



香港稅務學會

THE TAXATION INSTITUTE OF HONG KONG

(Incorporated in Hong Kong as a company limited by guarantee)

29 March 2007

BY FAX (2868 5641) AND BY POST

The Principal Assistant Secretary (Tax Reform)
Financial Services and the Treasury Bureau
4/F, Main Wing
Central Government Offices
Lower Albert Road
Central
Hong Kong

Dear Sir,

Broadening the Tax Base - Ensuring our Future Prosperity

We write in response (see attached document) to the above captioned consultation document issued in July 2006 and would be grateful if you would acknowledge receipt of this letter and the attachment.

Yours sincerely,

(Signed)

Kenneth Leung
Vice-President
for and on behalf of
The Taxation Institute of Hong Kong

Encl.

Chapter 1: Is tax reform required in Hong Kong?

1. *Do you think that our existing tax base is too narrow?*

Yes, we believe as a matter of fact the tax base in Hong Kong is too narrow. However, the Consultation Document fails to further illustrate in depth why a narrow tax base is undesirable for Hong Kong.

2. *Do you believe that Hong Kong needs a tax base where revenue is generated from diversified sources that are less susceptible to external shocks and cyclical economic conditions?*

Yes, if the Government can clearly demonstrate to the public that a narrow tax base is disadvantage to Hong Kong.

3. *Do you think the Government should take action to reform the tax base to ensure our future growth and prosperity?*

Yes.

Chapter 2: Broadening the tax base: what are our options?

1. *Do you agree that there are only two viable options?*

The options suggested in Chapter 2, we believe, have been studied by the "Advisory Committee on New Broad-based Taxes" and other organisations. However, whether the options listed are an exhaustive list is subject to debate. Our Institute believes that more research will need to be conducted to explore the viable options.

2. *Do you agree that a reduction in personal allowances is not a preferred option?*

We agree that (subject to our comments to question 1, Chapter 2 above) that a reduction in personal allowances is not a preferred option.

Chapter 3: The case for GST

1. *Do you agree that GST is an appropriate option to broaden Hong Kong's narrow tax bases?*

Subject to our comments to question 2, Chapter 1 and reservations in question 1 Chapter 5, we agree that GST is one of the feasible options to broaden Hong Kong's narrow tax base.

Chapter 4: What is GST and how does it work?

1. *Do you agree that GST is preferable to RST (Retail Sales Tax) as a form of general consumption tax?*

Subject to our comments to question 2, Chapter 1 and reservations in Chapter 5, based on the reasons outlined on page 30 of the Consultation Document, we agree that GST is preferable to RST as a form of general consumption tax.

Chapter 5: A proposed GST framework for Hong Kong

1. ***What are your views on the proposed GST framework and design features as outlined in this Chapter?***

Although it is ideal to have a simple GST design, the current design as envisaged in the Consultation Document fails to convince the public that the lower income group in the community (including but is not limited to families on CSSA) will not be worse off with the implementation of GST.

Our Institute proposes that if any GST is going to be introduced exemptions and/or zero-rated items must be included on most basic necessities. We have initially identified three such items - education, public transportation and medical services (and the list could be extended with further consultation).

Chapter 6: Households: impacts and offsets

1. ***Do you support providing tax relief and compensation measures for households if GST is introduced?***

Yes. However we believe that, as discussed in Chapter 5, more exempted and zero-rated items will need to be included.

2. ***What are your views on the measures proposed in this Chapter?***

We believe the tax relief and compensation measures proposed in this Chapter are quite complex and difficult to administer. The package suggested fails to convince the public and the lower income group in particular that the package will adequately compensate them for the additional tax burden as a result of the introduction of GST.

3. ***How do you think that Group 2 should be defined?***

Not applicable. See our answers in question 2, Chapter 6 above.

Chapter 7: Business and other organizations: impacts and offsets

1. ***Should we use the opportunity of tax reform to enhance business competitiveness in Hong Kong, by reducing existing taxes and charges on businesses if GST is introduced?***

Yes, any reduction of profits tax rate will increase the general competitiveness of Hong Kong business.

However, any pre-condition to any general reduction in the profits tax rate must be that the Government must be able to generate a constant stream of revenue which is not susceptible to economic swings.

2. ***What are your views on the measures proposed in this Chapter?***

We agree that they are the appropriate measures if and only if GST were chosen to be the measure to broaden the tax base.

Chapter 8: Options for returning the funds from GST to the public

1. ***What are your suggestions on how to return the remaining balance of available funds to the community?***

As the Institute has been advocating that any form of GST which may be introduced must be revenue neutral, we believe, any extra revenue levied from GST should be returned back to the community via reduction in both salaries tax and profits tax or other types of taxes.

Chapter 9: Economic and industry sector implications

1. ***What are your views on the economic and industry sector impacts of a GST in Hong Kong?***

Although the Institute believes that what is contained in Chapter 9 is a sensible and rational analysis, the Government seemingly has failed to convince the public, especially the business sector, that the impact of GST on the economic and industry sector is insignificant.