



14/03/2007 17:03

 Urgent Return Receipt

To:

taxreform@fstb.gov.hk

cc:

Subject: consultation paper on broadening the tax base

Dear Mr. Tong,

I am writing in response to your consultation on broadening the tax base. The attaching file is the consultation paper from my prospective.

What this consultation paper is about<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office"

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1. As it is now the time to put in place the necessary structure to secure Hong Kong's future growth and prosperity, the Hong Kong government proposes to implement a new tax system in <?xml:namespace prefix = st1 ns = "urn:schemas-microsoft-com:office:smarts" />Hong Kong.
2. This consultation paper explains the pros and cons on the two meaningful options suggested by the government. Moreover, lists of ways to broaden the tax base of Hong Kong are also included.
3. The broadening of tax base aims at ensures the stability of tax revenue. By the way, our competitiveness would erode if we do nothing.

I sincerely hope that you can adopt my ideas as to ensure the sustainable prosperity of Hong Kong. Thank you for your consideration.

Yours sincerely,

Yoyo Yiu



consultation.doc

**CONSULTATION
PAPER
ON
BROADENING THE
TAX BASE**

**1 March 2007
YIU WAI YEE**

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What this consultation paper is about

1. As it is now the time to put in place the necessary structure to secure Hong Kong's future growth and prosperity, the Hong Kong government proposes to implement a new tax system in Hong Kong.
2. This consultation paper explains the pros and cons on the two meaningful options suggested by the government. Moreover, lists of ways to broaden the tax base of Hong Kong are also included.
3. The broadening of tax base aims at ensures the stability of tax revenue. By the way, our competitiveness would erode if we do nothing.

Introduction

1. First of all, it is obvious that the tax base in Hong Kong is too narrow and the tax revenue is unstable. Therefore, my analysis is mainly focused on how to broaden the tax base and thus, make the tax revenue become more stable.
2. To broaden the tax base, it is reasonable for the government to impose new taxes. From my point of view, those taxes should be fair to everyone and may help to protect the environment as Hong Kong's pollution problem is actually getting more serious.
3. There are two meaningful options suggested by the government. The first would be a major reduction in personal allowances so that nearly all wage and salary earners would be brought within the Salaries Tax net. The second would be the introduction of a Goods and Services Tax (GST). In this consultation, I will discuss the pros and cons of these two options and also address my point of view clearly.
4. To evaluate these two options, there are some areas which should be focus on. The effects on Hong Kong's tourism, the formation of hardship, the reduction in people's intention of purchasing, the stability of tax revenue towards the government, the equity of the taxes, etc.

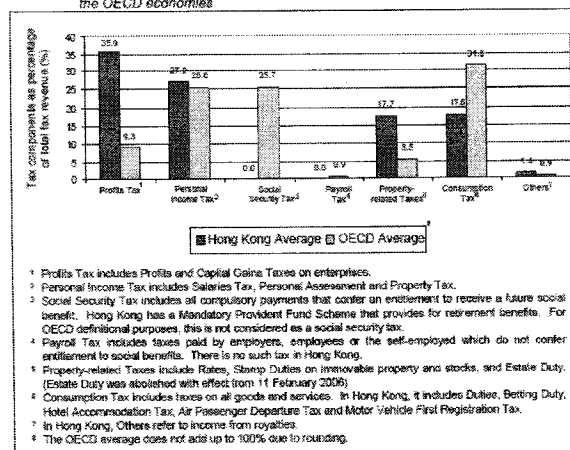
Is Tax Reform Required in Hong Kong?

1. As mentioned in the Consultation Document, Hong Kong's tax base is very narrow by international standard, especially heavy reliance on income taxes and revenues from land sales and investment earnings to support our expenditure. We currently rely upon only a very limited range of taxes. By the way, tax revenue is currently volatile and unpredictable.

(Refers to Fig.1.1) Compared with those OECD economies, Hong Kong's tax mix is significantly narrower than the rest of the developed countries. For examples, there are not any social security tax, payroll tax and consumption tax in Hong Kong which implies that, Hong Kong's variety of taxes is insufficient. Therefore, I do think our existing tax base is too narrow.

