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To: <taxreform@fstb.gov.hk>
cc:
Subject: Response to Consulation on GST

Dear Sir/Madam,

In response to your GST consultation, I have the following doubts concerning the feasibility of your proposal:

1. Your proposal to apply GST in a simple and uniform manner the taxable items of which would include transport, food, healthcare, education and general household consumption expenditure:

- when public transportation prices in HK rank relatively high as compared to other established economies in the world, eg. HK's MTR charges according to the distance of travel on the urban line vs. Paris MTR charges the same price regardless of the distances on all urban lines, and any alternative to the HK MTR charges similar prices, eg. Taking the HK MTR from Admiralty to TST costs HK$7.90 while taking the cross-harbor bus costs HK$8.90. As HK people are already paying hefty sums for the comparatively short distances they travel, an additional 5% to the already overcharged prices would be detrimental to people with low incomes. They could skip lunch or breakfast to make ends meet, but they need to travel to work and pay the transportation cost which is unavoidable!

- HK people used to have a wide range of choices on food as regards price, variety and quality. Now that HK's food market is largely monopolized by a couple of chain stores, we have few choices in food variety and quality while we must nevertheless pay higher prices regardless! An additional 5% to be added to the price we pay for mere sustenance would be like adding salt to the wound, as it would again give some stores an opportunity to include an administrative charge on the food items they sell. This would again make food even more expensive than it already is and more people will be driven to living on even fewer choices.

- As HK has no social security network, the price presently charged at public hospitals is already out of the reach of many people constituting the lower rungs of the social ladder. Coupled with an anticipated increase in the price of public healthcare services, another 5% on top of the new price will certainly make HK's healthcare services out of many people's reach.

- High education in HK is doubtlessly a very expensive item in view of its recent hike in price of 100%. When you plan to add another 5% on this hefty sum as GST, have you considered the situation of students from less affluent families who must borrow government loans to finance their studies? As the original 3-year university studies have been prolonged by 1 year to the present 4 years, apart from having to repay a government loan which has increased in principal by 100% (original HK$42,500/yr. vs. present HK$95,000/yr.), the GST will only make their post-study survival more difficult, even if they manage to find a job. For those who can't find a "reasonable" job upon graduation but who must take up family responsibilities and simultaneously repay the government loan, this is synonymous with telling them to kill themselves.

A sheer levy of 5% as GST will of course create no impact on HK's most affluent crowd who don't even need to pay the inheritance tax anymore. As for young and middle-aged professionals who are still clinging to their salaried jobs (yet not necessarily stable or promising of an upward adjustment), their disposable income will certainly be dented with the imposition of the GST, but they will survive as long as they hold onto their jobs. It is for those who were retired half a decade ago or who are retiring soon that will get the biggest hit by the imposition of a GST: while their savings have made no reserve for the new tax, their modest retirement income is largely fixed irrespective of inflation, and they are not eligible for social compensation because of the meager amount of assets they hold. So a 5% GST will surely downgrade the standard of their living to a great extent. As such, you may as well tell this group to leave HK or kill themselves when they reach the age of 70.

2. If the goal of imposing a GST is not to generate additional revenue, why bother with the whole thing at all? In view of HK's precious tax reserve, isn't it better to save what is on hand than wasting it, however meager the amount, on exercises that is not designated to generate some returns?

3. Looking at Chart 1 (p.6) on "HK vs OECD - a significantly narrower tax mix," albeit the narrower tax mix, HK seems to have a higher disposable revenue if you simply add up all the dark columns that represent the HK situation. In such case, HK seems to be faring better than the OECD. Seeing that OECD residents must pay up to 30% or more of their salary as social security tax, regardless of how the OECD wants to name it for definitional purposes, the entrepreneur-minded HK people clearly do not need as extensive a social security network. The same goes for OECD's payroll tax. (These are the taxes that have forced small OECD employers to close their business.)

The fact that OECD recorded a low profits tax could be resultant from poor performance of the economy in the period concerned. This has no bearing on the assumption that HK is imposing too high a profits tax.

In OECD countries such as France and Britain, even the installation of a TV in the household is liable to pay a consumption tax, but the data showed that for the period concerned the consumption tax, albeit its diverse tax base, levied by the OCED reached only 31.8% of its total tax revenue while HK's consumption tax as levied on the few items specified in Note 6 (p.6), accounted for almost 20% of the territory's total tax revenue.

