For information
on 4 April 2011

Paper for Subcommittee on the Public Revenue Protection (Motor Vehicles First Registration Tax) Order 2011

Purpose

This paper provides the Administration's responses to the questions raised by Members at the meeting of the Subcommittee on 24 March 2011 in relation to the Public Revenue Protection (Motor Vehicles First Registration Tax) Order 2011.

Growth in private cars and traffic conditions of Hong Kong

2. In the past 3 years, the total length of roads in Hong Kong had increased by 1.8%, whereas the growth in the licensed private car fleet over the same period was 8.3%. The detailed figures are at **Annex I**. 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 (CWB) are due for completion, 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.

3. The Transport Department (TD) does not have a breakdown of private cars first registration applicants by the social groups they belong to. The distribution of the newly registered private cars in terms of taxable values over the past 3 years is at **Annex II** for reference.

Effectiveness of increasing first registration tax (FRT) in 2003

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. We anticipate that there will be around 10 000 private cars newly registered between April and June this year. Increase in FRT rates has proven to be effective in controlling private vehicle growth. From past experience, such effect is expected to last for more than a year. The Administration 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. In March 2003, the marginal tax system for the FRT regime was introduced. The actual FRT rates for private cars were slightly increased, which resulted in a drop of about 7 600 in newly registered private cars, or a 25% decrease, when compared with 2002. The licensed private car fleet in 2003 also shrank by about 2 000 private cars when compared with 2002. The annual growth rates of licensed private car fleet for the following two years were maintained at below 1.8%. The above figures reveal that increase in FRT will effectively contain the growth in private cars.

Other measures to ease traffic congestion

5. While serious traffic congestion occurs on the access roads to the Cross Harbour Tunnel, including Connaught Road Central, Harcourt Road and Gloucester Road on Hong Kong Island, and Princess Margaret Road, Chatham Road North and Gascoigne Road in Kowloon, deterioration in traffic condition has also been recorded on Tolo Highway, Castle Peak Road (Yuen Long to Tuen Mun section), Sai Sha Road and New Clear Water Bay Road in the New Territories. The overall average car journey speed of Kowloon and Hong Kong Island dropped from 23.4 km/h in 2008 to 22.2 km/h in 2010, representing a drop of 5.1%. Over the same period, the average car journey speed of the New Territories also recorded a drop from 44.2km/h to 39.9km/h, or a drop of 9.7%. The detailed figures on average car journey speed are at **Annex III**.

6. On easing traffic congestion, the Government has made reference to the White Paper on Transport Policy in 1990 and the Transport Strategy for the Future made in 1999, and adopted a multi-pronged approach to improve traffic condition. Apart from the proposal to increase FRT to contain private car growth, the Administration has all along pursued other measures recommended by the White Paper on Transport Policy and the Transport Strategy for the Future. These measures include: (1) integrating transport and land use planning to reduce the public's reliance on road-based transport; (2) actively pursuing the policy of having the public transport system, with railway as the backbone, as the main transport mode and encouraging the public to make use of the efficient mass transit system and other public transport services; (3) implementing appropriate traffic management schemes; (4) developing intelligent transport systems (such as the Journey Time Indication System, online real-time traffic conditions, speed maps, public transport enquiry service and driving route search); (5) harnessing area traffic control systems; (6) installing closed circuit television cameras and other devices for surveillance; and (7) expanding our road network, etc.

7. Our responses to the measures suggested by Members are as below:

(i) Deploying specified route buses or buses of smaller capacity with lower emission during non-busy hours

8. As the smaller-capacity buses are normally single deck buses that can carry up to about 70 passengers, it will be difficult for these buses to meet the passenger demand at busy corridors with their limited capacities, even during the non-busy hours. In case a single deck bus is fully loaded, deployment of additional buses will be required and it will be against the purpose of alleviating road congestion on busy corridors.

