



31/03/2007 00:22

 Urgent Return Receipt

To: taxreform@fstb.gov.hk

cc:

Subject: Re:Broadening the Tax Base

Mr. Henry Tong  
 Financial Secretary  
 HKSAR Government

Dear Mr. Tong,

### Broadening the Tax Base

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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.

I cannot agree to the premise of the consultation paper that is:  
 there is a problem with the ability of the present tax system to raise revenue; and  
 the tax base is too narrow.

I believe that Hong Kong is already having a broader tax base than many governments in the world and I believe the tax system is generating far more revenue for the Government than is needed.

I think there are both pros and cons of the Goods and Services Tax (GST)

pro:

the tax base will be broadened;

cons:

it will cause loss to some businesses in Hong Kong;

this tax will probably broaden the income gap between the rich and the poor; and

Hong Kong has its own uniqueness.

Also, there are both pros and cons of broadening the salaries taxpayer bases

pro:

more and more people who are not originally needed to pay salaries tax will fall into the tax net.

cons:

the social welfare expenses of the Government will increase;

this will adversely affect the competitiveness of Hong Kong.

I would like to propose three ways to increase tax revenue. They are:

- i. Opening the gambling right;
- ii. Opening the franchise of some monopolized markets; and
- iii. Lower the tax rate.

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 discussion.

Thank you for your knid attention.

Yours sincerely,  
Noel Ko Mei Yee  
Christian Alliance Cheng Wing Gee College

Attachment: Consultation papel.doc



Consultation papel.doc

**Consultation paper  
On  
Tax Reform in Hong Kong**

**Ko Mei Yee**

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# Executive Summary

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# 1. Introduction

I am writing to submit my opinions on the consultation paper of tax reform in Hong Kong.

I believe that the present tax system is not narrowly-based as what the Government mentioned. The Government is already benefiting from the salaries tax, profit tax, stamp duty, and etc. Also, I cannot agree to the premise of the consultation paper, which is there is a problem with the ability of the tax system to raise revenue.

Moreover, as mentioned in the consultation document Chapter 2, about the options of broadening the tax base, I cannot agree to the idea of introducing a new broad-based consumption or indirect tax, which is the Goods and Services Tax (GST), and the idea of broadening the salaries taxpayer bases.

There are other viable options to broaden the tax base so as to increase the tax revenue too and I believe that they are better ways which may not lead to so much controversy than the introduction of GST.

I will explain my points of view further below, about the present tax system, the options to broaden tax base as proposed by the government, the pros and cons of introducing the Goods and Services Tax and broadening the salaries taxpayer bases, and my opinions of the ways to broaden tax base.

## 2. Is there a problem with the ability of the present tax system to raise revenue?

I cannot agree to the premise of the consultation document that there is a problem with the ability of the present tax system to raise revenue. Reports have shown that the fiscal reserves now exceed HK\$365 billion and the total net worth of Government well over HK\$900 billion. Also, Hong Kong has a large foreign currency reserve. In March, 2006, Hong Kong has a foreign reserve of US\$125,000,000 and Hong Kong is among the top ten countries and districts of having the largest foreign reserve. Under such condition, why should the Government still acting like a miser and try to increase the tax burden of the general public? So, I believe that it is not reasonable for the Government to try to raise its revenue further as the tax system is generating far more revenue for the Government than is needed.

On the other hand, the Government is earning the tax revenue from salaries tax, profit tax, stamp duty, fees and charges, betting levy, rates, and premiums on sale and redesignation of land. Some may still regard this tax base as narrow, however, in fact, Hong Kong is already having a broader tax base than many governments in the world.

Therefore, I believe the Government already has a tax system that can generate revenue that is more than necessary. So it is not reasonable to say that there is a problem with the ability of the present tax system to raise tax revenue.

