



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

14 December 2006

Our Ref.: C/GST, M44815

The Hon. Henry Tang, G.B.S., J.P.,
Financial Secretary
The Government of the Hong Kong SAR
12/F, West Wing
Central Government Offices
Lower Albert Road, Hong Kong

Dear

--- Please find attached a summary of the results of an independent survey of members of the Institute on broadening the tax base and a goods and services tax (GST). We will be holding press briefing this morning at 11.30am to announce the findings, which, as you will see, are not that different from the feedback that the government has been receiving from other sectors of the community.

Originally, we had intended to include this as one part of our submission on the government's consultation document "*Broadening the Tax Base Ensuring our Future Prosperity – What's the Best Option for Hong Kong?*" However, in view of your recent announcement that, for the remainder of the consultation period, the government will not be advocating a GST as the only option to broaden the tax base, we have decided to make two separate submissions, this being the first.

The second submission, which we will complete after the New Year, will look more closely at the various options for broadening the tax base. One of the very clear results of our survey is that, amongst those of our members who responded, there is firm support for broadening the tax base. This also seems to accord with the views expressed by other sectors of the community.

I should also like to take this opportunity to thank you for taking part in our members' forum, on 11 December 2006, on options for broadening Hong Kong's tax base, which I am sure everyone found very stimulating and constructive.

Yours sincerely,

(Signed)

Winnie C.W. Cheung
Chief Executive & Registrar

WCC/PMT/ay
Encl.

Presented by : Paul Chan and Stella Cho

Date: 14 December 2006

Member opinion survey on broadening the tax base and GST

**Conducted by Cimigo on behalf of the
Hong Kong Institute of CPAs**



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Section 1: Background and Methodology



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1.2 Data collection

Target audience for the research

- The target audience for the research was all current members, excluding student members. At present, there are approximately 26,000 members of the Institute.

Questionnaire

- The survey questionnaire was designed by Cimigo in consultation with the GST Working Group. The questionnaire canvassed opinion on the following broad areas of investigation:
 - Hong Kong's fiscal situation
 - The issue of broadening the tax base
 - Attitudes to presentation of the government Consultation Document
 - Overall support for a GST in Hong Kong

Methodology

- The Institute membership was invited to participate in the survey either using an online questionnaire (where email contact details were available) or otherwise by surface mail (via a hardcopy questionnaire with reply paid envelope). This was to ensure that each member received only one format (email or post).
- Initially, 22,169 invitations were sent to members by email and 3,881 by post on Friday 17th of November, 2006. After the first round of emails, 1,260 members were also postal mailed a hardcopy questionnaire because the email invitation failed to deliver. Therefore, the final distribution of invitations was as follows:

– Email invitation	20,909
– Surface mail invitation	5,141
- Two subsequent reminders were delivered to members via email to encourage participation.



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1.2 Data collection

Methodology continued...

- All respondents invited to complete the survey were assured of anonymity. A randomly generated login ID and password were generated for each member to ensure non-duplicate responses. Those completing the survey could access the survey only after entering their unique identifier. All hardcopy questionnaires included a printed unique identifier which was used to ensure there were no duplicate hardcopy entries.
- The survey was hosted by Cimigo and the Institute was not able to know which members had completed and submitted their questionnaires. This ensured confidentiality.
- Members completing the survey were advised they had 10 days to complete the survey online from the 17th of November to 27th of November. To allow for the postal lead time, those completing the questionnaire in hardcopy were asked to return their survey by 25th of November.

Details of the sample and response rate

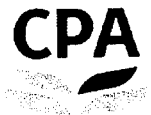
- At the completion of the allotted period for survey completion a total of **1,980** surveys had been returned. The number of returns by email and post and the estimated response rate are as follows:

Emails sent	20,909
Online questionnaires completed	1,619
Response rate	7.7%
Questionnaires mailed	5,141
Hardcopy questionnaires completed	361
Response rate	7.0%
Total invitations sent	26,050
Total completed surveys	1,980
Total Response rate	7.6%



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Section 2: Executive Summary



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2.1 Opinions about Hong Kong's fiscal situation

Most accountants feel Hong Kong has a fiscal problem, that the tax base needs to be broadened and that government spending is too high.

- Most respondents feel that Hong Kong has a fiscal problem - purely structural (23%) or both structural and cyclical (46%). A minority believe Hong Kong has a purely cyclical problem (8%) or do not believe Hong Kong has a fiscal problem at all (18%).
- Most (65%) also feel that government spending is too high - either much too high (21%) or somewhat too high (44%). A minority of 20% feel that spending is appropriate and 11% think it is too low.
- Just under two-thirds (64%) believe that Hong Kong's tax base does need to be broadened and 33% feel it does not need to be broadened.
- However, whilst most respondents favour a broadening of the tax base, this has not translated into widespread support for a GST in Hong Kong.
 - Those not naturally receptive to a need for an additional tax (i.e. those who indicated that spending is too high / no structural problem exists) are strongly anti-GST.
 - Those expected to be receptive to GST (i.e. see a need to broaden the tax base) have not been swayed sufficiently by the government's Proposal.
- These two factors are reflected in the fact that 67% overall feel the government has not adequately explained its proposal and that amongst those who feel the proposal is sufficiently explained, the case made is not compelling - only 49% of this group actually supporting a GST.

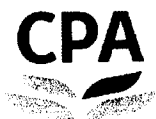


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2.2 Options to broaden the tax base

Most accountants oppose introduction of GST to Hong Kong. While a Land and Sea Departure Tax is favoured by the majority as a means to broaden the tax base, there is no consensus about what is the best way to broaden the tax base. While 20% feel GST is the best means to do so, four out of five accountants think there are other, better alternatives.

- 59% of accountants surveyed opposed the introduction of a GST to Hong Kong and 35% supported it.
- When asked how strongly they favour or oppose various measures to broaden Hong Kong's tax base, 62% responded favourably towards a Land and Sea Departure Tax. The second most favourable option is a capital gains tax (46% favour). GST is favoured by 34% of accountants surveyed (fifth most favoured).
- When asked what is the best way to broaden Hong Kong's tax base, the story is quite different. One in five (20%) favoured GST and 19% favoured Capital Gains Tax.
- The key to understanding this response is that there was no consensus support for a single means to broaden the tax base. Thus, while respondents are most likely to support GST, most prefer other alternatives, but no single tax measure to broaden the tax base dominates as best.
- For this reason, a land and sea departure tax stands out as being not strongly seen as the best option (9% thought it was best), but as the only option acceptable to most.



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2.3 Views on the government's proposal

Most feel the government has not sufficiently explained its GST proposal. Around half of accountants surveyed cannot say if GST will result in various benefits or drawbacks. The only area where there is a majority opinion is that implementation of the GST proposal will overly complicate Hong Kong's tax regime.

- Respondents were asked to choose between pairs of opposite statements about the potential positive and negative aspects of the GST proposal.

- 52% are uncertain whether the GST proposal will be fair for all or not fair for some sections of the community.
- 51% are uncertain as to whether the GST would be easy to avoid or difficult to avoid.

- 50% are unsure if the GST proposal will result in maintained or damaged international competitiveness
- 49% are unsure if the proposed GST would be compatible with Hong Kong's low tax regime
- 47% are uncertain about whether the revenue produced would be stable or unstable.