(ii) Introducing park-and-ride

9. In order to encourage motorists living in remote areas to park their cars at facilities adjacent to public transport termini and then transfer to public transport to complete their journey with a view to alleviating the congestion in urban areas, park-and-ride facilities have been provided at

six MTR stations, namely Sheung Shui Station, Kam Sheung Road Station, Choi Hung Station, Hong Kong Station, Kowloon Station and Tsing Yi Station. At present, a total of 2 144 parking spaces are provided at these facilities. As park-and-ride facilities have a positive impact on the reduction of traffic in busy urban areas, we shall continue to provide such facilities where possible.

(iii) *Restricting number of vehicles driving to busy areas and imposing a "congestion tax" on drivers driving on the road in a busy district*

10. From transport perspective, the case for introducing congestion charging in Hong Kong is weak. A road pricing scheme that aims to relieve traffic congestion can only be implemented equitably and effectively with the availability of alternative routes that have adequate capacity for motorists to bypass the charging zone. In the context of Hong Kong Island, such an alternative route is the CWB. Therefore, a road pricing scheme aimed at relieving traffic congestion should only be introduced after the CWB is in place.

11. Owing to the genuine needs of the local public as well as the implementation and enforcement arrangements, it is difficult to restrict the number of vehicles entering busy areas. Such a draconian measure is likely to have serious repercussions on members of the public, particularly those living and working in the locality.

(iv) Buying back the Western Harbour Crossing and Eastern Harbour Crossing

12. In dealing with traffic congestion, apart from regional traffic congestion situations, the Administration has to take into account the traffic condition of Hong Kong as a whole. In fact, in addition to the access roads to the road harbour crossings (RHCs), the drop in average car journey speed in 2010 was also recorded on other roads such as those in the New Territories. The undesirable traffic distribution among the RHCs does not directly lead to the deterioration of the overall traffic condition.

13. The Government has commissioned a consultancy study in November 2008 for a comprehensive analysis of all relevant factors that affect the distribution of traffic amongst the three RHCs with an objective of identifying the optimum level of traffic for the three RHCs, and recommending feasible options that cover the necessary financial, organisational and legal mechanisms to achieve the optimum traffic result. In November 2010, the Government conducted a three-month public consultation on the findings and recommendations of the consultancy study, which has just been completed. We are considering carefully the feedback received during the public consultation period, and would consider the way forward taking into account the views from various quarters of the community.

14. According to the consultants' findings, there is no single measure that could resolve the undesirable traffic distribution among the three RHCs. Toll adjustment is one of the requisite considerations: there could be a number of toll scenarios and implementation options that could enable the implementation of the toll scenarios. Buying-back the Western Harbour Crossing and Eastern Harbour Crossing is only one of the means to effect the toll adjustments. Even if the Government has bought back the two tunnels, it is still necessary to adjust the tolls of the three RHCs in order to control their traffic flows and regulate the distribution of traffic.

Tax Incentives Scheme for Environment-friendly Petrol Private Cars

15. At present, qualified environment-friendly petrol private cars as approved by the Environment Protection Department (EPD) are entitled to a 30% FRT concession with a cap of $50,000. The models approved by EPD will be uploaded on EPD’s website. EPD will issue to each of the qualified car models an "Environment-friendly Private Car Certificate" on which the validity period is stated. When an environment-friendly petrol private car is being registered at TD for the first time, the vehicle owner with a relevant and valid Certificate may apply for FRT concession in respect of the private car concerned.

16. In calculating the FRT for an environment-friendly petrol private car, we would first ascertain the tax before applying the concession in accordance with the mechanism and tax rates provided by the Motor Vehicles (First Registration Tax) Ordinance (Cap.330). The concession, i.e. 30% of the pre-concession FRT or a cap of $50,000 (whichever is the lower), would then be deducted to derive the FRT payable in respect of the newly registered environment-friendly petrol private car concerned.

17. The above mentioned FRT concession for environment-friendly petrol private cars makes use of sections 5(5) and 6(3) of the Motor Vehicle (First Registration Tax) Ordinance (Cap. 330), which empower the Chief Executive to remit or refund FRT.

