香港會計師公會
HONG KONG SOCIETY OF ACCOUNTANTS
(Incorporated by the Professional Accountants Ordinance, Cap. 50)

BY E-MAIL AND BY POST
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Advisory Committee on New Broad-based Taxes
4th Floor, Main Wing
Central Government Offices
Lower Albert Road
Central Hong Kong

Dear Sirs,

Consultation Document on "A Broader-based Tax System for Hong Kong?"

Background

The Society of Accountants welcomes the opportunity to consider the findings of the *Advisory Committee on New Broad-based Taxes* ("AC") in respect of Hong Kong's tax base and the measures identified in the Consultation Document ("the Document") to raise additional revenue and/or to broaden the tax. Our submission aims to respond to, whilst not necessarily being restricted by, the issues or questions raised in the consultation document.

While we are concerned primarily with the technical merits of the various proposals, we are conscious of the fact that there will be social and political implications arising from any decision to introduce any new system of broad-based indirect taxation. This being the case, despite the view held by some tax experts that the narrowness of the existing tax base in Hong Kong would in itself justify reform of the regime, we believe that, before coming to any conclusion, it is incumbent on the Administration to consider carefully the results of the study being conducted by the *Task Force on Review of Public Finances* ("the Task Force") to determine whether the budgetary deficits are a structural or cyclical phenomenon. In addition, the state of the economy generally and the likely impact on the economy of e.g. the costs of administration and enforcement on the one hand, and of compliance on the other, will also be need to be considered in the context, in particular, of the timing of any major changes.

Furthermore, as part of the process of determining the underlying relationship between revenue and expenditure, the Administration should look carefully at the expenditure side, to see whether there is scope for further efficiency savings and reductions in the cost of running the business of government.

The Tax Base

The Society has for some time endeavoured to draw attention to the narrowness of the Hong Kong's tax base. This was echoed by the AC's findings that, compared with other jurisdictions, Hong Kong demonstrates a disproportionately heavy reliance on taxation from property, personal income and corporate profits. Fewer than 40% of wage and salary earners, for example, pay any salaries tax and the bulk of profits tax is paid by a small percentage of businesses. If the existing situation is maintained, the narrow tax base may well result in a significant degree of volatility in Hong Kong's tax revenues over the long term. If, however,

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the Task Force concludes that the problem of budget deficits is more of a cyclical than structural one, it may be that the community would be willing to accept a certain degree of volatility as a reasonable price to pay in return for maintaining the simplicity of the system.

The Society would argue, in principle, that, if the aim is basically to balance the books from year to year, and this appears to be envisaged under the Basic Law, then, given the constraints on making frequent substantial adjustments to the level of public expenditure, it is important to ensure the stability of Hong Kong's tax revenues as far as possible. This would imply the need for a reasonably broad base of taxation. As regards existing sources of revenue, land is very important. However, the cost of doing business in Hong Kong is frequently cited as an impediment to further investment and the cost of land is one of the main factors in this. Thus whilst it is in the long-term interests of the economy to implement land supply policies that discourage price inflation, such policies in turn are likely to have an impact on the levels of revenue generated from land sales and property. A broader tax base should also help to reduce reliance on land and property-related income.

Against the above background, our comments on the specific taxation options considered by the AC, as well as a few other possibilities, are outlined below.

<u>General Consumption Tax</u>

The Society has in the past suggested the need to consider broadening Hong Kong's tax base as a way of reducing the volatility associated with the over-reliance on salaries tax, profits tax and property-derived taxes. This could be done by introducing a more extensive system of indirect taxation such as a general consumption tax (GCT"), similar to the types of goods and services ("GST") or value-added ("VAT") taxes that are applied in other jurisdictions or, for example, a wholesale sales tax, such as that existing in Australia prior to the recent introduction of a GST.

The disadvantage of a VAT-type tax is that it would involve most of the business community in additional administrative and compliance obligations. No figures have been given in the Document for the cost of compliance or of operating and enforcing a system of indirect taxation such as this. An estimate of the costs should be made to present a fuller picture of what such a significant change would mean for Hong Kong. It has also been pointed out that a GCT would tend to be regressive, i.e. it would impose a relatively higher burden on lower income earners, and this is acknowledged by the AC. The extent to which this is so will depend upon the rate of any GCT and whether there are exemptions, zero ratings, etc. on for example staple goods and other items. On the other hand, the more concessions there are, the more complex the system will become and the less efficient as a source of stable revenue. As the Document suggests, the lowest income groups, who would be worst affected by this regressiveness could be compensated by other means, such as through increased CSSA payments.

