

File Ref:

LEGISLATIVE COUNCIL BRIEF

Motor Vehicles (First Registration Tax) (Amendment) Bill 2011

INTRODUCTION

At the meeting of the Executive Council on 23 February 2011, the Council ADVISED and the Chief Executive ORDERED that the Motor Vehicles (First Registration Tax) (Amendment) Bill 2011, at **Annex A**, should be introduced into the Legislative Council. The Bill implements the revenue measure proposed in the 2011-12 Budget relating to the increase in motor vehicles first registration tax (FRT) for private cars as follows:

FRT tax bands for private cars	Existing FRT rates	Proposed FRT rates
On the first \$150,000	35%	40%
On the next \$150,000	65%	75%
On the next \$200,000	85%	100%
On the remainder	100%	115%

JUSTIFICATIONS

Proposed increase in FRT rates for private cars

2. We enjoy high levels of mobility in Hong Kong. This success has been achieved through improving transport infrastructure and emphasis on railways, further promoting the use of public transport services by improving their quality and coordination and managing road use. A key determinant of road usage is the extent of ownership and usage of private cars. People with access to private cars tend to make more trips and are less likely to use public transport. Both of these car ownership effects increase road usage, and result in less efficient use of our road space. Stated simply, private vehicle ownership and usage increases produce an increased level of road congestion, and a greater need for new road infrastructure. However, new infrastructure is becoming increasingly expensive and difficult to construct in Hong Kong's unique geographic situation. Therefore, we need to monitor the growth of the private cars to ensure that they will not lead to congestions in our major travel corridors which in turn will reduce the mobility of our road public transport services.

3. In the past years, traffic situation has been by and large stable despite some fluctuations in car journey speeds and growth of the vehicle fleet. However, significant deterioration in all aspects was observed in 2010, mainly due to the growth in private cars, which account for a major portion (about 68%) of the total vehicle fleet size. The total number of licensed private cars stood at 414 966 at end 2010. While year-on-year growth rate of the number of licensed private cars remained at around 3% or below for the past decade, it rose to 5.4% in December 2010 (or an increase of 21 154 private cars over the private car fleet of 393 812 at end 2009), a record high for more than a decade. In 2010, a total of 41 240

private cars were newly registered, representing an increase of over 45% compared with the previous year, or about 20% when compared with 2008 before the financial tsunami.

4. Notwithstanding on-going improvement works to relieve existing congestion, such as those on Tuen Mun Road and Tolo Highway, car journey speeds declined throughout the territory in 2010 for the first time in five years, at an unprecedented decline rate of over 5% across-the-board. As no significant expansion in the road network is expected before 2016-17 when the roads associated with Hong Kong-Zhuhai-Macau Bridge and Central-Wanchai Bypass are due for completion, traffic conditions would only continue to worsen if no action is taken to contain the growth of private cars. We must take decisive measures to curb the growth of private cars before traffic congestion deteriorates to the point which could hardly be relieved even if more stringent measures are put in place.

5. In order to control the size of the vehicle fleet and therefore the number of vehicles using the road system, the 2011-12 Budget proposes to increase the rates for all FRT bands for private cars by around 15%. Increase in FRT rates have proven to be effective in controlling private vehicle numbers. The Government increased FRT rates in 1982, 1990, 1991, 1994 and 2003, leading to a reduction of about 2 to 3 percentage points in the year-on-year growth rate of private cars, or a decrease in the total number of private cars.

6. The existing FRT rates have been in place since 2003. Since then, Gross Domestic Product has increased by 39.9% and inflation by 12.4%. We expect that the proposed increase in FRT should be able to

contain the number of newly registered private cars at the 2010 level. From past experience, such effect is expected to last for more than a year. The FRT for other types of vehicles and the existing concession for electric vehicles and environment-friendly petrol private cars, that is the concession mechanism with concession cap, will remain unchanged.

Public Revenue Protection Order

7. For revenue protection, prior to the enactment of the Bill at Annex A, it is necessary for the Chief Executive to make the Public Revenue Protection (Motor Vehicles First Registration Tax) Order 2011 at **Annex B** under the Public Revenue Protection Ordinance (Cap.120) so as to allow the proposed increase in FRT for private cars to come into effect as from 11:00a.m. on 23 February 2011 when the Budget was announced. All private cars not first registered before then will be subject to the revised FRT rates. The Order will have effect for four months, and will lapse on 23 June 2011. The proposed increase in FRT will cease to have effect as from 23 June should the Motor Vehicles (First Registration Tax) (Amendment) Bill 2011 not be passed by the Legislative Council by then.

