

## **Press release**

### **LCQ7: Tax**

Wednesday, November 23, 2011

Following is a question by the Hon Ronny Tong and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (November 23):

Question:

It has been reported that the Gini Coefficient of Hong Kong has all along been above the alarm level of 0.4, reflecting the seriousness of income disparity between the rich and the poor, whereas the figure of 0.434 recorded in 2009 was regarded as the highest among the world's advanced and developed regions, indicating that the majority of Hong Kong's wealth is in the hands of a small group of people. Yet, the situation does not lead to reduction in Government revenue or a deficit budget and, on the contrary, the Treasury has even recorded surpluses. In this connection, will the Government inform this Council:

- (a) of the distribution of the wage-earning working population in each of the past five years, and list the breakdown at Annex 1;
- (b) of the distribution of the income of salaries tax payers in each of the past five years, and list the breakdown at Annex 1;
- (c) given that the Government's source of salaries tax is concentrated in a small group of people, whether it has assessed the impact of such a phenomenon on social stability, and considered implementing improvement measures to prevent the occurrence of incidents similar to the "Occupy Wall Street" campaign in Hong Kong; if it has, of the details; if not, the reasons for that;
- (d) of the distribution of companies which were required to pay profits tax in each of the past five years, and list the breakdown at Annex 1;
- (e) whether the Government has assessed if the current profits tax regime is sound; if it has, of the outcome; if not, the reasons for that;

(f) whether the Government has assessed the impact of economic downturn on the amount of tax payable by enterprises as well as the Government's revenue and reserve levels; and

(g) given that the Government relies on tax revenue to meet its welfare expenditure, and Hong Kong will be at the peak of population ageing starting from 2030, under the principle of maintaining a low tax regime and in the face of a continuous income disparity between the rich and the poor, whether the Government has made any preparation for meeting various welfare expenses such as those on Comprehensive Social Security Assistance and medical services, etc; if it has, of the specific details; and if not, the reasons for that?

Reply:

President,

(a) Since the tax assessments for the year of assessment 2010-11 have yet to complete, we could only provide at this stage salaries tax data for four years of assessment from 2006-07 to 2009-10 at Annex 2.

(b) Since the tax assessments for the year of assessment 2010-11 have yet to complete, we could only provide at this stage salaries tax data for four years of assessment from 2006-07 to 2009-10 at Annex 2.

(c) and (e) Due to the narrow tax base of Hong Kong, coupled with the fact that the main sources of government revenue (e.g. profits tax and salaries tax) are sensitive to economic fluctuations, we have been adopting the strategy of containing government expenditure while using our fiscal reserves as a buffer for deficits in individual years. In doing so, we are able to achieve a fiscal balance and keep expenditure within the limits of revenues over a period of time. At the same time, we need to prepare for the future. We have to ensure that we have adequate amount of reserves to meet future challenges, including the long-term financial pressure brought about by an ageing population as well as possible economic downturn against the backdrop of uncertain economic outlook.

To address the problem of narrow tax base, the Government issued a Consultation Document on Tax Reform in July 2006. Through the consultation, members of the public have generally gained a better understanding of the problem of our narrow tax base and they agree that the problem should be addressed. However, there is no clear inclination or mainstream view on which options should be adopted to broaden our tax base. We would continue to study options for broadening the tax base.

(d) Since the tax assessments for the year of assessment 2010-11 have yet to complete, we could only provide at this stage profits tax data for four years of assessment from 2006-07 to 2009-10 at Annex 2.

(f) We always monitor closely external developments and Hong Kong's economic conditions. We will reflect the impact of the latest economic situation on government revenue and fiscal reserves in the 2012-13 Budget.

(g) Ageing population is a long-term problem that calls for sustained efforts of the community and the Government in all areas.

We strive to develop the economy and ensure proper allocation and effective management of public resources in order to improve people's livelihood. In managing public finance, we adhere to the principles of fiscal prudence and keep government expenditure within the limits of revenues. We avoid creating unaffordable financial burden for the future government, and leave fiscal space so that the future government can decide on expenditure initiatives which meet the needs of the time. In determining spending priorities, we strive to include initiatives that meet current needs and those that invest for the future. Likewise, we use our fiscal reserves to meet current requirements on the one hand, while also striving to maintain sufficient reserves so as to build a solid financial foundation for our next generation and to leave resources for the future government.

The reforms we implemented in individual policy areas also help control expenditure in the long run and prepare for an ageing population. For example, in 2000, we reformed civil service retirement benefits for new recruits. We moved away from the scheme of making pension payment to public officers on retirement to one that required contributions to provident funds at the time of service. In addition, we have initiated the healthcare financing reform. Depending on the scheme eventually selected by the community, the pressure to increase public health expenditure may be relieved.

On the other hand, we and the Mandatory Provident Fund Schemes Authority will continue to explore and pursue appropriate ways to improve the Mandatory Provident Fund system that helps the working population accumulate retirement savings, including increasing competition with a view to driving down administration fees and reviewing the withdrawal arrangements.

Ends