

財經事務及庫務局  
(庫務科)

香港下亞厘畢道  
中區政府合署

FINANCIAL SERVICES AND THE  
TREASURY BUREAU  
(The Treasury Branch)

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23 April 2003

Clerk to Subcommittee  
(Attn: Ms Connie Szeto)  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong  
(Fax no.: 2869 6794)

Dear Ms Szeto,

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

**Follow-up to meeting on 10 April 2003**

I refer to your letter of 11 April and provide the Administration's response to the questions raised by Members at the meeting of the Subcommittee on the Public Revenue Protection (Revenue) Order 2003 held on 10 April.

**Registration of private cars with companies as registered owner**

2. The numbers of private cars registered by companies in the months of January, February and March as well as the week before the Budget for each of the two years of 2002 and 2003 are set out in the table at *Annex A*.

### **Increase in retail price for representative private car models**

3. The 12 private car models which were selected for impact analysis (Annex C to the LegCo Brief on the Revenue Bill 2003) were all representative models with high numbers of first registration. As requested by Members, the names of the 12 selected are provided in the revised table at *Annex B*. The share of these models as a percentage of the total number of first registrations in 2001-02 and 2002-03 (up to 5 March 2003) is 17% and 15% respectively. Assuming no change in pricing strategies, the new tax rate system would lead to an increase in retail price inclusive of the tax component in a range between 5% and 27% for these models. As explained, while the proposed changes will bring about an increase in tax liability for the majority of private cars, the increase is merely due to the abolition of exemptions rather than any increase in the tax rate for the bulk of private cars.

### **Number of registered private cars which are new vehicles or second-hand after Budget**

4. The breakdown on number of private cars registered as brand new or “second-hand” vehicles in the periods before and after the announcement of the 2003-04 Budget is set out in the table at *Annex C*. The “second-hand” vehicles referred by Members include those previously registered outside Hong Kong before they are imported, as well as auctioned vehicles which are previously confiscated or used by the Government. The “second-hand” vehicles are also subject to FRT as they are first registered in Hong Kong. As can be seen from the table, the number of “second-hand” private cars has remained very stable in the pre- and post-Budget periods.

### **Private car registrations in the weeks in January - April**

5. Private car first registration figures, including weekly figures for the period before and after past years’ and this year’s Budgets are shown in the table at *Annex D*. There was usually a surge in the number of private car registrations in the pre-Budget period.

### **Impact on retail price and estimation on the amount of tax increases passed on to consumers**

6. Assuming no change in pricing strategies, the new tax rates would lead to an increase in retail price inclusive of the tax component in a range between 5% and 27% for the 12 representative models we have sampled. The Customs and Excise Department conducted a survey in March 2003. It is found that for five out of the 12 representative models, the retail prices had not increased by the full amount of the increase in tax liability. This was more common with higher-priced private cars. Vehicle dealers have absorbed 0.1% - 19% of the tax

increase for four of the models, and 74% for the remaining one. The vehicle dealers might have lowered their profit margin or shortened the warranty period.

### **Impact of FRT proposals on the motor trade and employment**

7. As explained, we expect the proposed adjustments would have some initial psychological impact on consumers but this impact will gradually fade over time. With the effect of the Budget rush, some time will be needed for the market to digest the surge in volume.

8. While the number of private car first registrations immediately after the Budget announcement slowed down, this has started to pick up again. The numbers of private car registrations for the three weeks beginning 24 March, 31 March, and 7 April respectively were 328, 317 and 325 respectively. These represent 56% to 57% of the 2002-03 weekly average.

9. The number of motorcycle first registrations in the week before the Budget this year has also risen before the Budget, and dropped immediately after Budget Day. The number has also started to pick up again and has risen back to its normal level. The numbers of motorcycle registrations for the three weeks beginning 24 March, 31 March, and 7 April were 91, 54 and 81 respectively. These represent 59% to 99% of the 2002-03 weekly average.

