



14/09/2006 13:31

 Urgent Return Receipt

To: &lt;taxreform@fstb.gov.hk&gt;

cc:

Subject: Broadening tax base

Dear Sirs:

Much has been said on the proposed GST as gleaned from the opinion page of SCMP and media discussion over the last few weeks. However, I would like to pose the following questions to you:

- i) What do you think is the major factor that accounts for the fact that a relatively small proportion of tax payers- of which only one third of the working population needs to pay tax - are footing a major portion of salary tax? What is the Government's long term strategy to redress such income disparity? Perhaps the Administration should start addressing the pay disparity within the civil service to bring it in line with other developed countries that do have a GST tax before bringing the GST proposal out for public discussion.
  
- ii) The Financial Secretary also mentioned recently in a public forum, if I remember correctly, that less than 100 firms in Hong Kong are paying like 60%(?) of total profit tax that the Government received last year. This is astounding considering that the vast majority of the working population are employed by small and medium enterprises. In my view, the Administration needs to urgently review the current tax regulations that allow such anomalies to exist. Perhaps there are significant loopholes in the existing tax regulations that permit firms to stay away from the tax net; it may also be the result of less than vigilant investigation of potential liabilities of profit making companies by the tax authorities. I am chagrined to find out Esprit, one of the very few international brand name companies in Hong Kong, do not need to pay any profit tax in Hong Kong despite making HK\$3.7 bn profit last year and incurred over HK\$1.2 bn global taxation bill. While I understand the tax liability concept in Hong Kong is territorial based, it escapes reasons why the tax authorities should not attribute a portion of the economic activities of a Hong Kong based company that sells mainly overseas and produces in offshore locations are conducted in Hong Kong and therefore a fair proportion of its profit is also taxable. The transition of Hong Kong from a manufacturing city to an international trading and administration centre with manufacturing base located across the border has made this issue an acute one to address from the taxation point of view. This is also timely to examine this issue thoroughly with the recent conclusion of double tax agreement with the Mainland.

Yours truly,

T. C. Ng