Renovating the Hong Kong Revenue Regime:

Comparative Tax Policy Approaches in Australia and New Zealand: Instructional Guidance for Hong Kong?

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Overview of Presentation

• Introduction
• A Review of the Tax Policy Process in Australia and the Henry Tax Review
• A Review of the Generic Tax Policy Process (GTPP) and the role of the Tax Working Group (TWG) in New Zealand (NZ)
• Tax Policy Development and Reform in the Hong Kong Special Administrative Region (HKSAR): Recent Developments
• Concluding Observations and Insights from Australia’s Tax Policy Process and New Zealand’s GTPP and TWG for the HKSAR
• Questions
Introduction

• NZ has an innovative approach to tax policy development - GTPP
• Utilises a Broad Base Low Rate (BBLR) approach since mid-1980s; survived various governments & electoral systems
• Is a simple, understandable & coherent framework that is intended to lead to all areas of the economy being taxed reasonably consistently (comprehensive income & consumption main bases)
• Keeps administrative and compliance costs down. Current approach does not: recognise each individual’s elasticity, deal with all externalities, and include all potential bases (e.g. CGT)
• Aust. does not have BBLR, but comprehensive base at Federal level, plus State taxes. Has a complex Parliamentary system with Lower House and Senate, plus States (e.g. GST introduction, etc.)
• HKSAR – narrow tax base, largely untouched for decades
• Recently Working Group on Long-Term Fiscal Planning (WGLTFP) has undertaken comprehensive review – similarities to TWG in NZ
• Paper is a little provocative; suggests need for independent and structured approach to tax reform in HKSAR – this journey appears to have started
• Approach is both positivist and normative, offering a critical perspective.
A Review of Tax Policy Development in Australia

- Dirkis and Bondfield (2005): lacks accountability for poor drafting.
- Cooper (2013): external actors only participate in refinement & implementation, not development. Errors & frictions exist.
- Arnold (2013): consultation is both strength & weakness.
- Board of Taxation: oversight role is important but tensions exist.
The Henry Tax Review

- Sandford (1993): judge successful tax reform by:
  - Extent to which the tax reforms met the objectives the reformers set themselves;
  - Sustainability of the reforms; and
  - Extent to which the tax reforms had desirable or undesirable by-products
- Evans (2014): prospects of success enhanced with:
  - The existence of a ‘vision’;
  - Sound economic principles;
  - The political dimension;
  - A political champion;
  - Constitutional and other factors;
  - A package of reforms; and
  - An appetite for reform.
The Henry Tax Review (2)

- Set up in 2008 with broad terms of reference, but excluded GST due to issues with the States
- Tax design principles:
- 138 recommendations most of which were not taken up due to: lack of political champion, complex constitutional issues, and lack of appetite for major reform.
A Review of the GTPP in New Zealand

- Sir Ivor Richardson’s review of the NZ IRD in 1994
- Implemented by Cabinet
- Key: external input; consultation on detailed policy design & draft legislation
- Survived many governments & First Past the Post/Mixed Member Proportional electoral systems; set aside once.
- Major defect: Supplementary Order Papers (e.g. LTC).
A Review of the GTPP in New Zealand (2)

• Dirkis & Bondfield (2005):
  – “The standard of New Zealand openness is exemplified by Inland Revenue posting its briefing to the incoming Minister; in Australia, these are more likely to find themselves on a quick trip to the shredder rather than the web.”

• Little et al (2013): high degree of cooperation between officials and private sector - working for ‘NZ Inc.’ & BBLR:
  – “…[A] good tax policy process goes beyond formalized consultation. For the GTPP to work well, there needs to be coherent policy settings that the private sector can buy into. Moreover, a good tax policy process is not something that can be captured in a written road-map. It requires willingness between the government, officials, and the private sector to truly listen and engage. It is critical that the government be open to acting on good suggestions put forward by the private sector.”
## Tax Policy Development: Australia v New Zealand

### Australia
- **Strengths:**
  - Extensive consultations with the public by both the Treasury and the ATO;
  - The role of the Board of Taxation;
  - Periodic comprehensive reviews of the tax system.

