A GST/VAT CAN BE MADE TO WORK WELL IN A SMALL JURISDICTION WITH TIME: THE NEW ZEALAND EXPERIENCE

Adrian Sawyer[*]

> *At present Hong Kong lives in a Jurassic Park tax world and there* is *virtually no political or business momentum or will to change it. … Whether GST or another form of more broadly-based tax will form part of Hong Kong's future tax landscape remains a highly contentious issue. ... Thus, contrary to current public opinion, this stasis and opposition to GST in particular and seemingly to tax reform in general is "**not the end, it is not even the beginning of the end, it is just the end of the beginning**".*[1]

> *On the face of it, the New Zealand GST would seem to be the tax policymaker's dream: reliable and unexciting. ... Yet, New Zealand has the highest reliance on GST/VAT revenues as a percentage of total taxation of any OECD country. The New Zealand GST also taxes the 'untouchables' – food, children's clothing, books and medicine, for example.*[2]

Abstract

The Government of the Hong Kong Special Administrative Region (HKSAR) proposed a goods and services tax (GST) in 2006. Following extensive opposition the proposal was dropped and an opportunity to reform the HKSAR tax system was lost. In comparison New Zealand introduced in 1986 what remains the purest GST internationally, following a period of extensive consultation and coordinated publicity. This paper, through its comparative analysis, seeks to offer lessons for the HKSAR from the New Zealand experience, coming from a similarly small jurisdiction, should the HKSAR decide to pursue once again a GST at some future time.

1.0 Introduction and background

The Hong Kong Special Administrative Region (HKSAR) was provided with a golden opportunity to build upon a review its current tax system, the first time in over forty years, following the elections held in early 2007. A key issue for debate is not about raising tax revenue but whether the HKSAR should broaden its tax base to reduce its reliance on direct taxes by increasing the amount collected through indirect taxes, such as a goods and services tax (GST). Encouragement to broaden the tax base had come from outside organisations such as the International Monetary Fund (IMF). The HKSAR's close rival as a business hub in South East Asia, Singapore, introduced a GST in 1994 at

---

[*] Dr Adrian Sawyer is Professor of Taxation, and former Acting Pro-Vice-Chancellor and Dean, College of Business and Economics, University of Canterbury, Private Bag 4800, Christchurch NZ. Email: adrian.sawyer@canterbury.ac.nz.

[1] Quotation attributed to Professor Richard Cullen, paraphrasing Sir Winston Churchill, as cited in Andrew Halkyard and Stephen Lye Huat Phua, "Common Law Heritage and Statutory Diversion - Taxation of Income in Singapore and Hong Kong", [2007] *Singapore Journal of Legal Studies* 1, at pp 21-22 (emphasis added).

[2] David White, "Comment: Twenty Years of GST: The Best Path Forward" (2007) 13(4) *New Zealand Journal of Taxation law and Policy* 357, at 358.

an initially low rate of 3 percent, and has now increased this to 7 percent. This in part enabled the corporate income tax rate to fall to 17 percent, very close to that of the HKSAR currently at 16.5 percent.

In an interesting approach, the HKSAR Government in 2006 last consulted the public about a GST, and perhaps unsurprisingly very few people wanted to pay such a tax (the current distribution of taxes in the HKSAR is such that approximately 40 percent of workers do not pay income tax). The idea of a GST has been left alone since, with little political will to revisit the issue. Public consultation is reported by Swire as showing that people "… have concerns that a GST would be inflationary, would be regressive and would discourage tourists."[3]

The remainder of this paper is structured as follows. Section 2 analyses the most recent GST debate in the HKSAR, and is followed by a review of the New Zealand GST literature in section 3. A brief analysis of the New Zealand experience and its associated lessons is set out in section 4, which provides the basis for the complementary analysis of the HKSAR GST experience set out in section 5. The paper sets outs concluding observations in section 6.

2.0 The HKSAR GST debate

The period July to December 2006 was a momentous period in the tax history of the HKSAR. On 18 July 2006, consultative documentation was released, proposing a broadening of the HKSAR' tax base. Then in October 2006, members of the HKSAR's Legislative Council supported a motion opposing the introduction of a GST in the territory. The motion, moved by Dr Hon Yeung Sum, stated: "That this Council opposes the introduction of a Goods and Services Tax." Swire reports that Financial Secretary, Henry Tang, told journalists that:[4]

> "We are disappointed at the outcome. Actually the biggest difference between the Government and the Hon Yeung Sum's motion is that the actual effect of the motion will suffocate further discussion on broadening the tax base and a Goods and Services Tax. I hope in this incident, that LegCo members *have not misjudged public sentiment nor have they lost a valuable chance to discuss a very important subject in the community*. …
>
> Actually, *there was a lot of discussion today regarding various different types of taxes*. New taxes, for example capital gain tax, progressive tax or dividend tax and indeed they have raised

[3] Mary Swire, "Hong Kong Drops GST", *Tax News Global Tax News* (6 December 2006); available at: http://www.tax-news.com/news/Hong_Kong_Drops_GST____25671.html (accessed 16 July 2012).
[4] See n 3 (emphasis added).

> a number of questions as well as concern about the GST. This is *exactly why we should continue this discussion and we should continue to consult.*
>
> One of the most talked-about subjects is *income disparity that GST might bring. I think this is a very superficial argument and indeed it may be intentionally misguided.* Because when we *launched the GST debate, together we have a large basket of other compensation and measures to mitigate the effect on lower income families*."

Before going too much further, it is important to understand what is meant by a GST, as it is often used interchangeably with the concept of a value added tax (VAT), and 'confused' with a sales tax. In essence a GST (also known as a VAT in some jurisdictions) is a tax on consumer expenditures and in theory should not fall on business or trading activities. When a business operating in a VAT/GST country buys goods or services, it will pay tax to the supplier, which is usually referred to as input tax. When the same business sells goods or services, whether to another business or to a final consumer, it is required to charge tax, which is called an output tax. The business then must periodically total the input tax and deduct it from the output tax, paying the excess output tax (reflecting the "value added") to the government agency responsible for collecting the tax. A sales tax is levied at one point only and not at each stage – its incidence is not necessarily reflective of the value added with a particular good (such taxes are not usually levied on services). A GST is often referred to as regressionary in that it falls with a greater impact for lower income earners, although this can be mitigated to a large extent through concessionary rates and/or forms of income supplements.

