



2007/03/31 11:38 PM

Urgent

Return Receipt

To: <taxreform@fstb.gov.hk>
cc:
Subject: Comments on Consultation Document on Broadening the Tax Base -
Ensuring our Future Prosperity

Dear Sir or Madam,

Please acknowledge receipt of this response.

My response is attached as the first document. I am happy for this to be published.

The second attachment is the recent Economist article on pollution, to which I refer. For copyright reasons, this MUST NOT be published!

Yours faithfully

Paul Jackson

Stanley



Hong Kong. Comments on Consultation Document on Broadening the Tax Base.doc



Pollution in Hong Kong.doc

(Editor's note: The newspaper cuttings, publications or website materials, etc. contained in this submission are not published in the compendium.)

Comments on Consultation Document on Broadening the Tax Base – Ensuring our Future Prosperity

1. As an individual who pays substantial Salaries Tax, I am pleased that the GST proposals have been indefinitely postponed.
2. The following several point refer to the Interim Report on the Public Consultation on Tax Reform at: <http://www.taxreform.gov.hk/eng/pdf/interim.pdf> to avoid needless repetition.
3. I agree to some extent with the views expressed in 8. (a) – that the current tax system is over-reliant on limited types of tax collected from a relatively small number of taxpayers; but I also agree to some extent with those expressed in 9. (a) – that if indirect taxes are taken into account, we already have a relatively large number of taxpayers.

Unfortunately, while the Consultation Paper did provide some simplified analysis of the impact of a GST on people of various income groups, it failed to show the existing direct, indirect and total (direct + indirect) personal tax burden borne by each of those income groups, as percentages of their total income. It also failed to demonstrate which income groups pay what proportion of personal tax overall today. It is not surprising therefore, that opinion is divided between 8. (a) and 9. (a), given the lack of readily available data.

I suspect that such data, if published, might be a cause for some embarrassment as it would show that the very richest residents of Hong Kong pay the very least personal tax as a proportion of their total personal income.

4. I agree with the view expressed in 9. (b) – that there is no imminent need to broaden the tax base.
5. I agree to some extent with the views expressed in 9. (c) – that the Exchange Fund could both be managed to produce better returns and to increase government revenue. Perhaps this would include changing the accounting basis from cash-based to accruals-based.
6. I do not agree with the views expressed in 9. (d). Health and education spending should be increased to be more in line with developed cities in Europe, North America and Australasia, particularly given that Hong Kong SAR makes no expenditure on defence. However, I believe that expenditure on a myriad of grandiose 'infrastructure' construction and reclamation projects should be cut.
7. I agree with the view expressed in 15. (c) – that some Hong Kong residents working outside Hong Kong on a long-term basis do not have to pay Salaries Tax, while their family members can enjoy a variety of public services in Hong Kong. However, I do not agree that GST would be the most efficient or fair way to bring such residents into the tax net.
8. I strongly agree with the view expressed in 15. (d) – that some Hong Kong residents who earn high income from dividends and interest – as well as other

forms of investment income not currently taxed – do not have to pay Salaries Tax. Again, however, I do not agree that the GST would be the most efficient or fair way to bring such residents into the tax net.

9. I strongly agree with the view expressed in 15. (e) – that paying tax is a civic responsibility. Again, however, I do not agree that the GST would be the most efficient or fair way to bring more residents into the tax net.
10. The Financial Secretary mentioned during the Consultation Process that many of his rich acquaintances pay no personal taxes.

The Government should ensure that the super-rich and rich make a fair and reasonable personal contribution in direct taxes, before extending the tax burden downwards, to include lower income groups. This would be in the interests of social cohesion, a harmonious society, natural justice and moral rectitude.

11. I agree with all the views expressed in 16. (a) to (e), in particular (a) – that GST is regressive and would widen the wealth gap – which is already very high compared to the OECD average – and (e) – that administrative and compliance costs would be high. In fact I believe that such costs would necessitate an increase in GST after a relatively short period of time, for GST to have any worthwhile net benefit. This is certainly the experience of most OECD countries which have introduced GST or similar taxes, such as VAT.
12. As alternatives to GST, I agree in principle with the proposals 20. (b) – introducing a capital gains tax, (c) – introducing a tax on dividends and interest and other untaxed income, (e) – introducing a land departure tax and (f) – introducing a green tax – though not specifically on plastic bags or electricity.
13. I do not disagree with introducing a progressive Profits Tax or with increasing the progressive element of Salaries Tax. However, neither would increase the tax base, only the distribution of tax paid by different income groups. Also, while a progressive Salaries Tax could, as now, have absolute thresholds in dollar salary terms, a progressive Profits Tax would need to have thresholds set in relative terms, such as percentage profit; otherwise, large companies would simply be encouraged to break up into myriad small subsidiary companies to reduce their tax burdens.
14. I disagree with a tax on ‘luxury goods’, precisely because definition of ‘luxury goods’ would necessitate vast amounts of Government expenditure and bureaucracy. Inevitably, there would be endless litigation and myriad inconsistencies in any such scheme.
15. I believe the Government should consider a comprehensive personal Income Tax as levied in most OECD countries, which would take into account all sources of personal income. I am aware that many in Hong Kong believe that dividends should not be taxed, since companies have already paid Profits Tax. Such an objection could be made against the majority of OECD countries, but none seem to be in any hurry to restrict their personal taxation to Salaries Tax only.

Moreover, instances of such double or multi-layer taxation already arise in Hong Kong. For example, I pay Stamp Duty on my home out of funds that have already been subject to Salaries Tax. True, those taxes are not technically related, but I have to earn a living and I have to live somewhere, so I must pay both.

16. I believe the Government should seriously consider a wide range of 'green' taxes, but not target specific narrow products such as plastic bags or electricity.

A comprehensive 'Carbon Tax' is one possibility, with taxation on various products and services directly related to the levels of carbon emissions required to manufacture the products or provide the services. Data on these is being collected by various Carbon Offsetting, Carbon Neutralising and Carbon Trading organisations worldwide.

My employer has already completed a preliminary 'Carbon Audit' of all its premises worldwide, including all green house gas emissions due to electricity, gas, oil, petrol, diesel and aviation spirit consumption – both on its sites and in travel between them. I believe the Australian Government has instigated a similar exercise Australia-wide, for companies over a certain threshold size or turnover.

Government could help my employer and other 'green' companies by mandating that all commercial leases in Hong Kong separate the energy consumption bills from the general 'management fee' and thus charge for energy according to actual consumption, not average consumption within a premises. At present, if my employer makes a 10% or even greater reduction in energy consumption, it will not see a corresponding reduction, unless all other companies in the premises make a similar reduction. Because there is no financial incentive to go 'green' – except if the company is large enough to be sole occupier of a premises – few companies see any benefit in making a step alone.

A similar mandate could be made for private accommodation leases, though in most cases I believe tenants are individually billed for their energy consumption.

17. I believe the Government should also consider a Pollution Tax on other non-greenhouse gas emissions, as well as on solid and liquid waste. The need for this is underlined by the recent article in The Economist – one of the most 'free-market' publications around. See Pollution in Hong Kong – The big wheeze – Hong Kong – Where official thinking is as foggy as the sky, page 34, The Economist, March 31st-April 6th 2007 edition at:
<http://www.economist.com/search/search.cfm?rv=2&qr=Hong+Kong&area=1>.

18. Any Carbon Tax and / or Pollution Tax would have to prevent loopholes that would enable Hong Kong companies or their proprietors to shift the pollution just over the border to the Mainland or to Macau SAR.

Paul Jackson

Stanley
Hong Kong
31 March 2007.