



To: taxreform@fstb.gov.hk
cc:
Subject: Comment on GST

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

In response to the tax reform proposed by the government recently, I am really against of introducing a new tax --- GST in Hong Kong. Of course, I know that GST has its own benefits on Hong Kong's economy. However, after weighing the pros and cons of it, I don't think GST should be imposed.

Undoubtedly, imposing GST ---a new type of tax can broaden our narrow tax base. If we only consider the viewpoint of government revenue, it is certainly good since the income of the government would increase and the problem of budget deficit can be released. Also, the government can have more money spent on the society on improving existing infrastructure and carrying out more economic projects.

Nevertheless, we should not just think about the increase in official revenue derived from GST. Instead, we should consider more comprehensively. In fact, GST is a tax that has to be borne by everyone in the society, no matter the rich, the poor, little children, adults or the elderly. In other words, it is inevitable to everyone. In this way, it is unfair since the low-income group (the poor) has to pay a larger proportion of their income as tax while the high-income group (the rich) needs to pay a smaller proportion. So, the tax rate for the poor is higher whereas the tax rate for the rich is lower and it means that GST is a regressive tax. This surely violates Adam Smith's fairness principle of taxation and would widen the income gap. What is more, the purposes of collecting tax are to raise government revenue, to lead to more even income distribution and to ensure social harmony and stability. If such regressive tax (GST) is imposed, the above goals stated cannot be achieved since there would be more serious disparity between the poor and the rich and also it is not favourable for building up a harmonious society.

Apart from the aforementioned impacts, the introducing of GST would inevitably raise the market price of all consumer commodities. With the same level of salary income, the burden of Hong Kong people (especially the poor) would be heavier since they have to pay more when consuming. This may not have too great influence on the rich. However, for the low-income group, their living standard would probably decline because they spend more money on paying GST. The most important point is that consumers' purchasing incentive would be lowered. They would absolutely buy less to avoid paying tax. Moreover, once GST is imposed, not only the consumers, but also the enterprises have to bear the tax. So, the sales revenue and profits of enterprises (producers, wholesalers and retailers) would be reduced and this indirectly causes a decrease in government's profit tax revenue. Some enterprises which is not so popular and suffering losses would find it more difficult to survive.

Besides that, as we all know, Hong Kong has been famous for its simple and low tax system for a long time. This excellent tax system is one of the advantageous features of Hong Kong., which attracts many foreign investors and tourists to come. So, in my opinion, we should continuously maintain, instead of changing, this existing system to absorb the advantage. Since we now place no tax on commodities, many tourists are attracted to buy and shop in this "Shopping Paradise"---Hong Kong. Once GST is imposed, all commodities would become more expensive. Foreign tourists no longer regard Hong Kong as a good and worthwhile place to visit since they cannot buy low-priced but high-quality products here anymore. Their consuming incentive would therefore be lowered. If so, not only would the retailing industry be suffered, it would also bring negative impacts to the

flourishing tourism industry. If tourism really declines, the influence would be very drastic because Hong Kong now depends greatly on this industry. Tourism in fact is one of industries that brings the most income to Hong Kong. It is worth considering the impacts brought to tourism by GST. Although there is a tax rebating system, many tourists usually would find it troublesome and would not apply for it. It is because the procedures are complicated and time-consuming.

In addition, the administrative expenses derived from GST in fact are very expensive. Based on some information, among the 5% sales tax, there is 2% which is the administrative expenses. So, the government can only have 3% tax revenue in fact. Also, it is really difficult to reach a unanimous decision on determining the exemption of GST as well as the relief measures, which may stir up many arguments and troubles. The system would become much more complicated.

To conclude, I think the concerned department must ponder very carefully and deeply over whether to impose GST since the decision would derive tremendous impacts. Personally, I think "the game is not worth the candle" as many negative impacts would be brought afterwards by GST, including widening the income gap, raising in commodity price, affecting enterprises as well as tourism, defeating Hong Kong's advantageous simple tax system feature, etc. However, if finally, it is decided to impose GST, the government must implement related measures to achieve fairness, e.g. to determine the tax rate according to the price of commodity (the more expensive good, the higher tax rate), to offer more assistance to the poor, not to impose tax on some very basic and cheap necessities, such as rice, water, fruit, etc and to simplify the procedures of tax rebate.

Hope you can consider my stance and opinions stated above. I am looking forward to hearing a satisfactory decision.

Yours sincerely,
Candy (A F.6 student)