



To: taxreform@fstb.gov.hk
 cc:
 Subject: Opinions of GST

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Dear Herny Tang,

<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

As a <?xml:namespace prefix = st1 ns = "urn:schemas-microsoft-com:office:smarttags" />Hong Kong citizen, I am writing to give my opinions about some advantages and important considerations of adopting the Goods and Services Tax (GST) in Hong Kong.

Nowadays, the sources of government income are very limited. Income taxes, revenue from land sales and investment earnings can obviously bring a large amount of income to the government. However, the income from those resources may fluctuate with economic conditions. For example, income tax is a kind of direct taxes, and it is closely related to the wealth of citizens. If there is a great economic down-turn, citizens' salaries may drop while the unemployment rate may increase drastically. Then the government income can no longer cover its unavoidable expenditure.

Also, once the GST is adopted, the tax base can be enlarged as the tax imposed on goods and services is related to all Hong Kong people. The government income will become more stable. Therefore, it will be possible for the government to reduce some existing tax rates and charges, such as stamp duties, profit taxes and Trade Declaration Charges. These can bring benefits to some economic sectors, e.g. business, export, investments, if appropriate supplements are provided to support them.

Besides, it is not necessary to worry about the Hong Kong's nowadays economic conditions, as every economic sector is growing stably. So it is a considerable chance to develop a better taxation system. We should make hay while the sun shines, so that the government is capable to overcome the unforeseeable economic difficulties.

However, there are something that the government may need to consider. Firstly, the GST should be beneficial to the whole economy. Trade and logistics, for examples, should not be affected by the GST. Otherwise Hong Kong's exported goods will suffer from competitive disadvantages in the international trade. Also, as Hong Kong is an international financial centre, the GST should not significantly affect the financial services. Tourism can incur exports of services, therefore improve Hong Kong's balance of payment. So there should be some ways to protect the tourism.

Secondly, the GST will probably lead to an inflation of about 3%. To avoid a rather high general price level, one of the measures is to adopt a contractinary fiscal policy, i.e. increase taxes and decrease government expenditure. But this will affect the income and welfare of the citizens. So the government may need to use other ways to achieve a lower price level.

Thirdly, the government should provide enough upfront supplements to the low-income group. Furthermore, the effectiveness of those supplements, such as the reduction in water and sewage charges, is necessarily to be considered. They should be able to cover most or

even all of the extra costs incurred by the GST.

In conclusion, adopting GST is a suitable way to solve the problem of narrow tax base, so as to obtain a more stable and reliable income, for the development of the economy and providing social welfare to the poor families. But to avoid its drawbacks, the government should have concerns about the ways to minimize the increase in people's costs of living. Hope my opinions are useful for the tax reform.

Yours faithfully,
Jack Wong