In broad terms what was the GST proposal for HKSAR that led to the widespread debate? Back in 2001 the International Monetary Fund (IMF) provided the HKSAR with technical advice on developing a GST as a form of consumption tax.[5] The HKSAR Government in 2006 proposed a single, low-rate GST (5 percent was used for illustrative purposes) with a high registration threshold (annual turnover of $HK5 million) and a broad base with very few exemptions. The overall GST design framework was similar to that in Singapore rather than the model used in Australia or United Kingdom (UK). The proposal is similar to the New Zealand model, but with a higher registration threshold and lower rate. The single, low GST rate, together with minimal exemptions, was intended to reduce the issues that often arise over definitions and the level of administrative and compliance complexity for registered businesses. Importantly, most small and medium-sized businesses would be able to remain outside of the system.

---

[5] Howell H. Zee, John King, Barrie Russell, and Alan Schenk, *Technical and Administrative Issues in Introducing a Goods and Services Tax* (IMF, 2001).

Perhaps a major catalyst for the resentment was that no special treatment was proposed for food, education or healthcare. However, all sales and rentals of residential property would be exempt. Special provisions for the import/export trade would be included and a Tourist Refund Scheme was also proposed to be available at all exit points, including land crossings to Mainland China. Exports and international supplies would be zero-rated, along with certain defined financial services. Concurrently the HKSAR government proposed significant compensatory mechanisms to mitigate the effect of the GST on lower income earners.

Yeung, in his doctoral dissertation, reports the results of his survey of accountants in the HKSAR. He suggests in the summary of his study that the results were highly influential in the decision to abandon the GST proposal:[6]

> "A survey was conducted and the result revealed that 62% of accountants were against the GST. Even though the response rate is low, the sample size lies in the range of 5% to 6% level of precision at 95% confidence. The Hong Kong Institute of Certified Public Accountants ("HKICPA") conducted another survey on the GST after the result of this project had been publicly released. The result was consistent with the findings of this project i.e. about 59% of accountants objected the GST. *The result of the survey was widely publicised and reported by the media. It provided some references for the Government whether the GST was really needed and whether accountants supported the GST. To a large extent, it caused the Government to set aside the GST consultation in September 2006 and suspend the implementation of the GST.*

In relation to the GST proposal in the HKSAR, Yeung concludes:[7]

> "(b) *The GST supporters felt that the GST was fair, broad-based, and consistent with the user-pays principle. The GST opponents expressed their concerns on the high administrative costs, unfairness to the poor, widening of the income distribution gap, impact on the business environment, tourism and consumption, weakening of Hong Kong's competitiveness, and deterioration of the simple tax system.*
>
> (c) If the GST were implemented, *respondents believed that the tax rate should be set at 3% to 5%. A majority of respondents did not believe that the GST would be revenue-neutral.* This indicates that they were not confident that the increase in revenue from the GST would be totally offset by the reductions in income tax and the increase of transfers to help the poor."

---

[6] Raymond Yeung, *A Critical Analysis of a Goods and Services Tax for Hong Kong*, A project submitted to Middlesex University in partial fulfilment of the requirements for the degree of Doctor of Professional Studies (February 2010); available at: http://eprints.mdx.ac.uk/7249/1/Yeung-Dprof..pdf (emphasis added, accessed 3 August 2012). This study also had a low response rate for the survey, with the author recommending further research.

[7] See note 6, at p 105 (emphasis added).

Yeung also comments about the significant impact of his study on events in the HKSAR:[8]

> "The results of this report were publicly announced in a media conference on 17 September 2006. Almost all the media covered the report. *This report aroused more debates and surveys carried out afterwards*. The HKICPA conducted a survey on the GST and found that 59% of around 2,000 respondents were against the GST. *The Government had announced to set aside the GST consultation before the HKICPA announced its findings.* This report made a significant influence on the withdrawal of the GST. This can be seen from the reports in the newspapers ..."

The Hong Kong Institute of Certified Public accountants (HKICPAs) conducted a survey of its members in November 2006. Nearly two thousand responses were received, in which relevant findings were:[9]

- Sixty-four percent of respondents believe that the *tax base needs to be broadened*. …

- The survey shows that *59 percent of respondents oppose the introduction of a GST in Hong Kong, while 35 percent support a GST.*

- When asked to choose the best option to broaden the tax base, *20 percent opted for a GST*, *the highest figure for any single option but, nonetheless, a clear minority of respondents.* The second highest response (19 percent) was for a capital gains tax.

- However, when asked to indicate the level of support or opposition for a number of different possible measures for broadening the tax base, there was majority support (62 percent) for a land and sea departure tax, while 46 percent supported a capital gains tax. The next three most favoured options were a *form of general consumption tax other than a GST* (e.g. retail or wholesale sales tax) at 37 percent, a tax on worldwide income at 36 percent and a *GST at 35 percent*.

- *Sixty-seven percent of respondents feel that the GST proposal has not been sufficiently explained*. This also seems to be reflected in the response to a question that sought views on various opposing statements about the GST proposal. In relation to various different possible benefits or drawbacks, in each case *around 50 percent of respondents were unsure about the effect of a GST.* The clearest result on this question is that a *majority (60 percent) believe that a GST would overly complicate Hong Kong's tax regime*.

[8] See note 6, at p 106 (emphasis added).

[9] HKICPA, *Independent Survey of Members* (November 2006); available at: http://www.hkicpa.org.hk/en/cpd-and-specialization/specialist-faculties/taxation/technical-support/tax-base/survey/ (accessed 16 July 2012; emphasis added).

The HKICPA's extensive submission on the HKSAR Government's consultation document[10] provides a rich resource for the ongoing debate over whether a GST should be part of the HKSAR tax base and reform agenda. To that end the following comments are particularly poignant, and if I can be as bold as to also suggest that an examination of the New Zealand GST, and the process by which it was introduced, should be an integral part of any further analysis:[11]

> "Having examined a number of different options to broaden Hong Kong's tax base, the Institute concludes that, prima facie, *there is no option that, by itself, would be better able than a GST to meet the objectives of broadening the tax base, reducing volatility in revenues, causing minimal economic distortions, achieving a substantial yield at relatively low rates of tax,* etc. However, if a GST is not to be pursued, there are other options that merit further study. …
>
> As regards the design details of the proposed GST system in the consultation document, in broad terms, the *Institute is supportive of the framework proposed* (which incorporates a number of the design features advocated by the Institute for a GST system). However, *if it is decided to put forward the GST option again in the future, then a good deal more information and explanation will need to be provided and various issues will need to be addressed, which have not been covered in the current proposals or not in sufficient depth to remove the considerable uncertainties that exist.* We have outlined a number of these issues above."