- **Weaknesses:**
  - Lack of competing tax policy advice for government;
  - Lack of consultation on fundamental tax policy decisions;
  - Degree of consultation fatigue among tax professionals.

### New Zealand
- **Strengths:**
  - Participation of private-sector tax professionals in process (both on formal/informal basis);
  - Open access to IRD tax policy officials & minister;
  - Shared responsibility for tax policy & cooperation between the Treasury & IRD;
  - Integrates broad policy, legislative design, & drafting functions, tight legislative process: fast & certain result;
  - Publication of IRD’s work program for next 18 months: public notified on ongoing basis of important issues.

- **Weaknesses:**
  - Resources shrinking, increasing demands: insufficient strategic thinking & fewer foreign consultants;
  - Insufficient post-implementation review of measures;
  - Consultation limited to NZ tax community.
A Review of the TWG in New Zealand

- TWG led to largest overhaul of the NZ tax system for 25 years
- Independent from Government, hosted by Victoria University of Wellington. Comprised experts from academia, IRD, Treasury & tax practice. Sought to:
  1. Identify concerns with the current taxation system;
  2. Describe what a good tax system should be like;
  3. Consider options for reform; and
  4. Evaluate the pros and cons of these options
- TWG concluded regarding the NZ tax system:
  1. Its structure was inappropriate;
  2. It lacked coherence, integrity and fairness; and
  3. Significant risks to the sustainability of the tax revenue base existed
- Its report in 2010 presented options, many of which were accepted by the Government and enacted in Budget 2010; it was then disbanded.
A Review of the TWG in New Zealand (2)

• Analysis of TWG suggests keys to success were:
  1. Interdisciplinary backgrounds and expertise of all involved;
  2. Attempts to rationalise tax policy debate;
  3. Engaging the public in the debate
• Constraint: overall recommendations to be revenue neutral
• Overall, open forum for debates, all papers, etc. made publicly available
• Little et al (2013):
  – “[A] large element in its success was the cooperation and engagement of key tax practitioners. This was built on the engagement and cooperation that had been built up through many years of working with the GTPP.”
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Tax Policy Development & Reform in the HKSAR

- HKSAR has different political and administrative structures to Australia and NZ – can still ‘benefit’ from the experiences of others

- Key: consultative & transparent framework, plus willingness to reform: NZ offers a better model than Australia in this regard

- Have previously argued that GTPP should be examined for adaption in HKSAR

- WGLTFP is an example of a variation of the TWG in the HKSAR - positive.
### Table 1: Tax Reform Principles: A Comparison

<table>
<thead>
<tr>
<th>Tax Policy Principle</th>
<th>Australia (HTR)</th>
<th>New Zealand (TWG)</th>
<th>HKSAR</th>
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</thead>
<tbody>
<tr>
<td>The existence of a ‘vision’</td>
<td>Yes</td>
<td>Yes</td>
<td>Emerging</td>
</tr>
<tr>
<td>Sound economic principles</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>The political dimension</td>
<td>Challenging</td>
<td>Supportive</td>
<td>Challenging</td>
</tr>
<tr>
<td>A political champion</td>
<td>Not clearly</td>
<td>Ministers of Finance and Revenue</td>
<td>Needs to be Chief Executive</td>
</tr>
<tr>
<td>Constitutional and other factors</td>
<td>Difficulty of States and no GST</td>
<td>None</td>
<td>‘Democracy’ challenges and PRC</td>
</tr>
<tr>
<td>A package of reforms</td>
<td>Partially</td>
<td>Yes</td>
<td>Too early to tell</td>
</tr>
<tr>
<td>An appetite for reform</td>
<td>Some</td>
<td>Plenty</td>
<td>Not convinced (as yet)</td>
</tr>
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Concluding Observations & Insights

• HKSAR - taking the first (tentative) steps on path of revenue reform; WGLTFP is a positive start, but need to focus on tax reform: ‘Renovating the Hong Kong Revenue Regime’

• WGLTFP: evidence of a more consultative approach, but still not reflecting NZ’s level of consultation & transparency

• NZ’s BBLR may not be suitable, but some base broadening appears inevitable, due to increasing demand for housing, healthcare & growing elderly population

• Limitations: an outsider & less familiar with Aust.