

HONG KONG RETAIL MANAGEMENT ASSOCIATION

香港零售管理協會

7 November 2006

Mr. Henry Tang, GBS, JP
Financial Secretary
Financial Secretary's Private Office
12/F West Wing
Central Government Offices
Lower Albert Road
Central
Hong Kong

Dear Mr. Tang,

GST Customer Opinion Poll

I am writing in my capacity as Chairman of the Hong Kong Retail Management Association (the "Association"), the largest and most representative retail organisation in Hong Kong, to provide you with the **results of the Association's recent Goods and Services Tax ("GST") Customer Opinion Poll, and our views on GST, in an earnest attempt to build a dialogue with the Government over the proposed tax.**

We are glad to have a responsible Government that thinks in advance with regard to managing the finances of Hong Kong and we wholeheartedly support the Government's initiative to consult Hong Kong people over its GST proposal.

As our Association possesses the most extensive retail network in Hong Kong, this places us in an invaluable position to assist the Government in gauging the views of Hong Kong consumers. Taking advantage of our member companies' **more than 5,000 retail outlets** throughout Hong Kong, we therefore organised the GST Customer Opinion Poll from 9-15 October 2006.

The Poll was the largest programme of its kind since the launch of the Government's consultation on GST in July this year and the Association strongly believes it to be a highly important part of that consultation process. Consumers are the people who will be hardest hit by any changes in the retail environment, aside from retailers, and consumers are the ones who will ultimately bear the extra costs brought about by the implementation of GST. As a result, their opinions should be taken seriously.

The Association is pleased to have helped the Government in this way and proud to have organised the Poll, which proved an effective way to encourage consumers to state their views on GST. This can be seen from the public's overwhelming response to the Poll, with **over 700,000 votes** collected in total, representing more than one-tenth of the population of Hong Kong.

We trust the Poll results will provide useful information to take into consideration before the Government arrives at a conclusion on how to address Hong Kong's future needs.

Summary of Poll Findings

The following summary of Poll findings gives a clear indication of how Hong Kong consumers feel about the proposed introduction of GST:

- A total of 710,164 votes were collected, representing one-tenth of Hong Kong's population;
- 92% of total votes said NO to GST;
- 97% of total votes came from Hong Kong residents;
- 92% of votes from Hong Kong residents said NO to GST;
- 88% of votes from non-Hong Kong residents said NO to GST;
- Over 90% of votes in 8 major retail categories said NO to GST.

A detailed report on the Poll is attached for your reference.

HKRMA's Position on GST

The Association would also like to take this opportunity to reiterate that, sharing the view of the Hong Kong general public as well as the retail sector as a whole, we strongly oppose the implementation of GST. The following points illustrate our concern and our belief that GST will have an adverse effect on Hong Kong in general, and the retail industry in particular.

1. **GST will have a detrimental impact on Hong Kong's competitiveness:** GST will raise operating costs and reduce the ease of doing business in Hong Kong. A further increase in operating costs would be particularly untimely when retailers are striving to lower Hong Kong's already high-cost structure in order to enhance competitiveness.
2. **GST will hit our tourism industry:** Hong Kong has gained an enviable reputation as a "shopper's paradise", attracting tourists from all over the world. The absence of GST or any similar tax has greatly contributed to this and helped both to build Hong Kong's competitive edge and to distinguish the city from rival locations. If Hong Kong's well-established "brand" of excellent quality combined with appealing prices no longer applies, Hong Kong will lose ground in the increasingly keen battle for tourism dollars. Tax refunds for tourists are not the answer as the complicated procedures involved will dampen enthusiasm for spending.
3. **GST will ruin Hong Kong's simple tax system:** Hong Kong's low tax rates and simple tax system have played a significant role in attracting overseas companies to the city. While the Government has said it will be more feasible to lower other taxes if GST is successfully implemented, we are concerned that reasons may arise to increase those taxes again after bringing in GST. The trend in many economies nowadays is to simplify tax systems. It does not seem justifiable for the Government to make Hong Kong less attractive by doing the reverse.
4. **GST will increase inflationary pressure:** as noted by the International Monetary Fund, the higher inflation rate in Australia since 2000 has been due to the introduction of GST. With Hong Kong's economy just recovering from recession, businesses and consumers would find it hard to cope with inflation.
5. **GST will weaken consumer spending:** in today's economic environment, retail trading is still extremely difficult. **Total retail sales can only sustain a level 80% of that in 1997.** Escalating operating costs, diminishing impact from mainland tourists,

and cut-throat competition continue to reduce profit margins substantially. With the implementation of GST, retail businesses would definitely be hard hit as both consumers and tourists would be more cautious in their spending.

