Business and Professionals
Federation of Hong Kong
香港工商專業聯會

26 March, 2007

The Hon Henry Y Y Tang, GBS, JP
Financial Secretary
The Government of HKSAR

Dear Henry,

BROADENING THE TAX BASE
ENSURING OUR FUTURE PROSPERITY

We refer to the recent decision by the Hong Kong SAR Government to stop advocating a GST[1] for the remaining part of the public consultation on tax reform. Although the Government believes that the public shares the view that there is a need to broaden our tax base, it was not able to convince the public to accept a GST as the main option to solve the problem of a narrow tax base. This lack of public support was the reason for the decision.

Whilst in the Business and Professionals Federation we appreciate the rationale behind the decision, the purpose of this letter is:

- To provide you with our views on the consultation process leading to the decision;
- To summarize the results of a survey conducted by us with regard to the tax reform and the GST proposal; and
- To offer our views on alternative tax reform proposals.

1. Post Mortem Analysis of the First Part of the Consultation Process

1.1 With the courage of addressing an unpopular subject, we believe the Government has successfully heightened the public's awareness of our narrow tax base. It has shown the very high degree of volatility of our fiscal surplus and deficit figures during past economic cycles, mainly attributable to the narrowness of the revenue base. The publicity and public debates conducted during the consultation period

[1] Goods & Services Tax

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have helped to shape the public opinion that there is a need for tax reform although there are many who still need convincing.

1.2 On the other hand, we strongly feel that the Government has yet to fully capitalize on this public awareness and consensus for a tax reform. While there is a perceived need for tax reform, the Government has thus far failed to cultivate an adequate sense of urgency. Furthermore, our society has not formulated a sense of direction for the way forward. As the community has not been convinced with the overall merits of a GST proposal, there is an urgent need to seek alternatives in aligning overall public support in a best way to move forward.

1.3 We are of the opinion that Government leaders could have done a better job in administration of the promotion of GST as an integral part of the tax reform. Specifically, we summarize our views of such inadequacies as follows:

i) <u>Failure to show detailed, quantified projections of future risks</u>

The Government has yet fully to articulate the future risks or project the consequence of not reforming our public finance in terms of the negative impact on critical public services such as social welfare, public health and education. For reasons unexplained, the Government did not provide any projected scenarios if tax reform is not carried out. For example, although it has rightfully highlighted the ageing population trend, the Government did not quantify the consequence of such trend on public healthcare as well as a relative reduction in salaries tax from a lesser percentage of working population. Instead, it has resorted to historical figures of past economic cycles. While the past is factual, it fails to quantify the risks arising from future trends and therefore fails to demonstrate the relevance and the urgency of acting on reform. Furthermore, failure to reveal these projections raise suspicions that they may not be as bad as

ii) <u>Lack of teamwork and support within Government</u>

The Government displayed a lack of teamwork and support for the Financial Secretary and the Secretary for Financial Services and Treasury in promoting the GST. We also found that the resources devoted to the consultation process and any promotion efforts were far from adequate in relation to the complexity and importance of the subject.

iii) Loss in the public opinion battle

The Government could have handled the public opinion campaign more effectively. Given the complexity of the subject, it should not be expected that most ordinary and busy Hong Kong people would afford the time to study the published materials in order fully to grasp the issues and to make an independent assessment. For such, it was apparent that the Government had failed to line up trusted and respected public figures to voice their support for the GST as a means of achieving tax reform. On the other hand, most of the media were generally negative and there was no concerted lobbying effort on tackling the opposition, who on the contrary were more organized and united.

iv) Issues undermining Government credibility

During the consultation, apparently there were a few forces that undermined the Government's own credibility in promoting a new tax:

a) On many occasions, there were accusations of the Government "playing with numbers", as the accounting of various reserve accounts and the difference between cash-based vs. accrual-based accounting were quite confusing.

b) The fundamental question on what is the right level of reserves that must be maintained went unanswered.

c) Return on the current Reserve balances was challenged as not high enough---i.e. inefficient use of capital, hence the objection on a new tax when there is already an adequate level of reserve.

d) Many believe that there are still a lot of wastage in Government spending therefore making a new tax unjustifiable.

e) There is an apparent and general lack of support from the rest of the Government and the Executive Council. Besides undermining the credibility of the proposal, this phenomenon may have discouraged supporting organizations and individuals to come forward.

2. BPF Survey

2.1 After the Government's announcement of shelving the GST proposal but continuing to carry on the consultation, BPF conducted a survey with our members and associates with regard to the Tax Reform Consultation. A copy of the results is attached (Appendix 1) for reference. While the response rate to the survey was not high, the responses represented a fair cross section of our members and their replies are useful and informative. We have summarized the results of the survey as follows:

2.2 Summary of the BPF Survey[2]

i) Majority (73%) agreed to a need for tax reform to widen the tax base.

ii) There was an almost equal split between those supporting and against GST.

iii) Although the responses did not show a majority view, the three most rated reasons to oppose the Government's proposal were:

a) Government did not adequately show the administrative costs.

b) Government did not review other options and explain why GST is the best.

c) Government did not promise to control its expenditure.

iv) However, about two-thirds of the response disagreed that GST is the wrong option.

