



26/03/2007 20:49

 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.

To broaden the tax base, Goods and Services Tax is a possible way. Everyone needs to pay and the amount is depending on how much they consume. It's fair because the amount is personal and everyone needs to pay. It's also not easy affected by other factors. However, it will heavier the burden of low income people, affect the economy and lower the competitiveness of Hong Kong in long run.

A multi-stage tax rate is recommended for GST. Higher in luxuries and lower in daily necessities, so that rich people need to pay more.

For relief and compensation measures, a one-off supplement, increase in amount of CSSA for group 1 households. A one-off supplement and an annual GST credit against water and sewage charges and rates for group 2 households. Reduce Salaries tax and an annual GST credit against water and sewage charges and rates for middle to high income households, and reduce Profits tax for sellers.

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,

Tsui Nga Ni  
Christian Alliance Cheng Wing Gee College

Attachment: Broadening the Tax Base



Broadening the Tax Base.doc

# Broadening the Tax Base

Tsui Nga Ni

# Executive Summary

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# Introduction

The tax base is too narrow now. Tax revenue mainly depends on Salaries Tax and Profits Tax, and people who need to pay tax are too little. So the government needs to broaden the tax base. A good tax system should have broad tax base and stable tax revenue even in depressed economy. It should be less susceptible to external shocks and cyclical economic conditions. Also it should be fair. Everyone should pay tax, and rich people should pay more.

Salaries Tax and Profits Tax covered 47% of the tax revenue this year. The reasons why increasing Salaries Tax and Profits Tax are not suitable to broaden the tax base are because they are susceptible to external shocks and cyclical economic conditions easily. If there was a depression in economy, both salaries and profits will reduce, the tax revenue of the government will then reduce significantly. Having a stable tax base, when the economy becomes depressed, the government can still have stable tax revenue, so that more welfare can be provided to the public to pass their hard time. Among the ways of broadening the tax base, GST seems be the most useful way. So this document takes GST as the main concern.

# Pros

## Stable

**This is an effective way to broaden the tax base. As everyone has consumption so everyone needs to pay for it. During economic depression, the government can still have stable tax revenue. Consumptions may be reduced during these periods, but as the consumption for necessities is essential, the government can still have stable tax revenue.**

## Fair

**GST is also fair as everyone needs to pay, and the amount depends on how much one purchase. How much you purchase, how much you pay.**

# Cons

## Increase burden of low income families

Consumption has a greater proportion in the income of low income families compared to high income families. GST will heavier the burden of low income families. This will worsen the extreme disparity between the rich and the poor. It's already a serious problem in Hong Kong.

The government mentioned that Salaries Tax will be reduced after introduced GST. However there are only about 1134665 people who need to pay for Salaries Tax in year 2005-2006. For those people who have low income and do not need to pay Salaries tax, their burden will increase greatly. So reducing Salaries Tax is not effective.

### **Affect the economy**

It is a simple rule that higher the price, lower the quantity demanded. GST may cause inflation as a result the price of goods will raise highly. The burden will mainly go to consumers. It will discourage consumers from consumption and courage them to consume in mainland. Local shops therefore will face a depression due to GST. Data showed that in the countries that introduced GST, there is immediate effect in the country's economy.

### **Lower the competitiveness**

Hong Kong is famous in its low and simple tax system. However, according to the experience of other countries, the tax rate of GST keep rising:

Take Singapore as an example, the tax rate increased form 3% to 5% for two times in 2003 and 2004 since introduced GST in 1994.

For England, the tax rate is 8% in 1973, but now it's 17.5%, it's far more than the beginning.

Also GST is complicated, together with the increase in tax rate will lower Hong Kong's competitiveness in long run.

# Recommendation

## Tax rate

Although a single-stage tax rate is simpler so that the administrative expenses can be lower. However a multi-stage tax rate is recommended. Lower tax rate in necessities such as rice, transportation can lighten low income families' burden, and not discouraging them from consumption. Higher tax rate in luxuries such as cars, jewelries can make rich people contribute more to the society. As most luxuries are purchased by the rich, higher tax rate can reach the purpose that rich people should pay more. The extra revenue gained can use to reduce the tax of necessities as a measure to lower the burden of the poor.

- **VAT in different countries**

Country	Tax Level	Items and Percentage		
Denmark	One level	<u>25%</u>		
Norway	Three levels	general VAT(Value Added Tax) <u>25%</u>	foods and restaurant take-out <u>14%</u>	person transport, movie tickets, and hotel stays <u>8%</u>
Sweden	Three levels	most goods and services <u>25%</u>	foods and hotel stays <u>12%</u>	printed matter, cultural services, and transport of private persons <u>6%</u>
Germany	Two levels	foodstuffs	nonfood	

(Source: Wikipedia)



## **Tax relief and compensation measures**

Providing tax relief and compensation measures for is a must for families especially the low income ones.

### **CSSA households**

CSSA should be increased. A one-off supplement per year can be provided to those families in the first few years. The one-off supplement can be provided for five years. During these five years, the government should observe the effects of GST on those families, and adjust the amount of CSSA. The supplement can be included in CSSA, so that less workloads and administrative expenses are needed. A five year observation can make the adjustment more accurate.

### **Non-CSSA low income households**

Annual cash GST allowance should be provided. An annual GST credit against water and sewage charges and rates are also possible. However the amount should be different from families. Every family consumes different amount of water, give a credit based on the amount is fairer to all families and meet their needs.

### **Middle to high income households**

Most Salaries tax payer is from this level. So the government can reduce the Salaries tax. Increase personal allowances for non-working family members, so that this can lower the burden of GST to the non-working family members. An annual GST credit against water and sewage charges and rates are also needed.

### **Sellers**

The government can lower the Profits tax. After introducing GST, the cost for the products will definitely be increased and reduce profits. This may discourage them from operating their business. Lower the Profits tax just like lower the cost.

## Increase Betting Duty

Betting Duty is important and stable tax revenue. The revenue in year 05-06 is 11938.1 millions, ranking the 4<sup>th</sup> among the taxes, 8.23% of the total revenue. In year 05-06, Betting tax and profits tax is 12.7%. A slight increase in tax rate like 1% can increase more than 1 billion tax for the Hong Kong Government. This slight increase won't have a significant effect on public.

As betting duty is a continuous revenue in Hong Kong, increase Betting Duty can be a possible way to broaden the tax base.



# Reference

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