- The only aspect of the GST proposal where there was a majority opinion was that 60% believed the proposal will overly complicate Hong Kong's tax regime. Amongst those opposing a GST, the figure was 82%. Amongst those supportive of GST in general, the proposal was seen by a significant minority to potentially damage competitiveness (23% agreed) and 24% felt it will overly complicate the tax regime.



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Section 3: Results



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3.1 Attitudes towards introduction of GST to Hong Kong

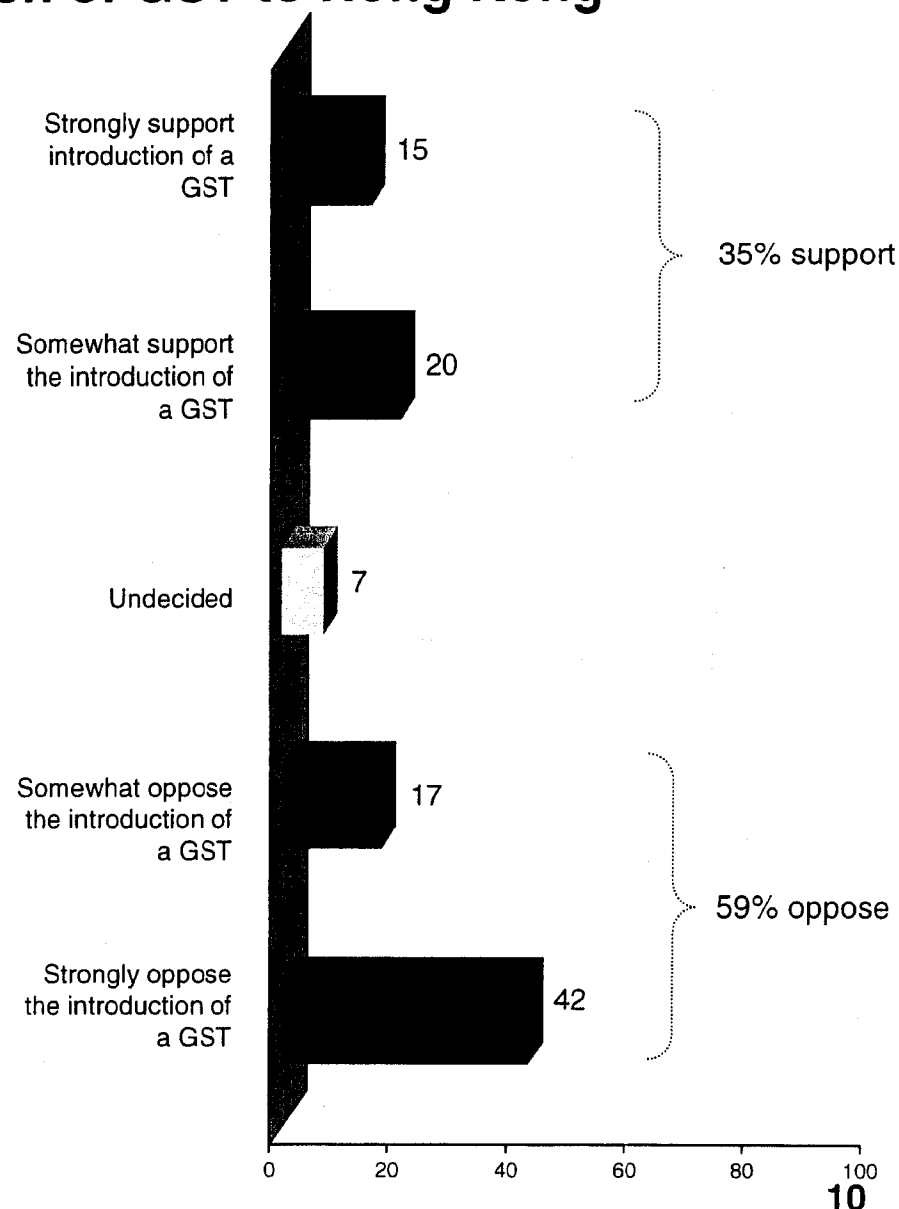
Accountants are divided about whether Hong Kong should introduce a GST in some form.

- 35% of accountants surveyed support the introduction of a GST to Hong Kong, with 15% strongly supporting introduction of a GST and 20% somewhat supporting it.
- 59% of accountants responding indicated that they oppose the introduction of a GST to Hong Kong, with 42% strongly opposing it and 17% somewhat opposing it.
- 7% of accountants are undecided.

Q15. Overall, what is your opinion on the introduction of a GST in some form to Hong Kong? Would you say you...?
Base: All respondents
N=1,980



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3.1.1 Cross analysis of attitudes towards GST

- The table overleaf shows the cross analysis of opinions on key survey variables against support for GST. Significant differences identified are as follows:
 - Majority support for a GST is to be found amongst those who feel the tax base needs to be broadened (53%) and who feel Hong Kong has a purely structural fiscal problem (51%).
 - Majority opposition for a GST is to be found amongst those who feel Hong Kong has a purely cyclical fiscal problem (81%) or no fiscal problem (92%), who feel that the tax base does not need broadening (94%), who feel spending is too high (63%) or did not feel the government sufficiently explained its proposal (65%).
- Reviewing the interplay of these factors suggests that the overall opposition to a GST is a result of:
 - 26% believe there is no fiscal problem or only a cyclical problem and they strongly oppose GST, presumably because they don't see a need to raise additional revenue and don't see broadening the tax base as important.
 - 33% don't believe Hong Kong's tax base needs to be broadened and 94% of this group oppose GST.
 - 65% feel that government spending is too high and 65% of this group oppose GST, presumably because they feel that any fiscal issue can be addressed through reduced spending



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3.1.1 Cross analysis of attitudes towards GST

	Q1. Opinion on Hong Kong fiscal outlook				Q3. Attitudes to tax base		Q2 Attitudes to government Spending		Q6. Gov. proposal sufficiently explained?	
	Purely structural problem (n=453) %	Purely cyclical problem (n=156) %	Both structural and cyclical (n=903) %	No fiscal problem (n=356) %	Does not need broadening (n=655) %	Needs broadening (n=1,260) %	Net too high (n=1,280) %	Net too low (n=212) %	Yes (n=475) %	No (n=1,331) %
Strongly support introduction of a GST	23▲	5	18▲	1	0	23▲	13	18	27▲	11
Somewhat support the introduction of a GST	27▲	7	26▲	5	2	30▲	18	26	22	18
Net support	51▲	12	44▲	6	2	53▲	31	45▲	49▲	29
Undecided	8	6	7	2	4	7	6	8	4	6
Somewhat oppose the introduction of a GST	16	22	18	11	16	16	15	22	10	19▲
Strongly oppose the introduction of a GST	25	58▲	30	81▲	77▲	24	48▲	25	37	46▲
Net Oppose	42	81▲	49	92▲	94▲	40	63▲	47	47	65▲



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▲ Significantly higher at 95% C.I.

Section 3.2 Fiscal Situation in Hong Kong



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3.2.1 Hong Kong's fiscal outlook

The majority of accountants feel that Hong Kong has a fiscal problem, either structural or partly structural in nature.

