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 Urgent Return Receipt

To: taxreform@fstb.gov.hk

cc:

Subject: Re:Broadening the Tax Base

Mr. Henry Tong  
Financial Secretary  
HKSAR Government

Dear Mr. Tong,

**Broadening the Tax Base**  
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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.

Not a long time ago, the government decided to impose "GST"—Goods and Services Tax. Generally the public had shown their strong disagreement to this tax and finally, the government stopped introducing this tax. In this consultation, the question "do you agree that there are only two viable options?" in Chapter 2 of the GST consultation document will be discussed.

Apart from imposing the GST, there are some possible solutions to widening the tax base.

1. Take a tough line on the background-screening of the Comprehensive Social Security Assistance Scheme
2. Impersonate the European countries to impose the "Green Tax"
3. Increase the tax rate of Betting Duty
4. Take "Entertainment Tax" into account

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

Yours sincerely,  
Kong Yee Ki  
Christian Alliance Cheng Wing Gee College



taxbase.doc

# Government Consultation

  

# Broadening the Tax Base

Kong Yee Ki

# Executive Summary

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# Introduction

Narrow tax base has long been a problem of Hong Kong. A narrow tax base may cause a lot of problems. For example, if Hong Kong faces economic downturn again, we have to increase our income tax rate and count down the allowance as well as subsidies of many aspects. Moreover, the government's tax income relies heavily on income tax. As Hong Kong is facing an ageing problem, there will be less and less people falling into the income tax net. As a result, the tax burden of the payers will become heavier. Broadening the tax base can:

- Stabilize financial situation of the Hong Kong SAR government
- Increase the competitiveness of Hong Kong
- Enhancing our community's sense of civic responsibility

A good tax used to widen the tax base of Hong Kong should be matched with the following criteria:

- Can be fair to different parts of the society and achieve the principle of "earn more, pay more"
- Can be stable in the long run
- Can help Hong Kong to remain its competitiveness

Some possible solutions to widening the tax base will be discussed next.

# Content

## **1. Take a tough line on the background-screening of the Comprehensive Social Security Assistance Scheme**

It is commonly known that there have been a lot of illegible families receiving the CSSAS. This unwilling phenomenon let many dishonest taxpayers able to escape from their duty—paying tax. It is not good to ignore the effects. Recently, there has been a case of a pair of rich couple used to work for the Final Appeal Court escaping tax payment. If the supervising system was good enough, it was obvious to know that a large amount of tax payment would have been collected. The case is not uncommon in Hong Kong.

In view of this, it is time the government took a tough line on the background-screening of the comprehensive Social Security Assistance Scheme. More effort and supervision should be given to the background-screening procedure. Thereby, more eligible taxpayers will be found and more people will fall into tax net.

## **2. Impersonate the European countries to impose the “Green Tax”**

Air pollutant is something that we can not escape from every day, especially in Hong Kong. Hence, it is recommended that we should follow the measures of Green Tax in Europe.

The European Union establishes generalized arrangements for the taxation of energy products and electricity. The tax is levied according to the amount specified exhaustive emission of the energy products. This can help to protect the environment, make good use of energy resource as well as broadening the tax base.

The minimum levels of taxation applicable to heating fuels and electricity in the Europe are the following:

-	<b>Current minimum excise rates</b>	<b>Minimum excise rates from 1.1.2004 (business use)</b>	<b>Minimum excise rates from 1.1.2004 (non-business use)</b>
Diesel (/1000 l.)	18	21	21
Heavy fuel oil (/1000 kg.)	13	15	15
Kerosene (/1000 l.)	0	0	0
LPG (/1000 kg.)	0	0	0
Natural gas (/gigajoule)	-	0.15	0.3
Coal and coke (/gigajoule)	-	0.15	0.3
Electricity (/MWh)	-	0.5	1.0

(The volumes are measured at a temperature of 15° C).Source: website of the European Union minimum levels of taxation

It is viable in Hong Kong because of the following reasons:

Firstly, it is fair to the taxpayers. We, Hong Kong residents, should be responsible for the air pollution in Hong Kong. Hence, it is understanding that the “air polluters” should pay for the emissions caused by themselves.

Moreover, it is suitable in the long-run. As Hong Kong is a bustle city, it requires a lot of energy consumption. The situation continues. As a result, the tax can be used in the long-run.

