



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

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Urgent  
 Return Receipt

Dear Sir/Madam,

There are some arguments supporting sales tax:

1. broader tax base and hence more stable income for the government.
2. fairness - many people can avoid paying income tax but even criminals have to pay sales tax.
3. promote savings of the society.

If the government is replacing the whole income tax system with a simple flat retail tax, then I think it is worth more investigation and research. However, if sales tax is just an additional to the current income tax system, then I think its benefits do not worth its cost.

It is certainly a benefit in terms of fairness that sales tax is not as easy to avoid as income tax. But broader tax base is a two-sided blade. While some may say that it is more reasonable for more people to share the responsibility, some can also argue that the burden should fall more on the ones who can afford it. Promoting savings is generally considered a good thing but given the Chinese culture in Hong Kong, it is not necessary. Thus, the most concrete supporting argument (and probably the main reason) is that the government can have a more stable income source. The benefits of stable income, I guess, is that government budgeting is easier and its spending power is higher in recessions.

Two key arguments against sales tax:

1. Consider the big picture. More complicated tax system takes away productive economic resources. The only possible exception is that this new system redistributes resources more efficiently. In this case, more resources are in government and accounting/tax companies' pocket. More likely than not, it is not the best scenario.
2. Stable income for the government, even in economic downturn probably is not ideal for the society as a whole. Government officials would like it because they got more money to give and entice better reputation. Some may support the Government to have more money to spend during recession. But if one considers where the money comes from, it is not difficult to see the truth.

Finally, there are other better solutions to stabilize government income. While the best strategy is to re-examine and limit the spending, these may be easier:

1. Finding the solution in financial market. For example, issuing bonds/derivatives with contingency upon some economic cycle related index. Even Disneyland issue to insure against earthquakes. It is not too farfetched for the government to insure against economic downturn in financial market.
2. Legalizing and regulating gambling. It can be another source of income.

Please feel free to contact me for more details.

Regards,  
Eric Cheng