



To: Subcommittee on Employees Retraining Ordinance

Re: Submission of The Lion Rock Institute for the abolition of the levy charged to employers of foreign domestic workers

Date: 31 October 2008

Our Most Shameful Tax

The levy officially charged to employers of foreign domestic helpers is Hong Kong's most shameful tax.

Retraining is an investment – and there has been all too much malinvestment in Hong Kong. Human capital should not be wasted. All investment should be unsubsidized to avoid inefficiencies, such as in time and resources. Any subsidised retraining is a waste of resources.

The domestic helper levy is a tax on labour. It is a tax that takes away from Hong Kong families.

The funds, now in the billions, are languishing in government coffers when Hong Kong families could be deploying the funds in the economy – supporting Hong Kong businesses, investing in citizen's futures, or improving our children's educational opportunities.

For Our future?

For example, for a young mother (30 years old) that invested the \$400/month into a vehicle that returned 5% a year would be almost \$450,000 poorer on account of this legislation upon retirement. This is a very conservative estimate of the poverty induced by this plan. Would you allow the government to rob you of \$450,000 all at once? Then why do we tolerate it in monthly installments?

Furthermore, this money benefits only a limited range of people. Government training plans are often out of synch with industry needs. Training provided is not only wasted money, but also demoralizing to those who receive it. They come to believe that no amount of training will enable them to join the work force. When it comes to government training, this is true.

Even if effective, for the sake of argument, this constitutes a transfer of wealth from Hong Kong's hardworking families to the companies that benefit from having their trained workforce paid for out of families' pockets.

Need we remind the government that this levy impacts those families about to get ahead. By having an extra pair of hands to provide guardianship of children or aged and infirm parents, productive adults are able to join the work force to improve Hong Kong's productivity and generate wealth. By taxing this productivity enhancing asset, the government makes it more difficult for women, especially, to contribute to our prosperous future.

The consequence – those who could just afford a helper to take care of parents and/or children may have to lay them off, and leave the workforce themselves.

No amount of retraining will fix this inevitable new problem.

For these reasons above, we support abolishing the levy.