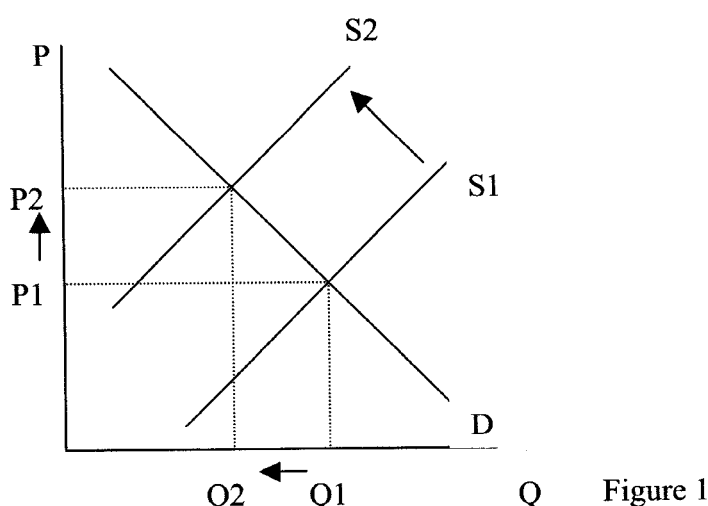
However, I cannot deny the fact that one day the present tax system may not be useful and feasible in Hong Kong due to the rapid change of global economic situation. In my opinion, if the Government intends to broaden the tax base, introducing GST and broadening the salaries taxpayer bases would not be good ideas.

I will talk about the pros and cons of these options and propose my opinions of broadening the tax base in the following discussion.

### 3.1 The Pros and Cons of the Goods and Services Tax (GST)

I am glad to see that the Government has stopped introducing GST and proposing it as a new tax. Undoubtedly, if GST is introduced, the tax base will be broadened. However, I strongly oppose the introduction of this indirect tax for the sake of the society, for Hong Kong.

Firstly, if GST is introduced, most of the goods and services available in Hong Kong will be subjected to tax. So every consumers, or more precisely, every Hong Kong people, will need to pay a certain amount of tax.



By referring to figure1, if tax is imposed on the goods, the supply curve of the good will fall, causing a rise in price from P1 to P2, and a fall in quantity transacted from Q1 to Q2. From a consumer's point of view, the goods and services have become more expensive and the consumption plan will be affected. According to the law of demand, as price goes up, quantity demanded will fall. So people will consume less in Hong Kong.



As a consequence, the retail industry and some service sectors will be affected. As people find the goods and services more expensive, they may go to buy things in the mainland China or Macau. Then it will cause loss to some businesses in Hong Kong. As the profit of the retail industry and some service sectors fall, the profit tax revenue falls too.

Hong Kong is always benefiting from its simple tax system and low tax rate. Many foreign investors and tourists are attracted because of this reason. And this is what other countries are envious of. The introduction of the GST may prevent tourists coming to Hong Kong due to the higher price of goods and services here. Also, we have to face the competition with the mainland China. Many places in China is developing rapidly and the goods and services that they are providing have improved qualities and standards. So we must not give up our advantage, in order to protect the repute of Hong Kong as a “heaven of shopping”.

Secondly, the GST is a regressive tax. This kind of tax will probably broaden the income gap between the rich and the poor. It is because both rich people and poor people have to pay the same amount of tax if they buy the same product. It is similar to the situation of how cigarettes are sold now. Some may think that as the rich consume more, the poverty gap will not be broadened. However, some necessities may subject to the GST too. As both the rich and the poor need to consume these goods, the poverty gap will undoubtedly be broadened. The Government is always stressing on the issue of the importance of eliminating the poverty gap. How can it be done if the GST is introduced?

The Government has pointed out that many countries have sales tax and uses this as a reason for introducing the GST. Nevertheless, every county has the own policy, depending on its economic and tax structure. Hong Kong has its own uniqueness. So why should we follow others' steps instead of having our own steps in developing our economy?

## 3.2 The Pros and Cons of broadening the salaries taxpayer bases

If the salaries taxpayer bases are broadened, more and more people who are not originally needed to pay salaries tax will fall into the tax net. Yet, it will not be a good idea. I oppose the idea of reducing the personal allowances to broaden the tax base for the following reasons:

Firstly, the workers that are now having personal tax allowances are those that have low salaries. If they fall into the tax net and need to pay salaries tax, it will increase their financial burden. If the Government has to adopt another approach to relieve their burdens, then it may in turn increase the social welfare expenses of the Government.

