

THE AMERICAN CHAMBER OF COMMERCE IN HONG KONG

Position Paper

Broadening the Tax Base in Hong Kong

Members of the American Chamber of Commerce in Hong Kong are concerned about the choices the Hong Kong SAR Government will be making regarding measures to balance the current fiscal deficit. The traditional dependence on property revenues and a small group of taxpayers is seen as less well suited to Hong Kong's future needs, and a broadening of the tax base appears to be required. Since the Chamber responded to the August 2001 Consultation Document entitled "A Broader-based Tax System for Hong Kong?", the deficit situation has remained a concern and no steps to rectify it have yet been taken.

There are a number of reasons a broader tax base is required in Hong Kong. As the SAR moves towards more representative government, it may be highly desirable. A tax system that includes a greater proportion of the population is one which is likely to ensure that political power is used wisely.

We would like to reiterate the view expressed in our September 2001 response to the consultation document; *any revisions of the tax system or increases in current taxes must be balanced by a rigorous containment of all areas of government expenditure.* We continue to believe that savings are possible but recognize that there may be increased demand in areas such as education, healthcare, and other areas.

Types of taxes

It appears that a new tax system of some type is needed. Sales tax is frequently discussed. This would offer a broad reach into the population and would meet the basic objective of broadening the tax base. There are also clear benefits in administering a 'self-policing', cascading system such as a GST as outlined in the 2001 consultation document.

However, we are opposed to the introduction of a consumption tax/GST for a number of reasons:

- It is highly regressive and would have the greatest impact on those sectors of the community least able to afford it
- It would be complex for business to administer. One key attraction for companies to locate in Hong Kong is the simplicity of its tax system. A GST would represent a much greater layer of complexity.
- Introduction of GST would weaken Hong Kong's retail competitiveness compared with cities in the Pearl River Delta. Many Hong Kong residents already make a number of regular purchases outside the SAR. The introduction of a consumption tax would exacerbate that trend.

- There are dangers in the ease with which a GST could be gradually increased. Our understanding is that the level of GST/VAT in most countries that have introduced taxes of this type is now substantially higher than when they were first introduced. This is an “easy target” for politicians as it is less visible than salaries or profits tax increases. There is also the possibility (as seen in Japan), that sales tax increases made to balance government accounts during times of economic hardship can contribute to much slower recovery.

We believe the fact that Hong Kong is the only developed economy without some kind of consumption tax should not be seen as a problem. In fact, we see this as one of Hong Kong’s unique competitive advantages. The government should not eliminate that advantage.

Alternatives

We would like more attention paid to options that would bring a greater number of wage earners into the tax system while ensuring that the lowest income groups are well protected. It is worthwhile reviewing whether the bottom limits of salaries tax are too high. A reduction in the basic tax allowances, combined with a reduction in overall rates, would achieve the overall goal of broadening the tax base without the highly regressive elements inherent in a consumption tax.

Suggestions have been made that only a small number of additional tax payers would be achieved by taking this approach. That would be entirely dependent upon how the tax schedules were revised. We believe it is worth reviewing a radical restructuring that would capture a far broader spectrum of tax payers.

4 March 2004