



20/03/2007 20:50

 Urgent Return Receipt

To: taxreform@fstb.gov.hk
cc:
Subject: Broadening the Tax Base

Mr. Henry Tong
Financial Secretary
HKSAR Government

Dear Mr.Tong,

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.

The hot issue of whether Hong Kong should implement goods and service tax or not becomes the public debate. Everyone has his or her own reasons and opinions on it. We all know that a coin has two sides. To me, I strongly disagree introduce goods and service tax (GST) in Hong Kong. It is no doubt that the government want to have stable revenue through implement GST. However, I do not think it is a meaningful and preferable way to broadening the tax base. Goods and service tax will make the burden of low-income households more heavy. The price index increase leads to decrease in consumption. People face many taxes, the phenomenon of disparity between the poor and the rich occur more obvious. Despite affecting the local people, it will also affect the tourists. The competition between Thailand, Malaysia, Singapore and China is very keen. Implementing goods and service tax will only undermine the competitiveness and hinder the development of Hong Kong. In addition, this new taxation system is not fair. It violates the principles of Hong Kong's taxation system — 'able people should pay more tax'. In order to broadening the tax base, introduce tax on luxury goods and energy tax can do so too and have the stable revenue as well.

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,

Lai Wing Sze
Christian Alliance Cheng Wing Gee College

Attachment: Broadening the Tax Base



Broadening the Tax Base.doc

Broadening the Tax Base

Lai Wing Sze

Executive Summary

The hot issue of whether Hong Kong should implement goods and service tax or not becomes the public debate. Everyone has his or her own reasons and opinions on it. We all know that a coin has two sides. To me, I strongly disagree introduce goods and service tax (GST) in Hong Kong. It is no doubt that the government want to have stable revenue through implement GST. However, I do not think it is a meaningful and preferable way to broadening the tax base. Goods and service tax will make the burden of low-income households more heavy. The price index increase leads to decrease in consumption. People face many taxes, the phenomenon of disparity between the poor and the rich occur more obvious. Despite affecting the local people, it will also affect the tourists. The competition between Thailand, Malaysia, Singapore and China is very keen. Implementing goods and service tax will only undermine the competitiveness and hinder the development of Hong Kong. In addition, this new taxation system is not fair. It violates the principles of Hong Kong's taxation system—'able people should pay more tax'. In order to broadening the tax base, introduce tax on luxury goods and energy tax can do so too and have the stable revenue as well.

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Introduction

There is a public controversy today over the issue of goods and service tax (GST). Those who object to it argue that the disparity between the rich and the poor will become more serious. They believe that the burden of low-income households would increase if GST implement in Hong Kong. But people who advocate it, on the other hand, claim that, the goods and service tax can ensure our future prosperity. It can make Hong Kong have stable revenue and is beneficial to Hong Kong in the long run. I believe that it is not the right time now to implement goods and service tax. Hong Kong is still in the recovery stage, we should wait for the economy upturn to a higher and more stable level. Presently, I believe impose tax on goods should step by step.

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Is GST an appropriate option to broaden Hong Kong's tax base

Although there are at least 135 jurisdictions has been implemented goods and service tax around the world, different countries have different taxation system, social welfare, population structure etc. All these factors will affect the outcomes of the introduction of the new tax policy.

I believe introduce goods and service tax to broaden Hong Kong's tax base is not the preferred approach for the following reasons:

