

Press release

LCQ7: Measures to broaden the tax base

Wednesday, March 10, 2010

Following is a question by the Hon Mrs Regina Ip and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (March 10):

Question:

There have been comments that being the freest economic entity in the world, Hong Kong has always had a narrow tax base. The government revenue often fluctuates widely as a major part of it is derived from proceeds from land sales, stamp duties and investment return of the Exchange Fund, which are affected by economic cycles and external fluctuations, and its salaries tax and profits tax rates are also at a relatively low level in the world. Such a taxation system fails to guarantee long-term and stable tax revenue and hence is very unfavourable to the Government's provision/expansion of essential social services such as medical services, retirement protection and tertiary education. Such comments have also pointed out that in the long run the Government must broaden the tax base and increase its recurrent revenue to address public aspirations. In this connection, will the Government inform this Council:

(a) given that there were on average some seven million departures from Hong Kong for Macao in each of the past three years, and the Macao Government imposes HK\$20 departure fee on each visitor, whether the Government will consider raising the existing HK\$11 passenger embarkation fee, commonly known as the poll tax; if it will, of the details; if not, the reasons for that;

(b) given that there have been comments that due to the increasingly intense economic integration of Guangdong and Hong Kong, there were as many as 84 million land departures from Hong Kong for the Mainland in 2009, coupled with the commissioning of various large-scale cross-boundary infrastructural facilities one after another, land departures will definitely continue to rise in the future, whether the Government will re-consider levying a nominal land departure tax/boundary facilities improvement tax of, for example, HK\$5; if it will, of the details, and whether it will consider arranging for departing persons to pay such a tax through Octopus terminals during their departure clearance at the land boundary control points; if it will not consider levying such a tax, of the reasons for that; and

(c) whether the Government has other feasible options to broaden the tax base?

Reply:

President,

(a) Currently, the embarkation fee is payable by cross-boundary ferry operators to the Marine Department based on the number of passengers. It is not a type of tax but a fee to recover the costs incurred by the Government in the provision of terminal facilities and related services. The estimated revenue from embarkation fee for 2009-10 is around \$125 million. In view of the economic cooperation between Hong Kong and Macao, we need to consider carefully whether it is appropriate to impose additional departure tax on passengers departing for Macao. From a revenue-generating perspective, it is quite unlikely that this type of tax could bring about substantial revenue if it is set at a level affordable by the general public.

(b) The Government introduced the Boundary Facilities Improvement Tax Bill into the Legislative Council (LegCo) in 2003 proposing to introduce a Boundary Facilities Improvement Tax. At that time, there were quite extensive views in both the LegCo and the community that the proposal would add to the burden of frequent commuters between the Mainland and Hong Kong. They considered that the proposal would affect adversely the growing integration between Hong Kong and the Mainland as well as the economic recovery at the time. Hence, they opposed the Government's proposal. In view of that, the Government subsequently decided not to take forward the relevant legislative work. Given the same considerations, we do not think it appropriate to put forward the proposal again now.

(c) We will continue to study options on broadening the tax base.

Ends