- 46% of responding members indicated that Hong Kong has a fiscal problem which is both structural and cyclical in nature.
- 23% of respondents feel that Hong Kong has a fiscal problem which is purely structural in nature. Therefore, 69% of members feel that there is some structural problem with Hong Kong's finances.
- Relatively few (8%) feel that Hong Kong has a fiscal problem which is purely cyclical in nature, indicating that 54% see a problem that is at least in part, cyclical.
- Slightly less than one in five (18%) feel that Hong Kong does not have a fiscal problem and 5% are unsure about the underlying fiscal situation in Hong Kong.



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Q1. Which of the following best describes your opinion on Hong Kong's fiscal outlook?
Base: All respondents
N=1,980

Hong Kong has a fiscal problem, which is purely structural in nature

23

Hong Kong has a fiscal problem, which is purely cyclical in nature

8

Hong Kong has a fiscal problem, which is both structural and cyclical in nature

46

Hong Kong does not have a fiscal problem

18

I have no opinion on this matter / don't know

5

69%

54%

%

0 20 40 60 80 100
14

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3.2.1 Cross analysis of opinions on fiscal outlook

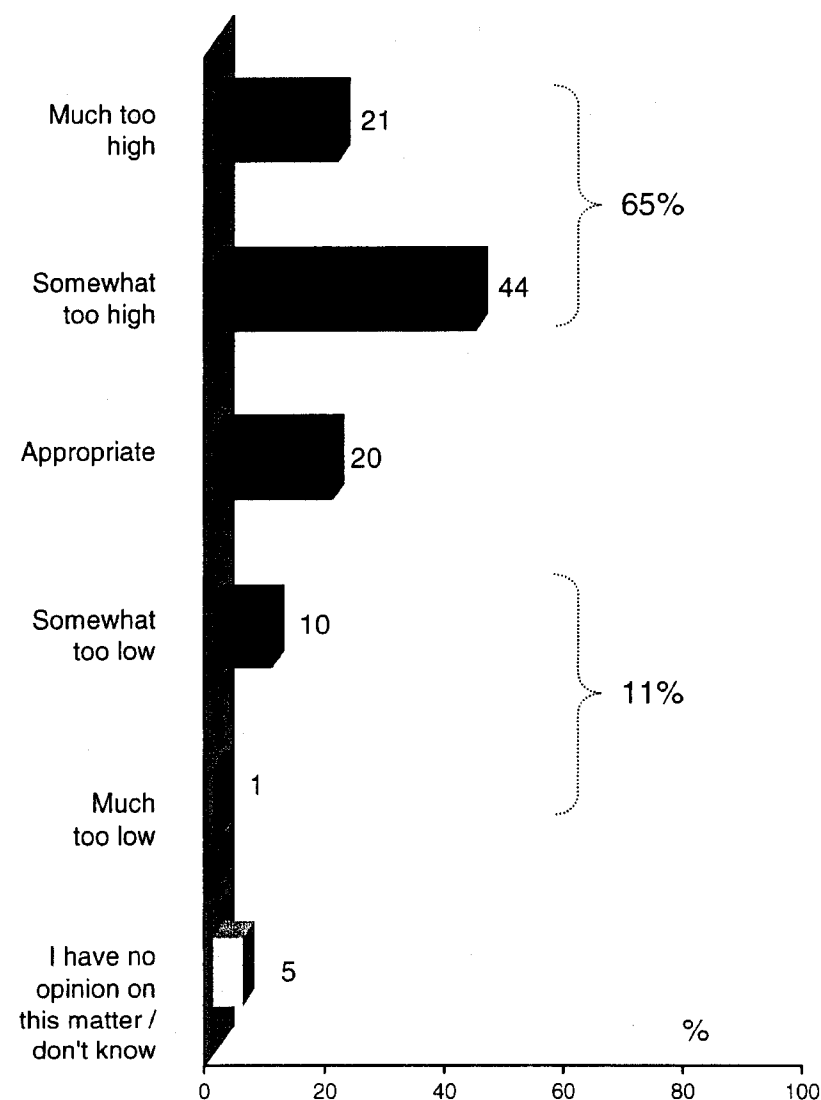
- Those supporting a GST are more likely to feel Hong Kong has a fiscal problem which is either structural in nature or both structural and cyclical. Those who oppose the GST are more likely to feel Hong Kong either has a cyclical problem only or no fiscal problem at all.
- Those who feel the tax base does not need to be broadened are more likely to feel Hong Kong has a cyclical fiscal problem or no fiscal problem while those who feel the tax base does need to be broadened are more likely to feel there is a structural fiscal problem or a structural and cyclical fiscal problem.
- Those who feel the government has adequately explained its position are more likely to say that Hong Kong has a purely structural fiscal problem.

	Q15. Opinion on GST		Q2 Attitudes to government Spending		Q3. Attitudes to tax base		Q6. Gov. proposal sufficiently explained?	
▲ Significantly higher at 95% C.I.	Net Support GST (n=686) %	Net Oppose GST (n=1,162) %	Net too high (n=1,280) %	Net too low (n=212) %	Does not need broadening (n=655) %	Needs broadening (n=1,260) %	Yes (n=475) %	No (n=1,331) %
Hong Kong has a fiscal problem, which is purely structural in nature	34 ▲	16	23	28	13	28 ▲	28 ▲	21
Hong Kong has a fiscal problem, which is purely cyclical in nature	3	11 ▲	9	3	14 ▲	5	7	9
Hong Kong has a fiscal problem, which is both structural and cyclical in nature	58 ▲	38	44	49	27	56 ▲	43	46
Hong Kong does not have a fiscal problem	3	28 ▲	20 ▲	11	40 ▲	7	18	19

3.2.2 Level of government spending

Two thirds of accountants believe that government spending in Hong Kong is too high, with one in five saying it is much too high.

- Around two-thirds of respondents (65%) indicated that, given the current and likely future state of the Hong Kong economy and the need for government to deliver services, spending is too high. Twenty-one percent feel that spending is much too high and 44% are of the opinion that spending is somewhat too high.
- One in five (20%) believe that spending is appropriate
- One in ten (11%) feel that spending is too low - either somewhat too low (10%) or much too low (1%).
- 5% of respondents have no opinion or were unable to answer this question.



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Q2. Given the current and likely future state of Hong Kong's economy and the need for government to deliver services, do you believe that the current levels of government spending in Hong Kong are?

Base: All respondents
N=1,980

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3.2.2 Cross analysis of opinions on government spending

- The table overleaf shows the cross analysis of opinions of government spending with other key variables. Significant differences identified are as follows:
 - Those opposing a GST in Hong Kong are more likely to indicate that spending is too high. Those who support a GST are more likely to feel that spending is appropriate.
 - Those who feel there is a purely cyclical fiscal problem and those who believe there is no fiscal problem are more likely to feel that the current levels of government spending are too high (those who see no fiscal problem, are more likely to say much too high). Conversely, those who feel there is a purely structural problem or part structural and part cyclical problem are more likely to feel government spending is too low (although this opinion is held by only a minority in any case, most people feel spending is in general, too high).
 - Respondents who feel the tax base does not need to be broadened are more likely to indicate that spending is much too high, while those who feel the tax base does need to be broadened are more likely to feel that spending is somewhat too high.
 - Whether respondents feel that the government has sufficiently explained its GST proposal has no impact on perceptions of the government spending.