The advantage of a GCT is that if it is genuinely broad-based, a relatively low rate can generate a reasonable and stable revenue and it is a form of taxation that is commonly understood and accepted in most jurisdictions around the world. The Document seems to assume that any such tax should be a multi-stage tax, akin to the type of VAT that is common in Europe, but consideration could also be given to a single-stage retail sales tax. This would have the advantage of being administratively less complex than a VAT, although because the "audit trail" would be less clear than with a VAT and because of the number of small retailers in Hong Kong, it has been suggested in the past that there would need to be more resources involved in enforcement. However, VAT has in practice not proven to be a simple form of tax in many jurisdictions and so there could be merit in opting for a more administratively straightforward system. The administrative complexities of a VAT system would however depend to some extent on the turnover threshold above which businesses would be required to register. We would suggest that a more detailed analysis be conducted of the relative advantages and disadvantages of a retail sales tax and a VAT-type of tax if it is decided to proceed with a GCT.

Another alternative form of indirect taxation would be a wholesale sales tax ("WST"). This in fact was the favoured approach when the Government previously issued a consultative paper on sales tax in May 1989, and business stratification in Hong Kong might make it more suitable for this environment than some other jurisdictions. Prima facie, a WST would have a narrower base than a GST/VAT although it is likely that the tax would be reflected in prices to the consumer. One assumed advantage of this form of tax is that those responsible for the collection, it is anticipated, would tend to be larger, more sophisticated operations than in the case of, say, a retail sales tax, and there would be fewer of them. However, while the 1989 consultation paper quoted a figure of "below 40,000" taxpayers under a WST regime, the figure quoted for retail outlets in relation to a retail sales tax was only "44,700", so it is not clear that the difference in numbers, or even level of sophistication, would be as great as might be expected. In addition, the burden of compliance could be significant on those businesses affected and the purported simplicity of the system could quickly be compromised, as appears to have occurred in Australia, where a WST was in force until 2000, if exemptions and/or differential rates were to be introduced. Furthermore, a WST would not usually extend to services, which could be regarded as a serious disadvantage for a services-orientated economy such as Hong Kong's.

In view of the issues that outlined above, and our examination of the possible alternative forms of taxation discussed below, we would conclude at this juncture, that while a GCT would be the most suitable method of maintaining and stabilising revenues, further analysis would be required to determine the most appropriate type of GCT for Hong Kong. In the absence of the relevant comparative data, we would not take a position on one particular form of GCT over another. However, we would stress the need to achieve what could be a delicate balance between keeping the rate of any such tax relatively low, while at the same time generating sufficient revenue to justify the overall costs of introducing and operating the system, and also meeting the objective of genuinely broadening the tax base. We would suggest that a single rate of tax should be adopted to minimise any possible complexity.

Features of a GCT and implementational issues

Suitable features of a broad-based consumption tax

We note the International Monetary Fund (IMF)'s recommendation of a consumption tax for Hong Kong having the following features, e.g.:

- Low single rate in the range of 3 - 5%
- Few zero ratings, exempt items and special concessions
- A high registration threshold to minimise the number of businesses required to register

- A tourist refund scheme for goods purchased in Hong Kong and taken overseas on departure.

We also note the following findings of the AC with respect to introducing a general consumption tax at a single rate of 3%:

- There will be no material impact on competitiveness, as 3% is lower than the international norms and Hong Kong is the only developed economy without a general consumption tax

- Additional tax revenue in excess of $18 billion is estimated to be derived annually. Offsets may be available in terms of reductions in other tax rates, the quantum of which would vary in accordance with the additional revenue required to be raised, as discussed under the three broad revenue scenarios

The introduction of a broad-based general consumption tax – a tax neutral package?

The Society believes that the effect of the introduction of any broader-based GCT should aim to be tax neutral in terms of minimising any distortions on economic activity.

In addition, whilst it is clear from the scenarios that the consultants were asked to consider in the Tax Base Study that there may be a need to increase revenues generally, the introduction of a GCT should nevertheless avoid placing an undue burden on those taxpayers who are least able to bear further levies. As part of any such package, therefore, offsetting tax reductions ought to be considered. This would also help in some measure to gain the support of existing taxpayers for the changes. Various offsetting tax measures could be considered including:

- Reduction in salaries tax rates
- Reduction in profits rates
- Reduction of property rates
- Abolition of hotel and accommodation tax
- Abolition of estate duty.