These comments demonstrate a lack of understanding of the implications of consumption taxes such as a GST, and the reluctance to embrace change (especially when that may alter the incidence of taxation). It also hints at a limited awareness of what may be drawn from analysing the international literature on GST, especially that focussing on the New Zealand GST (New Zealand being internationally recognised for having the "purest form" of a GST, as measured by factors including minimal exemptions, a uniform rate, and comprehensive base), which has been promoted as an international benchmark of good practice.

Cullen and Simmons[12] report on a survey thy conducted with 800 HKSAR residents. The authors provide a succinct summary of the recent approach to tax reform in the jurisdiction, including the GST proposal. It is suggested that the reason for the withdrawal of the proposal in November 2006

---

[10] HKSAR, *Broadening the Tax Base, Ensuring our Future Prosperity – What's the Best Option for Hong Kong?* (2007); documents and associated reports are available at: http://www.taxreform.gov.hk/eng/doc_and_leaflet.htm. Available material includes IMF reports, and both an interim and final report prepared in 2006 and 2007, respectively.

[11] HKICPAs, *Broadening Hong Kong's Tax Base: Submission to the government' consultation document: Broadening the Tax Base, Ensuring our Future Prosperity – What's the Best Option for Hong Kong?,* (March 2007), at pp 1 and 39.

[12] Richard Cullen and Richard Simmons, "Tax Reform and Democratic Reform in Hong Kong: What do the People Think?" [2008] *British Tax Review* No 6 667-690.

(prior to the closure of the consultation period), in the face of widespread opposition, may in part be a result of advice received by the incumbent Chief Executive to 'bury' the proposal so as to ensure it was not an election issue for the forthcoming election in March 2007. The survey results suggest low level of support for the GST, a factor that may have been influenced by the negative publicity.

This is not the first instance when some for of consumption tax has been proposed in Hong Kong (the HKSAR). Littlewood comments:[13]

> "In the late 1980s the Financial Secretary, Sir Piers Jacobs, attempted to introduce a sales tax. His idea was partly that the new tax would stabilise the government's rather volatile revenues and also that it would make it possible to reduce the rates of tax on income. But *nothing came of Jacobs's proposal, mainly because it was opposed not only by the majority of Hong Kong people but also by the business community.* …
>
> *Shortly after the handover, however, the SAR government decided to introduce GST*. Again, its aim was to use the new tax to finance very substantial income tax cuts. *This proposal, too, has so far come to nothing, for the same reason--that is, it was opposed by the business community.* Notwithstanding this setback, the government still seems committed to what it calls "broadening the tax base"--which is really a euphemism for "making ordinary working people pay more tax". Whether it succeeds remains to be seen."

Littlewood's later comments suggest he is not a keen supporter of a GST generally and in particular in the HKSAR, when he comments:[14]

> "… In other words, if one favours the low tax policy, then the *absolutely last thing one wants is GST, because the whole point of GST is to impose tax on poor people and to collect it by means of withholding* (in that the tax is not collected from consumers, but from suppliers). …
>
> Everywhere there is a GST, there is an *inexorable tendency for public spending to increase*; everywhere there is a GST, the government, *when it introduced the tax, promised that, once the tax was introduced, the rate of tax would remain unchanged*; and everywhere there is a GST, *the government has broken that promise*."

Littlewood concludes in relation to the debate over GST in the HKSAR:[15]

---

[13] Michael Littlewood, "The Hong Kong Tax System: its History, its Future and the Lessons if Holds for the Rest of the World", (2010) 40 *Hong Kong Law Journal* 65, at pp 77-78 (emphasis added, references removed).
[14] See note 12, at pp 80-81 (emphasis added).
[15] See note 12, at p 83 (emphasis added).

> "The central question presented by Hong Kong's tax history is whether the system - designed by a group of businessmen in wartime haste 70 years ago -is adequate to meet the needs of modern Hong Kong. *On the one hand, the government itself thinks the current system is inadequate, which is why it attempted to establish a GST. On the other hand, most Hong Kong people seem to disagree*. But the question is not susceptible to a purely technical answer; rather, what is required is an answer that is both technically sound *and* politically acceptable."

Halkyard and Phua, in their article contrasting the HKSAR and Singapore approaches to tax reform, provide an excellent overview to the HKSAR's government tentative steps towards developing a GST, commenting:[16]

> "But in Hong Kong's case this took the form of a proposal only and, even *when the Government initially advanced the GST proposal, it was by no means assured of legislative approval.* This was so notwithstanding the results of a detailed study published in 2002 showing that Hong Kong's tax base is both narrow and volatile. …
>
> In the event, on 5 December 2006, four months before the GST consultation was scheduled to end, in the face of this strenuous opposition the Government effectively withdrew its support for the proposal, accepting '*that at this time there is insufficient public support, nor are the conditions right, for introducing GST.*'"

Also in the HKSAR context, Wong aptly concludes her work analysing the HKSARs' reliance on the source concept for its taxation, observing that the response needs to involve a broadening of the tax base to include a GST:[17]

> "A general consumption tax such as the value added tax (VAT) and its equivalent, the goods and services tax (GST) … though far from perfect, *looks to be the "least bad" option to enable Hong Kong to build a robust long-term taxation system for the long term*. *The GST has stood the test of time*. It has continually proven to be an effective revenue-generating instrument to maintain government revenue flows. Its pitfalls (and certain remedies, therefore) are known. ....
>
> To stay competitive, a jurisdiction needs to avoid relying too much on direct tax -- income tax and company tax. *One argument for a GST is that it makes good sense to introduce such a tax when there is little room for further increases in direct taxes on income*. A GST is more receptive to the need to broaden the tax base -- the tax rates can be increased to finance a

---

[16] See note 1, p 19 (emphasis added).

[17] Antonietta Wong, "The Source of the Source Problem in Hong Kong (and How to Respond to It)", (2011) 41 *Hong Kong Law Journal* 225, at 257-260 (emphasis added, references omitted).

reduction in income taxes to improve a jurisdiction's international competitiveness. *A GST can be combined with an income tax to produce a tax system that is equitable while providing needed revenue.* The introduction of a GST provides the opportunity to reduce existing taxes and boost competitiveness for foreign investments. ...

The option of a GST looks to provide the best way of buttressing the longer-term foundations for maintaining Hong Kong's territorial source-based direct tax system. Taxing consumption can not only broaden the tax base, but also reduce future pressures to increase income taxes to meet expenditure needs. This looks to be the best strategy to help overcome the increasing difficulties in applying the source principle in the (income) taxation of business profits."