3.2.2 Cross analysis of opinions on government spending

Q15. Opinion on GST			Q1. Opinion on Hong Kong fiscal outlook				Q3. Attitudes to tax base		Q6. Gov. proposal sufficiently explained?	
	Net Support GST (n=686) %	Net Oppose GST (n=1,162) %	Purely structural problem (n=453) %	Purely cyclical problem (n=156) %	Both structural and cyclical (n=903) %	No fiscal problem (n=356) %	Does not need broadening (n=655) %	Needs broadening (n=1,260) %	Yes (n=475) %	No (n=1,331) %
Much too high	13	26 ▲	21	21	17	33▲	33▲	15	20	22
Somewhat too high	44	44	43	52	45	40	37	47 ▲	42	45
NET TOO HIGH	57	70 ▲	64 ▼	72▲	62 ▼	73 ▲	70	62	62	67
Appropriate	25 ▲	17	19	21	21	19	18	21	26	18
Somewhat too low	13	8	12	4	11	6	8	11	9	10
Much too low	1	1	1	1	1	1	1	1	0	1
NET TOO LOW	14	9	13 ▲	4 ▼	11▲	7 ▼	9	12	9	11

▲ Significantly higher at 95% C.I.

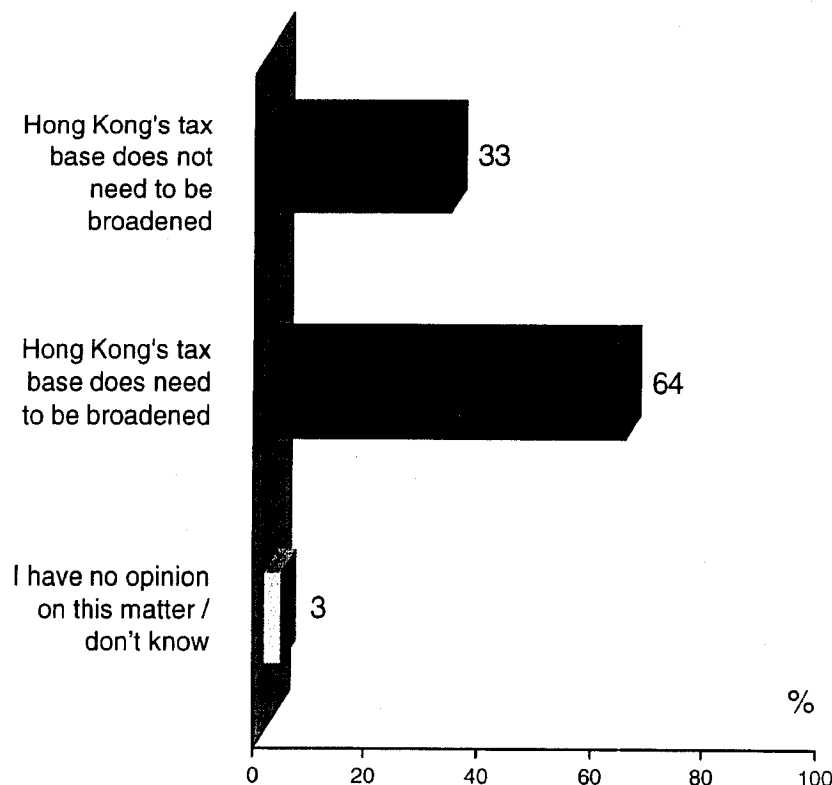


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3.2.3 Broadening of Hong Kong's tax base

Two thirds of Hong Kong accountants polled feel that Hong Kong's tax base needs to be broadened.

- Respondents were advised (see text below right) that the Advisory Committee on New Broad-based Taxes concluded that Hong Kong's tax base is narrow.
- Subsequent to being provided this information, 64% of accountants indicated that Hong Kong's tax base does need to be broadened.
- One in three (33%) feel that Hong Kong's tax base, contrary to the Advisory Committee's report, does not need to be broadened.
- 3% of respondents had no opinion or were unable to answer this question.



The Advisory Committee on New Broad-based Taxes, which reported in 2002, concluded that Hong Kong's tax base is narrow in composition due to a heavy reliance on a limited range of taxes. It recommended that action be taken to broaden Hong Kong's tax base

Q3. Which of the following best describes your opinion on Hong Kong's tax base?

Base: All respondents
N=1,980



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3.2.3 Cross analysis of broadening of Hong Kong's tax base

- Ninety-eight percent of respondents supporting a GST say that Hong Kong's tax base needs to be broadened, versus 43% of those who oppose GST. Clearly, perceptions of whether the tax base needs to be broadened is strongly associated with support for GST, although many of those who support a broadening of the tax base do **not** support GST.
- Those who feel the economy has a purely structural problem or a mix of structural and cyclical problems are more likely to indicate Hong Kong's tax base does not need to be broadened (79% and 78% respectively), while those who see the problem as only cyclical in nature or that there is no problem are more likely to feel that the tax base does not need to be broadened.
- Those who feel the government has sufficiently explained its proposal are more likely to feel that Hong Kong's tax based needs to be broadened (68%).

	Q15. Opinion on GST		Q1. Opinion on Hong Kong fiscal outlook				Q2 Attitudes to government Spending		Q6. Gov. proposal sufficiently explained?	
	Net Support GST (n=686) %	Net Oppose GST (n=1,162) %	Purely structural problem (n=453) %	Purely cyclical problem (n=156) %	Both structural and cyclical (n=903) %	No fiscal problem (n=356) %	Net too high (n=1,280) %	Net too low (n=212) %	Yes (n=475) %	No (n=1,331) %
Hong Kong's tax base does not need to be broadened	2	53▲	19	59▲	19	73▲	36▲	27	31	34
Hong Kong's tax base does need to be broadened	98▲	43	79▲	37	78▲	26	61	69	68▲	62

▲ Significantly higher at 95% C.I.

Section 3.3 Approaches to broadening the tax base



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3.3.1 Attitudes towards tax broadening measures

A majority of accountants support a Land and Sea Departure Tax as a means to broaden the tax base.

Most accountants oppose any other forms of additional taxation to broaden the Hong Kong tax base.

