

**For information
on 24 May 2011**

**Paper for Bills Committee on
the Motor Vehicles (First Registration Tax) (Amendment) Bill 2011**

Purpose

This paper introduces the proposed adjustments to the proposal to increase the first registration tax (FRT) for private cars in respect of the Motor Vehicles (First Registration Tax) (Amendment) Bill 2011 (the Bill).

2. The views from different sectors in respect of the proposal to increase FRT for private cars mainly focus on several areas, including exempting the private cars on order before the Public Revenue Protection (Motor Vehicles First Registration Tax) Order 2011 (the Order) came into effect from paying FRT under the new tax rates, and enhancing the attractiveness of environment friendly petrol private cars whilst containing the growth of private cars.

3. We believe the measures proposed in this paper respond positively to the above-mentioned views and will effectively meet the policy intent of containing vehicle growth.

Exempt the private cars on order before the Public Revenue Protection (Motor Vehicles First Registration Tax) Order 2011 came into effect from paying FRT under the new tax rates

4. According to the existing law, all vehicles registered for use in Hong Kong have to pay FRT at the time of their first registration in accordance with the prevailing FRT rates. When FRT was adjusted in the past, the new rates (i.e. the rates stipulated in the Order) would apply to all vehicles first registered after the new rates had come into effect.

5. The process of ordering and purchasing a car possesses exceptional characteristics, in the sense that it usually takes weeks or months for the buyers to get the car ordered after an order is placed. As such, some of those who had placed an order for a private car before the Order came into effect may only receive the new car concerned after the new FRT rates were announced and took effect. They have to pay FRT under the new FRT rates when the cars concerned are first registered. As these buyers had no knowledge about the Administration's proposal to increase FRT at the time when they made the decision to order and purchase a new private car, they did not expect to pay the additional tax expenditure arising from the new FRT rates.

6. We therefore propose that private cars on order but had not been first registered before the Order came into effect should be exempted from the new rates when paying FRT. Instead, these buyers concerned shall pay FRT under the original rates before the adjustment was introduced. The policy intent of raising FRT for private cars is to disincentivise the public from purchasing new private cars after the adjusted rates have been announced. Those who had ordered a private car before the measure was announced had already made the purchase decision and were not the target group of the new rates being proposed. We consider that exempting these buyers from the new FRT rates will not affect our policy intent of containing private car growth, and that this may also serve as a reference if there is a need to consider institutionalizing such arrangement in future.

7. The two main representatives of the trade, i.e. the Motor Traders Association of Hong Kong and the Right Hand Drive Motors Association (Hong Kong) Limited, have previously indicated that the trade would issue formal documents at the time when the order for a car is placed to the buyers concerned. The Transport Department (TD) and other relevant departments have examined the issue and considered that the exemption mentioned above is administratively feasible under the circumstance that formal documents are available to prove the eligibility for the exemption. According to the Motor Vehicles (First Registration Tax) Ordinance (Cap.330), FRT is paid by registered distributors, and therefore TD would verify the necessary information with the registered distributors in order to arrange for the refund of FRT overpaid. Private

cars imported for personal use may also apply for the exemption if the relevant car owners have arranged for shipment of the private cars concerned before the Order came into effect, supported by the relevant documentation. Taking into account the circumstances of individual cases, TD may also request the relevant distributor or vehicle owner to make an oath for the purpose of providing the necessary document as a proof of the eligibility for the exemption.

Enhance the tax concession for environment-friendly petrol private cars

8. On the other hand, under the new FRT rates, we also propose to adjust the concession rates and cap¹ for newly registered environment-friendly petrol private cars from 30% and \$50,000 to 45% and \$75,000 respectively. This enhanced concession will not be applicable to environment-friendly petrol private cars on order but not yet first registered before the Order came into effect, as these vehicles would, in accordance with paragraph 6 above, pay FRT in accordance with the original FRT rates before the adjustment was introduced.

9. The purpose of enhancing the FRT concession for environment-friendly petrol private cars is to implement the established policy of encouraging their use, as well as to provide sufficient incentives to persuade new private car buyers to go for an environment-friendly petrol private car instead of a traditional petrol private car under the new FRT rates, which would help improve the environment. The actual effect of this measure is to offer an enhanced conditional concession (i.e. only applicable to the purchase of environment-friendly petrol private cars) to buyers of environment-friendly petrol private cars in order to encourage those who have decided to purchase a new private car or to replace their car with a new one to opt for an environment-friendly petrol private car. Under this proposal, it is estimated that the FRT payable by over 90% of environment-friendly petrol private cars buyers will not be

¹Since 1 April 2007, a 30% in FRT has been offered to buyers of newly registered environment-friendly petrol private cars, subject to a cap of \$500,000 per car. The Environment Protection Department (EPD) will issue to the qualified car models an "Environment-friendly Private Car Certificate". Vehicle owners have to submit a valid "Environment-friendly Private Car Certificate" at the time of the first registration of the private car concerned and the concession will apply after the documents and qualification are verified.

higher than that before the new FRT rates took effect. High-end environment-friendly petrol private cars are the minority and they will still be subject to a higher FRT when compared to the situation before the new FRT rates came into effect under the enhanced concession. We therefore consider that the adjustment would be able to address the needs of the vast majority of environment-friendly petrol private cars buyers.

