

For discussion on
18 March 2008

LEGISLATIVE COUNCIL
PANEL ON ENVIRONMENTAL AFFAIRS

**Tax Incentives to Promote the Use of
Environment-friendly Commercial Vehicles**

PURPOSE

This paper consults Members on a proposal to promote the use of environment-friendly commercial vehicles by way of tax concession.

BACKGROUND

2. In April 2007, the Government introduced an incentive scheme to reduce the first registration tax for environment-friendly private cars. In the Budget Speech delivered in February 2008, the Financial Secretary proposed to introduce a similar concession for environment-friendly commercial vehicles to improve roadside air quality.

THE PROPOSAL

Qualifying Standard

3. At present, we adopt the Euro IV emission standards as our statutory standards for newly registered commercial diesel vehicles. For the proposed incentive scheme, we propose to set, as a start, the qualifying standard for environment-friendly commercial vehicles at Euro V level, which the European Union will start introducing in phases from October 2009¹. Our

¹ The implementation timetable of Euro V emission standards are as follows-

- (i) vehicles weighing over 3.5 tonnes – from October 2009;
- (ii) vehicles with reference mass not more than 1.3 tonnes – from January 2011; and
- (iii) the rest of vehicles – from January 2012.

plan is to do likewise. The qualifying standard will be reviewed annually for tightening in the light of technological development and the prevailing statutory emission standards. The objective is to ensure that only vehicles of truly outstanding emission performance outstripping the prevailing statutory requirements are entitled to enjoy concessions for their first registration tax. If tightened, the new qualifying standard will be introduced on 1 April each year.

First Registration Tax Reduction Rates

4. We propose the following rates of reduction in the first registration tax rates for different vehicle classes² qualified under the scheme—

- (a) 100% waiver for taxis, light buses, non-franchised buses and special purpose vehicles;
- (b) 50% waiver for goods vehicles (except van-type goods vehicles not exceeding 1.9 tonnes permitted gross vehicle weight); and
- (c) 30% waiver for van-type goods vehicles not exceeding 1.9 tonnes permitted gross vehicle weight.

The first registration tax concession is subject to vehicle-class-specific caps per vehicle, which are set out at Annex. These caps have been set with reference to vehicle taxable values in the past year.

5. For those vehicle owners who opt for environment-friendly commercial vehicles to replace their pre-Euro or Euro I diesel commercial vehicles under the one-off grant scheme introduced in April 2007, we propose that they should also be entitled to the above first registration tax waiver taking account of the additional environmental benefits of procuring more environment-friendly vehicles.

Implementation

6. We aim to introduce this incentive scheme on 1 April 2008. A list of environment-friendly commercial vehicle models will be posted on the website of the Environmental Protection Department. The list will also cover compliant vehicle models that are imported by parallel importers, subject to the production of valid supporting documents. The list will be updated regularly.

² Franchised buses are not included in the scheme because they are exempted from first registration tax.

CONSULTATION

7. We have consulted the Hong Kong Motor Traders Association (HKMTA), whose members are local authorized agents for vehicle manufacturers. HKMTA supports the proposal and has agreed to encourage vehicle manufacturers to put more Euro V commercial vehicle models on the local market when the incentive scheme is in place.

8. We have consulted the Right Hand Drive Motors Association (Hong Kong) Limited (RHDMA), which represents parallel importers. RHDMA also supports the proposal.

PUBLICITY

9. A press release will be issued to inform the community of details of the incentive scheme once they are finalized.

ENVIRONMENTAL IMPLICATIONS

10. Vehicles are the second largest air emission source in Hong Kong and the main pollution source at the roadside. Commercial vehicles (excluding franchised buses) account for about 90% and 85% of the vehicular respirable suspended particulates (RSP) and nitrogen oxides (NOx) emissions respectively. Compared with Euro IV vehicles, Euro V heavy duty³ diesel vehicles emit about 40% less NOx. For light duty diesel vehicles, Euro V models emit about 80% less RSP and 30% less NOx. As regards Euro V petrol/ LPG vehicles, they emit about 30% less NOx. A wider use of environment-friendly commercial vehicles can help improve roadside air quality.

FINANCIAL AND CIVIL SERVICE IMPLICATIONS

11. It is difficult to estimate with precision the effect of the proposed incentive scheme on buyers' preference for environment-friendly commercial vehicles. If environment-friendly commercial vehicles make up 15%⁴ of

³ Heavy duty vehicles are those weighing over 3.5 tonnes and those lighter are light duty vehicles.

⁴ The environment-friendly private car incentive scheme has enabled environment-friendly private cars making up to 15% of newly registered private cars.

newly registered commercial vehicle fleet, the revenue foregone is estimated to be around \$26 million a year.

ADVICE SOUGHT

12. Members' views are sought on the proposal.

**Environmental Protection Department
March 2008**

First Registration Tax Concessions for Environment-friendly Commercial Vehicles

| Vehicle Classes | First Registration Tax Rate (% of vehicle taxable value) | Proposed First Registration Tax Waiver (%) | Proposed First Registration Tax Concession Cap (\$ per vehicle) |
|---|---|---|--|
| Light Goods vehicles (vans, weight ⁵ ≤ 1.9 t) | 35 ⁶ | 30 | 8,500 |
| Light Goods vehicles (vans, 1.9t < weight ≤ 5.5 t) | 17 | 50 | 40,000 |
| Light Goods vehicles (non vans, weight ≤ 5.5 t) | 15 | 50 | 29,000 |
| Medium Goods vehicles (5.5t < weight ≤ 24t) | 15 | 50 | 56,000 |
| Heavy Goods vehicles (weight >24t) | 15 | 50 | 69,000 |

⁵ The “weight” means “permitted gross vehicle weight”.

⁶ The first registration tax rates of van type goods vehicles weighing up to 1.9 tonnes are 35% on the first \$150,000, 65% on the next \$150,000 and 85% on the remainder.

| Vehicle Classes | First Registration Tax Rate (% of vehicle taxable value) | Proposed First Registration Tax Waiver (%) | Proposed First Registration Tax Concession Cap (\$ per vehicle) |
|--------------------------|---|---|--|
| Non-franchised buses | 3.7 | 100 | 78,000 |
| Light buses | 3.7 | 100 | 27,000 |
| Taxi | 3.7 | 100 | 12,000 |
| Special Purpose vehicles | 3.7 | 100 | 63,000 |