The proposal for a GST in the HKSAR was premised on stabilising public finances and positioning the HKSAR to achieve sustainable economic growth. Importantly, it was not driven by a desire to generate additional tax revenues. The proposals were designed to stimulate discussion with a period of 9 months set aside for such. Unlike the New Zealand GST it would have a low rate and a high registration threshold. However, like the NZ GST, it would have a single rate and few exemptions (so as to minimize complexity and compliance costs, although it would not be as broad as the NZ GST). Unlike New Zealand (but similar to Australia) a Tourist Refund Scheme would be implemented. Importantly, similarly to the NZ GST introduction, there would be comprehensive packages for households in the HKSAR. Potential tax reductions in other areas were signalled, including income tax rates, plus increased public expenditure in targeted areas.

Having outlined the recent history of the GST proposal in HKSAR, the paper now turns to reviewing the New Zealand GST 'success story', focussing on the emerging literature surrounding the twentieth anniversary of the GST in 2006.

3.0 An Overview of the New Zealand GST and relevant literature

Before embarking on this part of the paper, it is important to state at the outset what will not be discussed. This section will not analyse the legislative and case law environment that accompanies the NZ GST. It will not review the literature on the operation of the GST but rather will focus on the background to how the NZ GST came about, and reflect upon why it was able to be successfully introduced and has remained sustainable, and become a 'lynch pin' within the NZ tax system. It will also in part reflect upon why the NZ GST is held up as a model for other jurisdictions contemplating introducing a GST, and forms the basis for the vast majority of modern value added taxes introduced since the mid 1980s.

The NZ story has been well rehearsed by many commentators as reaching a critical point in 1984 when the incoming Labour Government faced an economy in crisis and in need of a radical overhaul. Much of what occurred over the next three years can be seen as a radical economic liberalisation experiment that was facilitated by the perfect conditions. Tax reform was an integral part of the reform process.

An early analysis is provided by Teixeira, Scott and Devlin in 1986.[18] The authors trace the evolution of the New Zealand GST from the first announcement of its introduction in 1984, to the stage of final legislation in 1986. Teixeira, Scott and Devlin include brief reviews of the work of the Advisory Panel on the Goods and Services Tax and the Select Committee process that reviewed the draft legislation and recommended a delay in the implementation date. In their monograph, the authors also consider various administrative aspects of the tax through a discussion of provisions from the government's White Paper[19] to the amended legislation. Some comparisons are made between the New Zealand GST and other VAT taxes, particularly the United Kingdom (UK) VAT. The authors look forward to various features that would be important in shaping the associated administrative and compliance costs of the GST.

Quiggin[20] observes that the Minister of Finance in New Zealand at the time of the GST proposal, Roger Douglas, was firmly committed to the concept of a GST.[21] Quiggin later comments:[22]

> "In New Zealand, *the lack of popular support for a GST was not an obstacle to its implementation*. *The Labour government, with an outright majority in a unicameral Parliament, saw no need to seek national consensus before adopting a tax policy that had not been mentioned in its election campaign or to worry about compensating low-income earners*. The GST was introduced at a uniform rate of 10 per cent, later increased to 12.5 per cent, with food being taxed at the full rate, while the top marginal rate of income tax was reduced to 48 per cent and then to 33 per cent."

---

[18] Alan Teixeira, Claudia Scott, and Martin Devlin, *Inside GST: The Development of the Goods and Services Tax* (Institute for Policy Studies, Wellington, 1986). For an earlier analysis of the major issues surrounding the introduction of the New Zealand GST, see the work by Claudia Scott and Howard Davis, *The Gist of GST* (Institute for Policy Studies, Wellington, 1985).

[19] *White Paper on Goods and Services Tax: Proposals for the Administration of the Goods and Services Tax* (Wellington: New Zealand Government, March 1985).

[20] John Quiggin, "Social Democracy and Market Reform in Australia and New Zealand" (1998) 14(1) *Oxford Review of Economic Policy* 76, at p 84 (emphasis added).

[21] In fact Roger Douglas was a very right-of-centre free market leaning politician, such that after leaving the Labour Party, he came back into Parliament as a member of the right wing ACT Party in the new Mixed Member Proportional (MMP) political system.

[22] See note 19, at p 84 (emphasis added).

Writing in 1992, Bollard[23] (now the current New Zealand Reserve Bank Governor), observes that the idea of a broad-based consumption tax (a GST) was outlined in principle in the Labour Government's first 1984 Budget. He comments that in 1985 a White Paper was released with draft legislation and administrative details. A private sector advisory panel was constituted, received a large number of submissions, and drafted amendments. Subsequently an announcement was made in 1985 that the GST would take effect from October 1986. All of these key steps followed a major advertising campaign and a series of business seminars. Largely as a consequence of the preparation and publicity, the actual implementation went relatively smoothly. However, Bollard notes that there was some measurable disruption to the pattern of retail sales in the period.

The Labour Government was especially reluctant to grant any exemptions but permitted a small number, including financial services, life insurance, non-profit organizations, and existing house sales (some of these were due to an inability at that time to measure the value added without undue complexity). This GST substantially broadened the tax base that was previously heavily reliant on income tax, and extracted tax payments from many who had paid less in the way of taxation previously (that is, it altered the incidence of taxation). However, the introduction of the GST was part of a package of reforms, and needs to be viewed as part of a tax reform process. The package included a reduction of personal income tax to a lower flatter structure, making the overall tax structure less progressive.

Bollard observes that the introduction of GST was reasonably well received.[24] While small scale retailers were opposed to compliance requirements, large scale business interests generally supported the GST. This was in contrast to the proposed capital gains tax (CGT) which received a broadly hostile response from the business sector.[25] Bollard comments that estimates of the GST impact on consumer prices varied from 5.7 percent to 7 percent, indicating there was an inflationary effect. Bollard also reviews the price effects, distributional effects and macroeconomic effects brought about by the tax reform package incorporating the GST.

The theme of radical tax reform is reflected in the seminal work by Stephens.[26] Commenting on the introduction of GST, Stephens observes that much of the reform was aimed at a redistribution of the tax burden. While some targeted tax preferences were removed, much of the reform led to a redistribution that may be termed "pro-rich". Stephens also comments that since the relative purity

[23] Alan Bollard, "New Zealand's Experience with Consumption Tax" (1992) 9(4) *Australian Tax Forum* 473.
[24] See note 22.
[25] Subsequent attempts to propose a GST have been unsuccessful with no government willing to make a CGT part of its tax reform agenda, although several opposition parties (including the Labour party) included a CGT as part of their manifesto for the 2011 General Election..
[26] Robert Stephens, "Radical Tax Reform in New Zealand" (1993) 14(3) *Fiscal Studies* 45.

of the 1984 initiated reform, such of this has been lost through added complexity through major forms of income assistance to low income earners and families. Stephens' analysis supports that of Bollard in relation to the impact of GST on prices.