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[2] We reiterate that because the response rate is 3% only, the results cannot be considered entirely valid and could only be used as a reference.

v) For those who were against GST, they are clearly worried about the downside risks of the tax, and the highest scored items were:

   a) GST complicates the tax system.

   b) Compliance costs for the business will be high.

   c) Government's administrative costs will be high.

vi) On what can be done to garner more support for GST, there was no clear consensus, except that if the Government shows the details of the future forecast expenditures on welfare, education and health, and if the Government could explain in detail the estimated administrative cost of GST, respondents would be more inclined to reconsider a GST proposal.

2.3 The Survey confirms that the respondents covered by the BPF survey see a need to have a tax reform to deal with the narrow tax base. However, our community is split about the GST as a solution because of its perceived or unexplained consequential downsides. It is still not clear what may be effective to convince the community should the GST proposal be re-launched.

3. Tax Reform Proposals - GST

3.1 In finding a solution to broaden our tax base, BPF maintains its position that GST is the most effective means to achieve the tax reform. We have studied the various tax options which were prepared by the Advisory Committee on New Broad-based Taxes in 2002 and concurred once again that GST is the best solution. Please refer to Appendix 2 of our updated review of these options.

3.2 In consideration for re-launching a GST, we urge the Government to handle it as more than just a public consultation, but rather as a public relation campaign to convince the Hong Kong public that it is the best trade-off solution, for which far more resources and tactics are required compared with previous efforts. In particular, we have the following specific recommendations:

i) <u>Provide simulation projections of future dangers</u>

It is important to articulate clearly the prospective dangers from a continuing narrow tax base. In addition to the past cycles, simulation projections of the future would be necessary to facilitate the public's full understanding of the problem and its implications.

ii) Align support of community leaders

Justification of new tax measures must go beyond technical presentation of facts and figures. To sell a complex issue and proposal to the silent majority, it is necessary to have supportive community leaders promoting the benefits of the new tax in simple straight forward terms. These community leaders must be willing to convey the message that it is a civil responsibility for the entire society to share the burden to tackle the problem.

iii) Prepare to negotiate tradeoffs and bargains

To address the concerns raised by the various negatively affected sectors, the Government should pro-actively negotiate mitigating measures with those most affected by the new tax, recognizing that there will be many "give and take" tradeoffs and bargaining. In particular, the concerns of small-and-medium enterprises arising from neither being able to claim input-GST paid to suppliers nor to issue GST invoices to their customers should be thoroughly addressed and resolved. Furthermore, the additional administrative burden imposed on the logistics sector arising from implementing the GST on the re-export trade must be thoroughly discussed with solutions agreed with the trade sector and the logistics and transport industries.

iv) Exemptions are essential and unavoidable

It will be inevitable to offer a wide range of exemptions on essential goods and services such as food, education, and health care. Almost all overseas Governments, with the exception of Singapore and New Zealand, had found it necessary to compromise on granting exemptions or zero rating treatments in their introduction of GST. There is no doubt that any exemption will complicate tax administration and raise a lot of debate and negotiation on what should be exempted. For example, food can be divided into basic and non-basic food items and raw chickens treated as different from roasted chickens, etc. However, exemptions or zero rating treatments are technically viable and not unmanageable for business. *If other countries can manage it, so can Hong Kong.*

4. Tax Reform Proposals - Alternatives

4.1 In considering alternatives, we propose the following strategies and measures in achieving some level of tax reform and mitigating the volatility of our fiscal revenues.

i) <u>A vibrant economy is everything</u>

Measures to boost the local economy as higher GDP will naturally lead to an increase and more diversified sources of tax revenue from a more vibrant economy:

a) Further integration with and active participation in China's enormous economic development. In this regard, the BPF recently completed its own study on the impact of the Central People Government's 11th 5-Year Plan a report of which is to be submitted to the Government separately.

b) Invest in capital works to build and enhance long-term infrastructure. The various area development projects should be revived.

c) Continue to find new ways to facilitate and increase the flows of capital, people and trade through Hong Kong.

ii) <u>The alternative basket of measures</u>

In lieu of the GST, a basket of new tax revenue measures will be required to match as much as possible the same $30 billion target while still achieving the same objective of broadening our tax base:

a) Reduce personal allowances and concessionary deductions under Salaries Tax so more salaried workers will be included in the tax net. This fits with the concept that it is a civil responsibility of all citizens. It is estimated that a 25% reduction in Personal Allowances would yield additional annual revenue of around $6 billion[3].

b) Increase in rates on tenements offers a broad-based, neutral and fair additional level of tax revenue. Raising the percentage alone does not add compliance and administrative costs. It is estimated that each single percentage point increase in rates would yield additional $2.9 billion annually[4]. This estimate amount could become higher over time with the increase in rateable value and it is less affected by the cyclical movements in business profits and, even to a lesser degree, personal income.

c) Implement a land and sea departure tax. A departure tax on air travel has already been in place. The same for land and sea will help pay for the large infrastructure required to support the busy cross-border traffic with the Mainland. If set at $18 per head, it would yield $1 billion annually[5].

d) Raising "luxury taxes" such as vehicle first registration tax. 50% increase in the vehicle first registration tax based on the 2006/07 Budget would yield $2 billion. This type of new taxes is consumption based and non-regressive.

e) BPF's view on wealth taxes, in particular dividend tax

Among various kinds of "wealth tax", we do not recommend capital gains tax or a tax on interest. Capital gains tax would fundamentally impact Hong Kong's hard-earned position as an international financial centre by driving investment capital offshore. Its revenue yield is very much dependent upon the scope of the legislation and it is volatile. A tax on interest is deemed ineffective as it can be easily avoided by moving deposits or lending offshore. Should the Government be