6. **GST will create high monitoring costs for the Government to ensure compliance:** monitoring GST in the retail industry alone will be difficult, given the vast number of SMEs in the industry and the different types of retail formats. The issue of a level-playing field also therefore arises, along with the problem of loopholes and their potential for abuse of the system.
7. **GST will generate large and complex administrative costs for retailers and other service industries:** experience from other economies shows that businesses will incur enormous upfront implementation costs to cope with the newly introduced tax, followed by on-going additional administrative costs for tax compliance.
8. **GST will hamper the building of a harmonious society:** implementation of GST will only widen the disparity between rich and poor. It also raises the spectre of social conflict and is not conducive to a harmonious society.

While we agree with the Government that Hong Kong has a narrow tax base, we do not feel GST is the only solution to this challenging situation. We believe that further building and strengthening of a business-friendly environment to attract both local and foreign investment could be a more effective way to generate additional income for the Government. At the same time, the Government needs to manage public finances cautiously and lead Hong Kong forward to develop its competitiveness further in relation to other world-class cities.

We therefore earnestly urge the Government to abandon its GST proposal and consider other options that would widen the narrow tax base while enabling the revitalisation of the economy. We believe that the Hong Kong general public's views have been clearly reflected by the results of the Association's GST Customer Opinion Poll and we have every confidence that the Government will not neglect the views of the people or overlook the well-being of the Hong Kong community as a whole.

We look forward to hearing from you soon.

Yours sincerely,

(Signed)

Bankee P. Kwai
Chairman

c.c. **Tax Reform, Financial Services and the Treasury Bureau**
Mr. Vincent Fang, JP, Legislative Councillor, Wholesale & Retail



Overall Results

on

GST Customer Opinion Polling Week

GST Customer Opinion Polling Week



Organiser: Hong Kong Retail Management Association

Objectives

- To provide a platform for consumers to express their views on GST;
- To submit the polling results to the Government on a collective basis.

GST Customer Opinion Polling Week



When

Date : 9-15 October, 2006

Duration : 1 week

Where

- Retail outlets of HKRMA's member companies throughout Hong Kong

GST Customer Opinion Polling Week



Participating Retail Businesses

- Participated by a wide range of retailing businesses:
 - Beauty Products/Cosmetics
 - Catering/Food
 - Department Stores
 - Electronic & Electrical Appliances/Telecommunications
 - Fashion & Accessories
 - Furniture & Home Accessories
 - Specialty Stores
 - Supermarkets/Convenience Stores/Drug Stores
 - Watch & Jewellery