Fig.1.1

Chart 1 Hong Kong tax revenue mix as a percentage of total tax revenue compared to the OECD economies



2. Based on the unstable tax income, Hong Kong really needs a tax base where revenue is generated from diversified sources that are less susceptible to external shocks and cyclical economic conditions.

3. Our major sources of revenue, such as Profits Tax, Stamp Duties and stocks and immovable property, land premiums and investment returns, all suffer from considerable volatility related to economic conditions. There, I believed that it is now the right time to reform the tax base as to ensure our future growth and prosperity.

What are the two options?

The government has suggested two viable options. They are: broadening the salaries taxpayer base by significantly reducing personal allowances, so that most of the workforce pay tax on their Hong Kong earnings: or introducing a new broad-based consumption or indirect tax, such as a Goods and Services Tax(GST), so that individuals pay tax on their Hong Kong purchases or private consumption expenditure.

Evaluation

From my point of view, we should not reduce the personal allowance significantly as to broadening the salaries taxpayer base. This action would make the financial burden of those low-income families become heavier. By the way, as the workforce shrinks with the ageing population, the Hong Kong prone to income volatilities.

I agreed that the imposition of GST is capable of growing in line with consumption, can steady our tax revenue and even greatly broaden our tax base. Although the GST has the above advantages, there are many unpredictable bad effects may bring by it.

First of all, the imposition of GST may greatly affect Hong Kong's tourism.

As Hong Kong is a well-known “Shopping Heaven”, tourists are attracted by our inexpensive products. In this case, if GST is imposed, the prices of goods will also increase and keep the tourists away from us. This would greatly affect our economy as Hong Kong depends on the tourist industry very much.

Furthermore, the number of Hong Kong people go shopping in China has greatly increased. The situation will become more serious if GST is imposed on most of the goods in Hong Kong. It may even bring a negative effect on our tax revenue.

Finally, the important argument is, the problem of income gap in Hong Kong. Actually, the GST is a unfair tax to our residents. As the rich and the poor both need to pay the GST, ignoring those superior goods, how about the necessities? It will only lengthen the distance between the rich and the poor and really unhealthy to our society.

Recommendation

In my opinion, it is a must to broaden our tax base and so impose some reasonable new taxes.

1. We may learn from the foreign countries and impose the Special Land Tax which is collected from some special land developers. For examples, the reclamation land, the mountainside. Although it may not be able to provide stable tax revenue, an additional income can be created.
2. To increase the tax revenue, the government should impose the Estate Duty again. The amount of tax income is usually large and helpful to the government income. It is the responsibilities of our Hong Kong residents to pay tax on their large amount of Estates.
3. As the government uses a lot on public expenditure every year, our residents should be responsible for this and pay the Public Services Tax. Every family should be the taxpayer of this tax and the tax income could be used for public medical services, educational expenditure, construct of new infrastructure, etc. It is our responsibility to build up a satisfactory public services system by paying this tax.

4. Nowadays, it is important for us to think about some measures on protecting the environment. It is a global matter as the greenhouse effect would bring a number of negative effects to us. Now, many countries are trying their best to reduce the greenhouse gases emission. Hong Kong can broaden the tax base and at the same time, help to protect the environment. There are some taxes that the government can consider to impose. Firstly, the Private Car Tax. We can collect taxes from the private cars' owners once a year or once a quarter. This can discourage the ownership of private cars thus; reduce the greenhouse gases emission from vehicles. Also, it can increase the tax income of the government.
5. Apart from the Private Car Tax, there are still some considerable taxes left. For instance, the Plastic Bags Tax is a good chance as plastic is a environmental unfriendly material and it is widely used in Hong Kong. If this tax is imposed, charge \$0.1-\$0.5 for a plastic bag, the use of plastic bags could be greatly reduced and thus, the environment could be improved.
6. Lastly, as the amount of domestic waste is huge everyday. It is reasonable to impose a Disposal Tax. People are used to pay an amount of tax that proportional to how much domestic waste they had. It can improve the situation of wasteful Hong Kong people and surely, it can broaden the tax base.