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[3] Additional revenue estimates are based on the 2000/01 income levels, Advisory Committee on New Broad-based Taxes (2002).
[4] ditto
[5] ditto

tempted to introduce a "wealth tax", the least damaging one but not one the BPF would advocate is probably a tax on dividends to be paid by companies listed on the Hong Kong Stock Exchange. Most major overseas stock markets[6] have a tax on dividends. Tax administration in the form of withholding tax would be made easier if levied on listed companies only. However, a tax on dividends has the disadvantage of "double taxation". And it will not be simple to deal with this unfairness and any measure adopted would reduce the revenue yield. As a minimum, a refund on tax withheld would probably be necessary for the locally approved provident funds. Such a tax will be unpopular, it will deter investment and will be an open invitation to various tax evasion measures.

f) Uphold the "user pay" principle by recovering costs of government services. Government services should be levied based on usage and service levels in order to stem wastage and to reflect various service standards. At the same time, Government should ensure a safety net is in place for those who cannot afford basic but necessary services.

iii) Mitigating future risks

We foresee that there are three major risks to the future public finance of Hong Kong and our respective proposals are as follows:

a) An ageing population will increase the future public expenditures particularly in public healthcare. Under the leadership of the Government, Hong Kong society should develop a long-term sustainable funding solution to meet public health challenges. We strongly urge the Government to address this issue with high degree of urgency.

b) The volatility of the fiscal surplus and deficit is caused by the volatility of tax revenues in line with the economic cycles of an external economy, the over-dependence on volatile land related revenue, and the largely fixed nature of public expenditures. With the introduction of broader revenue sources of steadier characteristics, the overall total

[6] Examples include the United States, the United Kingdom, Japan, Australia, etc.

tax revenue will be more stable. On the other hand, the Government should continue to implement the stated concept of "small government" in order to cut down expenditures. There should be a continuous, systematic process in the privatisation of commercial oriented operations, elimination of all out-dated or redundant services, and rigorous enforcement of the "user pay" principle.

c) A worsening of the "wealth gap"[7] has resulted in a tremendous increase in CSSA expenditure and its share on the fiscal budget since the mid-1990's[8]. It has become increasingly urgent to have a long-term population policy, covering the various topics of immigration policy, education of the young and retraining and redevelopment of adults who are "trapped" with low or out-dated skills.

5. Execution Consideration

5.1 No good concepts can be realized without an effective execution. To achieve desirable results, it is important for the Government to properly prepare the resources and tactics required for running a public opinion campaign, whether for promoting the GST again or other tax reform alternatives.

5.2 In terms of resources, there must be more commitment for handling the public opinion campaign of such an important issue:

i) The entire Government and the Executive Council should rally behind the campaign.

ii) Public figures, non-government organizations and business community representatives should be organized and lobbied to support the tax reform proposals.

iii) Dedicated resources should be ready to negotiate and bargain with various opposition sub-sectors with an aim to make deals and manage trade-offs.

5.3 Two-stage tactics

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[7] As reported by the Commission on Poverty, HKSAR Government.

[8] The CSSA expenditure has increased from $4.8 billion in 1995/06 to $17.6 billion in 2004/05, with its share of total government recurrent expenditure increased from 4% to 9% respectively.

In terms of tactics, it is normal to expect any tax reform proposals would entail different sets of perceived risks, issues and politicking. Learning from the previous consultation experience, the Government can consider handling the next tax reform proposal in two stages.

i) Stage 1: A new, high profile committee

The first stage is for a high-profile and respected committee / taskforce of "experts" for the following:

a) To verify that there is a high degree of urgency for implementing tax reform, as the risks of continuing with a narrow tax base are real and untenable and it is far better to change during an economic boom;

b) To recommend tax reform proposals and alternatives which can be basically an update of what was done by the 2002 Broadening Tax Committee.

During this stage, the rather macro economic, fiscal and social issues as well as taxation measures are dealt with, but not perception issues and barriers of various sub-sectors. The Government must articulate well and clearly the tangible benefits of the new tax, well beyond the technicality of narrow tax base and volatility. For example, what are the tangible benefits from a broader tax base in securing better education, provision of public healthcare, and additional care for the elderly? In addition, the benefits from a lesser dependence on land related revenues should be explained carefully to the Hong Kong public. *[A full independent study of this complex issue is warranted.]*

Before moving on to the implementation, there must be an adequate public relation campaign to swing overall public opinion in ensuring adequate general acceptance of the conclusions mentioned above. Or else, the tax reform taskforce should re-consider their proposals until overall public support is clearly evident. In short, in addition to preparing a report of findings and recommendations, this tax reform taskforce must be vested with the greater importance of winning the public opinion battle for their findings and recommendations.

ii) Stage 2: "Give and take" tactics with the opposition

Once the reform proposals are officially launched, the Government needs to address the concerns of various sub-sectors, deal with the opposition forces as well as solicit support:

a) Gauge the opposition and prepare for the tradeoffs

The Government must gather adequate resources to deal with the bargaining and politicking. The opposition should be gauged during the campaign with an aim to make tradeoff decisions. In particular, some sectors of the economy will be more affected than the others, and more efforts are required to work with these sectors to address their concerns and derive mitigating measures. For example, during the last consultation, the retail, trade, logistics and small-medium enterprises sectors have expressed their concerns on GST which should have been thoroughly discussed and addressed.

b) Demonstrate tangible benefits to the public

As part of a "give and take" tactic, the public must be informed and become convinced with the usage of the new tax and its relevance, i.e. how does it help to provide better government services or reduce other taxes. Knowing the tangible benefits should help to align further support than the technicality of a narrow tax base could provide, and they can be used to compromise with the oppositions.

c) Show determination to control expenditure

To earn credibility in raising new taxes, the Government should clearly state its determination to control expenditure. If this remains an issue, the Government may consider designating future GST revenue to specific policy areas of highest public concern, instead of leaving it in the general revenue account, such as education, health and welfare. Arguments against hypothecating revenue are flimsy in the light of many cases where this is already done. The need to introduce the new tax and broaden the revenue base is more important than these doctrinal obstacles.