GST Customer Opinion Polling Week



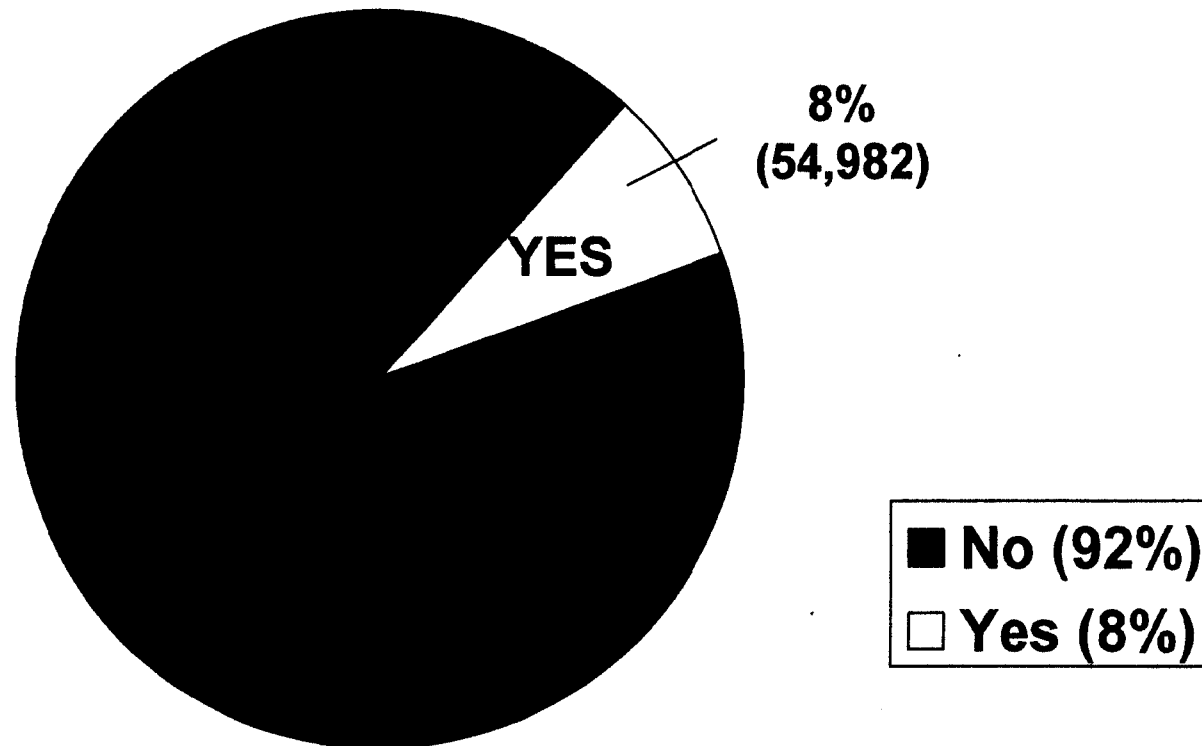
How

- “One Consumer One Vote” by signature
- Simply by saying “YES” or “NO” to GST
- Customers : HK Residents & Non-HK Residents

