



To: taxreform@fstb.gov.hk
cc:
Subject: Consultation on BROADENING THE TAX BASE

22/03/2007 21:27

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.

Broaden tax base is essential for us in the future. It can increase the government budget so the needed can be helped; even if we are facing a bitter aspect of life. Increase the tax revenue can improve the infrastructure in order to attract foreign investment. Except introducing GST, lower the tax allowance or increase the tax rate on tobacco, gasoline, and alcohol are also sensible. More important, the taxation should be used on those people and areas which are actually needed so the gap between the rich and the poor can narrower.

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 Man Kwan
Christian Alliance Cheng Wing Gee College

Attachment: Policy Consultation



Policy Consultation.doc

Policy Consultation (2006/07)

Broadening the Tax Base

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Executive summary

Broaden tax base is essential for us in the future. It can increase the government budget so the needed can be helped; even if we are facing a bitter aspect of life. Increase the tax revenue can improve the infrastructure in order to attract foreign investment. Except introducing GST, lower the tax allowance or increase the tax rate on tobacco, gasoline, and alcohol are also sensible. More important, the taxation should be used on those people and areas which are actually needed so the gap between the rich and the poor can narrower.

1. Introduction

Because of narrow tax base, a single-rate Goods and Services Tax (GST hereafter) is a one of the options for Hong Kong in order to broaden the tax base and secure the sustainability of tax revenues base and the capacity to meet public expenditure needs in the long run. The rapid recovery of our economy in the last two years is attributable to many factors, one of which is our simple, predictable and low rate taxation system, which encourages investment and rewards people for their hard work. Low rate taxation system is one of the comparative advantages of Hong Kong. This can attract qualified labour, experts and business persons and increase the competitiveness of Hong Kong. However, GST will make the tax burden of lower-classes heavier.

2. Needs for broaden the tax rate

Nowadays, we are facing the ageing population problems. Since the birth rate in Hong Kong is very low, the government implements many policies to raise the birth rate but they are not effective. Ageing problem increase the demand for public service and social welfare but decrease the labour force and taxpayers. Increases the profit or salary tax rate or lower the tax allowance are the best method to cover this expenditure. The former will reduce the international competitiveness of Hong Kong but the latter can maintain or increase the competitiveness as the tax burden will spread over to other people since more people fall into tax net.

3. Disadvantages of introducing GST

GST is a regressive tax, which will worsen the differences between rich and poor and affect social stability. According to survey, there were 185300 families in 2003 whose income less than four thousands dollars each month, but increase to 193800 families in 2004. It is clear shown that the gap between the rich and poor is being widened. To 2000000 grass-root labour, there is only one choice for us, working under a condition which lack of jobs benefits and protection, tolerate the conditions from bad to worse so they can survival in Hong Kong. If the GST is introduced, they have to pay tax whatever they consume such as food, clothing and transportation. Then the prices of these goods increase and it would make their live more hardly.

Moreover, introducing GST is a push factor that discourages economic development. Increase in tax causes average cost of a company rises. The monopoly rent of that

company drops because the total cost increases. If the tax is higher than the monopoly rent, the company will close down. Closure of company leads to serious unemployment and a great loss of purchasing power. This brings a further decline in other subsidiary and tertiary industries. Poor local economy greatly reduces the tax income for local government and may thus speed up urban decay. Urban decay brings social problems such as crimes rates and drug addition increase. Family abuse, drunkenness and violence become serious. Government needs to spend a lot to cope with problems. In addition, reduction of revenue together with increasing the expenditure, the infrastructure and public services decline and thus worsening living and business environment causes more industrial close and the competitive of Hong Kong is weaken. It starts a vicious cycle.

Furthermore, the attractiveness of Hong Kong drops since the goods are no longer cheaper together with closure of tertiary industrial. As a result, the status of shopping paradise in Hong Kong is at risk.