This paper results from hours of discussion among a small group of highly qualified professionals and is submitted in the earnest hope that it will assist in future a solution to this longstanding issue. Please refer to Appendix 3 for the membership list.

(Signed)	(Signed)	(Signed)
David Akers-Jones	Wilfred Y W Wong	Edward K F Chow
President, BPF	Chairman, BPF	Vice Chairman, BPF
		Convenor, BPF Public Finance Group

cc: The Hon Frederick Ma, Secretary for Financial Services and the Treasury

Results and analysis of BPF Survey on Tax Reform Consultation

Number of surveys distributed: 934 (BPF members, associates, HK Young Industrialists Council)

Number of responses: 32

Response rate: 3%

Age Group:

1	20-29
7	30-39
8	40-49
9	50-59
7	60 and above

Occupation:

	Professional
5	Accounting
1	Architecture/ Surveying/ Planning
1	Consulting
1	Education
3	Engineering
1	Legal
	Business owners/ executives
7	Banking/ Insurance/ Finance*
3.5	Manufacturing*
2	NGOs
1.5	Real Estate/ Construction*
1	Wholesale/ Retail
	Others
1	Accounting/Manufacturing
1	Engineering/Manufacturing
1	Engineering/Real Estate
1	Education/engineering
1	Real Estate/Education
32	

** Responses which indicated two businesses were calculated in halves*

1. Do you think there is a need to widen the tax base and reform the tax system?

23	72%	Yes
8	25%	No
1	3%	did not answer

8 participants responded NO and answered why there is no need to widen the tax base

i) Hong Kong's tax base is not narrow, most people have paid taxes and charges related to land directly or indirectly

3	38%	Strongly Agree		
4	50%	Agree		
1	13%	No Comment		
0	0%	Disagree		
0	0%	Strongly Disagree	Mean = 4.25	Agree - Strongly agree

ii) The Government has a large fiscal surplus

3	38%	Strongly Agree		
3	38%	Agree		
2	25%	No comment		
0	0%	Disagree		
0	0%	Strongly Disagree	Mean = 4.13	Agree - Strongly agree

iii) The Government has a huge amount of total reserves

4	50%	Strongly Agree		
4	50%	Agree		
0	0%	No comment		
0	0%	Disagree		
0	0%	Strongly Disagree	Mean = 4.50	Agree - Strongly agree

iv) A narrow tax base is not a problem, Hong Kong has survived its tax system

1	13%	Strongly agree		
5	63%	Agree		
1	13%	No comment		
1	13%	Disagree		
0	0%	Strongly disagree	Mean = 3.75	No comment - Agree

v) The Government is wasteful now; it should reduce its expenditure further before putting forward a new tax

4	50% Strongly agree			
3	38% Agree			
1	13% No comment			
0	0% Disagree			
0	0% Strongly disagree	Mean =	4.38	Agree - Strongly agree

vi) Others

- Tax is theft
- Salary of civil servant should be controlled
- GST's admin cost are likely to be considerable given the large no. of tourists arrival and associated tax refund to low income earners

2. Do you think the timing (last July) is right for launching the consultation?

7	22% Yes
9	28% No
13	41% It makes no difference
1	3% Unanswered

3. Why do you, or why do you think people, oppose the Government's proposal?

i) The Government did not adequately explain why we need to change the tax system

5	16% Strongly agree			
12	38% Agree			
2	6% No comment			
12	38% Disagree			
1	3% Strongly disagree	Mean =	3.25	No comment - Agree

ii) The Government did not promise to control its expenditure

8	25% Strongly agree			
13	41% Agree			
5	16% No comment			
6	19% Disagree			
0	0% Strongly disagree	Mean =	3.72	No comment - Agree

iv) The Government did not adequately explain the future consequences of Hong Kong's narrow tax base

5	16%	Strongly agree		
14	44%	Agree		
4	13%	No comment		
9	28%	Disagree		
0	0%	Strongly disagree	Mean = 3.47	No comment - Agree

v) The Government did not adequately review other options and explain why GST is the best option

8	25%	Strongly agree		
17	53%	Agree		
2	6%	No comment		
4	13%	Disagree		
1	3%	Strongly disagree	Mean = 3.84	No comment - Agree

vi) The Government did not adequately explain how a GST will affect everyone, especially the poor

5	16%	Strongly agree		
16	50%	Agree		
2	6%	No comment		
7	22%	Disagree		
1	3%	Strongly disagree		
1	3%	Unanswered	Mean = 3.44	No comment - Agree

vii) Necessities such as food, medical, education, etc. are not exempted

7	22%	Strongly agree		
14	44%	Agree		
4	13%	No comment		
5	16%	Disagree		
2	6%	Strongly disagree	Mean = 3.59	No comment - Agree

viii) There are not enough compensations for the poor, e.g. the annual cash subsidy for low income households could be higher