Secondly, Hong Kong is always famous for its low tax rate. And the productivity of the workforce in Hong Kong is high too due to the simple tax system. If the salaries tax base is broadened, there will be new tax payers, and the existing tax payers may need to pay a higher tax. Their income after tax will decrease because of the higher tax payment. Then, their working incentive will fall as they will have a lower return. So productivity of the workforce will fall. And this will adversely affect the competitiveness of Hong Kong.

Because of the above two reasons, I strongly oppose the idea of reducing the personal allowances to broaden the tax base.

## 4. Recommendation-Other ways to increase tax revenue

The Government has proposed one way to broaden the tax base and increase the tax revenue that is, introducing the Goods and Services Tax. Nonetheless, in my opinion, there are other viable options too.

I would like to propose three ways to increase tax revenue. They are:

1. Opening the gambling right;
2. Opening the franchise of some monopolized markets; and
3. Lower the tax rate.

### 4.1 Opening the gambling right

Firstly, I would like to talk about opening the gambling right.

In Hong Kong, the Hong Kong Jockey Club is the only legal gamble organization. In Las Vegas, the USA, there are many gambling places and they are in fierce competition. Tax revenue can be gained from them. Therefore, residents in Nevada have nearly \$0 tax payment! If gambling places are allowed to be opened in Hong Kong, the tax revenue will undoubtedly increase. So the tax burden needs not to be shifted to the consumers.

Some may concern that gambling will increase triad activities and affect personal development. However, the situation in Las Vegas is again a good example. In the past, when there was only one gambling house in Las Vegas, there are many triad activities as the syndicates fought against each other as they all wanted to gain control over the only gambling house there. However, as more and more gambling houses were opened, the triads lost their interest in Las Vegas due to the decreasing benefits that they can earn from the gambling house and no more triad activities can be found in Las Vegas now.

Also, we should know there is supply and demand for gambling. We should treat the matters of gambling with an economic sense and should not treat it as a 'sin'. If we can teach the shareholders about the risk of investment successfully, I believe the Government is capable of teaching the gamblers about the risk of gambling.

### 4.2 Opening the franchise of some monopolized markets

Secondly, I would like to talk about opening the franchise of some monopolized market.

Many industries in Hong Kong are monopolist. For example, the bus companies and the MTR are monopolist. Although these companies still need to pay profit tax, they are still earning a large amount of profit due to their franchise. The tax revenues from these companies are not so high too as there are only a few companies in these markets. If the monopolized markets can be opened, there will be more competitions and more tax payers. So, even if the tax rate is lowered, the tax revenue may rise due to a higher flexibility in tax revenue. Some may claim that as there is more competition, the earnings of the firms will fall. And it will lower the profit tax revenue. However, as there is more firms paying profit tax, the total profit tax revenue will rise.

### 4.3 Lower the tax rate

Lastly, I would like to discuss the idea of lowering the tax rate such as the profit tax rate in order to increase tax revenue.

The approach of lowering tax rate to increase tax revenue was successful in the US after the President Reagan proposed this idea. And this approach and its effect is therefore termed "Reagonomics". The fiscal deficit has been decreasing since the proposal of lowering tax rate. It is due to the elasticity of the demand.

Some may think that increasing tax rate can raise tax revenue. However, if people react strongly due to the increased tax rate, the productivity of labour will fall. Income will fall and there will be unemployment. So the tax revenue may decrease.

So, in order to increase tax revenue, we should decrease the tax rate.

For example, if the profit tax rate is decreased, more firms are willing to set up in Hong Kong and they will have a demand for the goods and services in Hong Kong. As more firms are set up, the profit tax revenue will rise too.

Due to the more and more advanced information technology, the mobility of different people and companies is high. Therefore their elasticity of demand is high too. The lowered tax rate is therefore very attractive to them.

## Reference

[http://www.taxreform.gov.hk/chi/doc\\_and\\_leaflet.htm](http://www.taxreform.gov.hk/chi/doc_and_leaflet.htm)

蔡克 香港奇蹟不再嗎?  
匯訊出版有限公司

2 August 2006 Ming Pao  
林本利：10 個反對銷售稅的原因

HKDF-Consultation Paper on Tax Reform dated 7 March 2007  
<http://www.hkdf.org/pr.asp?func=show&pr=164>

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