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cc:  
Subject: Tax Reform

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tax reform.doc

The government has recently proposed to have a tax reform and introduce the Goods and Services Tax (GST) to Hong Kong. As a Hong Kong citizen, I would like to express my opinion towards implementing the GST. The government always claims that broadening the tax base, creating a fairer tax system, increasing the government income would be caused by the enforcement of GST. In fact, those claims are partly correct but parts of them are misleading to the citizens.

GST is a kind of regressive tax. It means that the tax payment takes a decreasing proportion of income when income increase i.e. tax rate decreases when income increases. It can be proved by the calculation of tax rate i.e. total tax payment / total taxable income. As the tax paid to a good or a service is standardized, tax payment of the low income group and the high income group would be the same. Thus, the low income group would pay a higher tax rate while the higher group would pay a lower tax rate. In other words, the poor has to pay a larger proportion of their income to the GST. In long term, this would widen the income gap and worsen the problem of extreme disparity between the poor and the rich. At that time, tax cannot play the role as allocating wealth and social resources evenly and fairly.

We can see that, the GST is not fare to the low income group and it may increase the disputes between different social classes. Social harmony, which is promoted by the government all the time, would be ruined.

Increasing the official reserves is the responsibility of the government and the government wants to achieve this by increasing the tax income. However, saving the unnecessary costs would be a more efficient method to increase the official reserves. As we all know, the salaries of the civil service workers are much higher than the employees in private company. Expenditure on paying their salaries is a heavy burden to the official savings. If the government can simplify the structure of the departments and reducing surplus staff, it would be sure that the government can save most parts of its expenditures.

In the tax reform proposal, the government suggests subsidizing the low income family with a certain amount of money. This would increase the social welfare costs. Moreover, the GST is an indirect tax. It is easy for the companies and individuals to escape from paying the tax. The government therefore needs to spend a large sum of money to administrate the tax collecting process.

The GST would also discourage the consumption as it causes the prices of the

goods increase. Tourists have fewer incentives to come to and consume in Hong Kong as they cannot enjoy the tax-free products in Hong Kong. They have to pay more on hotel accommodation, restaurant meals, shopping etc. when they travel locally. This would badly affect the local tourism and the competitiveness of Hong Kong tourism services would decrease. For the Hong Kong people, they would prefer shopping in Shenzhen and the demand for local products would decrease. Obviously, the GST brings negative effects to the companies and exporters.

The government has suggested a Tourist Refund Scheme (TRS) in order to attract tourists to consume in Hong Kong. Nevertheless, it is a confused policy since the tourists are required to keep all receipts and to put all the goods bought into a 'sealed bag'. It is time-consuming and inconvenient. It is not attractive to the tourists as well.

The GST has violated two principles of Taxation by Adam Smith, that is, equality and convenience. The tax payment should be proportional to the income and wealth. The method and timing of tax payments ought to be convenient to the tax payers and governments. From the above reasons, the government should think twice and study the consultations before it implements the Goods and Services Tax.