



To: taxreform@fstb.gov.hk
cc:
Subject: Consultation document on broadening the tax base

17/03/2007 17:40

Urgent

Return Receipt

Dear Mr Tong,

In response to your public request on the topic---broadening the tax base, I would like to provide you with my views on it and the attached document is used to show my point of view. Hope you will fully understand it and make use of my opinion to help contribute to a prosperous and energetic HK.

Yours sincerely,
Stephen Chan



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Executive Summary

As the latest financial budget revealed a promising future on the government revenue, we ought not to forget the truth that most of the tax revenue comes from profits tax and salaries tax, therefore the government should make good use of this consultation to broaden the tax base which benefits all people in the society and reduce the burden of the taxpayers.

Reasons for broadening the tax base

In the light of a simple but relatively narrow tax base, it is of crucial importance of widening it in HK. If a wider variety of taxes are charged and imposed, the government revenue will undoubtedly become more stable and promising. Due to the ageing population, it seems that focusing on the tax revenue of personal income tax and profits tax, which account for 27.2% and 35.9% respectively, is quite impossible. Less people will fall into the tax bracket after a few decades. Moreover, the rate of profits tax can never be raised and we should take the status of HK, which is an international financial centre, into serious consideration. After adjusting the rate upwards, it does more harm than good. The foreign investors will turn to other countries providing them with a lower rate of profits tax.

-Revenues are now mainly come from non-tax revenues

According to the latest financial budget, there is \$55.1 billion in the consolidated account of the government revenue. Nonetheless, we should not disregard the truth that the boom in the business of auctions and the stamp duty for immovable properties and shares has resulted in a tremendous amount of revenue. When the economy starts downturning and the revenue of auctions commence diminishing, revenues other than auctions and stamp duty is very essential. We should, therefore, not only rely on only stable revenue, but also some predictable and practical tax.

-Act as a reserve for future use

What leads HK to prosper and thrive again, after the financial crisis during 1997 and 1998, is the ability to grasp every opportunity and not to forgive. For instance, when the government realizes the manufacturing sector is almost over in Hong Kong (HK), they develop tourism, hotel and catering industry, trade, logistics, and so on at once so as to maintain the competitiveness. HK people, in addition, avail themselves of every chance to involve in the growing industry stated above. Finally with the concerted efforts, the economy booms again. However, it will not eternally last forever. The government will in all likelihood perform better when our economy is in

the stage of stagnancy if tax base is widened in the earlier years. The reserves will, in one day, be the savior of the whole economy.

It means that we should be conservative and know how to deal with the setbacks concerning HK's economy provided that we are willing to broaden the tax base and join hands altogether without any doubt.

-Rejection of Goods and Services Tax (GST) is wise

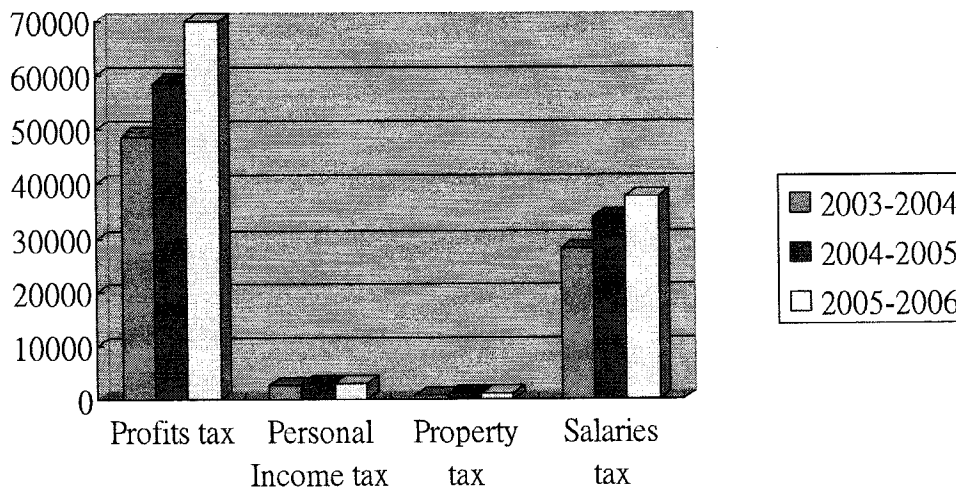
Since the proposal of GST, there have been a plenty of voices and views opposing if it is implemented. Frankly speaking, it is one of the options, but there are other better alternatives which can convince people to a larger extent. For HK's economy sake, it is unwise to raise the profits and personal income tax. As the impact of global warming is surging at an alarming rate, I suggest that an environmental tax should be thus imposed, along with the departure tax to mainland per head (i.e. Lo Wu and Wong Kong).