For those in the lowest income sector, who currently fall outside of the tax net, it may be necessary to provide for “compensation” by way of, e.g. increased monthly CSSA payments to existing recipients, or an end-of-year special payment to other low-wage-earners in order to facilitate the implementation of any GCT package.

Inflationary effect of imposing a general consumption tax

To allay concerns over the impact of levying a GCT on inflation, efforts should be made to clarify that, as supported by the findings of previous studies, any such impact would be of a one-off nature and is likely to be limited with a low rate of GCT. The timing of its introduction in relation to the economic cycle will also be important in this respect. The likely effect of the introduction of a GCT at different rates on the currently depressed retail sector has not been specifically examined in the Document, but this should also be considered.

Preparation and planning

According to the IMF, the timeframe for introducing a GCT in a developed economy is around two years from the date a decision to implement the tax is taken. For Hong Kong, given its present limitations with customs and tax administration, the necessary timeframe could stretch to three years.

Assuming that a GCT is to be introduced in Hong Kong, the Administration should carefully consider the timing in light of all the relevant factors, including the estimates of future government expenditure, projected operating deficits, the overall economic indicators, and the resources and expertise that may be required for its design and implementation. The Administration should ensure that the implementation of a GCT would not disproportionately increase the costs of tax collection and compliance to the public and private sectors vis-à-vis the revenue collected.

Adequate preparation and planning will help to ensure that any expectation raised by the findings of the AC will be fulfilled upon the implementation of the new broad-based taxation system.

Alternatives to a GCT - General

Whilst other types of taxes, such as new excise-type taxes, may also be considered, generally these would be less effective as a means of creating a stable and substantial revenue stream. This being the case, at best they should be regarded as possible subsidiary measures, if not altogether discounted as less favourable alternatives to a system of taxation on general consumption. Increasing the rates of existing direct taxes, such as salaries and profits tax, on the other hand, would not broaden the tax base, nor tackle the issue of the potential volatility of revenues. Our views on the specific forms of taxes referred to in the Document as well as certain other possibilities are indicated below.

Salaries Tax and Profits Tax Rates

Increasing salaries and profits tax rates would entail similar shortcomings. As indicated above, we would agree with the AC's views that increasing salaries and profits tax rates would not widen the tax base and would place the burden of paying the additional tax only on those currently in the tax net. In addition, this option would not address the issue of vulnerability to cyclical economic changes and, so, would not help to stabilise the tax base.

Furthermore, increasing salaries and/or profits tax rates would increase reliance on direct taxation which would run counter to the international trend. It could also affect Hong Kong's competitiveness and long-term development at a time when we can least afford this in view of the Mainland's impending entry into the World Trade Organisation. Our low profits and salaries tax regime has almost certainly been one of the key features in attracting new businesses and skilled workers. We therefore agree with the AC that increasing rates of these direct taxes could damage Hong Kong's ability to attract investment and high-calibre employees in future.

The Society has previously expressed the view, repeated above, that the aim should be to implement some offsetting reductions in rates of direct taxation, such as salaries and profits tax, in conjunction with the introduction of more broadly-based taxation. This would help to reduce the burden on the middle-class in particular and allay some of the concerns expressed by the community about a GCT. There should clearly not be any increase in salaries and profits tax in addition to the introduction of a more broadly-based tax.

Personal Allowances and Concessionary Deductions under Salaries Tax

Decreasing or abolishing the personal allowances and concessionary deductions under salaries tax would broaden the tax base in one sense by drawing into the tax net some salary-earners who are currently paying no salaries tax. The existing allowances are high by international standards, due in part to the fact that during economically buoyant periods they have been increased considerably beyond the level of inflation. This has taken many income-earners outside of the tax net altogether. In addition, the decrease in the marginal tax rates and the expansion of the tax bands has significantly reduced the number of higher earners who pay at the standard rate. The level of income necessary to trigger the standard rate is again very high by international standards, especially given the comparatively low level of the standard rate.

However, most of the additional revenue generated from lowering the personal allowances and/or increasing the marginal rates (and narrowing the bands) would come from existing taxpayers. Thus while they may broaden the tax base to a degree, these measures would increase reliance on direct taxation and do little for concerns about the volatility of the sources of Hong Kong’s revenue.

The Society, nevertheless, remains open-minded on this issue generally and believes that there is an argument for e.g. reducing the personal allowances in the longer-term, either by positive action or, more gradually, by attrition.