1	3%	Strongly agree		
7	22%	Agree		
13	41%	No comment		
8	25%	Disagree		
3	9%	Strongly disagree	Mean = 2.84	Disagree - No comment

ix) There are not enough compensations for business

1	0%	Strongly agree		
4	13%	Agree		
14	44%	No comment		
10	31%	Disagree		
3	9%	Strongly disagree	Mean = 3.53	No comment - Agree

x) There are not enough compensations for the middle class, e.g. there should be more tax reductions

3	9%	Strongly agree		
10	31%	Agree		
12	38%	No comment		
4	13%	Disagree		
3	9%	Strongly disagree	Mean = 3.19	No comment - Agree

xi) The Government does not need to return taxes to business and high income earners

0	0%	Strongly agree		
10	31%	Agree		
10	31%	No comment		
10	31%	Disagree		
2	6%	Strongly disagree	Mean = 2.88	Disagree - No comment

xii) The Government did not adequately show its cost of administering the new tax

8	25%	Strongly agree		
16	50%	Agree		
4	13%	No comment		
4	13%	Disagree		
0	0%	Strongly disagree	Mean = 3.88	No comment - Agree

xiii) Introducing GST is the wrong option

4	13%	Strongly agree		
6	19%	Agree		
2	6%	No comment		
9	28%	Disagree		
11	34%	Strongly disagree	Mean = 2.47	Disagree - No comment

4. Do you personally support the introduction of a GST?

19	59%	Y
13	41%	N

13 participants who responded NO in SECTION 4 also answered SECTION 5

5. Why do you oppose a GST?

i)GST is regressive and unfair

2	15%	Strongly agree		
7	54%	Agree		
4	31%	No comment		
0	0%	Disagree		
0	0%	Strongly disagree	Mean = 3.85	No comment - Agree

ii) GST will affect the livelihood of the poor

2	15%	Strongly agree		
9	69%	Agree		
1	8%	No comment		
1	8%	Disagree		
0	0%	Strongly disagree	Mean = 3.92	Agree

iii) GST makes our simple tax system complicated

7	54%	Strongly agree		
6	46%	Agree		
0	0%	No comment		
0	0%	Disagree		
0	0%	Strongly disagree	Mean = 4.54	Agree - Strongly agree

iv) GST will affect the retail and tourism sectors; Hong Kong will no longer be a shopping paradise

4	31%	Strongly agree		
8	62%	Agree		
1	8%	No comment		
0	0%	Disagree		
0	0%	Strongly disagree	Mean = 4.23	Agree - Strongly agree

v) GST will affect the import/export and logistics industries

2	15% Strongly agree		
8	62% Agree		
3	23% No comment		
0	0% Disagree		
0	0% Strongly disagree	Mean = 3.92	Agree

vi) GST compliance cost for business will be high

6	46% Strongly agree		
7	54% Agree		
0	0% No comment		
0	0% Disagree		
0	0% Strongly disagree	Mean = 4.46	Agree - Strongly agree

vii) Cost of administering GST for the Government will be high

7	54% Strongly agree		
5	38% Agree		
1	8% No Comment		
0	0% Disagree		
0	0% Strongly disagree	Mean = 4.46	Agree - Strongly agree

viii) I should not pay more tax

3	23% Strongly agree		
2	15% Agree		
5	38% No comment		
3	23% Disagree		
0	0% Strongly disagree	Mean = 3.38	No comment - Agree

ix) There are other better alternatives
Please specify:

2	-	Strongly agree
1	-	Agree
3	-	No comment
0	-	Disagree
0	-	Strongly disagree

- Cut spending, reform institutions
- I support GST as every citizen of a place rich or poor should have a duty to share the cost of running government
- 社會企業, 環保工業發展 (Corporate Society, environmental industry development)

6. Will you reconsider your view on GST under the following circumstances? Or Do you think more people will accept a GST under the following circumstances?

i) Designate the use of the revenue from GST on health, education and welfare, e.g. by naming it a Health, and Welfare Tax

3	9%	Strongly agree		
10	31%	Agree		
2	6%	No comment		
14	44%	Disagree		
2	6%	Strongly disagree		
1	3%	Unanswered	Mean = 2.84	Disagree - No comment

ii) Exempt food from the GST

4	13%	Strongly agree		
14	44%	Agree		
3	9%	No comment		
8	25%	Disagree		
2	6%	Strongly disagree		
1	3%	Unanswered	Mean = 3.22	No comment

iii) Exempt medical services from the GST

3	9%	Strongly agree		
15	47%	Agree		
2	6%	No comment		
9	28%	Disagree		
2	6%	Strongly disagree		
1	3%	Unanswered	Mean = 3.16	No comment

iv) Exempt education services from the GST

4	13%	Strongly agree		
17	53%	Agree		
2	6%	No comment		
6	19%	Disagree		
2	6%	Strongly disagree		
1	3%	Unanswered	Mean = 3.38	No comment - Agree

v) Increase the subsidy to low income households (the current proposal is $2000 a year)

1	0% Strongly agree		
5	16% Agree		
13	41% No comment		
10	31% Disagree		
2	6% Strongly disagree		
1	3% Unanswered	Mean = 2.53	Disagree - No comment

vi) Explain in detail the estimated administration costs of the GST for Government and business

8	25% Strongly agree		
15	47% Agree		
3	9% No comment		
4	13% Disagree		
1	3% Strongly disagree		
1	3% Unanswered	Mean = 3.69	No comment - Agree

vii) Show detailed estimates of future government expenditure on welfare, education and health

