



25/03/2007 18:48

 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 tax base in Hong Kong is very narrow and it is not strong enough for Hong Kong to maintain international competitiveness in a long term basis.

Therefore, broadening the revenue base should be the Government's strategy to stabilize long term revenue sources and to achieve fiscal balance. In this consultation, I will explain and analyze why we should impose a new tax on some of the luxury goods.

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.

Your sincerely,
Chow Ka Wai Betty
Christian Alliance Cheng Wing Gee College



Economics Consultation-Broadening the Tax Base.doc

Policy Consultation

"Broadening The Hong Kong Tax Base"

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Executive summary of the consultation

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Introduction:

Since the population growth rate is high nowadays, the amount of social expenditure likes education, public housing is increasing rapidly. So, it is necessary for the government to have more reserve to meet the needs in the future and so we have to broaden the tax base. Tax is one of the revenue source for a government, this source is the most stability and important. In fact, we also really need a stable source of revenue to maintain a healthy financial position and stabilize our international position in near future.

Compared with the other country like Singapore, England, Hong Kong's tax rate and tax base is really low and narrow. Nowadays, there were 7 million permanent residents in the Hong Kong but just 1.1 million have to pay the salaries tax .Therefore, if our expenditure is overweight the revenue, the government's finance will have a bad effect. Although we can also obtain our revenue from other ways like gaining the premium from land sale etc., all these are volatile revenues .It is not consistent and we can not rely on it on a long term basis. Besides, tax is the most stable revenue sources since it is regular and consistent. If we can increase this revenue, our government's reserve will have a stable increase and so our international competitiveness can be maintained.

Imposing a Tax on Luxury Goods, such as a tax on valuable watches, jewellery and cosmetics

In Hong Kong, there have a lot of shop are selling valuable fountain pans, valuable watches, jewellery and cosmetics. Also, there are so many international brand name shops ,which selling valuable jewellery, watches, are deciding open their new branches in Hong Kong .It can means that the Hong Kong people `s demand for those luxury good is very high. Besides, Hong Kong's economy is increasing steadily in recent years and so more people are willing to spend much more money on those luxury goods.

For all the above reasons, this new tax which could broaden the tax base.

The tax rate

The tax rate can be 8 % on the price of the luxury goods .Compared with the tax rate on other not necessities, like red wine (40%) and cigar (100%), 20% is a low tax rate.

Fairness

A person's capacity to buy luxury goods should be in proportion to consumption power. In general, people who have a high income are more willing and can afford to buy the luxury goods. So this is to fit in with the principle of "capacity to pay" Someone claimed that different people will have different interpretation on "luxury goods" and so the government cannot define "luxury goods" for taxation. However, I don't think it is a big challenge. The government can just impose a tax on the high class cosmetics that the market price is higher than the average market price which is about HK\$800. Also, we can impose this tax on jewellery, valuable watches and fountain pens that the market price is more than HK\$10000 which is much higher than the average market price .I suggest this method because all those costly products are not necessary for people's daily life. In general, they buy those goods always just for show off or for their good quality .In fact, they still have an opportunity to choose the cheaper substitutes but they do not do that.

I suggest the government just to impose a tax on the valuable watches, fountain pen, jewellery and high class cosmetics.

Some people afraid this tax will make the affected business and individuals to think that it is a tax unfair. For the affected individual, it is their own consumption decision and no pressure to force them to choose luxury goods. It is reasonable that they need to bear a tax on buying luxury goods since it is their own consumption decisions.

For the affected business, their revenue of selling luxury goods is always much higher than those selling inferior goods. However, although the business which selling the luxury goods have a higher revenue, they have to pay a proportionally high profit tax. If we still need them to pay this new tax, it will cause a double -counting on tax payment.

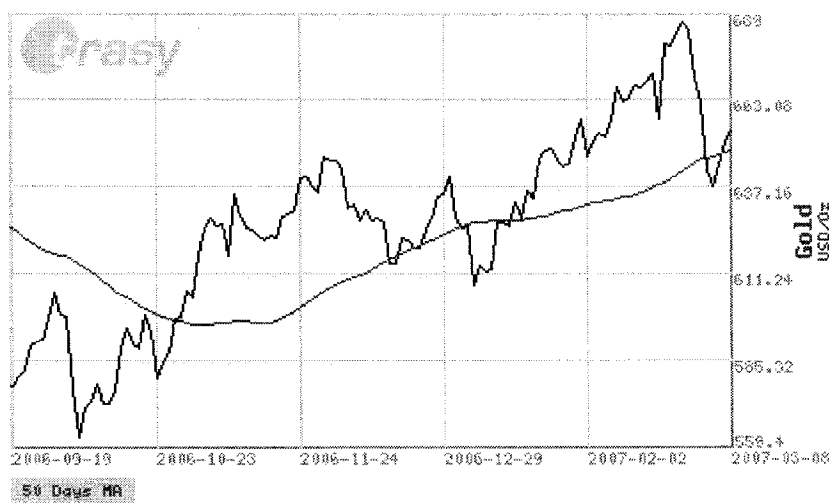
Provision of a stable significant revenue

As luxury goods are not necessities, the consumption of this is unstable and its consumption depends on local's economy. If there have an economic growth like these few years, the consumption on luxury goods will increase naturally and the supply of those luxury goods will also increase. As a consequence, this tax income will rise as the trading of the luxury goods raised.

However, we cannot promise Hong Kong will not have any economic downturns in the future. If this situation occurs, people's demand on luxury goods must decrease if the price of these goods remains constant.

Besides, the international gold market price is floating every day; we can refer to the chart below. It will affect the price of the golden jewellery. When the international gold market price is high, the market price of golden jewellery is also high, vice versa. As a result, the tax which calculated on the golden jewellery is not stable.

The chart of price moving average on gold price within 50 days



(Resource from: <http://www.trasy.com/>)

For the above two reasons, the tax on luxury goods may not be able to stabilize the

government's revenue.

Maintaining international competitiveness

We have to concern that the prices of taxable luxury goods may rise and this will result an adverse impact on retail industry and tourism. According to the Law of Demand, if the relative price of a good increase, its quantity demanded will decrease, vice versa. If the prices of the luxury goods increase, people's quantity demand on those goods will decrease and the revenue of the retail shops, who selling luxury goods, will also decrease.

On the other hand, the tourism of Hong Kong may also be affected. A lot of tourist especially Chinese tourists, they always visit Hong Kong for sightseeing and shopping. They always love to buy some luxury goods like jewellery, valuable watches, high class cosmetics etc. because they think that the qualities of those goods are good and they are not the fakes. If Hong Kong imposes a tax on it, the sales of those luxury goods will be affected. However, this just a tiny effect. Since they do know the information and the price of those luxury goods very much, even the market price is set little bit higher; they are still willing to buy them. It is because their information cost of the luxury goods is very high. Therefore; this kind of tax will not bring a lot of bad effects to the Hong Kong tourism.

For the retail industry, this tax also just brings a little effect to them. As the tax rate is low, the market price just increase a little bit. In general, the riches' utility on those luxuries is normally high since it can represent their wealth directly. Therefore, they will not mind to spend little bit more money on this.

Conclusion

Although introducing a tax on luxury goods, such as a tax on valuable watches, fountain pens, jewellery and high-class cosmetics still have some aspects need to be concerned, we cannot deny this tax can broaden the tax base efficiency, especially in this economic growth period.

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