18. The annual numbers of newly registered environment-friendly petrol private cars in 2008 to 2010 are 3 788, 3 930 and 6 613 respectively, which account for 10.9%, 13.8% and 16% of the total numbers of newly registered private cars in the respective years. The models and statistics on the environment-friendly petrol private cars first registered in the past 3 years are at **Annex IV**.

19. At present, over one-third of the private cars of Hong Kong is in compliance with the Euro IV emission standard, and another one-third meets the Euro III emission standard. The proportions of private cars that are in Euro I and Euro II emission standards are 7.7% and 22% respectively. The fact is that diesel commercial vehicles are the major source of roadside air pollution in Hong Kong, accounting for about 95% and 88% of the total vehicular emission of respirable suspended particulates (RSP) and nitrogen oxides (NOx) respectively, which are the two main air pollutants at the roadside. On the other hand, private cars only contribute to 1% and 5% of the total vehicular emission of RSP and NOx respectively. The overall age of private cars is also relatively young. As such, the existing incentive scheme for car replacement targets on replacing old diesel commercial vehicles.

20. On some Members' views that increase in FRT for private cars would discourage private car owners from car replacement and affect air quality, the fact is that the main source of roadside air pollution in Hong Kong is diesel commercial vehicles instead of private cars. Two-thirds

of the private car fleet are aged below 10 years and in compliance with Euro III emission standard or above. Furthermore, citizens should make use of public transport as far as possible, which can reduce roadside pollution and at the same time ease traffic congestion. To contain the continuous growth in private cars by increasing FRT will also help reduce the emission of the overall vehicle fleet, improve air quality and reduce green house gases such as carbon dioxide.

Exemption for vehicles pre-ordered before the Public Revenue Protection (Motor Vehicles First Registration Tax) Order 2011 took effect

21. All vehicles registered for use in Hong Kong have to pay FRT when they are first registered in accordance with the effective FRT rates at the time of the registration. It has been the practice for FRT adjustments in the past that the new rates applied to all vehicles which had not been registered at the time when the changes took effect.

22. In practice, it will be difficult to grant exemption for pre-ordered vehicles. The main reason is that it will be difficult to verify the specific date when the transaction or the deposit was made, as documentary proof may not be available in all cases for verification purpose. The proposal may hence be vulnerable to abuse.

23. The same issue has been deliberated at the LegCo in 2003. Having noted the consequences of granting such exemption, and considered that most of the transactions had already been completed, the Bills Committee at that time agreed to maintain the existing practice since the exemption may cause undue inconvenience to the trade. We are of the view that such practice is applicable to the current proposal of FRT increase.

Experiences of other jurisdictions

24. The Singapore Government launched the Green Vehicle Rebate Programme in 2001 to encourage vehicle owners to switch to

environment-friendly vehicles. For non-commercial vehicles, 40% of the open market value of the environment-friendly vehicle concerned would be rebated to its owner. When compared with Hong Kong, the basic tax rate imposed by the Singapore Government on newly registered private cars is higher. As such, except a small proportion of environment-friendly petrol private cars of higher taxable value, the remaining private cars are subject to a higher tax payable than in Hong Kong even after deducting the tax rebate. Electric vehicles only enjoy the same tax rebate as environment-friendly petrol private cars in Singapore. The taxes payable by vehicle owners when purchasing a private car in Singapore are provided in the relevant website of the Singapore Land Transport Authority[1].

Other statistics

25. According to Regulation 15 of the Road Traffic (Registration and Licensing of Vehicles) Regulations (Cap.374E), the Commissioner for Transport (the Commissioner) may cancel the registration of a vehicle if it has not had a vehicle licence in force for a period of 2 years and the relevant registered owner has not arranged to licence the vehicle concerned within 15 days after the date of the Commissioner's notice. Regulation 20 of Cap.374E also states that if a vehicle is broken up, destroyed or despatched permanently out of Hong Kong, the registered owner of the vehicle concerned has to notify the Commissioner in writing of the breaking up, destruction or despatch within 15 days after it is broken up, destroyed or despatched permanently for cancellation for the registration of the vehicle concerned. The figures of new registration and deregistration of private cars are at **Annex V**.

