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Accountants favour higher indirect tax

BY CURTIS YOUNG
BUSINESS EDITOR

THE Hongkong Society of Accountants (HKSA) is urging the financial secretary to increase indirect taxes and impose a general sales tax when he announces the 1993-94 budget on 3 March.

In a little-noticed set of proposals submitted to Hamish Macleod in September and obtained by *The Standard* last week, the HKSA said the need to restructure the territory's tax base, when the economy was growing at an enviable 5 per cent, called for some form of sales tax.

"The Government should put emphasis on spreading the tax burden over a wider section of the Hongkong community by consumption-related taxes," the HKSA said

"We suggest that this is the appropriate time to introduce such taxes ... to reduce our historical reliance on direct taxes," it said.

The most significant of the HKSA's proposals calls for legislation for potential implementation of a sales tax and consider the imposition of consumption-related taxes, increase fixed commodity duties and other Government fees and charges.

The driving force behind the HKSA's argument for a sales tax is, ostensibly, the aim of maintaining the total tax base while giving it greater stability by changing its composition.

Pointing specifically to the ongoing trend toward outward processing in China – headquartered in Hongkong and factories in the southern provinces – the HKSA said it was worried a shrinking corporate and salaries tax base would lead to a diminution of Government revenue.

That is so long as Hongkong retains the territorial interpretation of source of profits as laid down by the Hang Seng Bank and TVB International cases, it said.

This would undoubtedly become a contentious point under the Special Administrative Region should Beijing attempt to staunch a nominal haemorrhaging of tax receipts from SAR-based companies deliberately exploiting this tax treatment.

For the foreseeable future the tax treatment of companies moving their manufacturing base to China, with other operations in Hongkong, could lead to a reduction of the territory's tax base, the HKSA warned.

At the same time, however, it is urging the financial secretary to lower corporate profits tax by one percentage point, chiefly on the merits of "the positive message embodied in such a move (which would) enhance Hongkong's status within the international arena".

According to the HKSA, the combined effect of the movement across the border and the one point cut clearly stand to reduce the Inland Revenue Department's tax take, but it did not say by how much.

"We would suggest that any increase in indirect tax should be matched by a corresponding decrease in direct tax," the HKSA said.

HKSA urges Financial Secretary to make political concessions

	Present Rate	Suggested New Rate
Standard Salary Tax	15%	No Change
Progressive Tax Rate	17%	16%
Top Rate	25%	23%
Lower 9% Tax Band	$20,000	$30,000
The exempt level for a single person	$46,001	$53,001
Married Person	$92,001	$106,001
Married with 1 children	$107,501	$123,501
Married with 2 children	$119,001	$136,501
Married with 3 children	$122,001	$140,001

"We believe a general sales tax fits into the criteria of restructuring the tax base," it said.

In the current economic climate of nearly 9.5 per cent inflation measured by the Consumer Price Index (A) – which covers 50 per cent of households but excludes the territory's notorious property prices – a general sales tax is likely to spark a public outcry, the HKSA said.

In March 1991, the introduction of a 200 per cent tobacco tax by former financial secretary Sir Piers Jacob helped cause an immediate rise in inflation to 13.9 per cent the following month, forcing him under public pressure to partially reverse his decision.

The HKSA said it was confident "proper public disclosure and an explanation of (its) proposal" would persuade taxpayers to "recognise the fairness of such proposals".

It admits that "the introduction of consumption-related taxes and specific use taxes may be initially unpopular" and that "taxpayers will have to be convinced".

The HKSA proposes drafting legislation similar to that in Singapore where the tax law provides for a sales tax at a zero rate which can be activated as an immediate levy when the perceived need arises.

While the HKSA does not actually urge the financial secretary to impose a general sales tax this year, it is clearly creating momentum in that direction.