



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

27/03/2007 13:21

- Urgent
 Return Receipt

Mr. Henry Tang
Financial Secretary
HKSAR Government

Dear Mr. Tang,

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 opinion on the tax reform.

In order to ensure the prosperity of Hong Kong, we need to broaden our tax base to avoid danger of economic depression. However, there are not many options for the government to choose. And government has suggested two options. First, the government can broaden the salary taxpayers' base. Second, government can also introduce the new broad-based consumption or indirect tax such as the goods and services tax (GST). But there should be another kind of tax, tax on plastic bags should be taken into consideration. And there will be more further details talk about in this proposal.

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,

Au Ting Chi
Christian Alliance Cheng Wing Gee College

Attachment: File named "Economic Consultation"



Economics Consultation.doc

Broadening the Tax Base

Executive Summary

In order to ensure the prosperity of Hong Kong, we need to broaden our tax base to avoid danger of economic depression. However, there are not many options for the government to choose. And government has suggested two options. First, the government can broaden the salary taxpayers' base. Second, government can also introduce the new broad-based consumption or indirect tax such as the goods and services tax (GST). But there should be another kind of tax, tax on plastic bags should be taken into consideration. And there will be more further details talk about in this proposal.

Introduction

As our Financial Secretary, Mr. Henry Tang has always reminded us, we should stay vigilant in peace time. Compared to the other places, Hong Kong, has a relatively narrow tax base. It is not good for the economy for the foreseeable future. So, government has two options which are broadening the taxpayers' base and introduce the goods and services tax (GST). In my opinion, there is another type of indirect tax can broaden the tax base which is the tax on the plastic bags. This kind of tax have many advantages other than broaden the tax base. In this proposal, the pros and cons for the three options will be discussed.

Content

Broadening salary taxpayers' base

The government believes that broadening the salary taxpayers' base can help to broaden the tax base. It has its own advantages to the whole society and the public. And the pros of this option include the following.

First, the broadening of salary taxpayers' can help citizens to share their own tax payment in the own society. So that salary tax will not be only borne by a small group of people in the society. And it is fairer to those people.

Second, this option can help the problem of contracting tax net due to the ageing population in Hong Kong. The problem of ageing population is becoming more and more serious, the elderly account for 10%in 1996, but rise to 12%in 2005. It is estimated that the elderly will account for 27%in 2033. This lead the taxpayers' base become narrower and narrower. This is not good to our economy. The deficit in the taxpayers may be varied easily and this affects the amount of government expenditure and fiscal reserves. So broadening salary taxpayers' base can ease the problem brought out by the ageing population.

Yet, there are still cons on this option. Firstly, some people express their concern on reducing the personal allowance may draw people who do not have to pay tax before into the tax net. With more people need to pay salary tax, the consumption demand may drop due to people's disposable income decrease. And it may affect the gross domestic product (GDP) of Hong Kong.

Secondly, this option may still be useless. Although it can help to deal with the problem of ageing population, it still has little help on the broadening of tax base. As the workforce is also affected by the ageing population, the reduction in the workforce may also lead to the narrow salary taxpayers' base in the later time. And it may need to reform the tax system again at that time.

Goods and services tax (GST)

The option of the goods and services tax, it is the option that the government think is the best. There are strong statements to support this option by the government. The pros for the support of this option includes the following.

First, the GST can help to provide stable and predictable revenue as it is based on the consumption basis. It would not frustrate with the other factors due to every person need to buy things.

Second, the GST is very broad based which can easily achieve the purpose of broadening tax base. Every person lives in Hong Kong need to buy thing and have consumption. This is a good way for government to broaden the tax base because this tax has different types of taxpayers from the whole society and everyone will be the taxpayer.

Thirdly, GST is a simple and fair tax. Everyone has different consumption habits, someone may have larger consumption, and someone may have smaller consumption. Each person will pay the tax according to their amount of consumption, which is the tax payment is in proportion with the amount of consumption. This is fair to every taxpayer.

Then, GST also is a kind of tax which is difficult to avoid, citizens in Hong Kong will go to some shops to buy things and through the process of purchasing, they will pay the tax which have included in the price of goods. Even though taxpayers are in different range of income, they still have to pay the tax when buying goods and services. So it is difficult to avoid.