Moving forward some 13 years or so, in reflecting upon the first twenty years of operation of the New Zealand GST, White observes:[27]

> "In its first official review in 1999, the New Zealand Treasurer and Minister of Finance characterised it as having 'proven to be an efficient and relatively problem free tax to administer. It is also a key contributor to Government revenue.' In many respects, *the design and implementation of this tax is still regarded as international best practice*. Its *basic design features remain unchanged* …. In comparison to the much older and far more often amended New Zealand income tax, this young tax appears to be static and local – even parochial, at times – as well as being less litigated, researched and taught."

As part of the 2006 twenty year celebrations, a symposium was held in late 2006 in which number of leading commentators prepared papers addressing aspects of the New Zealand GST. The opening paper was the address by Sir Roger Douglas (the architect of the New Zealand GST), who comments on the political issues associated with the introduction of the GST. He remains firmly of the view that the introduction of the GST was successful, a position that he bases on five 'facts':[28]

- it was supported by two out of every three New Zealanders within days of its introduction;
- it ceased to be a political issue within six months of introduction;
- it was an accepted part of the economic frameworks of New Zealand within months;
- its introduction ran smoothly; and
- twenty years later it remains fundamentally unchanged.

'Acceptance' by such a large group of taxpayers in such a short time is in part a result of the educational and information campaign conducted prior to implementation, backed up by various surveys undertaken by research organisations. Much of this success is attributed to a strong commitment to the GST by the Labour Party Cabinet (led by Douglas), notwithstanding resistance from unions and their members. Also vital to its success was the quality of the officials that worked

---

[27] See note 2, at 363-364 (emphasis added).

[28] Roger Douglas, "The New Zealand GST Policy Choice and its Political Implications", in Richard Krever and David White (eds), *GST in Retrospect and Prospect* (Thomson Reuters 2007); p 3.

on the design and implementation, the "packaging' of GST - it was not a new tax introduced in isolation but part of a realignment and broadening of the tax base, with lower tax rates on income. The process of consultation was extensive, including the establishment of a consultative committee to review over 1000 substantive submissions and make technical changes.[29] This consultation process did not aim to seek a consensus between various interest groups. There was a preparedness by the Government of the time to take the pain at the beginning (such as through unpopularity) and be judged on the good results later. There was also the GST Coordinating Office that managed all of the publicity and educational guidance. Importantly Douglas observes that when radical decision are proposed the politicians need to hold their nerve while listening and responding sensibly to arguments within the general debate.

Green, a member of the Advisory Panel on the Goods and Services Tax, comments that GST was a critical component of the tax reforms in train during the 1980s.[30] Green observes that the Minister of Finance was taking a 'hands-on approach' and that the timeframe for change was incredibly tight. Green reflects upon the way in which the Advisory Panel set about analysing the submissions, preparing its reports, making recommendations (including deferring the introduction date to allow the supporting work to be completed).

Todd, as Director of the GST Coordinating Office, focuses on the information and educational coordination role that the Coordinating Office undertook.[31] A key aspect was ensuring all of the relevant government departments were working together, and that the necessary messages were provided to businesses and the general public. The focus was on demonstrating how the GST would make the tax system fairer and that everyone would be compensated for the imposition of the new tax on goods and services. Todd emphasises that there needs to be a:[32]

> "… bold government with a strong mandate, committed to sound tax reform principles; a fair, simple, "clean" tax with minimal exemptions; a genuine commitment to public consultation; widespread dissatisfaction with the current tax system and a public reasonably willing to contemplate radical change; and a small committed, "public-private" team with a strong mix of talent and plenty of enthusiasm and imagination."

[29] It is important to observe that at the time of the GST, New Zealand's consultation on tax policy was very limited, and the internationally renowned Generic Tax Policy Process (GTPP) did not come into operation until 1994. For further discussion, see Adrian Sawyer, "Law in Politics - Politics in Law: A Review of Tax Policy Development in New Zealand", *Paper Presented at the 102 Society of Legal Scholars Conference*, University of Cambridge, 6-9 September 2011.
[30] Richard Green, "Consulting the Public in developing a GST", in Richard Krever and David White (eds), *GST in Retrospect and Prospect* (Thomson Reuters 2007); p 13.
[31] Jeff Todd, "Implementing GST – Information, Education, Coordination", in Richard Krever and David White (eds), *GST in Retrospect and Prospect* (Thomson Reuters 2007); p 27.
[32] See note 30, at p 40.

Dickson, a member of the New Zealand Treasury at the time of the development and implementation of the GST, reflects on the matters raised by the other commentators at the symposium.[33] He places particular emphasis on the three year GST campaign that ran from 1984 to 1986, the little known fact that the Treasury never recommended the GST, the technical aspects of the GST, and the importance of the consultation process. Dickson also singles out for attention the high level of political commitment to the GST which was given at considerable political risk to the government of the time.

Turning to recent academic commentary on New Zealand's GST, James and Alley suggest that New Zealand was able to benefit from the introduction of VATs in other jurisdictions before it introduced its GST.[34] Potentially having a shorter period of consultation may have led to the simpler GST in New Zealand, with less time for those in opposition to mount detailed and concerted campaigns. However, this may have led to a GST in need of considerable remedial amendment. It should also be recognised that New Zealand was in dire economic circumstances at the time and needed a major overhaul of it tax system, along with additional revenue derived from a broader base. Indeed the choice of name of a GST, rather than a VAT, was intended to distinguish the New Zealand model from that of the UK. The issue over the regressive nature of consumption taxes was largely offset by adjustments to other taxes and support for families and lower income earners.

Vial observes that the New Zealand GST is not only "... an international benchmark for indirect tax design" but that it has the highest C-efficiency ratio in the OECD (at 93.5 percent) – the next closest come in at the mid 70 percent level.[35] Politicians have resisted major changes to the GST since it introduction, with the exception of increasing the rate twice (the first time to 12.5 percent in 1989, and later to 15 percent with the major tax review in 2010),[36] increasing the breadth to include certain excluded areas (for example, certain financial services); and remedial legislative amendments. Significantly, the Tax Review in 2001 rejected submissions to narrow the GST base.[37] Most recently, several opposition parties have been calling for significant amendments to exempt certain

---

[33] Ian Dickson, "The New Zealand GST Policy Choice: An Historical and Policy Perspective", in Richard Krever and David White (eds), *GST in Retrospect and Prospect* (Thomson Reuters 2007); p 45.