15	47% Strongly agree		
8	25% Agree		
4	13% No comment		
1	3% Strongly disagree		
3	9% Disagree		
1	3% Unanswered	Mean = 3.94	Agree

viii) Tax the rich more, e.g. introduce a wealth tax or a higher tax rate for luxury goods at the same time

5	16% Strongly agree		
6	19% Agree		
11	34% No comment		
4	13% Disagree		
5	16% Strongly disagree		
1	3% Unanswered	Mean = 2.97	No comment

ix) Profits Tax is not reduced

0	0% Strongly agree		
8	25% Agree		
7	22% No comment		
13	41% Disagree		
3	9% Strongly disagree		
1	3% Unanswered	Mean = 2.56	Disagree - No comment

x) Salaries Tax is not reduced

4	13%	Strongly agree		
7	22%	Agree		
6	19%	No comment		
14	44%	Disagree		
0	0%	Strongly disagree		
1	3%	Unanswered	Mean = 2.94	No comment

~end~

Tax options reviewed by the Advisory Committee on New Broad-based Taxes in 2002

	Description of tax option	Relevant key factors to consider	Estimated revenue yield
1.	Increase Salaries Tax rates (including increasing rates on a progressive basis)	• Would not broaden the tax base, but would simply increase the tax burden that currently falls entirely on existing taxpayers. • As Hong Kong's population ages rapidly, the workforce and the salaries tax base would shrink. • Would go against the international trend of lowering such income taxes, risking further narrowing tax collections as mobile labour shift from Hong Kong to more competitive jurisdictions.	Based on 2000/01 income levels, each percentage point increase in salaries tax rates (including the standard rate) would be able to yield an estimated $2.2 billion in additional annual revenue, assuming an unchanged tax base. [Advisory Committee's final report, February 2002]
2.	Increase Profits Tax rates (including increasing rates on a progressive basis)	• Would not broaden the tax base, but would simply increase the tax burden that currently falls entirely on existing taxpayers. • Would go against the international trend of lowering such income taxes, risking further narrowing tax collections as mobile capital shift from Hong Kong to more competitive jurisdictions. • Progressive rates may encourage the division of businesses into economically less efficient smaller units.	Based on 2006/07 projections, each percentage point increase in the profits tax rate would be able to yield an estimated $4 billion in additional annual revenue, assuming an unchanged tax base. [Consultation Document on tax reform, July 2006]

Tax options reviewed by the Advisory Committee on New Broad-based Taxes in 2002			
	Description of tax option	**Relevant key factors to consider**	**Estimated revenue yield**
3.	Increase Stamp Duty on landed property transactions	• Would not broaden the tax base, but would simply increase the tax burden that currently falls entirely on existing taxpayers. • Would not provide the capacity to produce significant additional revenue. • Would further decrease our competitiveness, especially in the context of business costs. • Would not provide a stable or reliable source of revenue, as property prices fluctuate with the economy.	Based on 2000/01 turnover figures, increasing the rates applicable on Stamp Duty by 20% would yield $1 billion in additional annual revenue. [Advisory Committee's final report, February 2002]

Tax options reviewed by the Advisory Committee on New Broad-based Taxes in 2002			
	Description of tax option	**Relevant key factors to consider**	**Estimated revenue yield**
4.	Reduce Personal Allowances and concessionary deductions under Salaries Tax	• Could broaden the tax base, but to achieve any significant tax base broadening (as opposed to increasing the burden on existing taxpayers), Personal Allowances would need to be dramatically reduced. • Such changes may not be equitable and socially justifiable, especially to families with dependants; the additional tax would come from lower income groups, as the higher income groups on the standard rate and not claiming Personal Allowances would be unaffected. • Those currently outside the salaries tax net would remain outside the salaries tax net and this would also damage our competitiveness in terms of attracting skilled labour. • Would significantly increase tax administration and collection cost, as taxpayer numbers would significantly expand from 1.3 million to approximately $3 million, but with much of the additional revenue coming from existing taxpayers who do not pay tax at the standard rate. • As Hong Kong's population ages rapidly, the workforce and the salaries tax base would shrink. • Would increase government welfare outlays and administrative expenses, as an alternative approach would need to be adopted, e.g., direct government payments.	At 2000/01 income levels, across-the-board reductions in Personal Allowances of 10%, 25% and 50% would yield additional annual revenue of around $2 billion, $6 billion and $14 billion respectively. Based on 2000/01 income levels, a total abolition of Personal Allowances would yield additional annual revenue of $40 billion. [Advisory Committee's final report, February 2002]

Tax options reviewed by the Advisory Committee on New Broad-based Taxes in 2002			
	Description of tax option	**Relevant key factors to consider**	**Estimated revenue yield**
5.	Increase Rates on tenements	• Could broaden the tax base, but we already heavily rely on volatile property-related taxes. • Increasing these taxes has a direct consequence to our competitiveness, as our reliance on such taxes is already considerably higher than both the OECD and Asia-Pacific averages. • Restrictions on rental increases on the Housing Authority would not allow major Rates rises to be passed on to tenants.	At 2000/01 levels, each percentage point increase in Rates would yield almost $2.9 billion in additional revenue annually. [Advisory Committee's final report, February 2002]
6.	Introduce Capital Gains Tax	• Would have limited ability to yield significant revenue and would compromise our simple tax system. • Would have a detrimental impact on Hong Kong's status as a regional listings and head office destination, as investors may choose (or shift to) other locations as a base for their capital investments. • Key competitor jurisdictions, such as Singapore and Malaysia, do not impose Capital Gains Tax, and other developed jurisdictions are moving away from taxing non-residents' domestic capital gains.	The revenue yield would be dependent on the scope of the legislation (including provisions relating to deductions for capital losses) and the state of the economy at the relevant time. In any case, the revenue yield would be minimal, yet the complexity and adverse impacts on business competitiveness would outweigh any potential benefits. [Advisory Committee's final report, February 2002]