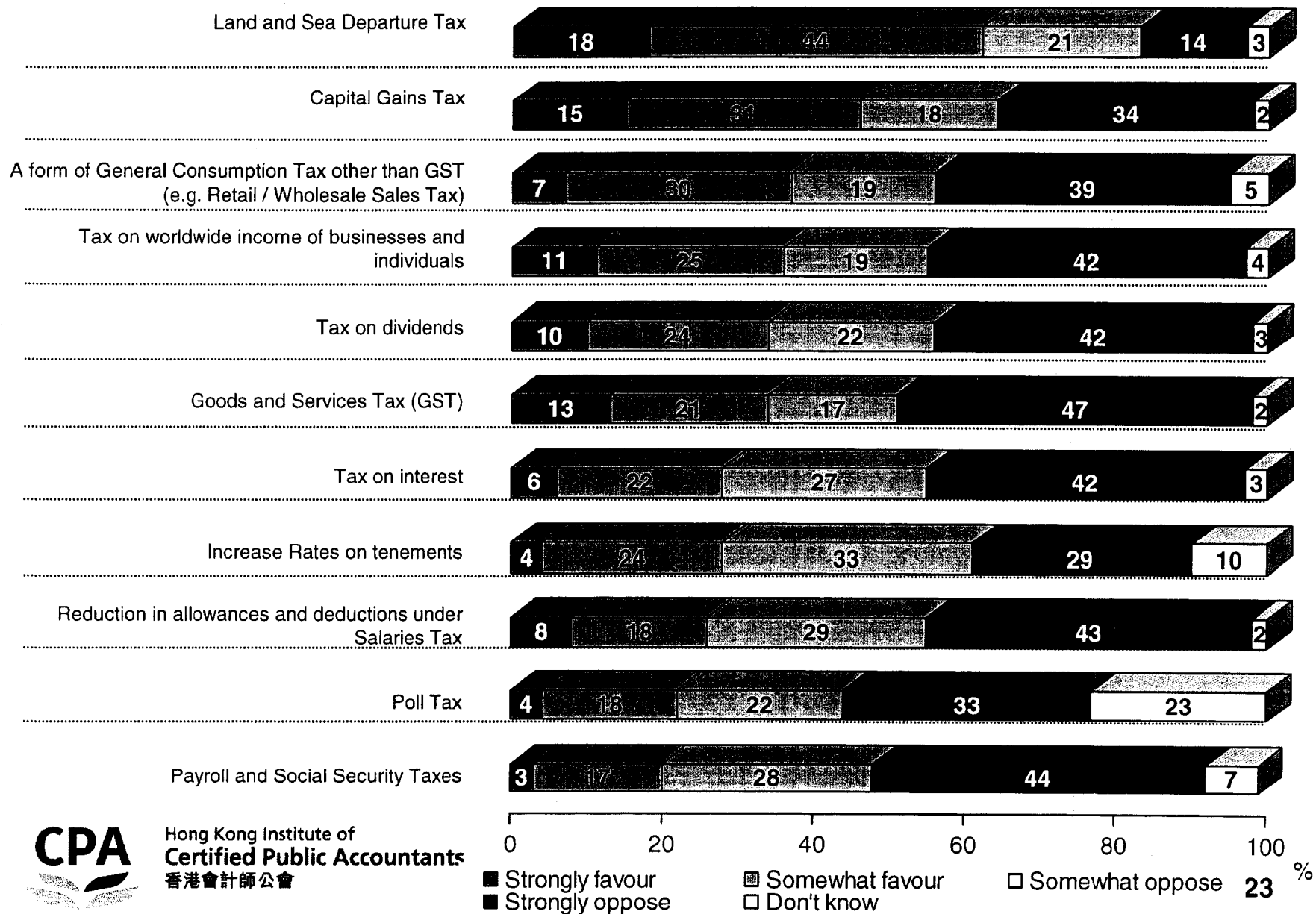
- The table right shows the aggregate proportion of respondents favoring or opposing various tax measures that could be used to broaden Hong Kong's tax base. The chart overleaf shows a detailed breakdown of ratings for each form of taxation.
- 62% of accountants favour a Land and Sea Departure Tax to broaden Hong Kong's tax base
- At the other end of the spectrum, only 20% would support Payroll and Social Security Taxes.
- Support for a GST is towards the middle of all potential taxes (34% support), while there is slightly higher support (37%) for alternative forms of general consumption tax.



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	Net Favour Tax (%)	Net Oppose Tax (%)	Don't know (%)
Land and Sea Departure Tax	62	35	3
Capital Gains Tax	46	52	2
A form of General Consumption Tax other than GST (e.g. Retail / Wholesale Sales Tax)	37	58	5
Tax on worldwide income of businesses and individuals	36	61	4
Goods and Services Tax (GST)	34	64	2
Tax on dividends	34	64	3
Increase Rates on tenements	28	62	10
Tax on interest	28	69	3
Reduction in allowances and deductions under Salaries Tax	26	72	2
Poll Tax	22	55	23
Payroll and Social Security Taxes	20	72	7

3.3.1 Attitudes towards tax broadening measures



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3.3.1 Cross analysis of Attitudes towards tax broadening measures

- The table shows the cross analysis of support for different tax broadening measures with support for GST and with perceptions of Hong Kong's fiscal situation. Significant differences are as follows:
 - Those supporting a GST in general are more likely to favour a form of general consumption tax other than GST (75%) and GST (91%) as a specific measure to broaden the tax base.
 - Those opposing GST are more likely to favour capital gains tax (49%), tax on dividends (36%), tax on interest (31%), increased rates on tenements (31%) and a reduction in allowances and deductions under salaries tax (30%), to broaden the tax base. It should be noted that the only broadening measure favoured by a majority of those opposing GST is a land and sea departure tax, favoured by 61% of those opposing GST (49% favoured capital gains tax).
 - Those who see a purely structural fiscal problem are more likely to favour a general consumption tax other than GST (52%) and a GST (49%) as means of broadening the tax base.
 - Those who believe there is a purely cyclical fiscal problem are more likely to favour a reduction in allowances and deductions under salaries tax (36%) and less likely to favour either a GST (12%) or form of general consumption tax other than GST (16%).
 - Respondents who we have a fiscal problem which is both structural and cyclical are more likely to favour both the GST and a form of general consumption tax other than GST (44% and 45% respectively).
 - Respondents who see no fiscal problem generally had lower favourability towards for most forms of tax broadening measures, particularly land and sea departure tax (although 54% still favour it), GST (only 7% support it) and a form of general consumption tax other than GST (11%).



3.3.1 Cross analysis of attitudes towards tax broadening measures

	Q15. Opinion on GST		Q1. Opinion on Hong Kong fiscal outlook			
% Favour (strongly or somewhat)	Net Support GST (n=686) %	Net Oppose GST (n=1,162) %	Purely structural problem (n=453) %	Purely cyclical problem (n=156) %	Both structural and cyclical (n=903) %	No fiscal problem (n=356) %
Land and Sea Departure Tax	63	61	60	63	66	54 ▼
Capital Gains Tax	39	49 ▲	46	40	47	43
A form of General Consumption Tax other than GST (e.g. Retail / Wholesale Sales Tax)	75 ▲	13	52 ▲	16 ▼	45 ▲	11 ▼
Tax on worldwide income of businesses and individuals	31	38	36	33	38	34
Tax on dividends	28	36 ▲	32	29	34	32
Goods and Services Tax (GST)	91 ▲	2	49 ▲	12 ▼	44 ▲	7 ▼
Tax on interest	23	31 ▲	26	29	29	28
Increase Rates on tenements	24	31 ▲	24	29	30	27
Reduction in allowances and deductions under Salaries Tax	23	30 ▲	25	36 ▲	26	29
Poll Tax	22	22	19	26	25	17
Payroll and Social Security Taxes	20	21	21	23	20	20

3.3.1 Cross analysis of attitudes towards tax broadening measures

- The table overleaf shows the cross analysis of favourability of different tax broadening measures with attitudes to the tax base, government spending and views on whether the government proposal has been sufficiently explained. Significant differences identified are as follows:
 - Respondents who believe the tax base does need to be broadened, not surprisingly, favour most tax broadening measures to a greater extent than those who feel the tax base need not be broadened. The tax broadening measures gaining comparatively more favour amongst the former group were a land and sea departure tax (66%), GST (53%), a form of general consumption tax other than GST (53%), capital gains tax (49%), tax on dividends (35%) and tax on interest (31%). Amongst the latter group (i.e. does not need broadening), the only tax which a majority favour is a land and sea departure tax (favoured by 53%).
 - Predictably, those who feel government spending is too low tend to favour tax broadening measures more than those who feel spending is too high. Favourability was significantly higher among those who think spending is too low for capital gains tax (53%), a form of general consumption tax other than GST (48%), tax on worldwide income of businesses and individuals and GST (47%).
 - Those who feel the government has sufficiently explained its proposal are more likely to favour both GST (48%) and a form of general consumption tax other than GST (43%). However, it should be noted that there was not a majority amongst this group favouring either tax.



