



To: taxreform@fstb.gov.hk
 cc:
 Subject: GST Feedback

14/11/2006 19:51

Urgent
 Return Receipt

Dear Sir,

I am the Asia VP of a Global Logistics company, employing over 450 people in Hong Kong and with logistics centres in Hong Kong, Shenzhen, Shanghai, Singapore, Seoul and Taiwan.

We focus in high value semiconductors and electronics, the sectors that I believe the HK Government would like to see grow in HK.

This is sent from my personal email account because these are my personal views, as someone who has witnessed many changes in HK over my last 11 years here.

One of the trends I have seen over the last five years is for our customers to move away from Singapore to Hong Kong and their main cited reason from doing so is the GST system and exemption programmes currently used in Singapore. It appears that despite the different MES and ACMT schemes on offer, the tax restricts the free flow of high value goods, introduces the high-cost risks of minor clerical errors, makes Singapore a more expensive place to do business and makes trade between local companies very difficult (MES-to-MES schemes). We see the same in both Taiwan and Shanghai, where our customers ask us to fly their goods to HK and straight back to SHA or TPE so as not to incur the cost of VAT. Does HK really want to become this difficult to do business?

Despite the HK Government's lack of attention to small scale HK manufacturers, there are still many who choose to stay in HK due to the regulation complexities in China. By introducing a GST, the difference between China's and HK's complexities becomes less and makes it easier for us to move to China and save staff and rental costs. By introducing a GST in HK, the Government increases the risk that the millions of unskilled workers still in HK will be unemployed (especially when combined with a Minimum Wage policy), negating any additional revenue gained from GST. Does the HK Government really want to see companies like mine move the majority of our operations to the Futian FTZ and reduce our workforce from 450 to less than 20?

I agree there is a need to expand the tax base but GST is not the answer. HK can not afford to make trading through HK or using HK as the gateway to China a more difficult thing to do.

There are two easier ways to broaden the tax base...

- 1) Reducing the Personal Tax Allowances so that more of the population pays tax and reducing the top-level tax rate by an equivalent amount.
 - Everyone in HK has to submit an annual tax form, so the administration costs do not increase.
 - Compulsory or discounted Online Tax Submissions through personal

computers

or through kiosks in Government Buildings (for those people with no internet

access) would significantly reduce the costs.

- With the basic allowance reduced from HK\$100,000 to HK\$40,000, everyone who can afford will contribute to the HK tax system, even if it is only by a

few percentages.

- With the top rate of tax lowered closer to 10%, HK will again be able to consider itself a low tax city, comparable to Macau and Ireland.

- There is no need to endure the pain of something new and the potentially devastating effects it could have on HK. Does any HK politician really want to be linked to confining a free and easy HK marketplace to the history books. Once companies move away, it would be very difficult to bring them back again.

- It will not increase the administrative burden of HK companies and will allow HK to continue to be known around the world as a great place to do business.

- Although Salaries Tax goes up and down with the economic cycle, so does GST. If the economy is not doing well, companies and people spend less. To survive an economic downturn, the Government just needs to be more fiscally prudent by spending less money and making more Government Services follow the User-Pays principle.

2) Introducing a Retail Sales Tax.

- Despite the negative elements mentioned on your web article, this tax does

not affect Logistics or through-trade and could be initially introduced to major retailers (based on declared Revenues or Profits in their Tax Returns).

- Visitors would still come and shop in HK, even with no RST Rebate Scheme (which are unnecessary and a huge administrative burden).

- The amount of tax gained from this will be significantly less than with a full GST but it would contribute to the well-being of HK, instead of strangle HK like GST will.

I would be very interested to meet with you to discuss some of these issues in more depth because I sincerely want what is best for HK.

Thanks, Richard