



Dear Assignment/News/Business Editor,

Keep GST on the Table, says Hong Kong Institute of CPAs

Other options are worth considering

(HONG KONG, 29 March 2007) – The Hong Kong Institute of CPAs says the goods and services tax should remain an option for broadening the tax base in its response to the government’s consultation called “Broadening the Tax Base – What’s the Best Option for Hong Kong.” The consultation period ends 31 March.

“The Institute recommends that the government should look at several other options to broaden the tax base, besides a goods and service tax (GST), such as a retail sales tax, payroll and social security taxes, green taxes, utilities surcharge and a land and sea departure tax. Some of these could be stand-alone options and others might form part of a mix of new taxes”, says Yvonne Law, chair of the Institute’s taxation committee.

“However, from our initial review, we think it unlikely that any other option would by itself be better than a GST in producing a substantial, steady stream of revenue at a low rate of tax. GST, in principle, has the merit of being a very broad-based tax and many businesses worldwide are familiar with its operation,” says Law.

As well as various new taxes, the Institute’s submission also considers the possibility of relying more heavily on certain existing taxes - for example, increasing rates on tenements, decreasing personal allowances and extending selective consumption taxes.

In the first part of its submission, the Institute looks at what has worked and what hasn’t worked in other jurisdictions and the pros and cons for Hong Kong of a range of possible tax measures.

“The Institute believes that GST should remain an option for broadening Hong Kong’s tax base and the overall pros and cons should be weighed up against other possible options once these have been examined more closely,” says Stella Cho, co-chair of the Institute’s working group on tax reform.

“In terms of the approach, after responding to the questions on possible alternatives to a GST, in the second part, our submission addresses the questions in the consultation document on the design features of the GST framework, such as the impact on business, the proposed compensation for households and options for returning funds to the community”, Cho explains.

On the design features, the submission indicates that the Institute is broadly supportive of the proposed GST framework, so far as it goes, but emphasises that many issues remain unanswered.

“If the government wants to revive the GST option in the future, then more information needs to be provided to alleviate the doubts in the minds of the business sector and the wider community”, says David Southwood, co-chair of the working group. “These include concerns over the real costs to small and medium-size businesses, the impact of a GST on low- and fixed-income groups, the impact on the import-export trade, and various implementation issues.”

Given the government’s position that the main purpose of introducing a GST is not to increase overall revenue, but to identify more stable sources of income, the consultation document also seeks views on how the net revenues from a GST should be returned to the community in the first few years. The Institute favours reductions in direct taxations, such as profits and salaries tax, and other business incentives. In addition, its submission proposes a study on Hong Kong’s competitiveness to determine the most suitable package of measures to maximise benefits to the economy as a whole.

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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 11,000 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.

Hong Kong Institute of CPA’s Contact Information

Stella To
Deputy Director, Communications
Phone: 2287 7209
Mobile: 9027 7323
Email: stella@hkicpa.org.hk