[34] Simon James and Clinton Alley, Successful Tax Reform: The Experience of Value Added Tax in the United Kingdom and Goods and Services Tax in New Zealand" (2008) 8(1) *Journal of Finance and Management in Public Services* 35. The authors make extensive reference to the contributors to the work by Krever and White, above.

[35] Peter Vial, "The Sustainability of the New Zealand Tax Base: Are we at the End of the Road for the New Zealand Tax System?" (2009) 15(1) *New Zealand Journal of Taxation Law and Policy* 17, at 22; citing Krever and White, above at p viii. The C-efficiency is the ratio of VAT revenue to consumption expenditure, divided by the standard tax rate, expressed as a percentage.

[36] This review followed a report from the VUW Tax Working Group; Victoria University of Wellington Tax Working Group, *A Tax System for New Zealand's Future* (January 2010); available at: http://www.victoria.ac.nz/sacl/cagtr/pdf/tax-report-website.pdf/ (accessed 3 August 2012). Even with the move to 15 percent an advisory panel as set up to assist with businesses with the transition. For details of this most recent advisory panel, which include tax practitioners and business leaders, see http://www.gstadvisory.govt.nz/panel (accessed 3 August 2012).

[37] Tax Review 2001, *Final Report* (Wellington, October 2011).

items (such as fresh fruit and vegetables, and other essential food items), although these calls have yet to gain traction.

In his comprehensive review of the New Zealand tax system, White identifies a number of factors that assisted major tax reform in New Zealand in the 1980s. These include the adverse macro-economic background, discontent with the current system, leadership of a political entrepreneur, the form of government and election rules applicable in New Zealand, a single party government and the nature of the public bureaucracy between Treasury and Inland Revenue.[38] The New Zealand GST is based on the 'twin pillars' of comprehensive coverage and a single domestic rate. But how was this able to come about?

White reflects on the comments made by Roger Douglas that, as Minister of Finance, it was a result of political will, the right people, the way in which the proposal as packaged, an effective consultation process, and an effective communication process.[39] In particular White observes[40] that a number of factors came together to facilitate the implementation: Douglas had given extensive thought to reform before becoming Minister of Finance; he advocated for "big-league changes"; was convinced that a best practice model, with delayed period before revenue was collected, was preferable; he was the chief proponent recommending the GST to Cabinet; he sought a revolution in tax policy making; appointed the best people to key roles; agreed to a delay in implementation date to permit a second round of submissions as part of the parliamentary select committee process; and finally ensured immediate compensation for those most affected by the GST.

White also observes that Douglas had the benefit of following a Minister of Finance whose policy approach had "failed" to deliver, he had the support of both the Prime Minister and Minister of Revenue, and that Treasury Officials had been exposed to indirect reforms (such as the UK VAT) and were supportive of developments in this area. The role of the private sector through tax professionals, businesses and academics was also seen to be critical to the successful implementation of the GST. This reflected the first use of a consultative committee independent of the government, an independent coordination office to communicate the proposals to the public, and extensive use of academic research in the area of consumption taxes.[41]

---

[38] David White, "Income and Consumption Taxes in New Zealand: the Political Economy of Broad-Base, Low-Rate Reform in a Small, Open Economy", in John G Head and Richard Krever (eds) *Tax Reform in the 21st Century* (Kluwer Law International, The Netherlands, 2009), 95. Dr David White worked in the NZ Treasury over the periods 1987-1992 and 1994-2000. For an earlier study involving White, see Ian Dickson and David White, *Tax Design Insights from the New Zealand Goods and Services Tax (GST) Model*, VUW Working Paper No 60 (April 2008); available at: http://www.victoria.ac.nz/sacl/cagtr/working-papers/WP60.pdf (accessed 3 August 2012).
[39] See note 37, at p 115.
[40] See note 37, at pp 116-117.
[41] See note 37, at pp 116-117.

Most recently the current Secretary to the Treasury was very complimentary of the New Zealand GST model, stating:[42]

> "It has been said plenty of times before but it still bears repeating: *New Zealand's GST is the best VAT in the world and our strong consistent advice is that it should be protected from exemptions that undermine it.*
>
> GST is a simple tax that raises a large amount of revenue, with minimal distortions. *Using the GST system to promote particular policies comes at great cost.* The compliance cost, uncertainty, and complexity of bringing in exemptions and multiple rates are overwhelming as compared with asserted benefits.
>
> There are far more effective ways to promote social outcomes than by fiddling with the consumption tax on a good or service, and far more effective ways to achieve redistribution than taking GST off whole swathes of goods and services. GST *remains our best designed and most efficient tax*.
>
> There have been 17 VAT increases in the EU in the last 2 years. In 2011 an average VAT rate across the OECD was 18.5% - it is 20% in the United Kingdom. One reason these countries have higher value added taxes is because they exempt all sorts of goods and services. *As with income tax, we prefer a broad based low rate to a narrow base with a high rate.*"

Thus, to summarise, the sustainability of the GST strategy for over 20 years is based on a combination of economic, legal, geographical and constitutional factors, supported by an open, patient and politically supported implementation. It is important to remember, as White concludes, that the New Zealand GST was designed to produce 20-25 percent of tax revenue, with the largest contributor to continue to be the income tax (this tax itself went through major reform in the 1980s, and again in the early 2000s and in most recently in 2010).[43]

4.0 Analysis of New Zealand's Experience with GST

[42] Gabriel Makhlouf (Secretary to the Treasury), *The New Zealand Economy and Tax Policy*, Presentation to the 2012 International Fiscal Association, (17 March 2012, Queenstown); available at: http://www.treasury.govt.nz/publications/media-speeches/speeches/nzeconomytaxpolicy/sp-nzeconomytaxpolicy-17mar12.pdf (emphasis added, accessed 3 August 2012).

[43] It should not be forgotten that a proposal for a single low rate, broad base income tax in 1987 led to the demise of the working relationship between the Prime Minister and Minister of Finance, indicating that what may work for the GST will not necessarily work for other taxes. The New Zealand GST, with the increase to a rate of 15 percent from 1 October 2010, now contributes close to 33 percent of tax revenues collected for the year ended 31 December 2011; see Treasury data from http://www.treasury.govt.nz/government/revenue/taxoutturn (accessed 3 August 2012).