THE BILL

8. The main provisions of the Motor Vehicles (First Registration Tax) (Amendment) Bill 2011 are as follows -

- (a) **Clause 1(2)** provides that, when the Motor Vehicles (First Registration Tax) (Amendment) Bill 2011 is enacted as an Ordinance, the Ordinance is deemed to have come into operation at 11 a.m. on 23 February 2011; and

- (b) **Clause 3** amends the Schedule to the Motor Vehicles (First Registration Tax) Ordinance to increase the marginal tax rate for each tax band for private cars to specified rates, representing an increase by about 15% in each band.

LEGISLATIVE TIMETABLE

9. The legislative timetable will be:

Publication in Gazette	8 April
First Reading and commencement of Second Reading debate	13 April
Resumption of Second Reading Debate, committee stage and Third Reading	To be notified

IMPLICATIONS OF THE PROPOSAL

10. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. The proposal will not affect the binding effect of the Motor Vehicles (First Registration Tax) Ordinance.

Financial and Staffing Implications

11. The proposed increase in FRT for private cars is estimated to bring about additional revenue of some \$1,000 million in 2011-12. There are no staffing implications.

PUBLIC CONSULTATION

12. Owing to the confidentiality of the Budget, no formal consultation has been carried out specifically for the proposed FRT increase.

PUBLICITY

13. The proposal was announced in the 2011-12 Budget. The Transport Department issued a press release on the proposed changes on 23 February 2011 and has kept the relevant trade associations / organisations, dealers and vendors informed of the proposed changes. A spokesman will be made available to answer media and public enquiries.

OTHERS

14. In case of enquiries about this brief, please contact Miss Petty Lai, Principal Assistant Secretary for Transport and Housing (Transport) at 2189 2186.

Transport Branch

Transport and Housing Bureau

April 2011

Motor Vehicles (First Registration Tax) (Amendment) Bill 2011

Clause 1

1

A BILL

To

Amend the Motor Vehicles (First Registration Tax) Ordinance to give effect to the proposal in the Budget introduced by the Government for the 2011–2012 financial year to raise the first registration tax for private cars.

Enacted by the Legislative Council.

1. **Short title and commencement**

- (1) This Ordinance may be cited as the Motor Vehicles (First Registration Tax) (Amendment) Ordinance 2011.
- (2) This Ordinance is deemed to have come into operation at 11 a.m. on 23 February 2011.

2. **Motor Vehicles (First Registration Tax) Ordinance amended**

The Motor Vehicles (First Registration Tax) Ordinance (Cap. 330) is amended as set out in section 3.

3. **Schedule amended (Classes of motor vehicles and rate of tax)**

- (1) The Schedule, item 1, paragraph (a)—
Repeal
“35”
Substitute
“40”.
- (2) The Schedule, item 1, paragraph (b)—
Repeal
“65”

Substitute

“75”.

- (3) The Schedule, item 1, paragraph (c)—

Repeal

“85”

Substitute

“100”.

- (4) The Schedule, item 1, paragraph (d)—

Repeal

“100”

Substitute

“115”.

Explanatory Memorandum

The purpose of this Bill is to amend the Motor Vehicles (First Registration Tax) Ordinance (Cap. 330) to give effect to the proposal in the 2011–2012 Budget to raise the first registration tax for private cars.

Public Revenue Protection (Motor Vehicles First Registration Tax) Order 2011

Section 1

1

**Public Revenue Protection (Motor Vehicles First
Registration Tax) Order 2011**

(Made by the Chief Executive under section 2 of the Public Revenue Protection Ordinance (Cap. 120) after consultation with the Executive Council)

1. Commencement

This Order comes into force at 11 a.m. on 23 February 2011.

2. Operation of Scheduled Bill

The Bill set out in the Schedule has the full force and effect of law so long as this Order remains in force.

Schedule

[s. 2]

A BILL

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Substitute

“40”.

- (2) The Schedule, item 1, paragraph (b)—

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Substitute

“75”.

- (3) The Schedule, item 1, paragraph (c)—

Repeal

“85”

Substitute

“100”.

- (4) The Schedule, item 1, paragraph (d)—

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“100”

Substitute

“115”.

Explanatory Memorandum

The purpose of this Bill is to amend the Motor Vehicles (First Registration Tax) Ordinance (Cap. 330) to give effect to the proposal in the 2011–2012 Budget to raise the first registration tax for private cars.

Chief Executive

23 February 2011