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 Urgent Return Receipt

To: taxreform@fstb.gov.hk

cc:

Subject: Opinions on Tax Reform

## TAX REFORM – Imposition of general sales tax (GST)

&lt;?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" /&gt;

Dear Sir or Madam,

I would like to express my opinion towards the reform of HK's tax system.

First of all, the reform of the present tax system in HK is definitely an important and influential policy and will have impacts on Hong Kong's status as the international financial and commercial trade center.

The General Sales Tax is proposed to levy 5% of tax on the sales of a wide variety of goods and services as stated in the consultation documents.

The Secretary for Financial Services and the Treasury, Mr. Frederick Ma, emphasizes that the tax reform aims to broaden the tax bases of the HKSAR government and stabilize the government's revenue, instead of charging a higher tax rate on the public implicitly. With the imposition of GST, the government is then able to ease about 60% of its financial burden of essential expenditure, such as education and medical services.

In my opinion, I agree with Mr. Ma's viewpoint that every citizen should contribute to the expenditures spent on the construction of a better living environment of HK and that the imposition of GST has more advantages than disadvantages. It is because the tax revenue would finally be returned to us, HK citizens, in a different way.

In addition, Hong Kong is facing serious problem of aging population. Pressure will be created if the government relies heavily on direct taxes, like salary tax, profit tax and revenue from selling of land. Even the profits generated from the investment of exchange funds should not be taken as the main source of revenues since investment involves risks. It is dangerous for the government to rely on it. When economic crisis appears again, HK may not be able to bear it either.

Someone has suggested raising the property rate or the salary tax rate instead of imposing the GST. However, I think it cannot help in alleviating the government's financial burden as the direct taxes fluctuate with the current economic situation.

Nonetheless, there are certain criteria to be considered before implementing the new policy, for example, the items or business to be exempted from the GST, the amount of compensation given to the low-income group, the impact of decrease in private consumption, etc.

I would like to suggest that some necessary items should be excluded from the GST because the middle- to low-income groups' percentage of tax to their disposable income is higher than that of the high-income group. When they are not able to get enough assistance, the new tax system would likely to 'become robbing the poor and helping the rich'.

Besides, the government should also do research on the impact derived from executing the new tax system on HK's GDP. Local citizens, tourists and investors will reduce their expenditure due to the increase in nominal price of general goods and services. As a result, HK's GDP may drop. Therefore, the HK government should also think of ways to maintain HK's status as an international financial trading center, as I have mentioned above.

To conclude, the imposition of the General Sales Tax has undeniable benefits to HK's economy on one hand. It helps broadening the tax bases and the government will then be able to have a more stable source of revenue in the future.

On the other hand, negative effects, like decline in exports of domestic goods, will derive from the execution of the new policy and have to be solved appropriately. This relies on the cooperation of all

stages in the community.

Yours faithfully,  
Anna Ng  
A HK citizen