Finally, government also states that this option can maintain the competitiveness and low-tax rate environment. This help to attract foreigner's investment.

But a coin always has two sides. There are still drawbacks for this option. The arguments may include the following.

First, GST may hinder the development of the local business and sales volumes.

The imposing of the tax may reduce the sales volume of the local business. This may lead to the development of our local business become struggle. And it may cause the economy of Hong Kong become worse. Please refer to the Figure 1.

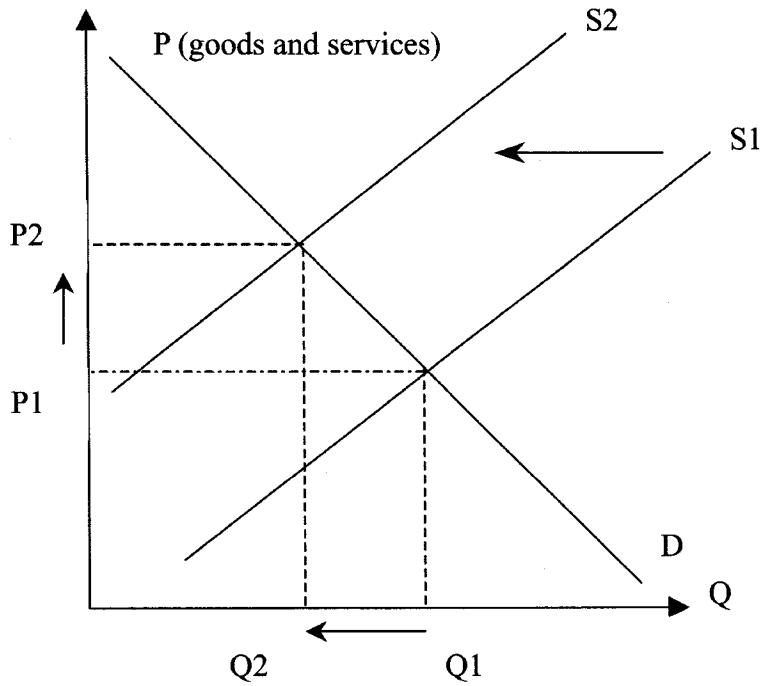
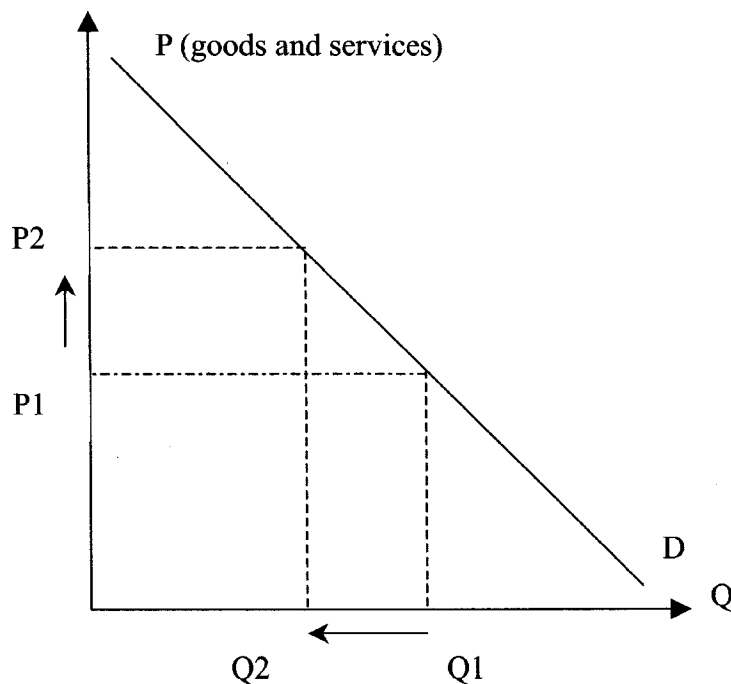


Figure 1

Second, the GST will lead to the increase in the price of goods and services may lead to the decrease in the consumption demand. The decrease in the consumption demand will lead to the decrease in the amount of the gross domestic product (GDP). The lesser amount of GDP will reflect that Hong Kong has a worse economic condition. Please refer to Figure 2.



