

Pacific Rim Policy Exchange



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Panel Six –

Income tax reform in Asia - Replace income taxes by consumption taxes

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Hong Kong is one of the world's leading financial centres.

"The Global Financial Centres Index 1 Executive Summary" City of London. March 2007.

Its highly developed capitalist economy has been ranked the freest in the world by the Index of Economic Freedom for 15 consecutive years.

"2008 Index of Economic Freedom". The Heritage Foundation. Retrieved 1 February 2008.



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laissez-faire capitalism
positive non-interventionism



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Hong Kong's tax system Simple and low



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THE BASIC LAW OF HONG KONG SAR

Article 106

The Hong Kong Special Administrative Region shall have independent finances.

The Hong Kong Special Administrative Region shall use its financial revenues exclusively for its own purposes, and they shall not be handed over to the Central People's Government.

The Central People's Government shall not levy taxes in the Hong Kong Special Administrative Region.



THE BASIC LAW OF HONG KONG SAR



Article 107

The Hong Kong Special Administrative Region shall follow the principle of keeping the expenditure within the limits of revenues in drawing up its budget, and strive to achieve a **fiscal balance, avoid deficits** and keep the budget commensurate with the growth rate of its gross domestic product.



THE BASIC LAW OF HONG KONG SAR



Article 108

The Hong Kong Special Administrative Region shall practise an independent taxation system.

The Hong Kong Special Administrative Region shall,

taking the **low tax policy** previously pursued in Hong Kong as reference, enact laws on its own concerning types of taxes, tax rates, tax reductions, allowances and exemptions, and other matters of taxation.





	Actual								Revised Estimate		Estimate†	
	2004-05		2005-06		2006-07		2007-08		2008-09		2009-10	
	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%
Operating Revenue												
Internal Revenue												
Earnings and profits tax	96,709	52	111,752	54	115,318	51	133,729	48	142,200	53	110,590	49
Stamp duties	15,851	9	17,867	9	25,077	11	51,549	19	33,000	12	25,000	11
Bets and sweeps tax	12,057	6	11,938	6	12,047	5	13,048	5	12,500	5	12,388	5
Air passenger departure tax	1,350	1	1,440	1	1,531	1	1,671	1	1,657	1	1,594	1
Hotel accommodation tax	248	—	310	—	384	—	450	—	238	—	—	—
	126,215	68	143,307	70	154,357	68	200,447	73	189,595	71	149,572	66
Utilities, Fees and Charges	14,194	8	14,483	7	15,008	7	15,641	6	13,870	5	15,533	7
General Rates	12,640	7	14,146	7	15,467	7	9,495	3	7,240	3	13,899	6
Duties	6,603	3	6,424	3	7,023	3	7,059	3	6,001	2	6,582	3
Motor Vehicle Taxes	3,417	2	3,895	2	4,335	2	5,553	2	4,824	2	4,081	2
Other Revenue	18,375	10	18,067	9	26,199	11	28,243	10	42,236	16	33,334	15
Total Operating Revenue	181,444	98	200,322	98	222,389	98	266,438	97	263,766	99	223,001	99
Capital Revenue	3,693	2	4,659	2	4,436	2	8,442	3	4,001	1	2,870	1
Total Revenue	185,137	100	204,981	100	226,825	100	274,880	100	267,767	100	225,871	100
Transfers from Funds	44,500		—		2,100		31,600		1,800		600	
Total including Transfers from Funds	229,637		204,981		228,925		306,480		269,567		226,471	

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Details of Revenue

Sub-head (Code)	Actual revenue 2007-08	Original estimate 2008-09	Revised estimate 2008-09	Estimate 2009-10
	\$'000	\$'000	\$'000	\$'000
010 Bets and sweeps tax.....	13,048,425	13,128,000	12,500,000	12,388,000
030 Earnings and profits tax—				
(020) Profits tax.....	91,422,706	83,270,000	103,200,000	71,000,000
(030) Personal assessment.....	3,586,574	2,600,000	2,200,000	3,200,000+
(040) Property tax.....	1,240,605	620,000	800,000	1,200,000
(050) Salaries tax.....	37,479,476	26,380,000	36,000,000	35,190,000+
Sub-total.....	133,729,361	112,870,000	142,200,000	110,590,000+
050 Estate duty	353,353	85,000	200,000	80,000
060 Hotel accommodation tax.....	450,401	115,000	238,000	—
070 Stamp duties.....	51,549,090	35,000,000	33,000,000	25,000,000
080 Air passenger departure tax	1,670,811	1,752,517	1,657,405	1,593,588
Total	200,801,441	162,950,517	189,795,405	149,651,588

THE DEBATE ON GOODS AND SERVICES TAX IN 2006 IN HK

GST will destroy our competitive advantage as a free port

"To enhance the air cargo handling capacity of Hong Kong International Airport, continuous efforts will be made to increase the number of cargo freighter parking stands and to expand its air cargo terminal facilities ... to reinforce our position as an international and regional aviation hub."

