



International Chamber of Commerce - Hong Kong, China Business Council 國際商會 - 中國香港商務局
The world business organization

25 April, 2007

The Financial Secretary

Tax Reform

Financial Services and Treasury Bureau

4/F., Main Wing, Central Government Offices,

Lower Albert Road, HK

Dear Sir,

Review of Hong Kong's Revenue Base

We welcome the Administration's decision to withdraw the proposals on a goods and services tax. While we have offered our views on the tax, we are now presenting further views on the revenue base in response to your invitation.

2. While the Administration seeks alternatives to broaden the tax base, we are of the view that it is revenue, stable and growing revenue which the Administration is seeking. In this regard, therefore, the term "revenue" is more appropriate than "tax" which has a narrower connotation.

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3. We have studied the relevant documents and come to the conclusion that Hong Kong's public revenue base is not narrow. The sources of revenue are related to the characteristics of the economy, and it is to be expected that some economic activities may attract more taxes or produce more revenue than others.
4. It will not be appropriate therefore to impose new broad based taxes because by definition, their application is indiscriminate, and might not be consistent to the principle of equity. Moreover, a broad based tax might not be productive, and is therefore unworthy of introducing in terms of cost benefit.
5. Some argue that Hong Kong's tax base is narrow because only a relatively small number of taxpayers contribute to a significantly large percentage of profits or salaries tax. This only points to a phenomenon, and does not explore the reasons behind it. Before trying to enlarge this percentage, the Administration should examine the social and economic factors which contribute to this situation, and the likely repercussions in terms of equity and economic structure of our economy.
6. There is suggestion that on the basis of an international comparison, Hong Kong's tax base is narrow. Such a comparison would seem rather meaningless because of differences in tax systems and the



dynamics of different economies. Moreover, as a city economy, Hong Kong does not need to mirror the elaborate tax structure of national economies or their profile of public expenditure.

7. In any case unlike many other governments, the Hong Kong public financial status has been sound, despite the fluctuations Hong Kong has experienced in the past few decades. There is no immediate concern for additional revenue charges given the healthy state of general revenue and reserves. Moreover, the Administration should place emphasis on fiscal stability than revenue stability.

8. Granted the government may need to raise revenue, there are other options preferable to broad based taxes. Thus, an increase in property rate is equitable, productive, and efficient. Or given Hong Kong's strong economic position, the government could make use of the debt market to raise funds, to maintain fiscal stability and to help promote Hong Kong as a regional debt centre.

9. Yet before the government makes a conscious decision to raise taxes or revenue charges, it may wish to consider the following:

- a. if the current revenue machinery has been optimized in terms of productivity;



- b. if government expenditure can be reduced;
- c. if future plans of public revenue and expenditure can be drawn up and are available for public discussion; and
- d. if public expectations demanding added public expenditure have been critically evaluated, so that, for example, meeting these demands might not have the effect of transferring private cost to social cost, bearing in mind, the government's budgeted expenditure should not exceed 20% of GDP.

10. Given the above considerations, the Administration should initiate a dedicated exercise to review current revenue arrangements, the government's fiscal objectives, budget management including reserves policies and current fiscal situation. Participation should be invited not only from tax or accounting professionals, but also macroeconomic experts, social scientists, taxpayers, and community service non-government organizations.

Yours sincerely,

(Signed)

Mary Thomson
Secretary