

Dear Treasurer Tong,

## **GST: Is It A Worthwhile Way to Broaden the Tax Base?**

As a Form 6 business student being educated in Hong Kong, I would like to express my suspicion towards the issue regarding introducing GST as a mean to broaden the tax base of Hong Kong.

As I know, the proposed GST will be imposed in the form of value added tax (VAT), which is quite successful in some modern societies, such as Australia and New Zealand, in terms of providing a broader tax base and an important source of income. However, due to its complexity, Australian firms have to pay high compliance cost after the imposition of VAT. Though the case of New Zealand is appreciable that it brings low cost to her economy, the high simplicity of her tax is too unrealistic to Hong Kong. VAT system only shows a larger success in countries where collection of personal income taxes and corporate profit taxes has been historically weak, which is not the case of Hong Kong.

From the economic point of view, GST, as a kind of indirect tax, relies heavily on consumption of final consumers, and is regressive in nature. Its tax rate increases when the income decreases, resulting in the widening of wealth gap. In addition, since people of the low income group consume mainly daily necessities, in which their demand is inelastic in general, when an indirect tax is levied on them, they will bear a larger share of tax payment. This is supported by the Appendix C of Consultation Document, in which the poorest group is expected to pay the largest portion (3.5% overall) of the tax burden.

Thirdly, as one purpose of introducing GST is to make no one escapable from the tax net, small firms and destitute people will no longer excluded to pay tax. Furthermore, levying GST will cause once-for-all increase in general price level. As a result, underprivileged people will properly be suffered from harder lives afterwards. Though compensation is proposed to be given to the poor, this contradicts with the economy principle since additional administrative cost is required. This will possibly reduce the cost-effectiveness of implementing GST.

Moreover, as the ability to pay GST is measured in terms of individual demand --- wants and ability to pay, instead of personal income, the buying behaviour of consumers may change. The excess burden of tax will increase, making the tax system less efficient.

Apart from the above, GST will also raise the compliance cost of firms in all stages, since more sophisticated accounting and handling time are demanded. In the business point of view, this will reduce their competitiveness, and hence, their business opportunity. As the simple tax system no longer holds, their investments are discouraged. Although there are some compensational measures proposed, this, once again, raise the cost and reduce the cost-effectiveness of GST.

Practically, there are many problems that worth concerning. One is related to Customs and Excise Department, regarding the complex checking and handling process of imports arose from GST. Since all

goods imported are subject to GST, imposing the tax will create enormous administrative work. As external trade is vital to HK economy, CED must be able to manage it without much increase in time. However, the practicability is doubtful at this moment, since CED does not have any experience before. Its existing system and resources are also incapable to cope with it.

Finally, in the areas of treatment of immovable properties, small business and financial services and revenue administration, detailed discussions on how GST be done are highly necessary. Unless debatable ideas are finally come into one effective solution, GST is still questioned for implementing in Hong Kong.

In conclusion, revenues from a value added tax are frequently lower than expected because they are difficult and costly to administer and collect. This has been confirmed with numerous real world cases. Concerning with the case of Hong Kong, in which young educated middle class is emerging, there are no overwhelming necessity to introduce GST or to reform the present tax system. Additionally, the structural financial deficit of Hong Kong can also be caused by improper control over government expenditure, instead of outdated tax system. Therefore, I would not recommend HKSAR government to introduce GST at this stage, but instead, I would suggest the government to control educational, medical, social service...etc. expenditure by self-sustainable mechanics.

Yours truly,

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