Thirdly, the tax is sure to remain or even strengthen Hong Kong’s competitiveness. The tax is prevailing in many Western countries; especially it is widely used in the Europe. The imposition of Green Tax can help Hong Kong keep pace with some Western powers. In addition, there has been loads of foreign investors unsatisfied with the air pollution in Hong Kong. Imposing the tax can show the government’s support to environmental protection and thus, keep the

investors' interest in investing in Hong Kong.

The government can consider imposing tax on polyethylene, like Italy. The Italian government levies the producers and importers of polyethylene, the component of plastic bags for 10%. The taxation can encourage the producers and importers to decrease the output, or, use recycled materials to produce plastic bags. The tax will be used to cover the expenses of recycling plastic bags. Other countries like Denmark, imposes heavy tax on polyethylene.

The similar tax can encourage the public to use the alternatives while no extra burden will be given to the public.

### **3. Increase the tax rate of Betting Duty**

The income of the betting sector is large comparatively. The government can increase the tax rate of betting duty. The tax revenue can then be used in the welfare of Hong Kong people.

The increase in tax rate of betting duty is viable in Hong Kong because of the following reasons:

Firstly, it is fair to other sectors in Hong Kong. This achieves the principle of "earn more, pay more". Other parts in Hong Kong do not need to pay the tax because they do not earn money from gambling activities.

Secondly, the tax revenue can be used to improve the welfare of Hong Kong people, so as to narrow the income gap between the poor and the rich. It can also improve the living standard of Hong Kong people and as a consequence, raise the competitiveness of Hong Kong.

### **4. Take "Amusement Tax" into account**

In some countries like Taiwan, there is a kind of tax called amusement tax. The tax is imposed to the entertainment sector. The tax rate of different business is different. The amusement tax is levied on the prices of tickets sold or the fees collected by amusement businesses that provide any kind of on site equipment or activities for entertainment. The tax payers are those who pay price to enjoy the amusement.

Take Taiwan as an example, the tax levied goes as follows:

<b>Classification Legal</b>	<b>Maximum Rates</b>
The cinema	
Chinese language films	30%
Foreign language films	60%



Professional singing, story-telling, dancing, circus, magic, acrobatics shows and all kinds of performances in night clubs	30%
Drama, music performances and amateur singing, dancing, etc.	5% 10%
All kinds of skill competitions and contests	100%
Dance halls	50%
Billiard halls	30%
Bowling alleys	20%
Golf clubs	
Other activities that are provided as a form Of recreation for consumers	50%

Source: the rate of Amusement Tax, Revenue Service Office, Nantou County

It may be thought that the tax is not viable in Hong Kong since the price of the entertainment may soar after imposing the tax. However, as consumption in pubs, bars and dance halls to some extents encourage night amusement; the labor productivity in Hong Kong will be adversely affected. Thus, the government may consider imposing tax on the entrance fee of the night clubs, pubs and dancing hall.

### **Conclusion**

The above four suggestions are worth considering. Take a tough line on the background-screening of the Comprehensive Social Security Assistance Scheme can indirectly increase the tax revenue of the government. Impersonate the European countries to impose the “Green Tax”, increase the tax rate of Betting Duty as well as taking “Entertainment Tax” into account are greatly viable in Hong Kong. Surely, we hope against hope that Hong Kong is successively prosperous.

I. Broadening the tax base Ensuring our future

([http://www.taxreform.gov.hk/eng/doc\\_and\\_leaflet.htm](http://www.taxreform.gov.hk/eng/doc_and_leaflet.htm) )

II. Environmental tax survey

(<http://www.dphk.org/database/oproess/000803a.htm> )

III. Betting Duty. Inland Revenue Department

(<http://www.ird.gov.hk/eng/tax/bdu.htm#02>)

IV. Comprehensive Social Security Assistance

([http://www.swd.gov.hk/en/index/site\\_pubsvc/page\\_socsecu/sub\\_comprehens/](http://www.swd.gov.hk/en/index/site_pubsvc/page_socsecu/sub_comprehens/))

V. Amusement Tax, Revenue Service Office, Nantou County

(<http://www.nttb.gov.tw/core/eng/ptml.php?HtmlSrc=localtax5.html> )