Hong Kong.

Secondly, a GST would increase the cost of living. It would be equivalent to an income cut of 5-10 per cent. Although standard tax rate could be cut by up to 5 percentage points - from 16 per cent to 11 per cent, prices are likely to increase by at least 5% overall. It is because many previously untaxed goods and services would be taxed, such as food, clothing, electricity, gas, public transport, hair cut..., etc.

Moreover, instead of granting exemptions to goods and services that are considered daily necessities, the government's consultation paper suggests offering allowances of up to \$3,500 per household and additional relief to lower-income families. However, this would only create hefty administrative costs as the government has to spend much to identify the low-income families and assess their applications for allowances and extra relief. In addition, Hong Kong also needs to arrange tax refunds for tourists like many other countries do. Not only will the procedures cost extra administrative expense, the assessment may also draw public disputes on sensitive issues such as the amount of the allowances and who should enjoy those.

Last but not least, a GST would encourage tax evasion because businesses would be fully reimbursed for any GST paid on business inputs. Many of the biggest companies would get away with paying no tax or only nominal amounts.

To conclude, GST could be seen as "regressive" tax that would hit not only the poor but also the middle class. Furthermore, huge administrative expense and tax avoidance would be resulted. The government should duly consider the above problems and make any solutions before imposing GST. I believe the government's decision which would not disappoint their citizen. Thank you for your attention!

Yours sincerely,

(Signed)

(T801 PUI CHAN)

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