Adopting the about mentioned taxes will not take immediate effect from the view point of HK citizens, since not all sorts of products are required to pay a tax. The implementation of them will not drastically affect the livelihood of the dwellers when comparing to GST.

Table 1

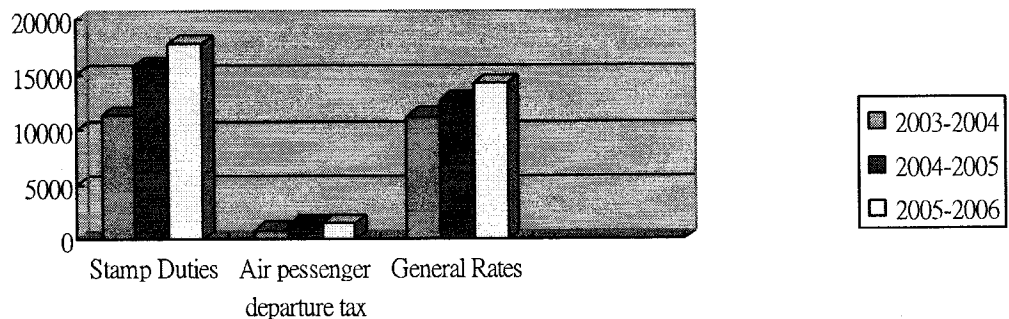
source: census and statistics department

Direct tax revenue in 2003-2006
HK \$Million



Indirect tax revenue 2003-2006

HK \$Million



Introduction

As shown in Table 1, HK depends greatly on direct tax revenue, I will here introduce some taxes that are not introduced in HK temporarily or under the consultation of the public. They are environmental tax, reduction in the rate of profits tax, departure tax and capital gain tax. They are some of the taxes in dispute whether the government should implement or not. Nevertheless, not all of them are feasible to be introduced thanks to various social, economic hardships or public's persistent objection.

Contents:

Environmental tax:

The introduction of this tax is aim at promoting the ideas of environmental protection besides surging the amount of revenues. It enables people to change their consumption habit over the use of non-recyclable products, reduces wastage of excess recourses and discourages them form using an increasing amount of that products. By so doing, the pollutants will be reduced and more and more materials, which are useful, can be recycled next time for the sake of Hong Kong, even all over the world. A 'green HK' can be achieved more likely.

According to the 'Polluters Pay' principle, polluters should bear their own responsibility to the pollutants and have to pay a relative tax, the tax is their cost. 'Income neutralization' is another principle to determine the rate of tax. It implies that the objection, as preceding paragraph mentioned, is to give a widely-accepted message to the public the need for environmental tax. The tax received is then, in my own opinion, put in an environmental fund in order not to let others to take advantage of the tax illegally. What's more, all of them should be utilized under the name of environmental safeguard against the increasingly terrible global warming.

Real-life examples:

a. In Ireland, environmental (plastic bag) tax has been successfully imposed since March 2002. All kinds of businesses cannot exempt from the tax besides food industry, like meat, fish, vegetables to ensure their safety and hygiene. The Irish government charges every plastic bag for about HK\$1.5. After one year the usage for plastic bags has tremendously dropped by 90%, also the rate of plastic bags waste among all waste accounts for only 0.3% after such a tax.

