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☐ Urgent☐ Return Receipt

To: <taxreform@fstb.gov.hk>
 cc:
 Subject: GST review

Dear Sir

I am writing to you after reviewing your documents on the GST proposals. In principle I am firmly in support of your proposals provided that there is no overall increase in the tax take. The principal that everyone who lives in Hong Kong should make some contribution to the revenue is well accepted in other countries and has been introduced, most recently in Australia, without any significant impact. Most of the arguments against the GST which were made are also being made in Hong Kong - and have proved to be false. The introduction of a GST means that the Government will not have to increase the tax burden in times of economic recession.

One of the problems that Hong Kong has is that its tax base is far too narrow thus alienating a significant proportion of the population from having to contribute. The flip side of this is that the burden is shared by a smaller number of individuals who most likely do not even receive benefits, such as healthcare or education, due to their provision of alternatives elsewhere. Given that countries like Singapore have recently attracted a large number of professionals, particularly from the financial sector, by reducing the tax differential, it is time for Hong Kong to resume its prominent position.

The introduction of a 5% GST should be accompanied by a reduction in the standard rate of tax to 11% as is set out in the proposals. The proposals for the widening of the bandwidths to help the poorest in society as well as to encourage people into the workplace and off state reliance is also to be welcomed.

Another advantage of the introduction of the GST and reduction in salaries tax is that it would diminish tax avoidance schemes. Increasing Government expenditure is not a good idea and there is a significant argument that it should actually be cut further with greater responsibility to be placed onto the private sector and onto voluntary organisations.

The Government should do more to highlight to the working public that rents would be exempt of GST and that there would be a corresponding cut in salaries tax. Profits tax should be maintained at its current level so that the benefits are transferred to the hardworking people of Hong Kong especially those with families. I would therefore argue that the Government should only reduce salaries tax which is no longer competitive with other countries while leaving the profits tax unchanged which is already competitive with international competitors.

The Government should also consider a 5% tax on dividends on companies, deductible at source and also payable on capital returns - this would be in line with international practice and remains at a competitive level relative to the 10% tax in the UK. To help the needy and to encourage thrift amongst the less well-off, this tax could be offset against salaries tax. This would encourage companies to either use funds for investment, rather than distribution, or to return capital to shareholders in the form of buybacks of shares thus helping overall prosperity by increasing confidence.

The Government should consider abolishing hospital charges for children - this charge is penary and probably costs more to collect than the revenues that it raises. Medical care for children, especially those who are the poorest in society, should be completely free of charge.

The support for the introduction of GST comes on the condition on significant reductions in the salaries tax and that the overall tax take should not be increased for five years as a proportion of GDP.

I would be quite happy to provide you with further thoughts on this issue if you would consider it to be

helpful.

Yours faithfully

Dr M Apabhai