



7 March 2007

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

Dear Sir/Madam,

Consultation Paper on Tax Reform

We are writing to submit our views on the above consultation paper.

We note that since the publication of the paper, the Government has withdrawn its proposal to introduce a goods and services tax (GST). Although belated, this was the right decision, and we appreciate that. We believe not only that there is no need to introduce GST, as explained further below, but that GST should on no account be introduced until there is a proper system of universal suffrage such that the ordinary people on whom the main burden of GST will fall be properly represented on how their tax monies will be spent.

We do not accept the premise of the paper that there is a problem with the ability of the tax system to raise revenue. The fiscal reserves now exceed HK\$365 billion and the total net worth of Government well over HK\$900 billion. Moreover, the current year has seen an estimated fiscal surplus of HK\$55 billion. Over the economic cycle, the tax system is generating far more revenue for the Government than is needed. It is misleading, and alarmist, to assert that Hong Kong has a problem in this regard.

Nor is it true that the present tax system is narrowly-based. Taking account of the full range of Government revenues, including stamp duty, fees and charges, betting levy, rates, and premiums on sale and redesignation of land, the Hong Kong Government already has a broad tax base – broader than that enjoyed by many other governments.

Nor is Hong Kong's tax-competitiveness under threat. Hong Kong has low basic rates of tax on profits and salaries, a simple and predictable tax system, a source-based approach to assessing profits, and generous treatment of corporate expenses. All together, this constitutes an unbeatable package that is the envy of overseas regimes.

We strongly recommend that this misleading paper is withdrawn altogether from public circulation.

香港民主促進會

Hong Kong Democratic Foundation

香港北角英皇道郵政局郵政信箱 35588 號

P.O. Box No. 35588, King's Road Post Office, North Point, Hong Kong

電話 Tel: (852) 2869-6443 傳真 Fax: (852) 2869-6318

電郵 E-mail: hkdf@hkdf.org 網址 Web site: <http://www.hkdf.org>

A proper starting point for consideration of Hong Kong's public finances is a review of what services should be provided by Government and what by the private sector. Government in Hong Kong is getting involved in too many areas which should be left to private hands. Even for those services which it is felt should be funded by the Government, the mode of provision of such services – whether directly by Government servants or by some form of contracting out to supervised private sector firms – needs to be considered too. Then, once these the proper scope of Government activity has been established, consideration can begin of how to appropriately fund such activity.

We hope that the above comments are helpful.

Yours sincerely,

(Signed)

George W H Cautherley
Vice Chairman