I suggest introducing plastic bag tax and the government had best divide the plastic bags into sizes in order to charge more easily. For instance, as there are many sizes of plastic bags within the same industry, say supermarkets, the government can set a few fixed sizes of plastic bags; the bags with a higher capacity will be of greater amount of tax. If there are hundreds sorts of plastic bags within one industry, the government may find it difficult to charge. In other words, the plastic bag tax is charged based on the size, but not the quantity citizens use.

Another example of the use of tax is Switzerland. The government is active in recycling and anti-littering bans. All garbage(except dangerous items, batteries etc.) in Switzerland must be disposed of in government approved bags which can only be bought from local shops and grocery stores. These special bags include a pollution tax thereby urging people to use less. Swiss health officials and police often open up garbage which has been deposited in the wrong bags. They search for evidence such as old bills which connect the bag to the household/person they originated from. Fines are charged for not using proper bags. Therefore, Switzerland is one of the top recyclers in the world with roughly 98% of all recyclable items being recycled.

b. The tax on electronic products (including computers, computer materials) is also another viable one. Since these products consist of lots of toxic substances, dealing with them will be costly which is borne by the society. Therefore, the unused materials should be paid the users and bear the responsibility according to the 'Polluters Pay' Principle. The method to charge the tax can be like this: if the electronic products are of highly toxic substances and hard to be dissolved, the charge can be of a comparatively lower amount. At the time people give the unused products, they are awarded some tiny and pretty bookmarks propagating the importance of environmental protection and let the people recycle things to a larger extent. Lucky draws among the people recycling the electronic products can also tempt them to recycle and the award can be some recyclable one.

Departure tax per head

Imposing this kind of tax can certainly raise tax revenue. However, this kind of tax is not suitable in HK. As we all know, the main pillar of HK's revenues come from the tourists throughout the world. They will inject energetic on consumption behaviour and make the hotel industry, transport, retail more thrive. Let's take the relations between HK and China as an example. Since the government has promoted the 'free entry to HK' scheme, the tax will adversely affect HK's reputation and popularity since the drawbacks outweigh. First and foremost, when people in mainland China learn that a departure tax is charged, they will turn to other places or 'rivals', especially the newly renowned Macau. Furthermore, people regarding HK having a simple tax simple traditionally will begin changing their mind and reconsider their degree of tax freedom and simplicity. All the things that HK do is to fascinate tourists and businessmen, the tax imposed in this situation disobeys the aim.

The fare to Lo Wu is particularly higher than to other KCRC stations, this implies some of the departure tax has been already charged. An addition of this tax will be double-counting. The tax is a disaster to HK people who travel across the border every day. It, therefore, will only charge a particular type of people which is contrary to fairness and justice required in law. Under normal circumstances will the government not to take the departure tax into account.

Capital Gain Tax

There are many countries relying on it as the tax revenue, like America, Canada, France, and so on. Someone thinks that it will not only broaden the tax base, but also ensuring a certain amount of revenues. From my point of view, this is not a good decision.

People willing to sell their apartment or shares is because of the lower price purchased before. Then they earn profits (in accounting sense) just by selling their own assets.

The tax is very complicated. Different countries have their own policies and the inflation rate will be one of the most vital factors to determine the revenue. In the stage of deflation, it is no use depending on the capital gain tax

Real Life example:

In America, if the assets depreciate in lieu of appreciating, under normal circumstances would the government give the tax back to taxpayers. Does it mean the government only charges the tax, but not pay back? In addition, if the American government suddenly incurs in a high amount of expenses, they will suffer and may

be not able to compensate for the loss of taxpayers and they will probably go into P.7 bankruptcy if they really do so. Hence, for American government's benefits, they will not bear the responsibility if the assets depreciate. The cancellation of capital gain tax in Sweden inversely stimulates the investing activities and real estate transactions, most importantly, the government revenue increases.

From the above evidences, it is no good introducing capital gain tax and the society will be in chaos or GDP diminishes since government expenditure decreases. It will undeniably contravene the simple tax system and affect the status to be an international financial centre.

