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☐ Urgent

☐ Return Receipt

To: <taxreform@fstb.gov.hk>
cc:
Subject: GST (re-sent)

Sir,

I am afraid the document attached to my earlier message this morning could not be duly sent. I repeat my message and the attached document.

I totally agree with the proposals in the consultation paper in the reasons for GST, proposed framework of GST and the proposed compensation packages. I wish to add some comments.

Eric WONG



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FURTHER REASONS FOR GST

a. Many People are Evading Tax

GST is the fairest tax. Everybody has to pay in some way. Many people are using various ways, legitimate or illegitimate, not to pay tax or to pay less tax. Legitimate ways include forming limited companies to have most personal and household expenses deducted as expenses of the company. Some self-employed people such as hawkers under-report their income. Thus there are many people not paying tax that they should pay. GST is a good way to make them pay, because they have to spend in some way. For example, even a personal or household expense is going to be deducted as expenses of a limited company, GST has already been paid when the expense was incurred. Furthermore, any person who has saved money by evading tax has to spend in some way his “savings”, thus also paying GST.

Of course, this is unfair to those honest taxpayers because they pay the “true” tax as well as GST. This is why the “compensation packages” are important.

b. Many People Have Some Sort of Income Not Tax Assessable

Quite a number of persons are not having a salary or “profit” as such and thus not paying tax, but nevertheless they have income, such as an estate inherited, or money from a family trust. Although the money in the estate or trust might have been earned in HK by someone or some companies that have paid tax, the GST for the expenses that the recipient may make is not double taxation, because the money the recipient receives is somehow “income” of the recipient. These people are enjoying the services provided by the government in public order, road infrastructure, etc, and thus should contribute in taxes in the form of GST.

c. Good for the Environment

To achieve long-term sustainable development of the planet, not only should we adopt “green” initiatives such as waste recycling. We should also adopt a general lifestyle of abstinence. That is, we should eat less (also to stay healthy) and consume less. This is particularly important when the packages of food and luxury items nowadays involve a lot of paper and plastic. Therefore, in some sense, a GST is an “environmental protection tax”. The more you consume, thus hurting the environment, the more you should pay. To reflect this element of “environmental protection tax” within GST, I suggest **setting a fixed percentage, say 1%, of the GST collected to be spent by the government in special projects or new initiatives in environmental protection.**

IS IT REGRESSIVE?

Some critics say GST is regressive. Yes, it by itself is. But the **overall tax mechanism** is not. For example, comparing the situation of a person paying the standard rate of salary tax and a person earning just below the personal allowance (thus pay no salary tax), the former definitely pay a higher proportion of his income on salary tax and GST than the latter on GST alone. If the critics' argument stands, many other indirect taxes are "regressive". For example, one may argue that the tax on a bottle of wine is regressive because a person of lower income pay the same amount of tax as a rich person when they buy the same bottle of wine, thus the tax paid is of a higher proportion of the poor person's income than the rich person's. GST can be said to be regressive only when a person of lower income pays say 5% of his spending but a rich person pays say 3%. Thus, it seems that the only way to please the critics is to ask the rich people to pay GST of say 8% while the others pay 5%. This is impossible to implement. This is why all the indirect taxes, such as that on alcohol and cigarettes, and stamp duty are levied irrespective of the income of the persons. We should view the whole tax mechanism instead of only one element of tax to see if it is regressive.

IS IT FAIR FOR THOSE WITH NO INCOME?

Some critics argue that GST is not fair to those without income, particularly the retired persons. While GST is not unfair those with monthly pension, such as retired civil servants (see the comments in point b in "Further Reasons" above), GST is also not unfair to those with no income at all, because they are still enjoying the infrastructure such as roads and the services such as public order provided by the government. GST is a fair tax for all to contribute towards the government expenditure in providing these. Whether they have assessable income/profit is another matter, If they have, they have to pay income/profit taxes. The proposed compensation package already alleviates the burden on those with little or no income. Some may argue that the package may not help all, because some retired people with no income may not be CSSA claimants because they receive money from their children. Please see point b in "Further Reasons" above. Moreover, their children can claim tax deduction for supporting the parents.

HOW TO SPEND THE COLLECTED TAX

Regarding Chapter 8 Options for Remaining Funds Available, the remaining funds should NOT be used at all to increase public expenditure because this will tempt the government to expand the size of civil service and/or to provide services not strictly necessary. Apart from lowering the tax rate for individuals and companies, I suggest more tax exemptions and deduction that could boost the economy and/or encourage

people and companies to do things beneficial to the community. I suggest the following measures:

a. Money spent on environmental measures by companies earns extra tax deduction.	Encourage environmental consciousness and boost new green industries
b. Employing handicapped employees or rehabilitated prisoners earns extra tax deduction for companies	Help the employment of the handicapped rather than give them money directly and help the rehabilitation of ex-prisoners
c. Premium for personal medical insurances to be included in allowances for tax assessment	Lessen the burden on public health system, boost the insurance sector, boost the private medical sector and thus help build HK into a centre of excellence of medical services of the Region
d. increasing child allowance in tax assessment	Help raise the birth rate to lessen the problem of aging population, encourage parents to enroll their children in international/private schools that charge higher fee thus boosting the private educational sector (including any new private universities) and thus help build HK into a centre of excellence of education in the Region. (Although some may go overseas, the majority would be in HK.)
e. increasing the deduction limit of self-education allowance in tax assessment	Encourage self-enhancement thus upgrading quality of labour force, boost the public and private educational sectors and thus help build HK into a centre of excellence of education in the Region.
f. extra deductions from taxable assessable income/profit for donation over a certain amount to approved charities e.g. donation of over \$10000 a year means 200% deduction (i.e. \$20000 for \$10000 donation) from assessable income/profit	Boost the funding for NGO welfare services, universities, etc, instead of the government expanding its SWD

MY PROFILE

In case you want to know the background of people submitting views, I am a male civil servant, aged 52, going to retire in two years' time. After retirement, I have to pay little or no salary tax on the monthly pension (depending on the tax rate at that time), and thus shall benefit little from the proposed "compensation". However, I still support GST for the good of the community.