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BY HAND

14 February 2007

Tax Reform
Financial Services and the Treasury Bureau
4/F, Main Wing
Central Government Offices
4 Lower Albert Road
Central, Hong Kong

Dear Sir/ Madam

Re: CPA Australia Tax Survey 2007

The Hong Kong China Division of CPA Australia has conducted a Tax Survey among 118 accountants and finance professionals in Hong Kong from all sectors to determine the business community's sentiment in the run up to the Financial Secretary's Budget Address at the end of this month.

The survey revealed strong support for a series of new initiatives, including the introduction of luxury goods tax, and departure tax, and a higher tax rate for expensive cars, to broaden Hong Kong's tax base. However, the survey also found that the majority of respondents would still like to see the HKSAR Government revisit the implementation of a GST and the appropriate timing would be 2010.

A press release was issued on 7 February, 2007 to release key survey findings. Enclosed is the press release for your reference. We hope we can take this opportunity to bring these to your attention and recommend the HKSAR Government to consider revisiting GST in the near future.

CPA Australia is one of the world's largest professional accounting bodies. Membership of the organisation currently stands at 112,000, of which more than 22,000 are based in Hong Kong, Singapore and Malaysia. The Hong Kong China Division has more than 9,500 members. For the past 50 years, our members have played an important role in enhancing professional, educational, business and trade opportunities between Hong Kong, Mainland China and Australia.

We would be pleased to meet with you to address any questions you may have from our report. Meanwhile, if you require any further information, please contact Ms Deborah Leung, Director, CPA Australia Hong Kong China Division at 2202-2710 or fax to 2832-9167 or email to deborah.leung@cpaaustralia.com.au

Yours sincerely

(Signed)

Marcellus Wong FCPA (Aust.)
Taxation Committee Chairman
CPA AUSTRALIA – HONG KONG CHINA DVISION

Encs

cc Mr Henry Tang, Financial Secretary

Press Release

Attn: News Editors
For Immediate Release

Luxury Goods Tax Favoured Over GST

Pre-budget survey by accounting body also reveals support for the introduction of departure tax and a higher tax rate for expensive cars

(7 February 2007, Hong Kong) – A survey to determine the business community's sentiment in the run up to the Financial Secretary's Budget Address at the end of this month has revealed strong support for a series of new initiatives to increase Hong Kong's tax base.

However, the majority of participants would still like to see the HKSAR Government revisit the implementation of a GST with 55% supporting the idea and 45% against. Of those in support, 31% said a GST should be implemented by 2009; 37% by 2010; 11% by 2011; and 21% by 2012.

"The debate over GST will not go away and the majority of our members believe that, as a tax, it has merit and should be reviewed in the near future," said Marcellus Wong, Taxation Committee Chairman of CPA Australia Hong Kong China Division. "However, when the government decided not to proceed with a GST, we decided to identify other alternatives that would still help raise much-needed revenue."

"Our survey has come up with other more practical recommendations regarding Hong Kong's narrowing tax base and we would like to see these incorporated in the Financial Secretary's Budget Address later this month."

A total of 118 accountants and finance professionals took part in the four-day survey last week with 53% also agreeing that a capital gains tax was also the most effective way to ensure the wealthy pay more tax.

When asked what existing taxes should be increased, 82% said they would like to see a higher levy placed on betting duty; 37% want stamp duty to be increased while 13% preferred to see a rise in general rates.

Instead of a GST, participants were also asked to identify which new revenue raising measures should be introduced. A luxury goods tax proved to be the most popular with 65% support, followed by a departure tax (43%); capital gains tax (41%); an increase to tax and compliance audits (30%); a tax on dividend streams (17%); a poll tax (14%); and a wholesale tax (7%).

On the subject of departure tax, 67% said the levy should be HK$50 while the remaining 33% opted for the higher charge of HK$100. However, 71% agreed that if new taxes were introduced, salaries tax should be reduced.

A section on the environment saw an overwhelming 86% agree that a higher tax rate should be applied to luxury cars, 86% also favoured a 20% rebate for consumers purchasing environmentally-friendly (hybrid) vehicles and a staggering 90% believe that repeat environmental offenders should pay a higher corporate tax rate.

A further 72% supported a recommendation to provide companies with a 150% deduction on the purchase of energy efficient equipment.

"Quite clearly there is a strong move towards the polluter pays principle and new tax incentives to protect the environment are seen as a high priority," added Mr. Wong.

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CPA Australia, one of the largest accounting bodies in the world, has established a strong membership base of more than 9,500 in Hong Kong and China, part of its 112,000 members worldwide.

Released by Professional Public Relations Asia on behalf of CPA Australia Hong Kong China Division. For further press enquiries, please call the following:

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