26. The numbers of cars[2] purchased by the Administration over the past 3 years are shown in **Annex VI**. The cars procured by the Administration as shown in Annex VI are used for replacing pre-existing cars of the Government vehicle fleet that are due for replacement. Subject to the availability of suitable models on the market and operational and resource considerations, priority will be given to

[1] The relevant website of the Singapore Land Transport Authority：
http://www.lta.gov.sg/motoring_matters/motoring_vo_tax_pte.htm

[2] The vehicle type of cars in the Government vehicle fleet is identical to private cars.

environment-friendly vehicles when replacing vehicles in the Government fleet, which include vehicles meeting the qualifying standards of the tax incentive schemes administered by the EPD and electric vehicles. Among the 1 320 Government cars of the existing establishment, 679 (around 51.4%) are environment-friendly vehicles.

27. The numbers of private cars newly registered as from 11a.m. of 23 February 2011 are shown in **Annex VII**. Among these vehicles, over 20% are environment-friendly petrol private cars, which is higher than that for last year. This illustrates that environment-friendly petrol private cars are competitive under the existing FRT regime.

Transport Branch
Transport and Housing Bureau
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Annex I

Length of roads in Hong Kong and number of licensed private cars in the past 3 years

Year	Total length of road		No. of licensed private cars	
	Length (km)	Year-on-year change (%)	No. of licensed private cars	Year-on-year change (%)
2008	2 040	1.5%	383 141	2.9%
2009	2 050	0.5%	393 812	2.8%
2010	2 076	1.3%	414 966	5.4%

Annex II

Distribution of the newly registered private cars in terms of taxable values over the past 3 years

Year	Taxable Values								Total
	$150,000 or below		$150,001 - $300,000		$300,001 - $500,000		$500,001 or above		
	No.	Proportion	No.	Proportion	No.	Proportion	No.	Proportion	
2008	9 547	27.58%	14 789	42.73%	7 068	20.42%	3 210	9.27%	34 614
2009	8 619	30.31%	11 971	42.10%	5 466	19.23%	2 376	8.36%	28 432
2010	12 308	29.85%	16 493	39.99%	8 843	21.44%	3 596	8.72%	41 240

Annex III

Average car journey speed over the past 3 years

Year	Kowloon and Hong Kong Island* (km/hr)	The New Territories* (km/hr)
2008	23.4 (-5.1%)	44.2 (-9.7%)
2009	23.4 (-5.1%)	42.9 (-7%)
2010	22.2	39.9

* Figures in brackets are the change when the 2010 figures are compared with those of 2008 and 2009

Annex IV

Models and numbers of environment-friendly petrol private cars newly registered in the past 3 years

Make	Model	2008*	2009*	2010*
Honda	Step WGN (2.0)	1 214	639	2
	Stepwgn G	N/A	N/A	39
	Stepwgn Spada	N/A	N/A	194
	Stepwgn L	N/A	N/A	687
	Freed	N/A	N/A	N/A
	Civic Hybrid	2	0	0
Lexus	Lexus RX400h	279	55	N/A
	Lexus LS600hL	118	41	48
	Lexus GS450h	20	81	65
	Lexus RX450h	N/A	211	238
	Lexus CT 200h	N/A	N/A	N/A
Mazda	Mazda8 5DR Wagon 2.3	44	N/A	N/A
	Mazda8 5DR Wagon 2.3G	212	173	201
	Mazda8 5DR Wagon 2.3J	89	57	36
	Mazda2 1.3 CVT 5HB	N/A	75	157
	Mazda2 1.3 CVT NE	N/A	N/A	N/A
	Mazda3 2.0 i-stop	N/A	N/A	N/A
Mini	Mini Cooper Manual	27	15	1
	Mini One Minimalist Manual (R56)	N/A	N/A	13
Nissan	Serena 2.0L MPV LUX	582	270	3
	Serena 2.0L MPV STD	27	51	N/A
	Serena 2.0L MPV LCV	20	0	15
	Serena Green 2.0L SR	N/A	N/A	229
	Serena Green HWS 2.0L	N/A	210	429