Tax options reviewed by the Advisory Committee on New Broad-based Taxes in 2002			
	Description of tax option	**Relevant key factors to consider**	**Estimated revenue yield**
7.	Introduce tax on interest (including withholding tax thereon)	• Could easily be avoided by moving deposits and savings to offshore locations, which would almost certainly have an adverse impact on Hong Kong's further development as an international banking centre.	The tax yield from individuals is estimated to be negligible, as the tax would be easy to avoid. Based on the estimated cost to revenue in 1998/99 arising from the Profits Tax (Interest Income) Order exempting interest received by businesses from Profits Tax, the tax yield from taxing business interest income may be around $1 billion annually. [Advisory Committee's final report, February 2002]
8.	Introduce tax on dividends (including withholding tax thereon)	• Would have limited ability to yield significant revenue and would compromise our simple tax system. • Would have a detrimental impact on Hong Kong's status as a regional listings and head office destination, as investors may choose (or shift to) other locations as a base for their capital investments. • Would require a complex imputation arrangement together with provisions for avoidance of double taxation, which would add to the complexity of our tax system and be against international trends. • The UK, Singapore, India and Malaysia have all moved to eliminate dividend withholding taxes; developed jurisdictions, including the USA, Ireland and Australia, use their comprehensive double taxation agreements to exempt most dividends from withholding tax.	Under a dividend imputation system, and based on cash dividends paid by listed companies in 1999, the net level of additional revenue generated would not be significant. [Advisory Committee's final report, February 2002]

Tax options reviewed by the Advisory Committee on New Broad-based Taxes in 2002			
	Description of tax option	**Relevant key factors to consider**	**Estimated revenue yield**
9.	Tax worldwide income of businesses and individuals	• Any moves to dismantle one of Hong Kong's key competitiveness differentiators, being its "source / territorial concept" of taxation, would have a massive and negative impact on our ability to attract and retain local and international investments. • The international trend is moving away from the effective taxation of worldwide income – Singapore and Malaysia have recently moved to exempt foreign source income from taxation, and Ireland, the UK and Australia have enacted similar reforms for specified income.	Negligible income is anticipated because of the need to grant credits for foreign taxes paid (usually at higher rates than those applying in Hong Kong). [Advisory Committee's final report, February 2002]
10.	Introduce land and sea departure tax	• Might have a negative impact on economic cooperation with Mainland China. • Could be a disincentive to inbound tourism.	The revenue yield would depend upon the level of the tax. If set at $18 per land or sea departure (the then current rate for Macau and Mainland China departures by sea), then based on departure numbers in 2000, it would yield approximately $1 billion a year. [Advisory Committee's final report, February 2002]
11.	Introduce payroll and social security taxes	• Could significantly add to business labour costs and adversely affect our competitiveness, and would complicate our otherwise simple and low-rate tax system. • No net revenue would be raised, as social security taxes are usually used to pay retirement benefits to those who have paid the tax (like our MPF schemes). • As Hong Kong's population ages rapidly, the workforce and any potential payroll and social security tax base would shrink.	At 1999/2000 income levels of Hong Kong employees, each percentage point of tax imposed would generate about $5.8 billion annually. However, no net revenue would effectively be generated if the social security taxes are used to fund the retirement benefits of those who paid the taxes. [Advisory Committee's final report, February 2002]

Tax options reviewed by the Advisory Committee on New Broad-based Taxes in 2002			
	Description of tax option	**Relevant key factors to consider**	**Estimated revenue yield**
12.	Introduce a poll tax	• Would not have regard to a taxpayer's ability to pay, hence does not pass the test of fairness. • Has never been successfully implemented in any major tax jurisdictions.	The revenue yield would depend upon the level of the tax. In 2000, Hong Kong had 5.3 million people aged 21 years or over. A tax of $200 per person per year would yield around $1 billion annually. [Advisory Committee's final report, February 2002]
13.	Introduce a general consumption tax	• The only option that fits the primary criteria of being broadly-based and highly revenue productive even when the tax rate is set at a level, which when compared with other economies, is low. • The suitability of this option has been discussed in the Advisory Committee's final report of 2002 and in the Consultation Document "Broadening the Tax Base, Ensuring our Future Prosperity: What's the Best Option for Hong Kong?" of July 2006.	Based upon the GST framework outlined in the Consultation Document, the estimated amount of revenue that a 5% GST would be able to generate in Hong Kong is around $30 billion a year. [Consultation Document on tax reform, July 2006]
14.	Introduce taxes on mobile telephone services and signboards	• Would not be neutral in application, as only people using mobile telephone services or erecting signboards would be required to pay the tax; consumer preferences may therefore be directed to other forms of communications or advertising. • Would not be capable of yielding significant revenue in isolation, unless the tax rate is set at high levels.	Based on the situation in 2000, a flat rate $10 monthly charge on each mobile phone user would yield approximately $460 million a year and a $1,000 annual tax for signboard owners would yield about $200 million. [Advisory Committee's final report, February 2002]