4. As for corporate tax rates worldwide, in view of the high cost of conducting business in the EU, I bet one way to retain business is to lower the corporate rate, irrespective of its effectiveness when all other factors relating to and connected with doing business in the region are taken into consideration in the overall scenario. Eg. In newly-opened-up countries such as Iceland which has little to offer to business in terms of easily accessible sea ports and land routes and etc. or Lithuania which continues to lack reliable infrastructure systems (legal and etc.) to promote investor confidence or even Ireland which remains tense with its N&S issues, a drastic cut in the profits tax rate may be the only means to retain existing investors and hopefully attract new ones. But HK remains an efficient doorway to China till this date, a 16% corporate tax rate remains reasonable as compared to that of other developed states named in Table 1 (p.11). As long as the investment sentiment in China remains hot and the HK economy continues to perform well, is there a need for HK to further lower its already low corporate tax rate?

5. As regards salaries tax, HK's tax rate remains the lowest even after a 2% increase in 2006 (as shown in Table 2 p.13), how much lower do you want to make it? There are other reasons for which HK may find it difficult to retain or attract international talent, eg. its over-crowdedness and polluted air. The HK government must face up to the reality that HK's physical environment is what deters people from actually "living" in HK. If the HK government fails to act quickly, very soon, even tourists will have second thoughts for visiting the territory because of the blur-to-opaque scenery at the Peak and allergy-causing fog that overhangs an ever-shrinking Victoria harbor.

6. To this date, retired persons and those anticipating retirement in a couple of years may still have enough savings to live to the end of their lives, assuming that inflation will not experience a steep rise. With the imposition of GST, a retired person who spends only HK$6,000/month now to make ends meet will have to spend HK$300/month more. Each year, he/she is liable to spend about HK$4,000 more, assuming he/she suffers from no illness that is not already covered by his/her health insurance. Besides being able to drastically lowering a retiree's standard of living, the GST could actually drive a retiree out of his/her existence, eg. when he/she suffers from an illness (eg. Cancer) not covered by his/her insurance or he/she doesn't have an insurance.

It is true that social responsibility obliges all HK residents to contribute to the society through tax payment, or the government would be left with nothing to operate the institutions and services designated for the use of its people. I don't object to the imposition of a GST tax on items and commodities which are of a luxurious nature and which are not a necessity for human subsistence, eg. liquors, cigars, non-commercial private vehicles, luxurious flats and etc. That is, GST should be levied on items and commodities determined as having a "Luxurious Nature" on the basis of their market labeling and pricing. Eg. Anyone who can afford to drink 10 bottles of Dom Perignon (appro. HK$700/bottle) in one evening should to be made to fulfill his/her social obligation by contributing to the social treasury by paying a 10% GST. Anymore who can afford to buy a HK$500,000 diamond studded Piaget, whether by cash or by credit, should be made to pay a GST from 10-15%. In brief, those who can afford it must be made to foot a bigger bill. Therefore, instead of having to go through the complex procedures and processes of giving rebates and/or compensation to low income households and to ensure that justice is done for everybody, GST should be levied on the "per item" basis depending on what such items is used for and how necessary it is to maintain a human existence. As such, low-income households and intended retirees may continue to live their habitual living while the affluent crowd can equally enjoy a luxurious lifestyle made possible by their ample wealth.

A word about the dilemma faced by EU countries: their weak economy is a result of an overly diverse tax base that imposes a levy on practically every aspect of living. As a result, ordinary peoples are left with little disposable money for items and commodities which are not necessities for living, eg. Fine dining, LV bags, Dom Perignon, Chateau Laffite 1985, etc. Coupled with heavy social security taxes, payroll tax, poll tax and etc., few but the largest of the corporations manage to survive. As such, I find it totally inappropriate to compare the HK economy and HK's economic conditions with those of the EU countries (which are also OECD members). Therefore, Hong Kong MUST NOT simply copy from the OECD, it MUST TAKE CARE to formulate measures suitable for HK's effective implementation while causing as little impact on the society at large as possible.

Thank you for your attention.

C. Szeto