



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

20/03/2007 18:15

- Urgent
 Return Receipt

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.

All of us know that Hong Kong's economy has recovered rapidly in the past few years, and ensuring sustainable growth is a MUST, so that Hong Kong can continue to play the important role of global economy and also can handle any future sudden economic crisis. To broaden the tax base is the next thing to do, since the present tax base is too narrow, mainly the people of the middle class do not pay tax. However, the idea of introducing a new broad-based consumption or indirect tax, such as a Goods and Services Tax (GST), is not good for the time right now, since the Hong Kong people are not quite ready to understand the benefits of this new tax, and also, the gap between the rich and the poor is still wide, and the introduction of GST may cause this problem to become much worse, so it is not the right time to have the GST. By the way, the other ways such as broadening the salaries taxpayer base, introducing Green Tax, are good and efficient 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 [redacted] for further discussions. Thank you for your kind attention.

Yours sincerely,
Tsang Hoi Ching
Christian Alliance Cheng Wing Gee College

Attachment: Policy Consultation.doc



Policy Consultation.doc

Policy Consultation
Broadening the Tax Base

Executive Summary

All of us know that Hong Kong's economy has recovered rapidly in the past few years, and ensuring sustainable growth is a MUST, so that Hong Kong can continue acts the important role of global economy and also can handle any future sudden economic crisis. To broaden the tax base is the next thing to do, since the present tax base is too narrow, mainly the people of the middle class to pay tax. However, the idea of introducing a new broad-based consumption or indirect tax, such as a Goods and Services Tax (GST), is not good for the time right now, since the Hong Kong people are not quite understand the benefits of this new tax, and also, the gap between the rich and the poor is still wide, and the introduction of GST may cause this problem become much worse, so it is not the right time to have the GST. By the way, the other ways such as broadening the salaries taxpayer base, introducing Green Tax, are good and efficient to broaden the tax base.

Contents

	Page
1) Introduction	3
2) The case of GST	4
3) Broadening the salaries taxpayer base	6
4) Capital Gains Tax	7
5) Green Tax	8
6) Recommendation	9
7) Reference	10

Introduction

Nowadays, Hong Kong is an international financial and commercial city, and is not the fishing village anymore. The stability of the growth of the economy is the most important thing for Hong Kong's further development, we have to sustain the prosperity of our economy, but how to do so? We must make sure the generate revenue can support our expenditure, but the fact is that, the personal income tax rates are among the lowest in the world and we only rely on a very limited range of taxes and non-tax income. It is not healthy and so the government decides to broaden the tax base, and I would like to give some comments and hope my advices will be hopeful.

The case of GST

GST, is an indirect tax but is in regressive form. It is also known as “Value-Added Tax” in some parts of the world. It is charged on local consumption and is borne by end consumers, and is collected at each stage of the production and distribution chain by registered vendors, who have to account for the tax on the value that they have added to goods and services.

I do agree it is a good idea to introducing GST, the reasons are the following:

Firstly, it is very broad based and so the tax base can be broaden. Secondly, it is fair, since individual consumption determines the amount of tax to be paid, means that the one who spends more money, the one who has to pay more tax. Thirdly, the avoidance is very difficult, nearly all people in Hong Kong may have to pay GST, and all those who purchase from registered businesses have to pay tax irrespective of their background, income level or other circumstances; although their source of income is not liable to tax, they will still be taxed when they spend.

However, I think it is not right time to introduce this new tax system. Since GST is a regressive tax, means the tax payment takes a falling proportion of taxable income when taxable income rises, so it widens the wealth or income gap, it leads to a more uneven income distribution, as the poor have to pay a higher percentage of their income as tax than the rich, but the problem of uneven income distribution is serious, how can the government to make this problem more and more serious? We must reduce this problem first.

Besides, there are something that the government should consider and think more clearly, or may the government deal with some other problems first and may help to introduce the GST. First of all, although GST can broaden the tax base, and the government may give allowances for necessities, and the tax for the superior goods left, however, the demand for luxury is elastic, if the GST is introduced, people can buy the necessities only, then the income from the GST may not as much as we expect. Secondly, as the problem of uneven income distribution becomes more serious, the expenditure of the elderly may higher, and the complaints about social welfare may much more, then the expenses on social welfare may rise too. Thirdly, according to other foreign countries, GST just like the Pandora Box, you cannot close it after you open it, the tax rate will increase continuously. Fourthly, the administrative expenses are too high, estimated to 5 billion dollars, also, to prevent people not to pay tax, the government may have to employ more workers, so on, the administrative expenses will much more and more. Fifthly, as there are lots of Chinese tourists visit Hong Kong due to the low prices of luxury, if the GST is introduced, can you imagine how many tourists we will loss? And the private consumption will reduced a lot, and lots of people will prefer to visit the mainland china more than visit Hong Kong.