Payroll Taxes and Social Security Contributions

We have previously advocated that all salary earners contribute a minimum amount to the maintenance of Hong Kong’s social and economic well-being. This would give a greater number of people a more direct stake in Hong Kong’s future development and help to address a deficiency in the current system, which for many Hong Kong residents is one of “representation without taxation”. Taking into account also the AC’s observation that each 1% of any levy imposed would generate $5.8 billion annually, in principle the concept of levying payroll and social security taxes on employees merits further consideration, especially if the additional revenues derived were to be earmarked for their education and re-training. However, like the salaries tax measures discussed above, this would not reduce our dependence on direct, more volatile sources of revenue. Furthermore, in current economic climate, and with the recent introduction of the Mandatory Provident Fund Scheme arrangements, it would be difficult in the near future to convince either employees or employers of the need to collect more tax in the workplace.

As a cost to business, salaries in Hong Kong are generally still perceived to be too high to be competitive internationally. Therefore, imposing payroll and social security taxes on employers would be likely to be seen as placing an undue burden on the business sector.

Under the circumstances, the Society believes that it would be inadvisable to impose any payroll and social security taxes in Hong Kong for the time being.

Taxes on Mobile Phones and Signboards

Whilst implementing taxes on mobile telephones and signboards might pose no great problems administratively, the AC notes that neither tax would raise any substantial amount of revenue on a stand-alone basis.

Although imposing such taxes would be unlikely to have any material impact on Hong Kong's competitiveness from an international perspective, questions could be asked as to why select these particular areas of business. Ease of collection may be one important factor but in practice it is not clear how straightforward it would be to enforce a levy on signboards. Furthermore, these particular business activities do not obviously give rise to any direct costs to society by, for example, giving rise to pollution, which might provide a more obvious rationale for imposing a levy.

Given in particular the low levels of revenue estimated to be generated from these sources, the Society is of the view that it would not be appropriate to impose such taxes.

Stamp Duty on Securities and Real Property

According to the Document, increasing stamp duty on property transfers by 20% would yield only an additional $1 billion per annum. It is also suggested that the international trend is to move away from transaction taxes.

Given an expected stamp duty revenue of $10.9 billion in 2000-01, prima facie the additional figure should be around $2 billion in revenue. It is also not necessarily the case that stamp duty on real property, as opposed to securities transactions, is generally falling out of favour. Nevertheless, even at $2 billion, the extra revenue would not be substantial and the scope for increasing stamp duty on real property is very limited given the depressed state of the market, which is unlikely to see a major upturn even in the medium term. Furthermore, such a measure would not broaden the tax base and could have an adverse impact on Hong Kong's competitiveness given that investors still regard Hong Kong as a comparatively expensive place to do business, due to a large degree to the knock-on effects of land and property prices.

The international trend appears to be to reduce or abolish stamp duty on securities transfers and there has been a commitment in Hong Kong to reduce share transaction costs. The Society is supportive of measures to increase the competitiveness of our financial markets and as such we see little scope for increasing the rate of this form of stamp duty.

Capital Gains Taxes

We note the AC's findings that a capital gains tax would broaden the tax base. However, as capital gains taxes are by nature susceptible to adverse economic cycles, the additional revenue yields could be expected to be volatile.

We believe that the introduction of a capital gains tax is likely to have a disproportionately negative effect on Hong Kong's image overseas as a business-friendly location if it were to be based on the source principle. The general lack of taxes on capital gains is one of the cornerstones of our system and, although it would broaden the tax base, it would act as a disincentive to investment and regional share listings in Hong Kong. At a low rate it would also be likely add considerable complexity to the system without necessarily yielding a large amount of revenue. If it were to be residence-based, then it would be inconsistent with the existing system which would in itself add complexity.

The Society would, therefore, not recommend the introduction of a capital gains tax in Hong Kong as a means of broadening the tax base.

Taxation of Interest Income

We note the AC's finding that a tax on interest income could be avoided with considerable ease. As long as Hong Kong retains a source-based system this will be so and the potential migration of deposits from Hong Kong could adversely affect the monetary system and Hong Kong's development as an international banking centre.

We believe that these factors outweigh any possible revenue yield from a tax on interest income, even though prima facie it has the capacity to broaden the tax base. We would not favour the introduction of such a tax.

Dividend Tax

Under the present system in Hong Kong it is possible for major corporate shareholder directors, who may be very substantial income-earners, to escape personal taxation by receiving their income primarily through non-taxable dividends. A tax on dividends would in principle help to bring such people into the tax net and thus broaden the personal income tax base. This form of taxation could generally be regarded as being fairly broad-based given the spread of shareholdings in Hong Kong.

