To: taxreform@fstb.gov.hk
cc:
Subject: GST should be the very last resort to boost revenue

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Dear Sir or Madam,

I agree with the government's concerns on financial stability, but levying the GST is not the answer.

The government is concerned about another deficit blow-out in the event of another economic recession and seeks a more stable source of income. However, GST is actually more sensitive to the economic situation than other sources of taxation. This is because the GST is dependent on private expenditure on goods and services, which tend to contract earlier than the general economic cycle and to a greater extent than income and corporate profits. Furthermore, the government proposes that all extra income from the GST will be redistributed to financial relief to tax-payers and low-income earners. Should a recession occur in the first few years after the implementation of the GST, it cannot be envisaged how the GST can minimise the deficit then.

If the government desires to stabilise its income, it must tap into sources that shows continual growth. Barring unforseen major global events, investment and travel industries will continue to grow due to increasing needs and disposable income world-wide. This can also be witnessed in Hong Kong by the increase in tourist numbers, airport passenger movements, stock market turnover, initial public offerings of Mainland companies, among many other indicators. At the moment, the stamp duty stands at a low rate of 0.1 % and is not applied to many areas of investment such as subscription to investent funds. A small increase in the rate to, for example, 0.125 % and widening the scope of stamp duty would not add to the cost of investment significantly at the individual level but can collectively contribute to billions of dollars of extra revenue. At this new rate, the extra stamp duty raised from a stock market which trades for 240 days a year with an average of $30b daily turnover!
will already be $1.8b. As long as Hong Kong maintains its atractiveness to investors, the small rise in stamp duty would not deter investment and have a very minimal impact on the general public.

The government raises the idea of a 'border levy' a few years ago but bowed to public pressure. However, it is illogical that only passengers departing Hong Kong by air need to pay a departure tax while those departing by sea or land are exempt. With the growth of passenger movements into, out of and in transit through Hong Kong, the government should consider a more general passenger movement tax. A small amount, say $10, per departure, entry and transit via all modes of transport will capture a large income and will not add very significantly to the cost of travel by sea and air. The government may like to consider a lower amount for border-crossing by land or discount schemes to frequent cross-border travellers to soften the impact on cross-border movements.

One of the failures on the government's behalf at the early stage of GST consultation is to pledge revenue neutrality of GST by compensating exisitng tax payers. However, most people regard the GST as unfair to the low-income earners and would have preferred that the government pledge extra expenditure on education, health and environment with the extra revenue. The government should not raise revenue for its sake but tie it to desirable objectives. On this point, the government can consider raising the profits tax rate but at the same time introduce allowances/deductions for staff training, research and development. This will help to foster the

long-term competitiveness of individual companies and promote R&D in Hong Kong. Another priority for the government is to promote environmental protection and conservation. To this end, an energy tax levied on the consumption of electricity, gas and petrol would help to drive the message home while the government can commit to furthe!
r measures to enhance our environment.

The most recent tactic in promoting the GST is to propose a scenario of economic recession. Why does the government not actively ensure the continued steday growth of the economy instead? This is by far the best way of securing revenue, as the government should have noticed in the 20 or so years up to the Asian Economic Crisis. Apart from furthering existing strengths, the government should actively explore other areas where Hong Kong may be competitive and start cultivating those industries. One such industry that comes to mind is the IT sector. These industries generally generate high-paying and more secure jobs as they grow. On another side of the equation, the government should continue to control its expenditure. I am particularly concerned about the perpertual high number of CSSA recipients, many of whom presumably applied because of unemployment. If the government cannot alleviate the unemployment situation in these economic good times, the problem will only aggrevate!
during the next down turn. Has the government done enough to encourage employment and generate enough number of jobs for those people? The government seems resistant to the idea of a minimum wage, but if a reasonable minimum wage is set and suitably pegged to the CSSA, there would be one fewer major incentive for the applicants to stay on welfare. The government should deal with the unemployment issue urgently now before it becomes too difficult to tackle again.

The government has called on the opponents to the GST to propose alternative sources of income. There is no shortage of new ideas, and the government should think outside the box and be open to all suggestions. It is also imperative that the government maintain economic growth as this is ultimately the best guarantee of a stable source of revenue.

Yours faithfully,
KONG Kwai Wai Geoffrey