

2005-06 Budget Consultation

Overall on Revenue

1. There are calls from different quarters of the community urging the Government to decrease or abolish certain taxes, such as the duty on ultra low sulphur diesel (ULSD), estate duty, duty on alcoholic beverages, etc., and not to introduce any new taxes such as Goods and Services Tax (GST). But the Government has been facing a continual budget deficit, and there should be no delay in solving the fiscal problem.
2. How should the Government set priorities and balance these different interests in society whilst maintaining a healthy financial situation? How should Hong Kong seek to improve the stability of its tax revenues by broadening its tax base?

Goods and Services Tax

3. More than 120 countries have introduced a GST. Hong Kong is the only developed economy that does not have one. GST is broad-based and equitable, and is capable of yielding sizeable and steady revenue. The Government has set up an internal committee to conduct a detailed and comprehensive study on the implementation of a GST in Hong Kong. It will draw on the practical experience of other places and come up with a proposed GST framework suitable for Hong Kong and an implementation timetable as a basis for discussion.
4. If Government decides to broaden the tax base and provide for a stable source of income through the introduction of a GST, should this new tax be as all embracing as possible? What exemptions, if necessary, should be contemplated? What should the proposed timeframe be for the introduction of this new tax? Should there be any relief/offset package upon its introduction?

Estate Duty

5. Estate duty is estimated to bring \$1.5 billion in revenue for 2004-05. The consultation on estate duty has just ended. Views received are divergent with some contending that estate duty is a tax on the rich and helps redistribute income between the rich and the poor, but many others advocating abolition given its susceptibility to abuse and inequitable nature; and the need to help Hong Kong develop into the premier asset management centre in the region. Should the Government consider abolishing this revenue? What should be the proposed timeframe?

Capital Gains Tax

6. Hong Kong has been practising a low tax regime. However, there have been fiscal deficits for years, and most tax jurisdictions in the world have capital gains tax. Should the Government consider levying a capital gains tax to raise more revenue? What impact would a capital gains tax have on Hong Kong's economy?

World-wide Tax

7. All major tax jurisdictions in the world adopt a resident-based system. Should the Government consider changing the territorial-based tax principle? What impact would a world-wide tax have on Hong Kong's economy?

Duty on Alcoholic Beverages

8. The Government is conducting a review on the duty on alcoholic beverages. There are views in the community that the duty on alcoholic beverages should be abolished to facilitate tourism and Hong Kong's development as a regional hub for wine products. On the other hand, the duty is commonly regarded as a tax on non-necessity item and generates stable recurrent revenue. It is estimated to bring \$761 million in revenue for 2004-05. Should the Government modify this tax? If so, what should the direction and implementation timing be?

Green Taxes

9. From the perspective of environmental protection and increasing revenue, should the Government consider imposing a tax on plastic bags? A tax on vehicle tyres?

Tunnel Tolls

10. Currently the toll fees of the Cross Harbour Tunnel in Hunghom are generally lower than that of the other two cross-harbour tunnels, causing traffic congestion problems. Should the Government raise the tolls of the Cross Harbour Tunnel to mitigate the traffic congestion problem?