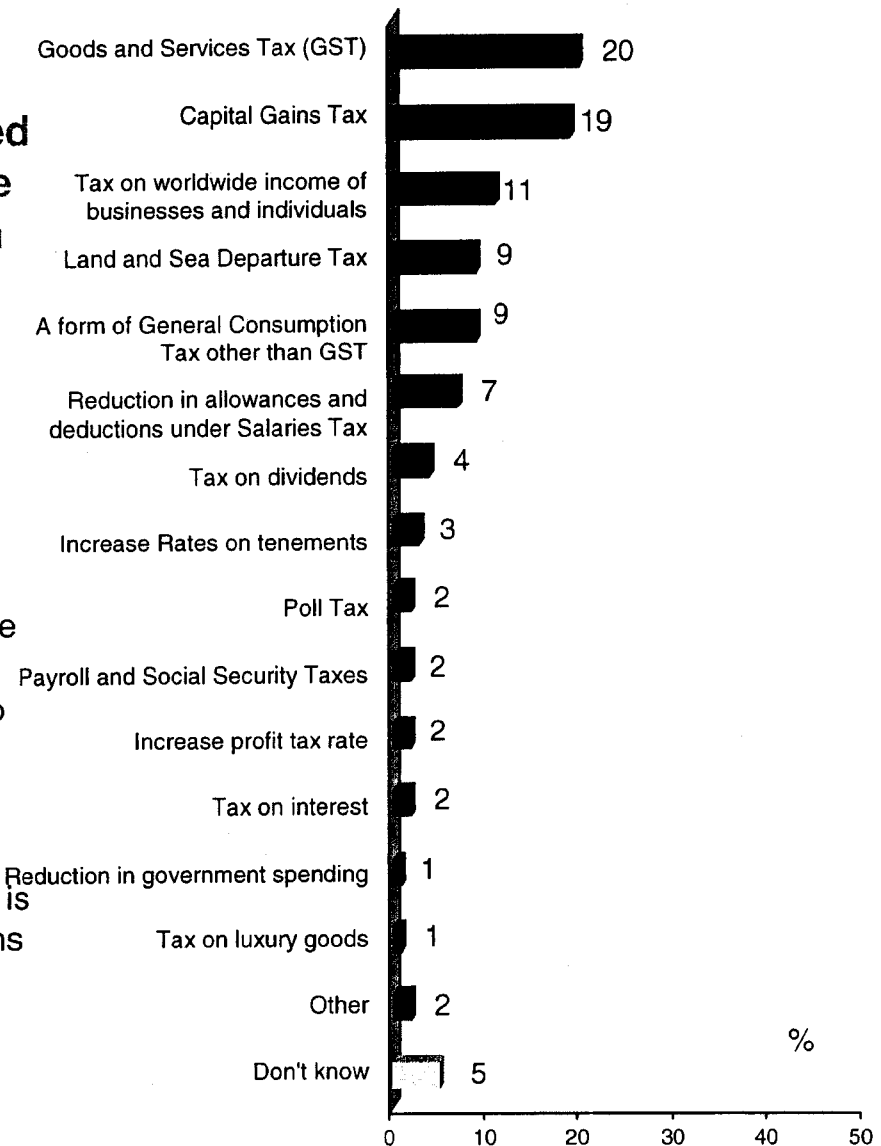
3.3.1 Cross analysis of attitudes towards tax broadening measures

	Q3. Attitudes to tax base		Q2 Attitudes to government Spending		Q6. Gov. proposal sufficiently explained?	
% Favour (strongly or somewhat)	Does not need broadening (n=655) %	Needs broadening (n=1,260) %	Net too high (n=1,280) %	Net too low (n=212) %	Yes (n=475) %	No (n=1,331) %
Land and Sea Departure Tax	53	66▲	56	63	61	62
Capital Gains Tax	41	49▲	45	53▲	41	48▲
A form of General Consumption Tax other than GST (e.g. Retail / Wholesale Sales Tax)	9	53▲	34	48▲	43▲	34
Tax on worldwide income of businesses and individuals	33	37	35	47▲	30	38▲
Tax on dividends	29	35▲	32	39	31	35
Goods and Services Tax (GST)	2	53▲	31	47▲	48▲	29
Tax on interest	23	31▲	29	25	24	30
Increase Rates on tenements	28	28	28	24	26	29
Reduction in allowances and deductions under Salaries Tax	28	26	28	20	27	27
Poll Tax	18	23	21	25	19	23
Payroll and Social Security Taxes	18	22	20	24	19	21

3.3.2 Best option to broaden the tax base

Although GST is not a generally favoured means to broaden the tax base, when asked to choose, GST was selected by one in five accountants as the best means to broaden the tax base, the most support of all alternatives.

- Under a hypothetical scenario where the government proceeds to broaden the tax base, the most often favoured option amongst accountants, would be a **goods and services tax (GST)**. Only 20% of accountants see this as the best option, just 1% above **capital gains tax** (19%). Evidently, there is little consensus within the profession on the best means to broaden the tax rate.
- Land and sea departure tax** was seen as the best option by only 9% of respondents, despite being the only option favoured by the majority. This indicates it is favoured by many, but seldom seen as the best means of broadening the tax base.



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3.3.2 Cross analysis of best option to broaden the tax base

- The table shows the cross analysis of the perceived best option for the broadening tax with support for GST and perceptions of Hong Kong's fiscal situation. Significant differences identified are as follows:
 - Among respondents who support GST, support was higher for both GST (55%) and a form of general consumption tax other than GST (16%) compared to those who oppose GST. Just over half (55%) of those who support GST feel it is the best option to broaden the tax base. Among those against GST, the preferred means to broaden the tax base is a capital gains tax (25% support this option), tax on worldwide income of businesses and individuals (15%) and land and sea departure tax (11%).
 - Those who perceive Hong Kong to have a purely structural fiscal problem or a mix of structural and cyclical problems displayed support for both GST and a form of general consumption tax other than GST. Those perceiving a purely structural problem had only half the level of support for a land and sea departure tax (6%) than those who see a purely cyclical problem (13%). The latter group and those who see no fiscal problem had significantly lower support for GST.
 - Among the segment that feels Hong Kong's tax base needs to be broadened, a GST was seen to be the best option by 31%, followed by a form of general consumption tax other than GST (13%)
 - Among the minority who feel the government has sufficiently explained its proposal, 30% (notably in the minority) support a GST as the best option to broaden the tax base compared to 16% who disagree. Those who do not feel the government has sufficiently explained its proposal are more likely to see capital gains tax (22%), followed by GST (16%) and tax on worldwide income of business and individuals (12%) as best.