4. Other measure to broaden tax base

Besides, lower the tax allowance is more suitable in Hong Kong. Nowadays, the basic requirement for paying salary tax is that one's monthly income is greater than \$8333. The calculation of taxes likes the following:

Salary Tax		Profit Tax		Stamp Tax
-First \$30,000	2%	Limited Company	17.5%	\$100
-Next \$30,000	8%	Unlimited Company	16%	
-Next \$30,000	14%			
-REMAINDER	20%			

I suggest people need to pay salary tax if his monthly income is greater than \$7500. And the new calculation of Salaries tax likes the following:

Salary Tax		Profit Tax		Stamp Tax
-First \$10000	1%	Limited Company	15%	not longer 1 year 1%
-Next \$35000	2%	Unlimited Company	12%	one to three years 0.5%
-Next \$35000	8%			more than three years 0.25%
-Remainder	14%			

Under this new tax allowance, one which's monthly income is greater than \$7500, needs to pay tax. More people fall into tax net but only little taxation they need to

pay. For middle-classes and high-classes, little tax they have to pay and their incentive to work enhance. Drops in profit and stamp tax benefits foreign and local business persons to invest more in Hong Kong. The tax differences between new and old rates are encourages them to reinvest in Hong Kong. As a whole, it is good to Hong Kong.

5. Advantages of other measure

The benefits are that since some business persons are attracted and set up a company by lower tax rate, the job opportunities increase, the purchasing power then raises which upgrade the living standard of local people. Increasing the inflow of capital, human resources and technology leads to the growth of tertiary services and property market and the whole economy. It results the increase in revenue and tax for the government so the infrastructure and public amenities can improved. With good infrastructure, labour that is more qualified will stay in Hong Kong and more businesspersons will invested in Hong Kong.

Let us take the IT industry of USA as an example. Since the tax rate in USA is high, the IT manufacturing factories will choose to set up in a place with low tax rate such as China in order to decrease the production cost. As a result, the flow of labour between different countries increases. More managerial staff, trainers and specialists from developed countries are sent to work and live in less developed countries. Setting up of new company can create a cycle of growth and multiplier effect on Hong Kong and finally bring prosperity and various advantages to it.

On one hand, rises the tax causes increase in the price of tobacco, alcohol and gasoline. The demand of these things drops which improve the environment and labour force since less people is suffered from respiratory diseases and lung cancer. On the other hand, the revenue of government increase and more low-income classes can in favor of it. This win-win method can turn Hong Kong into a sustainable city.

6. Conclusion

To conclude, increase the revenue does not mean the government can waste it. This amount should be used on those people and areas which are actually needed. We are looking forward to reducing the gap between the rich and the poor and enhance the stability of Hong Kong.

7. Reference

The gap between the rich and poor in Hong Kong

<http://hk.knowledge.yahoo.com/question/?qid=7006122201884>

GST is good or bad

http://www.hkedcity.net/iworld/feature/view.phtml?iworld_id=68&category=¤t_page=1&feature_id=1502&page=5

Salary tax

<http://www.investhk.gov.hk/pages/8/276.aspx>

Tax allowance

<http://www.ird.gov.hk/chi/pdf/pam61c.pdf>

Good and Services Tax (Hong Kong)

http://en.wikipedia.org/wiki/Goods_and_Services_Tax_%28Hong_Kong%29

Broaden the tax base can improve the development of HK in the long run

<http://www.news.gov.hk/tc/category/ontherecord/060805/txt/060805tc11001.htm>

The challenges of HK's narrow tax base

<http://hk.sznews.com/20060801/ca2397014.htm>

Broadening the Tax Base Ensuring Our Future Prosperity-Press Release & Speeches

<http://www.taxreform.gov.hk/chi/faqs2.htm>

Where can we find the taxation?

<http://blog.bencrox.info/?p=334>

Agenda. Advocacy. Avant-Gardes

<http://www.a45.hk/?p=323>