The prior literature suggests a number of critical element to the success of the New Zealand GST, both prior to and following, its implementation. Prior to implementation New Zealand was in an economic crisis, with the economy in need of a radical overhaul, including tax reform with a system excessively reliant upon income tax and inefficient indirect taxes. As a geographically isolated nation, heavily reliant on trade and foreign capital, this presented the incoming Labour Government with greater flexibility in determining its tax mix. The incoming Labour Government comprised several 'bold' politicians, no more so than the Minister of Finance, Roger Douglas. The political and electoral system facilitated a one party government (and one house of Parliament) with a sizeable majority to implement change following the virtual stagnation of the economy and rising debt levels with the previous government.

Douglas as Minister of Finance not only drove the development process, but utilised independent consultative and implementation bodies, drawing upon expertise outside of Government and the bureaucracy. This environment, along with the tenacity of the GST's architect, has been supported over the intervening 20 plus years, with the original GST conceptually remaining intact. As White comments, the sustainability of the GST strategy for over 20 years is based on a combination of economic, legal, geographical and constitutional factors, supported by an open, patient and politically supported implementation.[44]

It is interesting to contemplate whether the same GST would be implemented in 2012 as that of 1986? Major changes since 1986 include the move to a Mixed Member Proportional (MMP) political system, which has led to coalition governments (or minority governments dependent on other parties for support). It would be much more difficult to implement major policy changes, although the result of the Tax Working Group's recommendations in 2010 led to the largest tax policy reforms in over 25 years.[45] That said several opposition parties and various lobby groups are advocating for the introduction of exemptions into the GST for items such as fresh fruit and vegetables, and potentially further to include other basic food items and even property rates.[46] Should there be a change in government at the 2014 General Election, then the introduction of a number of exemptions would be highly likely, reducing the purity of the New Zealand GST model.

---

[44] See note 37.

[45] For an overview of the key Budget 2010 tax changes, see Adrian J Sawyer, "2010 Budget Brings Biggest Tax Changes in 25 Years", (2010) 58 *Tax Notes International,* (June 7), 790.

[46] See for example the arguments raised by the Child Poverty Action Group arguing for a GST exemption on fruit and vegetables; http://www.cpag.org.nz/topics/tax-policy-1/ (accessed 3 August 2012). This proposal led to extensive debate in the lead up to the 2011 General Election, with the Labour, Greens, Maori and Mana parties all proposing various exemptions to GST (the latter seeking to replace GST with a financial transactions tax). The New Zealand First Party is proposing to reduce the GST rate back to 12.5 percent. See also the following website with details on a campaign to remove GST from food: http://www.nogstonfood.org/ (accessed 3 August 2012).

In the context of other countries that introduced a GST based on the New Zealand model, most have included exemptions and multiple rates, leading to a less than optimal GST from a tax policy perspective. Tenacity is also crucial, with the experience of Australia in 1990 a poignant reminder. The then Opposition leader (and potentially incoming Prime Minister) lost the 'unloseable election' in proposing a GST, which suggests that timing and the accompanying package are crucial factors to success.[47] The 2000 GST in Australia was introduced, based on the benefit of extensive consultation, although the coalition composition of the Government at that time led to a number of last minute concessions to enable the GST to be enacted, with the result being a less than optimal GST from a policy perspective.

The European Union is also looking at the New Zealand GST model. PricewaterhouseCoopers (PwC) comment:[48]

> "The [European Commission] communication calls for a VAT system that is simple, efficient and neutral and robust and fraud proof. Simple, so a taxable person active across the EU faces a single set of clear rules and an EU VAT Code. ... In other words, *a carbon copy of the best-in-class consumption taxes model ... the broad-base/standard rate model we have here in New Zealand*. ... The beauty of our GST model is its simplicity and this is driving the European thinking. The GST model will be instructive to the Europeans. ...
>
> *New Zealand's bold policy approach in the 1980s – of a broad base/(low) standard rate model – will be a golden lesson to others; and the New Zealand GST model will be at the forefront of study for European policymakers, which is a fascinating dimension*. ... [T]he New Zealand model was seen as best practice for a VAT/GST regime.
>
> There are not too many refinements necessary to New Zealand's GST model, with the possible exception of allowing foreign businesses to recover GST refunds more easily. This area is being looked at by policy makers. *Although the New Zealand model has proven to be successful here, the European law makers (and also businesses) will need to be convinced it can work for them*."

[47] Australia eventually introduced its GST with effect from 2000; for a review of the process see Kathryn James, "We of the 'never ever': the history of the introduction of a goods and services tax in Australia", [2007] 3 *British Tax Review* 320. John Hewson proposed a 15 percent GST with minimal exemptions, accompanied by a reduction in income tax and a tidying up of indirect taxes. A scare campaign by the waning Labour Government saw them retain the government benches. The period of 1998-2000 saw GST come in after a period of extensive consultation, bit through a coalition government concessions had to be made to secure the implementation of the GST.

[48] Eugen Trombitas (PwC), GST: One of our Best Exports" (2012) *PwC Media release* (28 January); available at: http://www.pwc.co.nz/media-centre/opinion-pieces/gst-one-of-our-best-exports/ (accessed 3 August 2012; emphasis added). The New Zealand Retailers Association has also called for the exemption from GST for imports less than $400 to be scrapped; see http://www.stuff.co.nz/business/industries/4514945/Call-to-scrap-GST-policy-on-some-imports (accessed 3 August 2012).

Thus while the New Zealand GST model is the closest to ‘perfection’ from a tax policy design perspective, it can still be improved. I would also suggest that it should be the blueprint that is used by jurisdictions contemplating a GST or refining their existing GST/VAT.

5.0 Lessons for the HKSAR from the New Zealand GST Experience

One way to extract potential lessons for the HKSAR, should it wish to pursue a GST again, is to provide a comparative table on key factors between the two jurisdictions. From this it will be readily apparent that, in some respects, the New Zealand experience cannot be replicated in the HKSAR. However, this should not be taken to mean that the HKSAR cannot implement a GST that is designed and implemented in a manner most appropriate for its circumstances.

Table 1 provides a comparative perspective on key issues surrounding the proposals for developing a GST in the HKSAR and in developing and implementing the GST in New Zealand. It is important to recognise that the two proposals were developed in significantly different economic environments, as well as international experience with GSTs/VATs. Indeed the HKSAR, with its 2006 proposal, had the benefit of an additional twenty years of international GST/VAT experience, but within a time period of major political change following the 1997 ‘return’ of Hong Kong to the People’s Republic of China (PRC).