Donald Tsang Yam-kuen, Hong Kong Chief Executive during his 2006 Policy Address

As expected, our cautious chief

Below DECK

Russell Barling



Nonetheless, it's logistics community from hearing Sir D of the aviation icularly as it a sport of high- centre of any r nment initial specially since rm proposals l ving the gove aken or at leas istry and its ir ibration to ou r Tsang and his ilk are trying

The GST recipe for failure

to convince a hugely sceptical logistics community that enough exemptions such as a zero tax regime for qualified exporters have been built into present GST proposals that their industry "would remain internationally competitive", according to an executive summary of the

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ment ation tory ration will nue- g the

This argument is hugely naive. Anyone paying attention to our trade transport industry of late knows that just about our last competitive advantage vis-a-vis the mainland is Hong Kong's status as a free port.

That status allows local traders and their transport providers unlimited flexibility to consolidate products and consignments, as well as to add any last-minute touches such as language-specific labels to products before shipping them to their final markets.

All of this is done in thousands of buildings and loading bays across Hong Kong without having to be under the watchful eye of customs.

Taxing specific products – at whatever level – would require secure segregation of those goods for accounting purposes. It would require bonded warehouses and bonded trucks and it would add

many more steps to a trade-documentation process the industry has been at pains to reduce.

Moreover, it would change forever the way the industry does business here, slowing and complicating the facilitation of trade to the detriment of the estimated 850,000 people the government itself says work in our import/export-driven industries.

Inevitably, it would result in a significant exodus to the mainland by cargo agents, transport firms and warehouse and terminal

totaly change the present way we do business," Haffa chairman Kelvin Leung Kai-yuen said yesterday. "The introduction of a GST will significantly compromise the competitive edge Hong Kong has for being a logistics hub."

Haffa is part of a growing camp that believes there is no compromise to be found that would allow a GST and Hong Kong's free-port status to co-exist.

A GST, they say, would severely compromise the future of an industry that by some estimates directly and indirectly contributes

rd to our gross tct. n Mr Tsang and have to weigh it wrong could put out of work and ed to expand the or the freighter port. scmp.com

Accountants voice strong opposition to sales tax

Only 31pc of those polled say they are in favour of a goods and services levy

The good, the bad and the ugly side of GST

GST would take shine off Hong Kong, say jewellers



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THE BURDEN OF GOODS AND SERVICES TAX IN 2006 IN HK

Hong Kong's economy is dominated by the service sector, which accounts for over 90% of its GDP

Lack of Democracy and universal suffrage

The Legislative Council has 60 members, of whom 30 are elected by popular vote in geographical constituencies, and 30 elected from functional constituencies (businessmen and professionals).

Chief Executive elected by 800 Election Committee member.



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A few worth considering:

GST will be continually increased?

GST will encourage a greater size of government bureaucracy?

GST is unfair to the poor?

GST will affect tourism and retail industry?

Is consumption tax can promote scientific and technological development to solve environmental problems ?



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A few suggestions:

* **STOP** the new **TAX**.

We have launched nearly 100 times of social actions. The total number of reporting from the Hong Kong's electronic media and newspaper coverage is more than 500 times.

In 2008, we successfully urge the Government to shelve the implementation of compulsory health insurance scheme and there are around 500 supporters of enrollment..



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A few suggestions:

*The permanent abolition of some taxes, such as interest tax

We published many articles to major newspapers, and also participated in TV programs as a taxpayer position in response to different social problems.

In 2008 and 2007, we successfully urge the Government to the abolition of wine tax, the hotel room tax and other taxes



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A few suggestions:

* Strict control over government expenditure



Momentum 107, the first taxpayer organization in Hong Kong, promotes the idea of Lower Tax, Less Waste and Efficiency Government.



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A few suggestions:

* greater transparency



In 2009, we successfully urge the Government to increase the financial transparency of Hong Kong Disneyland which is 52% share owned by Hong Kong Taxpayer



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A few suggestions:

- * STOP the new TAX.
- * The permanent abolition of some taxes, such as interest tax
- * Strict control over government expenditure
- * greater transparency
- * More income tax relief
- * On a regular basis to hold a referendum to determine the tax rate



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Thank You



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