References for Hong Kong (if we want some form of social harmony)

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The socioeconomic and political troubles in Hong Kong in the latest episode have been disquieting for concerned citizens who watch and read the news, for different reasons.

Trying to avoid bias, I thought I should stay away from emotional or ideological tunnels. Wider experience provides breathing space; and one should sometimes disengage from micro-local daily harrying. I have done some quick and rudimentary "research" on two issues which may be of some utility, however defined.

The first looks at ways of taxing real estate speculators, who are widely blamed to have pushed up property prices, with unpalatable inflationary and inequality consequences. The second reviews the case of social partnership in Ireland since mid-1980s, which has been regarded as inducing stability and growth, at least up to the financial tsunami.

I suppose Hong Kong needs some form of social harmony and a certain sense of fairness. In any case, I cherish no illusion. These are just references and my summaries may not be very accurate.

1. Backgrounder on Capital Gains Tax

A. Introduction

Various forms of capital gains taxes are imposed by a number of economies including Australia, Canada, China, UK and US.

B. Range

Their tax bases range from narrowly focused on real estate (e.g. China) to broadly covering physical property and various financial assets (e.g. UK and US). A capital gain is regarded as taxable when the asset is sold and hence any premium is realized. Most economies allow capital losses (again on a sale basis) to be tax deductible against reported capital gains, but with annual ceilings and carry-forward allowances.

C. Differentiations

For real estate gains, distinctions are usually made between: (1) primary residence (family home) and investment property (e.g. Australia) and (2) short-term (one or two years of holding before sale) and long-term gains. Exemptions and discounts may be appropriately applied.

Individuals and enterprises are mostly treated in different manners. For individuals, the convention is to add the taxable and discounted gain to their tax base and be charged at the marginal income rate. A reference for the case in the US is “10 Facts About Capital Gains and Losses”, a note prepared by its Internal Revenue Service: (http://www.irs.gov/newsroom/article/0,,id=106799,00.html).

Corporate capital gains are subject to various income/profit and/or separate tax regimes, with complicated calculations, discounts and allowances, given the multi-faceted nature of business transactions. So “chargeable gains” on “capital” turns out to be a rather controversial issue. The UK government, for example, has been struggling with it since 1992.

D. Grey areas and evasion

Because of “individual–enterprise” differentiations, many authorities (in particular UK and US) have to deal with the problem of capital gains tax evasion as parties try to manipulate legal loopholes by setting up semi-enterprise entities such as “private equity firms” and “private annuity trusts”; as well as engaging in practices including “tax loss harvesting” and “structured sale”. Taxable gains might then be exempted or discounted to various degrees.

E. Implications for Hong Kong

Hong Kong has no general capital gains tax. The only example closest in nature to such a tax is for an individual employee who receives stocks and options as part of remuneration in a corporation. The difference between the value of those stocks and options at the end of a vesting period and the amount which the individual paid for them (if any) as remuneration is taxed at the normal income tax rate.

Can a formal capital gains tax in Hong Kong be introduced in Hong Kong; with provisions to use the proceeds to subsidise the less fortunate members of the SAR?

A realistic political bet is to start it on real estate investment property (i.e. other than primary residence), and for individuals. Holding period and asset value allowances seem advisable. Tax evasion practices using shadow enterprises and innovative accounting techniques have to be legally addressed.

2. Backgrounder on Social Partnership Agreements in Ireland

A. Turnaround

Before the mid-1980s, Ireland was widely regarded as the “sick man of western Europe”, mired in recession and fiscal imbalances. A "Programme for National Recovery" was then proposed and agreed for 1987-1990.

The three year agreement provided for wage increases limited to 2% per annum, with the consent of the Irish Congress of Trade Unions (http://www.ictu.ie/partnership/).In return the government carried out a series of measures to stimulate employment, to broaden the tax base to permit lower taxation of workers' earnings and to improve social protections.

B. Seven Social Partnership Agreements

This pact was followed by different Social Partnership Agreements, which included more ambitious targets for economic growth; investment in education and health care; social inclusion and action to promote enterprise and employment through the maintenance of an innovative and competitive business environment.

The Seven Social Partnership Agreements in Ireland

Programme	**Period**
Programme for National Recovery (PNR)	1987 to 1990
Programme for Economic and Social Progress (PESP)	1990 to 1993
Programme for Competitiveness and Work (PCW)	1994 to 1996
Partnership 2000	1997 to 2000
Programme for Prosperity and Fairness (PPF)	2000 to 2003
Sustaining Progress	2003 to 2005
Towards 2016	2006 to 2015

Source: http://www.ictu.ie/partnership/.

A selection of publications relating to social partnership and the national economic recovery plan in Ireland is available at:

http://www.cipd.co.uk/branch/ireland/resources/_usefulpubssocial.htm

C. Results

These agreements turned out to be quite successful and have been regarded as the major factor in transforming the Irish economy from a “sick man” into one of the fastest growing economies in the OECD.

For evaluations of the Irish success, refer to

(1) “Ireland: Two Decades of Progress” by Llewellyn King, March 31, 2008, downloadable at: http://www.theglobalist.com/StoryId.aspx?StoryId=6838.

(2) “Why Ireland’s Economic Boom Is No Miracle” by Brian Beary, May 30, 2007, downloadable at: http://www.theglobalist.com/StoryId.aspx?StoryId=6172.

D. History officially recounted

For a summary from an official viewpoint, refer to a speech given by the Irish Ambassador to Poland in October 2008, “Social Partnership and Inclusion in Ireland”, available at http://www.przeciw-ubostwu.brpo.gov.pl/pliki/1224841827.pdf. And history was remembered by the ambassador as:

“Now a little history. Since 1987, Ireland has had seven national social partnership agreements negotiated between the Government and the social partners - that is, the main trade union, employer and farming organisations and, since 1996/7 in the case of the four most recent agreements, the community and voluntary sector as well. The last sector includes community representative bodies, voluntary representative bodies, church representative bodies, charitable organisations including organisations devoted to dealing with poverty, disadvantage and underdevelopment overseas, notably in Africa where Ireland is now a significant aid donor and specialist.”

E. Even SPA faces tests

The latest Agreement, *Towards 2016*, has faced stresses as a result of the financial tsunami and Ireland’s over-exposure. Pay structure has become a major bone of contention, in particular between the Irish Congress of Trade Unions on the one hand and the employers and the government on the other. Talks commenced in April 2008 on a review of the agreement and have hit difficult obstacles.