

Introduction of Goods & Services Tax (GST) in Hong Kong from a political perspective

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The Government's Aim

- As envisaged in the Consultation Document to the public, the Government has two aims for tax reform, which are:
 - Broadening the tax base and stabilizing fluctuations in fiscal revenue
 - Ensuring future growth and prosperity



Reactions from the Public

- Surveys show that over 60% of Hong Kong citizens are against the Government introducing GST.
- The Liberal Party took the lead on a six-thousand-man march against GST, followed by the Democratic Party.



Reactions from the Public

- The Democratic Alliance for the Betterment and Progress of Hong Kong (DAB) and The Civic Party also announced their opposition to GST
- A dramatic fall in popularity of the Government and Henry Tang, the Financial Secretary
- Some political parties suggest terminating the consultation as public views are clear enough



Problems

- The Government has not done enough consultation with professional bodies and political parties before publishing the Consultation Document
- There are flaws in the Government's strategy when presenting the proposal to the public



Problems

- Therefore, it is unlikely that the Government will have enough support from citizens, political parties, and professional bodies.
- The citizens' lack of understanding on GST, due to the Government's failure in educating the public and in advertising, is the main reason for strong opposition.




Problems

- The Government has presented GST to the public as a solution to ‘broaden the tax base’ and ‘tax reform’
 - Do ordinary citizens truly understand what is meant by ‘broadening the tax base’?
 - Citizens – some of whom do not have to pay tax at all - realize that an introduction of GST meant that they now have to pay more taxes. A definite ‘no’ from them, of course



Problems


- Businessmen are worried that once GST is introduced the tax would be levied on them rather than the consumers, since they may have to absorb the increase in costs to remain competitive. Another 'no' from them.
- By examining how other countries introduced GST, it is clear that the 'path to GST' has always been fraught with difficulties, and may have political implications...



Case Studies – Australia and Canada

Failure:

- In 1993, Brian Mulroney, Canadian PM, made GST law despite opposition, and lost in the subsequent general election. His Progressive Conservative Party was ultimately destroyed
- Same year, when John Hewson, Australian PM, attempted to pass GST, he lost in the subsequent general election




Case Studies – Australia and Canada

Success:

- When John Howard, Australian PM, made a speech to the public in 2000, he used a technique known as ‘logical fallacies’ to persuade the public to support GST and resulted in success:

*It [the taxation system] is failing the Australian community and unless it is renovated and changed we cannot deliver a stronger Australia for the 21st Century...because it will bring massive relief to many of our farmers and many of our fellow Australians who live in the bush. It will take \$3.5 billion off the cost of fuel in this country...**(it) will also enable us to reach our dream, our goal, of becoming a major financial centre in the Asia-Pacific region.***



Case Studies – Australia and Canada

- The case studies show that the Hong Kong Government must be very cautious when dealing with the introduction of any measure for broadening our tax base
- The Government should consider a change in tactics when proposing any measure for broadening our tax base to the public – not ‘tax reform’. Rather, it should focus more on the ‘sustainability and prosperity’ bit when advertising. Speeches like John Howard’s have proven to be helpful



Case Study - Singapore

- In 1994 Singapore introduced a 3% GST rate and by now it stands at 5%
- Singapore is one of the earlier 'Asian tigers', and other countries consider it as a successful example of how GST benefits the country
- GST now contributes up to 19% of the Government's revenue



Case Study - Singapore

- The Singaporean Government proposed GST predominantly to increase the competitiveness of the country
- This involves a shift from direct taxation (lowering income tax and corporation tax) to indirect taxation (e.g. GST), thus increasing the incentives for citizens to work
- The purpose of introducing GST in Hong Kong, and in Singapore, is different



Case Study - Singapore

- How the two run their economy:
 - Singapore adopts the 'Interventionist' approach. Therefore, businessmen are used to letting the Government to decide on policies, thus they did not oppose to GST as much, whereas
 - Hong Kong adopts the 'Laissez-faire' approach. Therefore, businessmen are worried that government intervention may lead to failure



What could the Government do at this stage?

So...

- My recommendations include:
 - Measures to educate the public:
 - Give out already-produced 'Tax reform and you' leaflets on streets;
 - Convene seminars in estates, community centres, and the offices of professional bodies to answer any queries which citizens might have; and
 - Produce TV or FM programmes to advertise and reveal the truths about measures for broadening the tax base



What could the Government do at this stage?

Also...

- Co-operation between major Government officials
 - At the moment it seems to the public that there are differed opinions on GST amongst Government officials
 - Henry Tang, the Financial Secretary, seems to be the only person representing the Government who is pushing forward the tax reform
 - Seminars to Government officials may also be helpful so that they understand the intensions of the Government introducing measures for broadening the tax base



What could the Government do at this stage?

Conclusion...

- To facilitate further discussion, change of advertising tactics on tax reform to the public by the Government could be a turning point...



Questions and Answers (Q & A)