3.3.2 Cross analysis of attitudes - best tax broadening measure

Q15. Opinion on GST			Q1. Opinion on Hong Kong fiscal outlook			
% best	Net Support GST (n=686) %	Net Oppose GST (n=1,162) %	Purely structural problem (n=453) %	Purely cyclical problem (n=156) %	Both structural and cyclical (n=903) %	No fiscal problem (n=356) %
Land and Sea Departure Tax	5	11 ▲	6	13	10	9
Capital Gains Tax	9	25 ▲	17 ▼	21 ▲	18	22
A form of General Consumption Tax other than GST (e.g. Retail / Wholesale Sales Tax)	16 ▲	4	12 ▲	5	11 ▲	2 ▼
Tax on worldwide income of businesses and individuals	4	15 ▲	10	10	11	13
Tax on dividends	3	6	5	7	4	5
Goods and Services Tax (GST)	55 ▲	1	30 ▲	8 ▼	25 ▲	2 ▼
Tax on interest	0	3	2	2	1	3
Increase Rates on tenements	1	4	2	2	3	5
Reduction in allowances and deductions under Salaries Tax	3	9 ▲	6	11	4 ▼	11 ▲
Poll Tax	1	3	1	4	2	3
Payroll and Social Security Taxes	0	3	2	3	1	4









▲ Significantly higher at 95% C.I.

3.3.2 Cross analysis of attitudes - best tax broadening measure

	Q3. Attitudes to tax base		Q2 Attitudes to government Spending		Q6. Gov. proposal sufficiently explained?	
	Does not need broadening (n=655) %	Needs broadening (n=1,260) %	Net too high (n=1,280) %	Net too low (n=212) %	Yes (n=475) %	No (n=1,331) %
Land and Sea Departure Tax	11	8	9	10	11	8
Capital Gains Tax	21	18	19	23	13	22 ▲
A form of General Consumption Tax other than GST (e.g. Retail / Wholesale Sales Tax)	2	13 ▲	8	11	9	8
Tax on worldwide income of businesses and individuals	14 ▲	9	11	12	8	12 ▲
Tax on dividends	5	4	4	4	6	4
Goods and Services Tax (GST)	1	31 ▲	17	23	30 ▲	16
Tax on interest	2	1	2	1	1	2
Increase Rates on tenements	6 ▲	1	3	3	2	3
Reduction in allowances and deductions under Salaries Tax	10 ▲	5	8 ▲	3	7	6
Poll Tax	4	1	3	1	1	2
Payroll and Social Security Taxes	4	1	2	1	3	2

▲ Significantly higher at 95% C.I.

3.3.2 Cross analysis - Best option vs. support for GST & broadening

<div> <div>△</div> <div>Significantly higher at 95% C.I.</div> </div> <div>% see as best option ↓</div>	Q4. Net Favour GST (n=683) %	Q4. Net oppose GST (n=1,258) %	Q4. Net Oppose GST & Q3. favour broadening (n=685) %
Land and Sea Departure Tax	4	11 	12 
Capital Gains Tax	9	25 	28 
A form of General Consumption Tax other than GST (e.g. Retail / Wholesale Sales Tax)	17 	5	8
Tax on worldwide income of businesses and individuals	4	15 	16 
Goods and Services Tax (GST)	56 	1	1
Tax on dividends	2	6	6
Increase Rates on tenements	-	4	3
Tax on interest	-	3	2
Reduction in allowances and deductions under Salaries Tax	3	9	8
Poll Tax	1	3	2
Payroll and Social Security Taxes	-	3	3

Section 3.4 Attitudes to presentation of the government consultation document

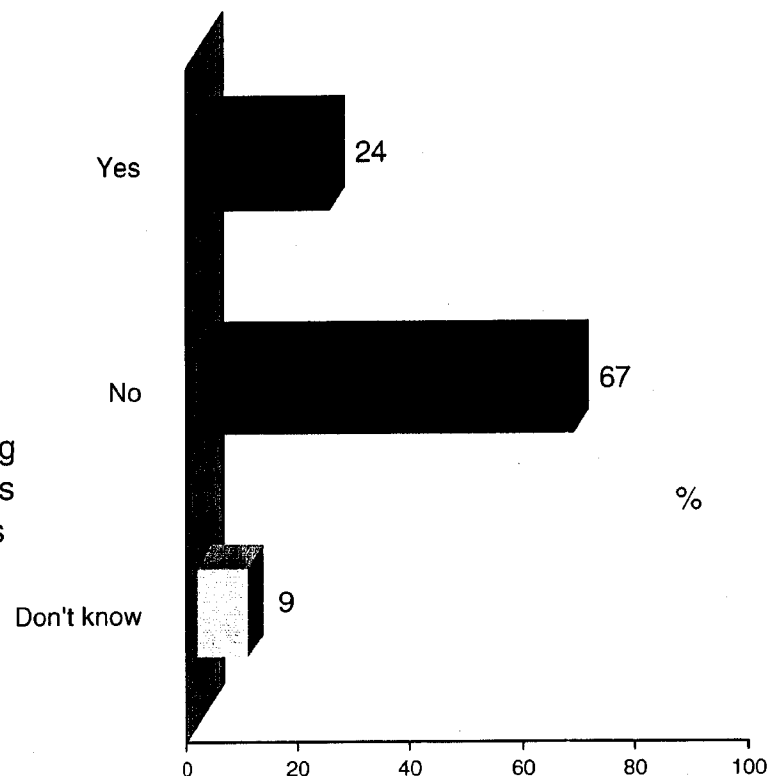


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3.4.1 Sufficiency of government's explanation of its GST proposal

Two thirds of accountants participating in the survey do not feel the Hong Kong government has sufficiently explained its GST proposal.

- 24% of all survey respondents feel that the Hong Kong government has provided a sufficient explanation of its GST proposal, while 67% believe the government has not. Nine percent were unable to comment.
- Only 34% of those who support a GST, feel the government has adequately explained its proposal compared to 19% among those who oppose GST.



Following consultation, the government may decide to proceed with a Goods and Services Tax ("GST"). The following questions relate to your specific opinions about the proposed GST.

Q6. Do you think the government has provided sufficient explanation of its GST proposal? SINGLE RESPONSE

Base: All respondents
N=1,980

34



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3.4.2 Cross analysis of views on government's GST proposal

- The table overleaf shows the cross analysis of attitudes towards the government's GST proposal with support for GST and with perceptions of Hong Kong's fiscal situation. Significant differences identified are as follows:
 - Those supportive of a GST are more positive generally towards the government's proposal. Sixty-two percent agreed it is the best way to broaden the tax base (vs. 1% of those opposing GST), 66% feel it is compatible with Hong Kong's low tax regime (vs. 8% of those opposing GST), 66% feel it is fair and 59% feel it will maintain Hong Kong's international competitiveness. Among GST supporters, the area of most concern with the government's proposal is that it will damage Hong Kong's competitiveness (23% indicated this option) and 24% feel it would overly complicate Hong Kong's tax regime. The areas of greatest uncertainty towards the government's proposal amongst GST supporters are whether the tax will be easy or difficult to avoid (63% unsure) and the stability or otherwise of the revenue base (70% unsure). These areas can be considered as particular deficiencies where the government has not succeeded in reassuring its most naturally receptive audience.
 - Those opposing GST are generally unsure about the pros and cons of the government's proposal in most respects, but particularly if it is the best way to broaden the tax base (76% unsure), whether competitiveness would be maintained (72% unsure) whether it is fair for all (69% unsure) and if the proposal is compatible with Hong Kong's low tax base (67% unsure). Amongst those opposing GST, the most negative view of the government's proposal is that it will overly complicate Hong Kong's tax regime (82% agreed). A further 28% of those opposed to GST also feel the revenue generated would be unpredictable/unstable. It can be seen that a deficiencies of the government's proposal are that it has not conveyed benefits to those opposed to GST and has reinforced a perception that GST will be overly complicated.
 - Respondents who feel that Hong Kong has a purely structural or partly structural partly cyclical fiscal problem are generally more favourable towards the government's GST proposal than those who see no fiscal problem or a cyclical problem only. More were inclined to agree that the proposal is the best way to broaden the tax base, is compatible with Hong Kong's low tax regime, is fair for all and will maintain Hong Kong's competitiveness. It should be noted that for most aspects of the proposal, this group are unsure about the pros and cons.
 - Those who say Hong Kong has a purely cyclical or no fiscal problem are more likely to feel that there are better alternatives to the government's GST proposal, it will overly complicate Hong Kong's tax regime, and is not fair some in the community. This group is divided in their opinion of whether the proposal would result in stable or unstable revenue streams and are more likely to be unsure whether the proposal is compatible with Hong Kong's low tax regime, is fair for all and/or will maintain Hong Kong's competitiveness.