10. The outcome of the measure is the same as that intended by the “one-for-one” proposal as suggested by some views and may even create a better effect. Those in need of car replacement are provided with a favourable option that is coherent with the principle of environment protection and the Administration’s policy intent of containing vehicle growth, which also strikes a right balance between promoting the use of environment-friendly petrol private cars and containing private car growth. This measure can also avoid the speculation of old cars under the “one-for-one” proposal, and offers a fair treatment to everyone (i.e. anyone willing to purchase an environment-friendly petrol private car is offered the same concession arrangement regardless of whether he or she is already in possession of an old vehicle).

11. At present, there are more than 40 models of over 10 brands of environment-friendly petrol private cars that are eligible for the concession. The detailed information is at [Annex](#). The Environmental Protection Department (EPD) will review the qualifying standards annually in the light of technological advancement to restrict the tax incentive to vehicles of truly outstanding emission and fuel efficiency performance. The latest standard and the models of environment-friendly petrol private cars type-approved as qualified by EPD are published on EPD’s website. In 2010, concessions were granted to some 6 600 newly registered environment-friendly petrol private cars, which accounted for 16% of the total number of newly registered private cars of the year. Among these environment-friendly petrol private cars, the taxable value of over 6 000 (around 92%) of them did not exceed \$300,000 (i.e. basic retail price at around \$400,000). As mentioned above, under the enhanced concession, FRT payable by these vehicles will not be higher than that before the new FRT rates took effect. This will encourage those in need of a new car to consider opting for an environment-friendly petrol private car and, on the other hand, avoid the

speculation of old vehicles resulted from the “one-for-one” proposal.

12. We believe that the adjusted concession is on the whole in line with the spirit of the Budget proposal of increasing FRT for private cars for containing private car growth.

Implementation

13. The above two measures proposed in respect of the Bill may be implemented administratively according to sections 5(5) and 6(3) of the Motor Vehicles (First Registration Tax) Ordinance (Cap.330), which state that the Chief Executive may remit and refund FRT payable. No legislative amendment or amendment to the Bill is involved.

Transport and Housing Bureau
May 2011

**Environment-friendly petrol private car models which have been type-approved
by EPD are meeting the new qualifying standards effective from 1 April 2011**

Brand / Make	Car Model	Engine Model	Transmission Type
Audi	A3 1.4 TFSI	CAXC	AT
Audi	A3 Sportback 1.4 TFSI Attraction	CAXC	AT
Audi	A5 Sportback 1.8 TFSI Multitronic	CDHB	CVT
Audi	A7 Sportback 3.0 TFSI Quattro	CGW	AT
Audi	Q7 3.0 TFSI Quattro (333 HP)	CJTB	AT
BMW	640iA Convertible (F12)	N55B30A	AT
Honda	Freed	L15A7	CVT
Honda	Stepwgn G	R20A1	CVT
Honda	Stepwgn L	R20A1	CVT
Honda	Stepwgn Spada	R20A1	CVT
Lexus	CT 200h	2ZR-FXE	CVT
Lexus	GS 450h	2GR-FSE	CVT
Lexus	LS 600hL	2UR-FSE	CVT
Lexus	RX 450h	2GR-FXE	CVT
Mazda	Mazda2 1.3 CVT 5HB	ZJ	CVT
Mazda	Mazda2 1.3 CVT NE	ZJ	CVT
Mazda	Mazda3 2.0 i-stop	LF	AT
Mazda	Mazda 8 5DR Wagon 2.3G	L3	AT
Mazda	Mazda 8 5DR Wagon 2.3J	L3	AT
Mercedes-Benz	CLS350 BlueEfficiency (218359)	276952	AT
Mercedes-Benz	E250 CGI BlueEfficiency (212047)	271860	AT

Brand / Make	Car Model	Engine Model	Transmission Type
Mitsubishi Motors Corporation	Outlander 2.0 CVT	4B11	CVT
Mitsubishi Motors Corporation	Colt 1.3 CVT	4A90	CVT
Nissan	Serena Green 2.0L SR (C26)	MR20	CVT
Nissan	Serena Green HWS 2.0L (C26)	MR20	CVT
Nissan	Serena Green HWS STD 2.0L (C26)	MR20	CVT
Nissan	Murano 2.5L 5-DR	QR25	CVT
Nissan	Murano Green 2.5L 5-DR	QR25	CVT
Nissan	Murano Green 2.5L SR	QR25	CVT
Nissan	Tiida Green Sedan 1.5L	HR15	CVT
Nissan	Tiida Green Hatchback 1.5L	HR15	CVT
Porsche	Cayenne S Hybrid	M06EC	AT
Smart	Smart Fortwo Coupe Facelift (451380)	3B21	AT
Smart	Smart Fortwo Coupe Pure Facelift (451334)	3B21	AT
Subaru	R1 R FWD i-CVT	EN07	CVT
Subaru	R2 R FF i-CVT	EN07	CVT
Toyota	Prius 250	2ZR-FXE	CVT
Toyota	Noah	3ZR-FAE	CVT
Toyota	Alphard 2.4	2AZ-FE	CVT
Toyota	Previa	2AZ-FE	CVT
Toyota	Ractis Verso	1NZ-FE	CVT
Toyota	Wish	2ZR-FAE	CVT
Volkswagen AG	Golf 1.4 TSI 160bhp	CAVD	AT

Brand / Make	Car Model	Engine Model	Transmission Type
Volkswagen AG	Touareg Hybrid 3.0 V6 TSI	CGEA	AT
Total number of EF petrol private car models type-approved by EPD : 44			