

Summary of Response to Questions Posed in the Consultation Document

1. *Should Hong Kong seek to improve the stability of its tax revenues by broadening its present tax base?*

Respondents were supportive of the conceptual approach that the tax base should generate sufficient recurrent income to meet recurrent expenditure. As the current tax base failed to achieve this aim, there was “in principle” support to have its base broadened. However, a not insignificant number of “in principle” supporters, while commenting that now was not the right time, did not offer opinions as to when the right time would be. Those who did give such opinions generally considered that the right time would be once the economy was exhibiting signs of recovery.

2. *Should tax rates (including the standard tax rate) on incomes derived by individuals from salaries, properties and businesses be increased?*

General response was that personal tax rates (including the standard rate) should not be increased. A small minority favoured increasing the tax rates on higher income taxpayers rather than introducing a general consumption tax. There were some suggestions for a reduction in personal income taxes if a general consumption tax was introduced. This appeared to indicate support for a tax base broadening measure and not an additional revenue measure. Respondents suggesting reductions in personal income tax as a quid pro quo for implementing a general consumption tax did not address the issue of revenue shortfalls ab initio being the catalyst for the introduction of a consumption tax in the first place.

3. *Should the tax rates charged on profits earned by corporations be increased?*

Reaction to this question was mixed. There was some support for either increasing corporate tax rates generally or making them progressive such that higher levels of profits were subject to higher tax rates. As was the case with personal income taxes, some suggestions were received for a reduction in the corporate tax rate if a general consumption tax was introduced.

4. *Should personal allowances and concessionary deductions under salaries tax be abolished?*

There was no support for abolishing personal allowances or concessionary deductions.

5. *If personal allowances and concessionary deductions are not abolished, should they be reduced? If so, in percentage terms, how much should the reduction be?*

Of the respondents who dealt with this question, the majority considered that personal allowances should be retained at their present levels.

6. *Should interest income, capital gains, dividends and offshore income received by Hong Kong residents be taxed?*

There was no general measure of support for introducing a capital gains tax, taxing interest or taxing offshore income. The more frequent reasons for not supporting these taxes included administrative and compliance difficulties, the deterrent effect on overseas investment and the relatively benign ability to raise additional revenue at meaningful levels.

7. *Should a tax on land and sea departure be introduced? If so, what is the acceptable level of the tax?*

This proposal received a high level of support from respondents generally. The general response favouring the introduction of the tax was that it would discourage cross-border shopping by Hong Kong residents and promote spending within Hong Kong. Those against the tax made two major points. First, a quasi tax was now being paid by cross-border commuters through the significantly higher rail fares to Lo Wu vis-a-vis Sheung Shui. The second was the need for concessions for workers commuting daily and students living in Shenzhen and coming to Hong Kong to attend school.

8. *Should payroll taxes and social security contributions be levied on (a) employers and (b) employees?*

No general support for this type of levy was apparent. Most respondents considered that it would drive up employment costs for employers in an already high-cost economy and weaken Hong Kong's competitiveness. Some drew an analogy with employers' MPF contributions and considered that the levy may ultimately be shifted back to employees indirectly through reduced wage adjustments.

9. *If payroll taxes and social security contributions should be paid, what is the maximum acceptable rate of contributions for (a) employers and (b) employees?*

There was virtually no specific responses received to this question.

10. *In line with the worldwide trend to increasingly tax consumption rather than income, should some form of consumption taxes be introduced?*

In general, the response to this question was negative. The most frequent reasons cited for not supporting a general consumption tax were that it would cause a reduction in domestic consumption, regressivity, the adverse effects of consumption taxes when introduced in Singapore and Japan, and the reduction in the simplicity of the tax system. Some respondents gave qualified support for a GST, recognising its ability to broaden the tax base and provide a stable source of revenue. Many of them expressed reservation over immediate implementation, asserting that GST should only be introduced when the economy is in recovery.

11. *If so, should specific excise-type taxes be considered vis-a-vis a tax on general consumption?*

The usual suggestions were for higher taxes on luxury goods, alcohol and cigarettes. One professional organisation raised the idea of introducing a retail sales tax as an alternative to a GST. It also canvassed the idea of a wholesale sales tax. The rationale for these suggestions appeared to be the reduction of administrative and compliance costs for businesses.

12. *If excise-type taxes are preferred, are taxes on mobile phone and signboards acceptable options?*

It was generally recognised that these types of taxes were relatively efficient from a collection perspective but their ability to produce revenue of meaningful magnitude was questioned. There was, however, a mixed support for taxes on this type of consumption. Reasons put forward against introducing the tax on mobile phones included its adverse effects on Hong Kong as a technology centre, its lack of neutrality and one suggestion that mobile phones were now a necessity.

13. *Should excise-type taxes be imposed on other specific items? If so, on which items and at what rates?*

This particular question drew few suggestions on additional goods or services to be taxed. A small minority of respondents mentioned “green taxes” as a generic tax but did not make proposals for specific classes of goods or services to come within the “green” classification.

14. *Should a broadly-based consumption tax levied at a single, low rate be introduced?*

To the extent that respondents agreed with the introduction of a broadly-based consumption tax, the consensus appeared to have been that the tax should be a simple, single rate tax.

15. *If a broad-based consumption tax should be introduced, what is an acceptable tax rate? What factors should be considered in designing the tax?*

This question was not widely answered by respondents. In general, those that did suggested rates of 3% to 5%. There did not appear to be any support for a tax rate exceeding 5%. A number of respondents considered that the introduction of a general consumption tax should proceed hand in hand with reductions in direct taxes, e.g. personal and business rates.

16. *Should a combination of measures be adopted? If so, what are the possibilities? What options should be ruled out?*

Few respondents addressed this question. Of the replies received, opinion seemed firmly in favour of one tax only being introduced. The reason appeared to be that any move to introduce more than one new tax at a time would unnecessarily complicate issues and cause confusion.