

**Subcommittee on
Public Revenue Protection (Revenue) Order 2003 made under
section 2 of the Public Revenue Protection Ordinance (Cap. 120)**

Summary of concerns/views of the motor trade on the motor vehicles first registration tax (FRT) proposals

<u>Subject</u>	<u>Organization/Individual</u>	<u>Concern/view</u>	<u>Administration's response</u>
Proposed tax rates	The Motor Traders Association of Hong Kong (MTA) (LC Paper Nos. CB(1) 1196/02-03(04), 1352/02-03(01), 1394/02-03(02), 1409/02-03(03))	Proposed tax rates for private cars are too high and should be reduced to 35%, 60%, 85% and 105% for the four new tax bands. High FRT rates will suppress vehicle sales and will be counter-productive to the objective of raising additional revenue. Doubts about Government's expectation to realize HK\$700 million under the proposed system.	While the FRT proposals will bring about an increase in tax liability for the majority of private cars, the increase is merely due to the abolition of exemption rather than any increase in the tax rate for the bulk of private cars. The impact of the proposals will be higher for more expensive cars, which represent only a small portion of the private car market in Hong Kong. For the bulk of the private cars, i.e. the 94% with taxable value of below \$500,000, their retail prices are projected to increase by 5% to 12%. (LC Paper Nos. CB(1) 1352/02-03(04) and 1409/02-03(01))
	Hong Kong Right Hand Drive Motors Association Ltd (HKRHDMA) (LC Paper No. CB(1) 1426/02-03)	Strongly oppose to the proposed FRT rates and counter-propose to reduce the rates to 35%, 55%, 75% and 75% for the four new tax bands.	
	Motor Alliance (LC Paper No. CB(1) 1226/02-03(02))	- Ditto -	
	Hong Kong Small and Medium Enterprises Association (LC Paper No	Proposed tax increases would adversely affect the motor trade and the overall economy.	

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	<p>CB(1) 1403/02-03(01)</p> <p>Mr DIK Kong-sang (LC Paper No. CB(1) 1352/02-03(03))</p> <p>Motorcycle Alliance Hong Kong Motorcycle Association Hong Kong Motorcycle of Commerce (LC Paper Nos. CB(1) 1196/02-03(03), 1352/02-03(02), 1394/02-03(01))</p>	<p>- Ditto -</p> <p>Object to the tax rate of 40% for motorcycles and demand for reduction to 32%.</p>	<p>would not expect to bring about major impact on such vehicles and hence the overall sales and employment situation for the private car market should not be unduly affected by the adjustment proposals (LC Paper No. CB(1) 1483/02-03(07)).</p> <p>Since motorcycles do not normally have air-conditioners and audio-equipment, the impact of abolishing exemption is significantly higher on private cars than on motorcycles. Therefore, no adjustment is made to the tax rates on motor cycles. Based on the published retail price of motorcycles registered in 2002-03, their price inclusive of the tax component should rise by 8% on average after the abolition of the exempted items(LC Paper No. CB(1) 1409/02-03(01)).</p>
<p>Abolition of tax exemptions</p>	<p>MTA Motor Alliance HKRHDMA Motorcycle Alliance Hong Kong Motorcycle Association Hong Kong Motorcycle of Commerce</p>	<p>Support Support in principle Support in principle Support in principle Support in principle Support in principle</p>	

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Marginal tax system	MTA	Support	
Anti-avoidance measures	HKRHDMA Motor Alliance	<p>The requirement for registered owners of vehicles, registered distributors and associated persons to declare fitting of accessories and distributors' warranties is too complicated.</p> <p>Object against extending the requirement for payment of additional FRT for accessories and distributors' warranties from three months after registration to six months.</p>	<p>The requirements are built on existing anti-avoidance measures and are necessary to prevent tax avoidance through purchase of previously-exempted accessories/warranties after first registration. It helps to level the playing field for all providers of accessories and warranties. The registered distributors, associated persons and registered owners would be required to keep records of the distribution, sale and purchase of vehicles, and the accessories and warranties as applicable for 30 months from first registration for inspection when required (LC Paper No CB(1) 1483/02-03(07)).</p>
Exemptions for vehicles imported or orders placed before the Budget Day	HKRHDMA Motor Alliance Motorcycle Alliance Hong Kong Motorcycle Association Hong Kong Motorcycle of Commerce	Vehicles imported or order placed before the Budget Day should be taxed at the old rates.	<p>It has been the practice for FRT adjustments in the past that new rates were applied to all vehicles which have not been registered at the time when the changes took effect. This is also the practice for other tax measures, such as duties on alcohol and tobacco. Furthermore, there are practical difficulties in verifying the timing of orders placed by vehicle buyers. The</p>

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			<p>proposed exemption may lead to abuse by people submitting back-dated orders to achieve tax savings. As regards the suggestion to exempt cars imported before the Budget Day, the Administration considers it unjustified to exempt cars in the distributors' stocks, which may not be subsequently sold and registered in Hong Kong. According to the Administration's records, many of the cars imported into Hong Kong are never registered for use in Hong Kong but are eventually re-exported (LC Paper No. CB(1) 1352/02-03(04)).</p>