

**LegCo Panel on Financial Affairs  
Special meeting on 18 July 2006**

**List of follow-up actions to be taken by the Administration**

**Consultation on reform to broaden the tax base**

The Administration is requested to take into account and provide written response to Members' views and concerns expressed at the meeting, as follows:

1. General views and concern

- (a) While Members in general have no objection to the Administration's initiative to examine how the tax base could be broadened, some Members oppose to the introduction of a Goods and Services Tax (GST) and some query whether GST is the appropriate option for Hong Kong.
- (b) Introduction of GST to broaden the tax base is a move in the wrong direction, as this will radically alter the renowned simple taxation system and the low tax rate of Hong Kong, which will in turn undermine the competitiveness of Hong Kong.
- (c) Overseas experience (e.g. Singapore and Japan) show that the introduction of GST has brought about strong blow to the local economy.
- (d) While the Corporate Profits Tax Rates in a number of jurisdictions have been reduced (Chart 5 of the presentation material provided by the Administration), it should be noted that the reduction from about 35% in 2000 to about 25% in 2005 in the European Union was achieved by a high GST rate of 17.5%. As regards Ireland, the reduction from 24% in 2000 to 12.5% in 2005 was not caused by the introduction of GST.
- (e) The Administration's proposed compensation packages for different household groups, together with the options for utilizing the additional revenue from GST to increase public expenditure in areas like education, health and social welfare, may attract diverse views from different sectors of the community, thus having a divisive effect for the community as a whole.

- (f) The Administration's claim that the introduction of GST is "revenue neutral", together with its proposed offsetting measures such as tax reduction and GST credits, are just publicity gimmicks for soliciting public acceptance of GST.
- (g) The introduction of GST may affect the consumption ability and quality of life of the retired citizens, and may not help resolve the problem of an ageing population. The Administration should consider providing retirement protection to address the problem of an ageing population instead of introducing GST.
- (h) Whether the Administration has in mind a benchmark level of public acceptance/objection against which it will decide whether GST should be introduced in Hong Kong? If so, what is the benchmark level?

2. Proposed GST framework

- (a) While the proposed GST rate is low by international standards in the initial launch, the Government may increase the rate after its introduction, as in some other jurisdictions.
- (b) The proposed high registration threshold of \$5 million annual turnover, whilst excluding most small and medium-sized enterprises (SMEs) from GST collection, may be unfair to large-sized enterprises, such as the chained stores. This may be a disincentive for business operation in the form of large-sized chained stores.

3. Impact on the problem of disparity between the rich and the poor

- (a) Given that Hong Kong already ranks high in the Asian region and among the developed economies in the problem of disparity between the rich and the poor, the impact of GST in this respect should be carefully assessed. In this connection, the Administration is requested to provide information on overseas jurisdictions in this regard.
- (b) Taxing the large number of low-income households which do not meet the threshold for Salaries Tax through the introduction of GST will only widen the gap between the rich and the poor.

- (c) GST, which is a regressive tax making the low-income households to pay tax of a higher percentage of income compared with the high-income households, is in a way “robbing the poor to help the rich”. This regressive tax is inconsistent with the taxation principles of “higher earnings, higher payment” and “fair redistribution of income”. GST is not suitable for Hong Kong given the special income structure in Hong Kong (with the high-income households earning over ten times of the low-income households), which is unlike other jurisdictions with more even distribution of income.

#### 4. Households: impacts and offsets

- (a) GST as a tax on consumption will include the whole population within the tax net and cause hardship to Comprehensive Social Security Assistance (CSSA) households and low-income households. The adverse impact could hardly be alleviated through the proposed compensation measures.
- (b) The well-being of the middle class households will also be greatly affected by GST as only limited offsetting measures will apply to them and their burden of expenses on areas such as health and education may not be relieved given that the Administration has not made any commitment to increase the expenditure on these areas upon the introduction of GST.
- (c) The Administration is requested to provide further information on the proposed compensation measures for households, as follows:
  - (i) Methods for computation of the one-off supplement to be provided to CSSA households;
  - (ii) Definition of non-CSSA low-income households; and
  - (iii) Whether any other offsetting measures will be provided for households which do not have to pay Rates and therefore will not be able to use the \$3,000 annual GST credit for the payment of Rates.
- (d) The proposed compensation measures for the three household groups based on household income may not be fair as they fail to cater for differences in household size (e.g. the difference in consumption between households with

two members and four members).

- (e) The Administration is requested to provide figures to illustrate in detail the impact of GST on different income groups, including information on the amount of additional expenses and/or savings for these groups taking into account the cost of GST and the savings from various proposed compensation measures.

5. Various industries and sectors: impacts and offsets

- (a) Despite that tourists will be able to claim a GST refund under the proposed “Tourist Refund Scheme”, the procedures involved for the claim may have adverse impacts on the city’s reputation as a “duty-free shoppers’ paradise” and the tourist industry. The GST may also discourage tourists from spending in Hong Kong, thus affecting the retail and service industry and creating unemployment.
- (b) With the introduction of GST, Hong Kong residents may choose to purchase goods and services across the border more frequently. The Administration should assess the impact of GST on the consumption habit/pattern of Hong Kong residents across the border and the resulting impact on the local retail and service industry.
- (c) Given the close economic ties between Hong Kong and the Pan Pearl River Delta Region, the import/export trade and logistics sector are important to the development of the local economy. As such, the Administration should examine in detail the impact of GST on the import/export trade and logistics sector and be mindful that the possible adverse impact may out-weight the benefits of broadening the tax base.
- (d) Whether and what measures will be put in place by the Administration to assist SMEs in coping with the additional resources required for the collection of GST and in tiding over the difficulties of cost increase to maintain their competitiveness?