Make	Model	2008*	2009*	2010*
	Serena Green STD 2.0L	N/A	N/A	85
	Murano 2.5L 5-DR	N/A	76	6
	Murano Green 2.5L SR	N/A	1	138
	Murano Green 2.5L 5-DR	N/A	N/A	5
	Tiida Green Sedan 1.5L	N/A	165	158
	Tiida Green Hatchback 1.5L	N/A	148	174
	Elgrand	0	0	0
Porsche	Cayenne S Hybrid	N/A	N/A	19
Smart	Smart Fortwo Coupe Facelift (451380)	N/A	N/A	6
Subaru	R2 RFF i-CVT	182	60	53
	R1 R FWD i-CVT	70	14	2
Toyota	Prius 200	419	56	1
	Noah	404	753	276
	Prius 250	N/A	245	172
	Toyota Alphard 2.4	N/A	62	67
	Toyota Previa	N/A	N/A	791
	Toyota Noah	N/A	N/A	806
	Toyota Wish	N/A	N/A	372
	Toyota Ractis	N/A	N/A	24
	Alphard Hybrid	27	2	0
	Estima Hybrid	48	25	37
Volkswagen AG	Phaeton 3.2L V6 LWB	3	1	1
	Phaeton 3.2L V6	1	N/A	N/A
	GOLF 1.4 TSI 160BHP	N/A	252	536
	SCIROCCO 1.4 TSI	N/A	38	86
Audi	A3 1.4 TFSI	N/A	154	171
	A5 Sportback 1.8 TFSI Multitronic	N/A	N/A	195

Make	Model	2008*	2009*	2010*
	Q7 3.0 TFSI Quattro (333 HP)	N/A	N/A	41
Mitsubishi	Outlander 2.0 CVT	N/A	N/A	31
	Colt 1.3 CVT	N/A	N/A	3
Total number of models		**21**	**31**	**46**
Total number of newly registered vehicles		**3 788**	**3 930**	**6 613**

* N/A means that the relevant model is not available in the market in the particular year concerned

Annex V

The number of newly registered and deregistered private cars in the past 3 years

Year	No. of newly registered private cars*	No. of deregistered private cars*
2008	34 614	20 633
2009	28 432	19 816
2010	41 240	21 776

* Reasons of deregistration include the vehicle concerned is not licensed for 2 years, broken up, destroyed, despatched permanently out of Hong Kong, etc.

Annex VI

No. of cars procured by the Administration in the past 3 years

Year	Establishment of Government vehicles	No. of Government cars	No. of cars procured	No. of environment-friendly cars procured (%)
2008	6 303	1 151	105	105 (100%)
2009	6 343	1 245	363	363 (100%)
2010	6 343	1 320	154	141 # (91.6%)

* Environment-friendly cars include electric cars and cars meeting the qualifying standards of the tax incentive schemes administered by the Environmental Protection Department

\# There is no environment-friendly model for the remaining 13 vehicles that is suitable to meet the operational needs of the relevant departments

Annex VII

No. of private cars newly registered as from 11am of 23 February 2011

(As at 31 March 2011)

Date		No. of newly registered private cars	No. of environment-friendly petrol private cars
Feb	23	52	0
	24	155	22
	25	164	23
	28	124	26
Mar	1	140	35
	2	158	36
	3	111	29
	4	110	27
	7	183	40
	8	180	46
	9	172	33
	10	165	31
	11	144	22
	14	176	38
	15	258	59
	16	269	48
	17	206	43
	18	124	41
	21	224	52
	22	227	56
	23	233	59
	24	148	55
	25	202	49
	28	281	69
	29	289	64
	30	244	61
	31	178	28
Total		**4 917**	**1 092**