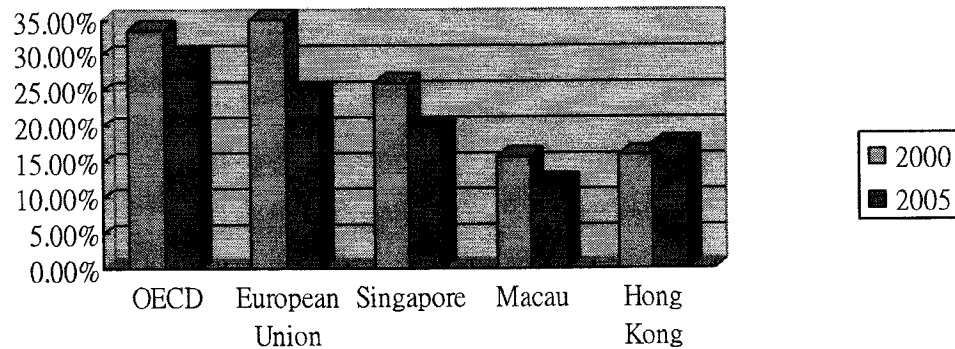
If the government deems that using the above-mentioned methods to broaden the tax base is in the end not viable, reducing the profits tax base is one of the possible ways. Singapore, for instance, reduces the profits tax rate from 26% in 2000 to 18% next year. If our rate keeps on staying, there is fierce competition between the two economies and this is not good to HK since their competitiveness will be enormously weakened. The most essential factor for the investors to reckon is not the stamp duty, but the maximum profits they can earn. Therefore, not adjusting the tax rate will also affect the businessmen's willingness to invest in HK, eventually bringing about a total destruction to the stock market and enterprises.

When it comes to sound legal system, free entry to and from the market, advanced information and technology, great support from mainland China which is one of the most powerful countries in the world, etc, Hong Kong still has its prominent advantages. I suggest that the government should reduce the tax rate to 15-16% , with a 2-3% lower than Singapore. In addition, Singapore has decided to introduce GST, people purchasing goods there need to pay a higher amount of money than before. Only by lowering down the profits tax rate can the competitiveness of HK can be retained.

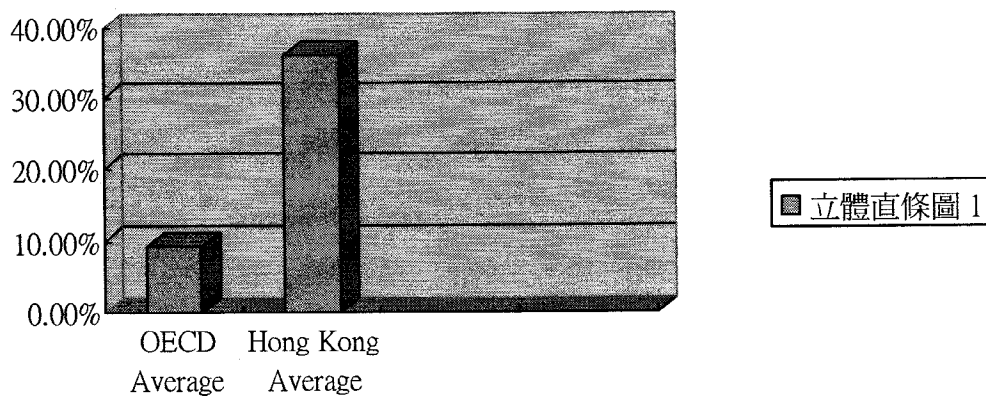
The following i.e. Table 2 shows how close the profits tax rate between the three places in south-east Asia(Singapore, Macau and HK) and the dependence on the profits tax as the revenue. Even Macau's tax rate is much lower than HK. If the casino in Macau has a rapid development, the status of HK will get into a great trouble. Based on the statistics, it is better to reduce the profits tax.

source: consultation document of broadening the tax base

Comparison of profits tax between HK and other economics



Comparison between OECD economics and HK of Profits tax:



Conclusion

It is wise for the government to introduce environmental tax, but not departure tax per head and capital gain tax, since it they will worsen the economic development and adversely affect daily routine of HK enterprises, let alone the whole society. Think twice before you act. If there are no other alternatives to broaden the tax base, reducing the rate of profits rate can be one of the outcomes for this consultation.

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