Although introducing GST is a good way to broaden the tax base, however, it is not the right time to introduce it, and the government should think of some methods to avoid the problems that it may cause. For example, how to ensure the tax rate will not increase continuously? If the government can eliminate all the problems and the GST can be introduced successfully.

Broadening the salaries taxpayer base

Broadening the salaries taxpayer base, means that to reduce personal allowances, so most of the workforce pay tax on their earnings.

Some think that it is not a preferred option, the reasons are the following:

Firstly, Hong Kong uses its personal allowances as a mechanism for providing financial relief to individuals and households with dependents and in the event of their removal would need to adopt an alternative approach, this would involve increased government welfare outlays and administrative expenses. But, in fact, the expenses of government welfare usually spent on the lower-class people now, it is so unfair to the middle-class people, which pay lots of their wage for taxation. Since the middle-class rarely may enjoy the government welfare, since their income is over the requirement. Thus, if broaden the salaries taxpayer base, it is fair for the middle-class.

Secondly, it would draw wage earners currently paying no Salaries Tax into the tax net. It seems make Hong Kong less attractive to international talent and hamper the competitiveness. However, more people pay Salaries Tax, the tax base can be broadened. It is no doubt that the bad effect will be caused, but after a period of time, everyone can be adapted. It is not affect the long-term development of Hong Kong Economy.

Thirdly, raising more revenue from direct income tax would still leave Hong Kong prone to income volatilities. In fact, I think it is true, but we can do something to reduce the problem, for example, to reduce the Salaries Tax rate, so that the lower-class which don't have to pay tax right now will be willing to pay since the tax rate is not so high, they can still be payable, and would not lead to the problem of low incentive to work hard.

Therefore, to broaden the salaries taxpayer base is fair, will not affect the long-term development of Hong Kong Economy and would not lead to the problem of low incentive to work.

Capital Gains Tax

Capital Gains Tax, is a tax charged on capital gains, the profit realized on the sale of an asset that was purchased at a lower price. The most common capital gains are realized from the sale of stocks, bonds, precious metals and property.

Some suggest that to introduce this type of tax to increase the government revenue. However, I cannot agree with this. The reasons are the following:

Firstly, it will affect the incentive of investment, since the government will collect some of the gains, so if people invest a lot and have some gains, they cannot get whole of the gains, it lowers the incentive of investment in Hong Kong.

Secondly, according to some other countries, such as USA, the capital gains tax rate keeps on increase, and how the government to be sure not to increase the tax rate in the future?

Thirdly, the administrative expenses are great. Since the procedures of counting the capital gains is difficult and is not easy to measure some types of capital, thus, the expenditure on administration may higher than the revenue can be received.

In conclusion, I don't think introducing capital gains tax is a good idea.

Green Tax

Green Tax, is a fiscal policy that introduces taxes intended to promote ecologically sustainable activities via economic incentives. Such a policy can complement or avert the need for regulatory approaches.

It is a good idea to introduce this type of tax. As the environmental problems getting more and more serious, this tax can alert people to protect our environment. It can help to reduce the problem of global warming and to promote environmentally friendly.

It just likes kill two birds with one stone, the government can have more revenue, can broaden the tax base, and also can protect our environment.

Recommendation

In conclusion, I do not agree that to introduce GST right now, but I think we can introduce Green Tax or to broaden the Salaries taxpayer base. Since the procedures are much easier to carry out, and the administrative expenses will not so high. The government can manage easily, and the outcomes are easily reached. I hope that, the government can introduce the Green Tax first, since the problem of global warming is getting worse, we are members of the earth, we must help to reduce the problem.

Reference

- The Consultation Document and Supplementary Information Leaflets
- The Ten Worries about GST, 1 September 2006, Prime Magazine 93
- About Capital Gains Tax
(http://en.wikipedia.org/wiki/Capital_gains_tax)
- Steven Cheung, 05/01/2007, Securities Times, A08
- About Green Tax
(http://en.wikipedia.org/wiki/Green_tax)