3.4.2 Cross analysis of views on government's GST proposal

△ Significantly higher at 95% C.I.

Q15. Opinion on GST

Q1. Opinion on Hong Kong fiscal outlook

	Net Support GST (n=686) %	Net Oppose GST (n=1,162) %	Purely structural problem (n=453) %	Purely cyclical problem (n=156) %	Both structural and cyclical (n=903) %	No fiscal problem (n=356) %
Best way to broaden tax base	62▲	1	34▲	10▼	28▲	4▼
Unsure	25	76▲	52▼	64▲	52▼	67▲
There are better alternatives	13	22▲	13▼	22▲	19▼	28▲
Will overly complicate tax regime	24	82▲	50▼	76▲	51▼	85▲
Unsure	50▲	10	31▲	15▼	31▲	8▼
Compatible with simple tax regime	25▲	7	18▲	6▼	17▲	6▼
Compatible with low tax regime	66▲	8	42▲	14▼	35▲	9▼
Unsure	19	67▲	42▼	55▲	44▼	66▲
Incompatible with low tax regime	13	24▲	16▼	28▲	20	24
Revenue produced unstable/variable	6	28▲	14▼	22▲	17▼	29▲
Unsure	70▲	33	57▲	38▼	50▲	31▼
Revenue predictable / stable	23	37▲	29▼	35▲	31▼	38▲
Fair for all	66▲	7	42▲	16▼	35▲	9▼
Unsure	25	69▲	44▼	59▲	50▼	62▲
Not fair for some in community	8	23▲	14▼	22▲	15▼	28▲
Easy to avoid	11	21▲	15	19	15▼	27▲
Unsure	63▲	44	55▲	46▼	55▲	37▼
Difficult to avoid	26	33▲	30	31	29	34
Maintain competitiveness	59▲	3	33▲	8▼	29▲	7▼
Unsure	16	72▲	43▼	65▲	44▼	66▲
Damage competitiveness	23	24	24	22	26	27

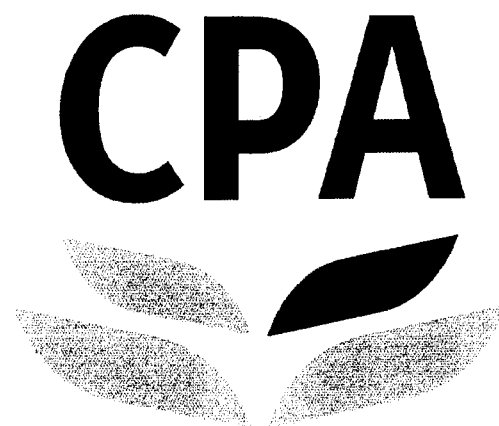
3.4.2 Cross analysis of Views on government's GST proposal

- The table overleaf shows the cross analysis of attitudes towards the government's GST proposal with attitudes to the tax base, government spending and views on whether the government proposal has been sufficiently explained. Significant differences identified are as follows:
 - Those who feel that Hong Kong's tax base does not require broadening are more likely to be unsure or negative about the proposal than those who feel the tax base does need to be broadened. In particular, the former group are more likely to be unsure of whether the proposal is the best way to broaden the tax base (72% unsure), is compatible with Hong Kong's low tax regime (66% unsure), is fair for all (67% unsure) and will maintain Hong Kong's competitiveness (71% unsure). They are also more likely to agree than those who desire a broadening of the tax base that the proposal is incompatible with Hong Kong's low tax regime (24%), not fair for some in the community (25%) and that there are better alternatives (24%).
 - Of those who see a need for broadening of the tax base, 41% feel the proposal is fair for all, 40% feel it is compatible with Hong Kong's low tax regime and 34% feel the government proposal is the best way to broaden the tax base. Aside from the high level of general uncertainty about the proposal amongst this group, the main area of criticism of the proposal is that it will overly complicate Hong Kong's simple tax regime (48% agreed).
 - Interestingly, many of those who feel the government's explanation of its GST proposal is sufficient, remained are nonetheless uncertain about key outcomes of the proposal, namely if the proposal will produce stable revenue (55% unsure), is the best way to broaden the tax base (50% unsure), easy to avoid (50% unsure), maintain competitiveness (43% unsure) and compatible with low tax regime (41% unsure).



3.4.2 Cross analysis of attitudes towards tax broadening measures

	Q3. Attitudes to tax base		Q2 government Spending		Q6. Gov. explanation sufficient?	
▲ Significantly higher at 95% C.I.	Does not need broadening (n=655) %	Needs broadening (n=1,260) %	Net too high (n=1,280) %	Net too low (n=212) %	Yes (n=475) %	No (n=1,331) %
Best way to broaden tax base	2	34▲	20	28 ▲	34 ▲	18
Unsure	72▲	49	58	57	50	60 ▲
There are better alternatives	24▲	17	21 ▲	15	15	21 ▲
Will overly complicate tax regime	83▲	48	65 ▲	46	51	64 ▲
Unsure	10	33▲	21	37 ▲	34 ▲	22
Compatible with simple tax regime	6	18▲	13	16	14	13
Compatible with low tax regime	8	40▲	26	38 ▲	44 ▲	24
Unsure	66▲	40	52	45	41	53 ▲
Incompatible with low tax regime	24▲	18	21	16	14	21 ▲
Revenue produced unstable/variable	29▲	14	20	22	13	22 ▲
Unsure	30	56▲	45	54 ▲	55 ▲	44
Revenue predictable / stable	38▲	29	33 ▲	24	31	33
Fair for all	7	41▲	26	33 ▲	39 ▲	24
Unsure	67▲	44	53	55	46	55 ▲
Not fair for some in community	25▲	14	19 ▲	12	14	19 ▲
Easy to avoid	22▲	15	19 ▲	12	17	18
Unsure	41	56▲	49	65 ▲	50	50
Difficult to avoid	35▲	28	30 ▲	23	31	30
Maintain competitiveness	3	35▲	21	27	36 ▲	19
Unsure	71▲	39	52	50	43	54 ▲
Damage competitiveness	24	25	26	22	21	26 ▲



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