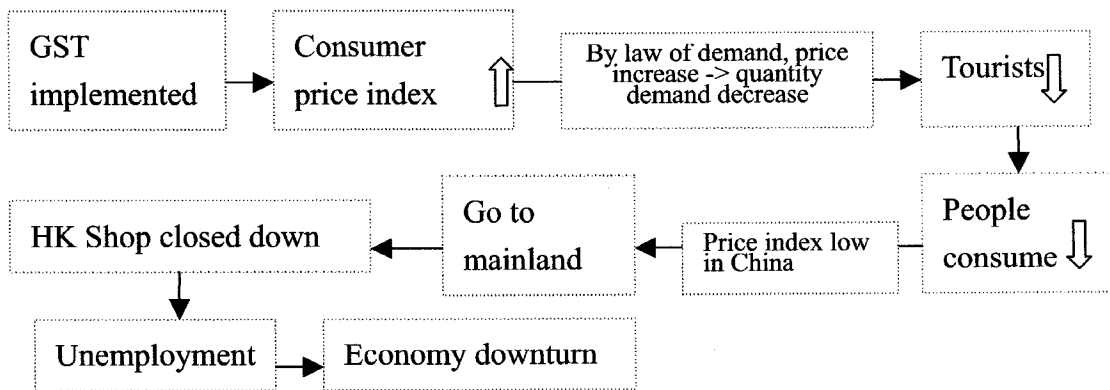
- **The extreme disparity between the rich and the poor will become more deteriorate.** In Hong Kong, the condition of this is very serious and do not have any trend to show this problem will upturn. Under this new taxation system, the low-income households need to pay more goods and service tax than the high-income households do in proportion to their income. It is because low-income households will spend all their income on food, housing, electricity, water, gas, transport etc necessary items. However, the high-income households only spend part of their income on the above things. That means this will only increase the burden of the low-income households and middle-low income households. By simple calculations, a family with \$8000 income will use \$7000 as monthly expenditure; the family need to pay \$350 more per month as tax and the percentage is 4.375% of the whole income. While a family have \$150000 a month and use \$80000 as the expenditure, that family need to pay \$4000 goods and service tax and the percentage is 2.67% of the whole income regressive tax. And the government will decrease the rate of many other taxes such as personal income tax, profits tax, rates, wine tax etc to compensate the money spend on goods and service tax, but all these offsets bring just a minor effects on the poor. They do not need to pay personal income tax; they do not have cars and own a

business indeed. They cannot enjoy the offsets. The reduction of other taxes mainly beneficial to the high-income households and middle-income households. A few hundred dollars is very important to the middle-low and low-income households but a few thousand dollars cost a trifling sum to the middle-high and high-income households. As a result, these groups of people can have a set of deduction from taxes yet the low-income households pay a higher tax.

- **Cannot maintain Hong Kong's competitiveness.** Hong Kong can maintain our competitiveness; one of the reasons is the simple taxation system. If the goods and service tax is implemented, it will affect the reputation of Hong Kong. In recent years, some foreign countries hope to make changes on their taxation system and they want to follow Hong Kong's simple taxation system. The reason is that it has high efficiency. A simple and low tax system with free trade is the basic characteristic and superiority of Hong Kong. This can attract foreigners to invest in Hong Kong because of the simple and low tax system. No matter you are a businessperson or a citizen, all people can earn profit from this system. Hong Kong provides a good environment of business. Goods and service tax will only destroy the principles of Hong Kong's simple and low tax system. The government promise that the tax rate of GST will remained unchanged for 5 years but how about after 5 years. According to many other counties' experience, the tax rate of goods and service tax will increase year by year and depend heavily on it. Such as England, the tax rate increase from 8% to 17.8%; Singapore, the tax rate increase from 3% to 5%; Japan, the rate has increased 5%. It is very difficult to ensure the tax rate will not increase year by year. The tourists are difficult to have offsets, as the criterion of tax refund is to consume \$1500 in the same shop. I believe there is only few tourists have benefit on it.
- **It violates the principles of Hong Kong's taxation system — 'Able people**

should pay more tax'. Introduce goods and service tax is not fair. Hong Kong's taxation system follows the rationale of 'Able people should pay more tax' all the way. However, goods and service tax has the nature of aggressive tax. The tax rate of low-income households is high but the tax rate of high-income households is low. It is not fitted with the principles of fair. Moreover, the government suggested to have some offsets to households and organizations, the problem is that how to set the boundary, which can have offsets and which cannot. This must bring many arguments on it. In addition, the administrative expenses of goods and service tax is very expensive, the actual amount received is approximate to existing taxation system. But the big problem is the disparity of the poor and the rich become more serious and we also need to concerned about will Hong Kong still maintain the competitiveness and to make sure the economy of Hong Kong will not downturn.

How the GST affects Hong Kong's economy



Goods and service tax covered generally in all aspects, including clothing, food, housing, transport, education, medical care etc. All people except Comprehensive Social Security Assurances households need to pay tax. Now, the retired people were already left the tax net and no need to pay tax because they have no income. If goods and service tax is introduce, the retired people and teenagers also need to pay tax.