Table 1: Comparative Analysis of GST Proposals: the HKSAR and New Zealand

Evaluation characteristic	HKSAR	New Zealand
Economic environment	Facing increased competition from Singapore, global financial crisis, narrow tax base	Economy in difficulty, heavy reliance on income tax creating a narrow tax base, a heavily regulated economy
Constitutional environment	Growing influence from PRC, historical resistance to tax reform	Parliamentary system with one House of Representatives
Political structure	Less influence of political parties; proposal to be decided by next government	Domination by two parties, under First Past the Post (FPP) system; proposal developed and implemented within parliamentary term. Now a Mixed Member Proportional (MMP) model
Role of consultation	Release of detailed papers and 9 months public consultation; 2-3 year period then to implement GST	White paper released, independent consultative committee, publicity committee and period to refine legislation of over 2 years
Publicity campaign	High profile through protests and debate by politicians; lack of coordinated effort	Independent committee to coordinate all aspects of development and implementation; little in way of opposition
'Purity' of GST	Relatively pure, drawing upon NZ model, but with more exemptions	Purist model of GST ever proposed, minimal exemptions
Reform package	Reduction in income tax, compensation packages for households, and areas of further public expenditure – revenue neutral approach	Extensive reduction in income tax rates, compensation packages for households – revenue neutral approach

What can be drawn from Table 1 above? Three major differences, between the successful New Zealand GST model and the unsuccessful commitment to developing a GST in the HKSAR, emerge and are worthy of highlighting.

Perhaps the most important difference is the political commitment to the GST from the New Zealand politician with the greatest ability to influence the process, the Minister of Finance. This may be contrasted with the lack of a clear political proponent for the GST in the HKSAR, made even more risky, I would suggest, by passing on the final decision over acceptance for developing a GST blueprint to the government post the forthcoming elections. Radical reforms are usually much easier when they are made within an election cycle, rather than straddling over a major election. Politicians are usually more focussed on re-election than major policy initiatives when these have the potential to significantly influence voters' decisions.

The second major difference is the extent of consultation and publicity that was facilitated by bodies' independent of the government, but made with the strong backing of the government and associated bureaucracy. Furthermore, the period for consultation was longer in New Zealand, and made without the forthcoming intervention of a major election.

The third difference is the economic environment of the time; New Zealand was facing a much worse situation than the HKSAR, necessitating radial change for its survival. For the HKSAR, in addition to the fallout from the global financial crisis that the jurisdiction has been facing, the HKSAR faces growing pressure from Singapore as a rival for attracting businesses in the South East Asia region. Having a narrow base for its taxation is in stark contrast to that of Singapore, which operates with a GST at the rate of 7 percent, contributing over 19 percent of tax revenues in 2011.[49] With the PRC in a transition period from turnover taxes to a VAT, this adds additional pressure on the HKSAR to revisit its decision not to explore a GST/VAT.[50]

Evidence that New Zealand's approach was successful is also emphasised by the sustainability of the GST over its twenty five years of existence. Subsequent amendments have largely been remedial to improve the operation of the GST and to future reduce is minimal number of exemptions.[51] Establishing itself as the international benchmark, no other jurisdiction has had the same level of political will to recommend and retain a theoretically pure GST from a policy perspective, evidenced by its C-efficiency index rating of 93 percent by the OECD, with the next closest coming in the 70 to 79 percent range. As far as the author is aware no non-OECD member country has a GST/VAT that comes close to the New Zealand GST on the basis of this measure.

6.0 Concluding Observations

Implementing any form of tax reform is a balancing exercise that in part reflects the political will of the government, the competing pressures facing the economy, and the level of planning and willingness to allow genuine public consultation in refining the policy and subsequent legislation. New Zealand's experience with GST, while positive from the perspective of the purity of the GST and successful implementation, is not entirely without good fortune. Having the chief proponent as a

---

[49] Data is drawn from the Singaporean Government revenue statistics available at: http://www.singstat.gov.sg/stats/themes/economy/ess/essa151.pdf (accessed 3 August 2012).

[50] See Genevieve Lee, "China's Transition from Turnover Taxes to VAT" (2012) 67 *Tax Notes International* (September 10) 1033.

[51] A significant review was conducted in 1999 when the issue of financial services, amongst others, came under the spotlight. Marie Pallot and Hayden Fenwick comment on the review and the changes that came about by way of remedial legislation. The authors, who come from Inland Revenue, observe that "Over the nearly 14 years since its introduction, GST has proven to be an efficient and relatively problem-free tax to administer, and a key contributor to Government revenue." See Marie Pallot and Hayden Fenwick, "Recent GST Reforms and Proposals in New Zealand" (2000) 10(1) *Revenue Law Journal* 88, at p 97.

key member of the Government, in this situation the Minister of Finance, was crucial to advancing the imitative and resisting the pressure to acquiesce to the demands of various protest groups.

Successful tax reform also requires a package of reform, a characteristic common to both proposals. Both New Zealand and the HKSAR are small open economies that are reliant on international trade, which suggests that the literature that pertains to tax reform for such economies should be equally applicable. To that end perhaps one could argue New Zealand made better use of the knowledge offered by the literature (and since its enactment much of this literature now has New Zealand's GST as a focus), which has grown extensively when the HKSAR was contemplating its GST. That said the political situation in the two jurisdictions differs significantly, with the HKSAR also constrained by the influence of the PRC.

New Zealand was prepared to allow a period of over 2 years to develop and implement its GST, significantly longer than the 9 months in the HKSAR (plus the proposed additional 2-3 years to refine and implement the GST if the decision was made to introduce such a tax). The HKSAR process, in my view, represents a somewhat timid approach, along with perhaps a degree of naivety in terms of the opposition the proposal would face (and a lack of willingness to reinforce measures to combat the opposition and introduce a comprehensive education and information programme for the general public).

The HKSAR is not alone in facing difficulties in implementing a GST. India has yet to implement a GST type consumption taxes, notwithstanding fiscal and international pressure to do so.[52] It would appear that a major hurdle rests with a need to change the Indian constitution. With the absence of a major driving force within the government, India faces great pressure to reform its tax system, although in some respect it is further down the path towards reform than that which the HKSAR was in 2006-07.

Thus should the HKSAR revisit its decision of 2006-07 to not pursue a GST? While this itself is an issue worthy of in-depth analysis worthy of a study in itself, the intention of this paper is to suggest that in learning from a jurisdiction that successfully implemented a GST, then should the political will re-emerge in the HKSAR to pursue a GST, the HKSAR government would do well to closely examine the New Zealand experience as part of the political policy development. The economic environment and reliance on income tax in the HKSAR are conducive to facilitating the introduction of an appropriately-designed GST, as part of a tax reform package that includes some form of consumption tax.

[52] See for example provided by the following website link for India: http://www.business-standard.com/india/news/will-gst-ever-happen/481737.