The Document points out that modern dividend taxation arrangements provide for a comprehensive dividend imputation system, whereby the corporate tax paid on the profits from which the dividend derives is credited to the recipient, and that such a system, which would be necessary to maintain competitiveness in Hong Kong, would be complex to legislate and difficult to administer. Given that rates of personal taxation in Hong Kong are lower than the standard rate of corporate tax, it has also been pointed out that there would little or no yield from a dividend tax. On the other hand, the effective rates of corporate tax on profits may in practice be considerably lower that 16%, given the various sources of income that are not currently taxed in Hong Kong, including for example offshore earnings, which comprise a large part of some Hong Kong corporation's overall profits. So consideration of a dividend tax should not be excluded on this basis alone.

Consideration could also be given to introducing a classical system of dividend taxation without any imputation arrangement. Systems of this type continue to exist in some jurisdictions. A supposed disadvantage of a classical system is that, as the underlying profits from which dividends are declared have already been subject to profits tax, imposing a tax on dividends without any tax credit would give rise to double taxation. However, a degree of double taxation may occur in relation to other established forms of taxation, such as estate duty. The issue of potential double taxation therefore should be only one factor to be weighed in the balance.

It would be possible in some cases to plan around a dividend tax. There would for example be no taxation where companies elected to re-invest profits, or where the majority shareholders also controlled the management and chose to re-structure senior management remuneration packages rather than pay dividends. Thus there could be some distorting effects.

A further, perhaps more critical, disadvantage would be that imposing a dividend tax could reduce the attraction of Hong Kong companies to investors and have an adverse impact on their ability to raise equity funds. This in turn would tend to encourage more Hong Kong companies to set up offshore. A system of withholding tax would also need to be put in place which would introduce a element of complexity. (It might incidentally give other jurisdictions a greater incentive to enter into negotiations on double tax agreements with Hong Kong).

Given the above views, while we believe that the idea of a dividend tax merits some further consideration, we would envisage that, on balance, the disadvantages would probably outweigh the advantages.

Taxation of Foreign-sourced Income

The territorial source principle is a fundamental feature of Hong Kong's taxation system and an important aspect of the simplicity of the system. Taxing foreign-sourced income would represent a departure from this basic principle and should be contemplated only in the context of a fundamental review of the whole system. It would be inappropriate to consider a change of this magnitude simply as one option for broadening the tax base on a par with, say, extending excise duties or introducing a GCT.

In any event, as noted in the Document, in order to maintain international competitiveness, credits should be given for any tax paid on foreign-sourced income in its country of origin and a series of double taxation agreements would need to be negotiated with trading partners. Given Hong Kong's low tax rates by international standards, the amount of additional revenue raised may not be substantial. The cost of the administrative machinery needed to effectively enforce a system of worldwide taxation might also be significant.

Having said this, the Society remains open-minded on the issue of whether Hong Kong should retain indefinitely a taxation system based on the territorial principle. It is increasingly common for Hong Kong's legal and regulatory framework to be compared with international norms and trends. However, one thing that continues to set us apart from most of the rest of the world is the fundamental nature of our system of taxation. There are few jurisdictions worldwide that levy taxes primarily on the basis of source. We would not object to this issue being put on the agenda of a more comprehensive review of the system.

Land and Sea Departure Tax

Given that departures from Hong Kong by air and also, to the Mainland and Macau, by sea are already subject to a departure tax, it is in principle reasonable to consider imposing a tax on land and sea departures generally.

According to the Document, a tax on all land and sea departures from Hong Kong could provide a further broad-based source of revenue. We note, however, that if exemptions were to be given to, e.g. businessmen, schoolchildren, etc. who cross into the Mainland on a daily or frequent basis, as has been suggested by some people, the tax would become more complex to administer, more selective and less broadly-based.

The AC points out that an expanded land and sea departure tax could be seen as interfering with the exchange and communication between the economies of the Mainland and Hong Kong. This would be an odd message to send at a time when the Mainland is about to enter the WTO. However, if the level of any such tax is kept low and the administration kept simple (so as to minimise the costs of collection and not introduce new delays at border crossings) then these particular concerns could be addressed.