Nevertheless, they have no income; they do not have ability to take care themselves. Their income source is come from their sons, daughters, and parents respectively. This will increase the burden of the family. Each family, the income mainly depends on father or may be mother. And they need to give money to their parents and spend huge amount of money on their children. The low and middle-low income households indeed do not have extra money consume on restaurant, entertainment, travel, expensive clothes, bags etc. These groups of households do not have relief available but pay large amount of tax and the number of people in this group is about 400000. In addition, the middle-income households said that they would consume less. This will bring a harmful impact to Hong Kong's economy. Take Japan as an example, at that time, the economy of Japan is in recovery stage (like in Hong Kong), the economy seems to be upturn but the increase in tax lead Japan's economy downturn again and last for 20 years. After goods and service tax has implemented in Japan, the price index raised along with inflation happened, the lives of people become difficult. People have no mean to spend money and the numbers of people go out to consume drop obviously. The executor because of this was stepped down. Moreover, Hong Kong is different from other countries; Hong Kong does not have any military expenditure so we do not need to implemented goods and service tax like other countries. Hong Kong is in a special geographical position; it is very close to China, just separate by a boundary. It is convenient for people to go to China. The price index is low and this becomes really attractive to Hong Kong people. More people will go to China and spend money there. So, I believe goods and service tax cannot boost Hong Kong's economy. On the contrary, it may lead to Hong Kong's economy downturn.

Recommendation

Despite the introduction of a goods and service tax to broaden the tax base of Hong Kong, there are many ways to do so.

- **Impose land departure tax**

Nowadays, when people go travel by plane or ship, all people need to pay the departure tax, no matter you are poor or rich and is in the same amount. After imposing this tax, all people who leave Hong Kong need to pay tax. Therefore, many people would fall into the tax net; this tax could broaden the tax base. There are many people come and go between Hong Kong and China by land every day. The revenue would be stable. Some may argue that this will reduce the number of people come and leave Hong Kong, but the tax rate is low. People will not care about it, as the elasticity is inelastic. Hong Kong surely has a particular attractiveness.

- **Impose energy tax**

The energy tax included three elements—electricity, gas and water. Every households need to pay this tax and the tax base is absolutely broad. This is a new tax and the rationale of this tax is to sum up the electricity expense, water expense and gas expense and consider the number of people in a family. If the total amount is larger than a specific index set by government, the family needs to pay tax. Moreover, the tax rate will be different due to different amount of expense. The higher the expense, the more tax one has to pay. I believe people will pay more attention to our environment after implement this tax; people will change their attitude and behavior to our environment. The sense of environmental conservation will arise. The main objective to implement this tax is broaden tax base and increase Hong Kong's international competitiveness. Public aware more about our environment and improve our living condition. This attracts more tourists to come to Hong Kong, investment and business development.

- Impose tax on plastic bags

The rationale behind this tax is similar to the energy tax. The purpose is to increase our international competitiveness. People would not waste and misuse the plastic bags. Our living environment would improve. The principle to implement this tax is simple. Whenever we use plastic bags, we need to pay tax and I suggest the tax is \$0.5 per plastic bag.

- Impose tax on luxury goods

Luxury goods means jewellery, valuable watches (\$10000 or above), famous paintings and antiques. From my opinion, tax on luxury goods is better than goods and service tax. This would not increase the burden of low-income households. The consumers who buy these goods are rich. They are willing to spend a few hundred thousands dollars on the luxury goods and this is only use for personal habit. Introduce tax on these goods are more reasonable other than necessary and daily goods.

- Increase betting duty

The Jockey Club (the only organization engaged in gambling) earns a few hundred billion dollars each year. Most of the income is come from the public who bet the horse, mark six, football. The tax base is broad and the income is stable. It is fair to all people as the people pay the same tax rate and is 'bet more pay more'. Only people who gamble need to pay tax so this would not increase the burden of low-income households.

Reference

Broadening the tax base's politic economics

http://www.franklenchoi.org/monograph/pe_tax_base.html

The Tax Foundation

<http://www.taxfoundation.org/>

Stance on GST of the Committee Club

<http://hkfcs.catholic.org.hk/homepage/tax.htm>

GST is good? Or bad?

http://www.hkedcity.net/iworld/feature/view.phtml?iworld_id=68&category=¤t_page=1&feature_id=1502&page=1