



Dear Assignment/News/Business Editor,

Majority of Accountants Say Hong Kong has Fiscal Problems Split on Ways to Mend This

(HONG KONG, 14 December 2006) — The majority of accountants in Hong Kong (77%) say the territory has fiscal problems and the tax base needs broadening (64%), but don't agree how it should be done, according to a recent opinion poll of its members by the Hong Kong Institute of CPAs.

Of those certified public accountants who think Hong Kong has fiscal problems, more think those problems are structural or partly structural (69%) than simply cyclical (8%).

Cross analysis of the data shows that a slim majority of those who believe the tax base needs broadening (53%) are in support of a goods and services tax with 40 percent opposing the GST (7% are undecided).

The poll was done by independent research group Cimigo on behalf of the Hong Kong Institute of CPAs and was carried in November and December with 1,980 members, or 7.6 percent, responding. The opinion poll was done in conjunction with a broader consultation among members about tax reform prior to the Institute's submission to the government on its tax reform proposals.

A majority of respondents (67%) don't believe the government's goods and services tax proposal has been sufficiently explained, compared to about one fourth (24%) who say the government has given a sufficient explanation. Of those who say the government has adequately explained the rationale for a GST, about half say they would support a goods and services tax in Hong Kong.

Even though most CPAs polled say the tax base should be broadened, more than half (59%) say they are opposed to a GST and 35 percent say they are in favor. These figures track closely with those gathered by the government from the public at large.

"The Institute has long advocated that Hong Kong should broaden its tax base and it has said the GST was the most effective way to do it," says Paul M.P. Chan, president of the Institute. "Now that the government has indicated its willingness to consider other forms of taxes, we can think about different alternatives and our members, as professionals, have strong views about this issue."

When asked to choose the **single best option** for broadening the tax base, one in five members chose the goods and services tax, which is the highest number of votes for any alternative taxes in the questionnaire. The next most preferred at 19

percent is the capital gains tax, and next preferred at 11 percent is a tax on worldwide income of business and individuals. Coming in fourth, equal with general consumption taxes other than the GST, is a land and sea departure tax.

The questionnaire also asked respondents to choose **several tax options** they favour: Most frequently checked (62%) was a land and sea departure tax, with a capital gains tax coming in second (46%). The next three options were other general consumption taxes such as a retail or wholesale sales tax (37%), worldwide income tax (36%), and the goods and services tax (34%).

Respondents who believe the tax base needs broadening are more likely to feel Hong Kong has a structural, or structural and cyclical, fiscal problem. Respondents against broadening the tax base are more likely to feel Hong Kong has either a cyclical problem, or no fiscal problem at all.

A majority of CPAs polled (65%) believe government spending is too high. A minority (20%) say government spending is appropriate and 11 percent think it's too low.

“Not surprisingly, those respondents who indicated that the tax base does not need broadening or there is no fiscal problem are those most strongly against a GST,” says David Southwood, co-chair of the working group for tax reform at the Institute.

Dr. Stella Cho, another co-chair of the working group, says the responses point to alternatives to the GST. “Our members have given some good ideas for other ways to broaden the tax base, which we hope will prove helpful to the government.”

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About Hong Kong Institute of Certified Public Accountants

The Hong Kong Institute of CPAs is the only body authorised by law to register and grant practising certificates to Certified Public Accountants in Hong Kong. The Institute has more than 26,000 members and over 10,000 registered students. Members of the Institute are entitled to the description *Certified Public Accountant* and to the designatory letters *CPA*.

The Hong Kong Institute of CPAs evolved from the Hong Kong Society of Accountants, which was established on 1 January 1973.

The Institute operates under the Professional Accountants Ordinance and works in the public interest. The Institute has wide-ranging responsibilities, including assuring the quality of entry into the profession through its postgraduate Qualification Programme and promulgating financial reporting, auditing and ethical standards in Hong Kong. The Institute has responsibility for regulating and promoting efficient accounting practices in Hong Kong to safeguard its leadership as an international financial centre.

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