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 Urgent Return Receipt

To: taxreform@fstb.gov.hk

cc:

Subject: Broadening the Tax Base

Mr. Henry Tong  
Financial Secretary  
HKSAR Government

Dear Mr. Ting,

Broadening the Tax Base

In response to your consultation document named "Broadening the Tax Base, Ensuring Our Future Prosperity", I would like to express my opinions on the tax reform.

In the introduction, I would like to talk about the taxation system practicing in Hong Kong and the reasons why the Government should introduce new taxes to ensure the tax revenue.

In the main body, I would evaluate the Goods and Service Tax (GST) that recently introduced to the public by the Government. There are two Pros and three Cons.

Pros: Solving the ageing problem that making the tax revenue decrease

Pros: Maintain the tax revenue

Cons: GST is a regressive tax and it worsen income distribution

Cons: Not a fair tax in financial aspect

Cons: Reducing the willingness of purchase

In the recommendation part, I would show my position towards the GST and also state out other suggestions in order to broaden the tax base.

Please refer to the enclosed file in MS-WORD Format for further details about my suggestions. Please feel free to contact me at \_\_\_\_\_ for further discussions. Thank you for your kind attention.

Yours sincerely,

Leung Chui Yin Chloe  
Christian Alliance Cheng Wing Chi College

Attachment: broaening\_the\_tax\_base



broaening\_the\_tax\_base.doc

**Policy Consultation**  
**on**  
**Broadening the Tax**  
**Base**

**Leung Chui Yin Chloe**

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# Executive Summary

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# Introduction

Hong Kong is famous for its simple and low tax rate; it also has a competitive taxation system that has attracted many foreigners to do their business and investment here.

However, the government is considering to impose new taxes in order to ensure Hong Kong will have reliable and steady tax revenue and make the society becomes more sustainable. Also, by imposing new taxes the government can provide more social facilities and social service so the living standard will be improved.

At the moment, the tax income of Hong Kong is mainly relying on profit tax, stamp duties and salary tax, which will easily be affected if there is a economic downturn. Apart from the market factor, here comes a social factor, the aging population problem. That's means in the foreseeable future, the demand for medical services or other social welfare expenses will sharply increased. At the same time, the tax net will be reduced as the working force had decreased.

It is a critical moment for the Government and all of the people living in Hong Kong to decide should new taxes be added to the present limited tax base.

# Should GST be adopted?

The Goods and Services Tax (GST), is multi-stage value-added tax levied on local consumption. The government claims that GST is the most viable one since it is very broad based, so there will be significant revenue even if the tax rate is lowly set.

Consumers will be taxed whenever they do consumption, so the chance of avoidance is very difficult.

There are some reasons to support the imposing of GST:

Firstly, imposing the GST will widen the tax base, and make it wider than the present's tax system. The Government can use the taxed money for education, social welfare, infrastructure, etc. Because of the ageing population, the Salaries Tax's revenue will decrease in the coming future. Therefore, widening the tax base is the most important action for the future HK. Recently, the elderly services are in increasing demand. If the tax system does not reform to abstract more tax revenue from the citizen, the elderly may not have enough welfare from the Government. However, you may say that the Government can have other choices to reform the tax system. There might be, but it will not be as effective as the GST. The GST is a more effective way to widen the tax base because people cannot avoid from being taxed and also the percentage is not set too high compared with the other taxes. In addition, it is a very fair tax system because the more money one spends, the more they have to pay.

However, the majority of Hong Kong citizens are against the imposing of GST. A survey conducted by the NoGST shows that from the 1339 interviewed people, nearly 90% of them are not interested in imposing a 5% GST. There must be reasons behind it.

If 5% GST is imposed, the income distribution would be more uneven. Simple mathematics can prove this. For example, a richer one and a poor buy a same furniture including 5% GST. The richer one receives a monthly income \$10000 and the poor earns \$7000. The selling price of the furniture is \$1000, and then \$50 will be abstracted by the Government. This \$50 takes up about 0.7% of the income of the poor, but the same amount takes up only 0.5% of the income of the rich. In this example, we can see that GST is a regressive tax. The richer will pay relatively less than the poor. Gradually, the poor will pay an increasing amount of tax; it will lead to a more uneven income distribution. Moreover, the HK Government abstracts the money from the poor being tax by the GST and lastly subsidizes them back with money; isn't this a foolish action?

Some people mention that GST is not a fair tax. Under the Government proposed tax, financial services will be zero-rated but, at the same time, financial institution will be able to claim back GST on their purchases. It is obviously not fair and has violated the principle of fairness. People with more abilities should pay a larger amount of tax, people providing financial services are always profession, and they have higher salaries compared with the grass-rooted working class. In this case, GST will become a regressive tax and the Government may have the suspected that safeguarding the middle class group of people.

Thirdly, if the tax is imposed, the Government claims that the general price level of each goods or services will be increased by about 3%, however, not exceeding 5%. That means that the inflation rate will be likely at 3%. This 3% inflation rate seems very little to us. If you consume more goods or services, then you will have to pay more tax to the Government. This will decrease the willingness to consume goods or services of consumers from different groups. It will not only affect our citizen, it will also affect the tourists from different countries, especially the tourists from the mainland China. As most of them come to Hong Kong are in hope to buy different kinds of electrical products, jewels, etc. Most of them come to buy these goods because they think that the products sold in Hong Kong are more reliable and cheaper compared to the same products selling in China. If GST is imposed, the selling price of the products will increase; it will lessen the willingness of the tourists to visit Hong Kong.

Finally, as a student, I can see some adverse effects to us from the implementation of GST. Although subsidy offered by the government will distribute to those taxed households. But this amount was only the compensation for the taxed person in the family. If the GST is implemented and inflation would set in, the amount of students' pocket money is not likely to increase, as a result, the purchasing power of student will decreased. This example may also fit into the situation of housewives. The willingness of purchase will sharply reduce among teenagers and non-working housewives.



# Recommendation

On the above grounds of disadvantages over benefits, I am opposing the introduction of GST. However I agree on the idea of the need of broadening the tax base, so I have the following suggestions.

From my prospective, the environmental problems will be a great issue all around the world, and for Hong Kong, a civilized city, should take the duty to protect the world. Green tax may help a lot in order to lighten the problem.

We may control the emission of CO<sub>2</sub> by reducing the number of car on road, for example, relatively high fuel taxes would encourage people not to rely exclusively on their autos. The resulting revenues would not only improve the tax income but also the air quality.

The Plastic Bag Tax should also take into consideration. I believe that Hong Kong people are willing to pay for what they have used. Since plastic bag is an unfriendly product to the environment, so people should have the responsibilities to pay an extra amount for their consumption. This tax is practicing among many countries and surveys showed that would not affect the competitiveness of the cities.

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