It is possible that there may be more direct political repercussions. The Guangdong authorities may be prompted to introduce a similar measure on the Mainland side of the border, which might in turn affect the number of tourists coming from the Mainland into Hong Kong, particularly for short trips. This could pose a particular problem if we hope and expect that many of the visitors to the future Hong Kong Disneyland will come from the Mainland, possibly on day trips. (One option might be to discuss with the Guangdong authorities the idea of one taxation point for both sides of the border and a sharing of the revenues obtained).

The level of any land and sea departure tax would almost certainly have to be kept low and so the yield would not be high. One might question therefore whether ultimately the expected revenues would justify the possible downside risks.

The Society believes that, whilst the concept of an expanded departure tax is an equitable one provided that exemptions are not given or are kept to a bare minimum, the feasibility of its implementation remains an issue requiring further consideration.

Poll Taxes

The AC points out that poll taxes have not been successfully implemented in any overseas jurisdiction and, at a level of $200 per adult, would not raise any meaningful revenue in Hong Kong. It is always possible for a higher level of charge to be levied but there would be likely to be strong opposition from the low-income sector. Similar forms of taxes do exist elsewhere, such as the UK Council Tax, but they tend to be viewed negatively and the expected yield would appear to suggest that this type of tax would not be worth pursuing in Hong Kong.

Under the circumstances, the Society would not support introducing a poll tax in Hong Kong.

Other possible options

Environmental or green taxes

The trend in other jurisdictions has been to explore the possibility of imposing environment or green taxes on polluters.

In our submission to the Financial Secretary on the 2001 Budget, the Society advocated that consideration be given to the introduction of green taxes on polluters and, in particular, that the a feasibility study be carried out on introducing a comprehensive green tax regime. Such a regime could include specific ecological taxes, such as resource consumption taxes, taxes on non-biodegradable materials and landfill charges, as well as tax incentives for environmentally-friendly machinery, vehicles and systems. However, as indicated above, the objective of introducing such a regime would be primarily to encourage socially-responsible behaviour rather than to generate revenue. The longer term potential of environmental taxes as a source of revenue would be difficult to estimate at this stage.

Surcharge on utility supplies

A surcharge on utility supplies such as gas and electricity has the merit that it can be easily calculated and conveniently collected by the utility companies on behalf of the Inland Revenue Department ("IRD"). If necessary the IRD could for example allow the utility companies to offset the cost of collecting the tax indirectly by arranging for the tax to be handed over at intervals, thus allowing the utility companies to make use of the monies for a short period of time.

The possibility of levying a 1% surcharge on utility bills, e.g. gas and electricity, including the sale of electricity and gas to all commercial and industrial customers, could be considered. Whilst this may potentially affect the consumption of utilities, at a low rate it would be unlikely to have a substantial effect and in any event a more economical use of energy could be regarded as environmentally beneficial. To ease the burden of the low-income sector, an exemption could be given in respect of monthly electricity and gas bills below a certain threshold (e.g. monthly electricity bills of less than $120 and gas bills of less than $60).

Extension of betting duty

The Government has indicated that it will not now proceed with the proposal to legalise gambling on soccer. If in future this decision is reversed or other forms of gambling become permissible in Hong Kong, it would be reasonable to levy betting duties on such activities as is the case currently with horse-racing. Betting duty, it could be argued, is a moderately broadly-based tax which at present yields slightly more than stamp duty.

The Society believes that there is some scope for further exploring the above forms of tax. In the case of utility surcharges and betting duties the amount of revenue that could be generated might make these options worthwhile given that they need not be complex to administer. Environmental or green taxes, on the other hand, should be regarded initially more as a matter of environmental policy than as a potential source of revenue.

The options mentioned in the Document and above are of course not exhaustive. One further idea that has been raised in public debate, for example, is a financial transactions tax. However, we would not support this particular proposal, given the crucial importance of continuing to encourage the development of financial services in Hong Kong.

Our conclusion is that other than a GCT, none of the other options discussed would alone be able to satisfy effectively a requirement to provide a stable and significant source of revenue that would be broadly-based and give rise to minimal distortions in the market.

While introducing a combination of other forms of new taxation might be possible as an alternative, this would be likely to increase administrative costs and complexity in the system and would almost certainly require individually high rates of tax in order to achieve levels of revenue comparable to a relatively low rate of GCT. For this reason a GCT would be favoured.

We hope that you find our comments to be constructive. Should you have any comments on them please do not hesitate to contact either myself or John Tang, Assistant Director Business and Practice, at the Society.

Yours faithfully,

PETER TISMAN
DEPUTY DIRECTOR
(BUSINESS & PRACTICE)
HONG KONG SOCIETY OF ACCOUNTANTS

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