Other options raised during the current tax reform public consultation			
	Description of tax option	**Relevant key factors to consider**	**Estimated revenue yield**
1.	Increase alcohol and tobacco taxes	• Would not significantly broaden the tax base, and would not be neutral in their application. • The current duty rates on alcohol (e.g., for wine, the rate is 80% of the value of the wine) and tobacco (e.g., the duty is $804 for every 1,000 cigarettes) are already set at quite a high level. • The current duty rates on alcohol and tobacco might be at a level where if they were to be increased any further, the amount of revenue raised would actually start to decrease (c.f. the Laffe Curve Theory – curved graph illustrating the theory that, if tax rates rise beyond a certain level, they would discourage economic growth and reduce government revenue).	For the first six months in 2006, the revenue raised by duty on alcohol was around $432 million; for duty on tobacco during the same period, the revenue raised was approximately $1.3 billion. [Website of the Customs and Excise Department, accessed on 19 December 2006]
2.	Increase vehicle licence fees	• Would not significantly broaden the tax base, and would not be neutral in application. • Would be unable to yield further significant revenue in isolation, unless the tax rate is increased substantially.	Apart from the Motor Vehicle First Registration Tax, there are various vehicle licence fees that are relatively insignificant in terms of the amount of revenue raised. Based on 2006/07 original estimates by the Government, it is expected that the Motor Vehicle First Registration Tax would raise about $4 billion of revenue during that period. [Information Pack for the Financial Secretary's Consultations on the 2007-08 Budget, November 2006]

Other options raised during the current tax reform public consultation			
	Description of tax option	**Relevant key factors to consider**	**Estimated revenue yield**
3.	Introduce advertising tax	• Would not be neutral in application, as only people engaged in advertising would be required to pay the tax. • Would not be capable of yielding significant revenue in isolation, unless the tax rate is set at high levels.	The revenue yield would depend on the level of the tax.
4.	Introduce "energy taxes" (e.g., surcharge on electricity, gas and petrol)	• Would not materially broaden the tax base, and would not be neutral in their application. • "Energy taxes" are generally implemented as part of a broader package of environmental protection policies that are not designed to raise revenue or broaden tax bases, but are instead designed to influence behaviour and tackle the issue of pollution and ecological conservation. • Would have limited ability to yield significant revenue unless the tax rate is set at high levels. • Would undermine our competitiveness, because internationally mobile businesses would be subject to higher costs in Hong Kong, especially when competitor jurisdictions in the region do not levy equivalent taxes.	Using a reference point of $30 billion of revenue (being the estimated amount of revenue that a 5% GST is capable of generating in Hong Kong): • For electricity, as a rough estimate based on the revenue figures of the two Hong Kong electricity providers, it would require an increase on electricity charges of about 79%. • For gas, as a rough estimate based on the revenue figure of Towngas, it would require an increase in gas charges of about 375%. [Websites of Hongkong Electric Co., Ltd., CLP Power Hong Kong Ltd. and Hong Kong and China Gas Co., Ltd., accessed on 19 December 2006] For the first six months in 2006, the revenue raised by duty on hydrocarbon oil was around $1.6 billion. The current duty rate for unleaded and leaded petrol is $6.06 per litre and $6.82 per litre respectively. [Website of the Customs and Excise Department, accessed on 19 December 2006]

Other options raised during the current tax reform public consultation

	Description of tax option	Relevant key factors to consider	Estimated revenue yield
5.	Introduce other "green taxes" (e.g., tax on companies with manufacturing plants in Hong Kong and Mainland China according to the amount of waste produced)	• Would not materially broaden the tax base. • The primary objective of "green taxes" is to attempt to tackle pollution, climate change or environmental issues, rather than being directed at fiscal issues. • Would have limited ability to yield significant revenue unless the tax rate is set at high levels. • Would undermine our competitiveness, because internationally mobile businesses would be subject to higher costs in Hong Kong, especially when competitor jurisdictions in the region do not levy equivalent taxes.	The revenue yield would be dependent on the scope of the legislation and how the tax base is defined.
6.	Introduce a land development tax	• Effectively a form of our existing land premium. • Would complicate our simple tax system by applying complex and changing tax rates to land areas based on different land uses and further exacerbate our already heavy reliance on volatile property-related taxes. • Would not provide a stable or reliable source of revenue, as property prices fluctuate with the economy.	The revenue yield would be dependent on the scope of the legislation, how the tax base is defined (i.e., land values and/or land areas, etc.), and the state of the property market at the relevant time. Based on 2006/07 original estimates by the Government for land premium, the revenue yield would have to be doubled to raise an additional $30 billion that a 5% GST would have been capable of raising a year. [Information Pack for the Financial Secretary's Consultations on the 2007-08 Budget, November 2006]

Other options raised during the current tax reform public consultation			
	Description of tax option	**Relevant key factors to consider**	**Estimated revenue yield**
7.	Introduce taxes on "luxury goods"	• Would be a limited form of sales tax subject to many definitional disputes – what should be classified as "luxury goods" – air travel, cosmetics, electrical goods, jewellery, private cars, restaurant meals, watches, etc.? • Would not significantly broaden the tax base, and would not be neutral in application. • Without a tourist refund or tax free scheme, tourists would also be subject to these taxes, which could affect the tourism industry and our economy.	The revenue yield would depend on what "luxury goods" are subject to the tax, at what rate, and what combination of "luxury goods" would be subject to the tax.

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