Third, GST will further add b *Figure 2* have relatively low income. Although government has promised to provide some compensation measures, such as lessening the water charges and rates to normal families and adjust the amount of Comprehensive Social Security Assistance (CSSA) for the CSSA families, the families still need to have a higher financial burden. The disposable income for the families will be lesser if the compensation measures are not enough to cover the burden. So they have lower living standards.

Finally, the GST will be posted on the import products. This will lead to the price of import products go up. The tax will lead to the decrease in the volume of the import goods. Thus it may limit the choice of goods for the customers. It is unfair to the consumers as they have limited products 'choice.

Further on the GST (Structure of the GST)

The structure of the GST is good as necessities are not included. This makes the daily expenditure not to be increase so much. Also, government has planned that the tourists will be excluded in the GST. And the Tourist Refund Scheme (TRS) will be provided to tourists at the land, marine boundary control point and the airport. This can help to maintain the competitiveness of the tourism of Hong Kong and remain the high numbers of visitors to Hong Kong. The practical example is the Japan.

And, the export products will be excluded in the GST too. It helps Hong Kong to maintain the comparative advantage in performing a successful export port.

Tax on Plastic Bags

Besides the two options mentioned by the government, in fact, government can consider the tax on the plastic bags. In the financial budgets of 2004 to 2005, it has mentioned that this tax should be carried out. This tax also has two main pros.

Firstly, Hong Kong is promoting sustainable development. And the tax on the plastic bags can help to reduce the amount of plastic bags used per day. As plastic bags are difficult to decompose, they are harmful to our environment. Based on the aim of sustainable development, the balance between environment, economy and society is important. It is necessary to cut down the use of plastic bags as each person dispose 5 bags per day. It helps to promote conservation and enhance the sustainable development of Hong Kong.

Secondly, this tax is also a fair tax. Each person will need to use plastic bags, yet if one does not want to pay, he can cut the use of plastic bags. And the tax on the plastic bags will not be charged too high, the burden of families will not increase too much. This helps them to lessen the financial burden.

However, some people may claim that this idea may not be useful. Yet, a successful example proved that it is practical. It is Taiwan. In Taiwan, the plastic bags' tax has been established for a few years. Plastic bags will still give out if necessary, but tax will be charged. Some people may have inelastic demand on the plastic bags with different income, and hence the purpose of broadening tax base will still be achieved.

On the contrary, the drawbacks of this option may include the following two. The tax may lead the business environment of the plastic bags become difficult and close down at the end. On the other hand, people may tend to use more paper bags as paper bags are the substitutes for the plastic bags. This may affect the number of people use plastic bags and the purpose of broadening tax base may not be reached

Recommendations

In my opinion, I would support the broadening of salary taxpayers' base and the tax on the plastic bags. The goods and services tax should not be carried out until the longer period of time have been spent on for further study. The broadening of taxpayers' base is the reducing on the personal allowance. This can help to broaden the tax base immediately and provide good foundation for the future. Also, it helps to solve the problem of unbalanced tax base at a very short period of time.

Further, the tax on the plastic bags helps to broaden the tax base as many people use plastic bags every day. Although its nature is similar to GST, it still has advantage over the GST. GST charges tax on the import products and increase the price of it.

The quantity will be lesser thus limit the choice of the consumers and bring loss to them. Plastic bags are not the necessities, people will gradually use lesser but still use at a low volume.

So, I support the idea of broadening the salary taxpayers' base and the tax on plastic bags.

Conclusion

To conclude, the best option to broaden the tax base should not be sacrificed the citizens' benefits. Broadening the tax base should not make the financial burden of families so heavily. Plastic bags' tax is not a tax on the necessities, although GST don't include necessities too, it affect the import products and thus limit the choice of consumers. It is less harmful to the consumers. Besides, broadening the salary taxpayers; base helps the taxable people to share the large tax burden more equally.

These two options are good to our Hong Kong citizens and thus achieve the aim of broadening the tax base. So, government can choose the best option between the above two options.

Reference

The Consultation Document From The HKSAR Government