Total Poll Results



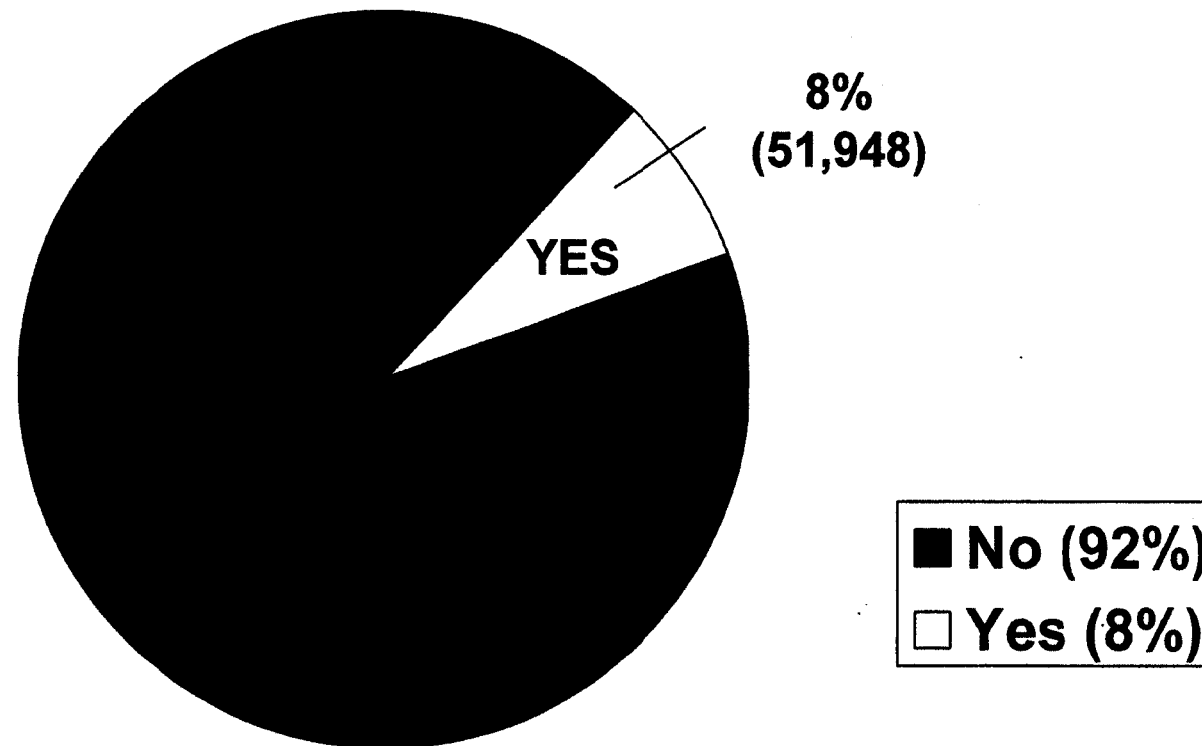
Total Votes: 710,164



Total Poll Results



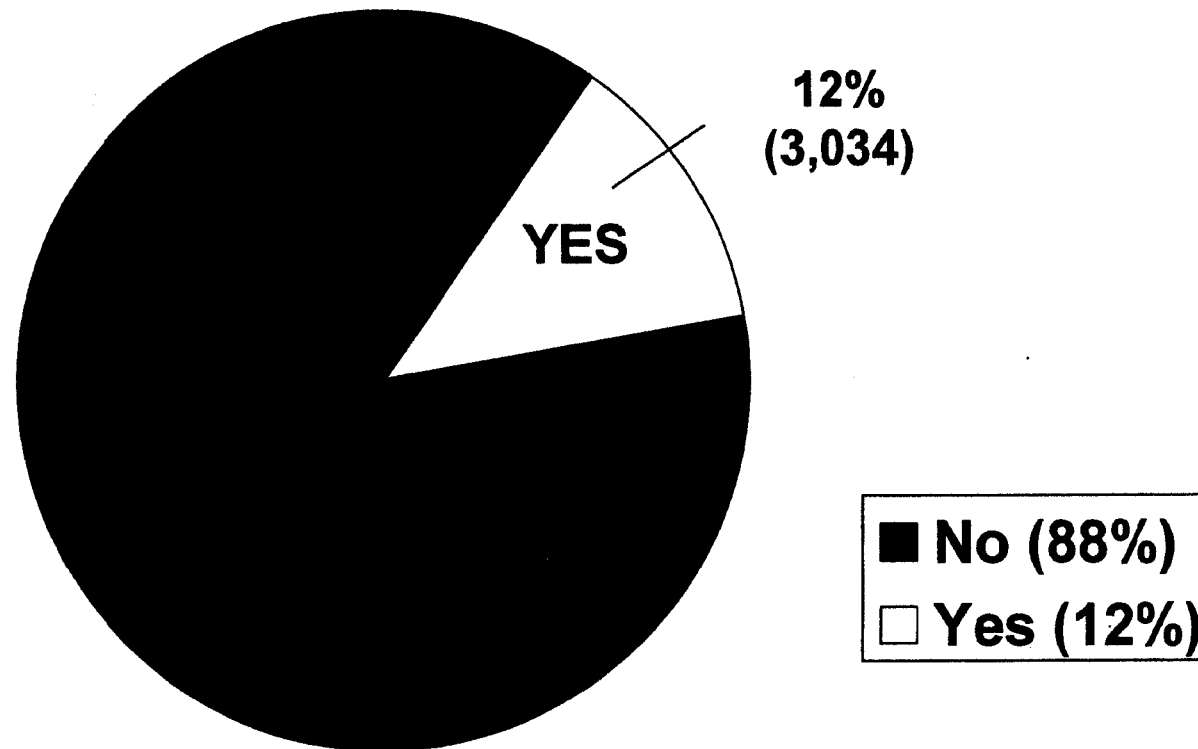
Hong Kong Residents : 685,762
% of Total Votes: 97%



Total Poll Results



Non-Hong Kong Residents : 24,402
% of Total Votes: 3%



Sectoral Poll Results – Saying “NO”