10. We understand from the trade that some prospective car buyers are adopting a wait-and-see approach. As the adjustment proposals are being considered by the Legislative Council, such buyers wish to await a decision on the tax rates before making purchase decisions. This could have contributed partly to the reduced number of first registrations after the Budget announcement.

11. More detailed analysis is provided in the paper prepared for the Bills Committee meeting for Revenue Bill 2003 to be held on 24 April.

Yours sincerely,

(M M Glass)

for Secretary for Financial Services and the Treasury

|      |               |                       |     |
|------|---------------|-----------------------|-----|
| c.c. | Law Draftsman | (Attn: Ms Monica Law) | w/e |
|      | C of C&E      | (Attn: Mr Chow Kwong) | w/e |
|      | C for T       | (Attn: Ms Zina Wong)  | w/e |

Annex A**Company owners and vehicle distributors registering two or more private cars**In January 2002

| Total no. of private cars registered | No. of company owners registering two or more private cars (No. of companies which are vehicle distributors) | No. of private cars registered by each of the companies/vehicle distributors | No. of company owners registering one private car |
|--------------------------------------|--|--|---|
| 2,953                                | 26 (0)   | 2  | 758   |
|                                      | 3 (1)  | 3  |   |
|                                      | 2 (1)  | 4  |   |
|                                      | 1 (0)  | 6  |   |
|                                      | 1 (0)  | 12   |   |
|                                      | 1 (1)  | 15   |   |
|                                      | 1 (1)  | 18   |   |

In February 2002

| Total no. of private cars registered | No. of company owners registering two or more private cars (No. of companies which are vehicle distributors) | No. of private cars registered by each of the companies/vehicle distributors | No. of company owners registering one private car |
|--------------------------------------|--|--|---|
| 1,849                                | 14 (0)   | 2  | 388   |
|                                      | 5 (1)  | 3  |   |
|                                      | 1 (0)  | 4  |   |
|                                      | 1 (1)  | 8  |   |
|                                      | 1 (0)  | 12   |   |
|                                      | 1 (1)  | 14   |   |
|                                      | 1 (1)  | 19   |   |

In March 2002

| Total no. of private cars registered | No. of company owners registering two or more private cars (No. of companies which are vehicle distributors) | No. of private cars registered by each of the companies/vehicle distributors | No. of company owners registering one private car |
|--------------------------------------|--|--|---|
| 2,239                                | 18 (0)   | 2  | 604   |
|                                      | 2 (0)  | 3  |   |
|                                      | 5 (0)  | 4  |   |
|                                      | 3 (1)  | 5  |   |
|                                      | 1 (1)  | 14   |   |
|                                      | 1 (1)  | 16   |   |

In the week before the 2002-03 Budget Day (6 March)

| Total no. of private cars registered | No. of company owners registering two or more private cars (No. of companies which are vehicle distributors) | No. of private cars registered by each of the companies/vehicle distributors | No. of company owners registering one private car |
|--------------------------------------|--|--|---|
| 673                                  | 7 (0)  | 2  | 187   |
|                                      | 1 (0)  | 4  |   |
|                                      | 1 (0)  | 5  |   |

In January 2003

| Total no. of private cars registered | No. of company owners registering two or more private cars (No. of companies which are vehicle distributors) | No. of private cars registered by each of the companies/vehicle distributors | No. of company owners registering one private car |
|--------------------------------------|--|--|---|
| 2,635                                | 24 (2)   | 2  | 750   |
|                                      | 3 (1)  | 3  |   |
|                                      | 5 (0)  | 4  |   |
|                                      | 1 (0)  | 5  |   |
|                                      | 1 (0)  | 8  |   |
|                                      | 1 (1)  | 10   |   |
|                                      | 1 (0)  | 12   |   |
|                                      | 1 (1)  | 13   |   |
|                                      | 1 (1)  | 19   |   |

In February 2003

| Total no. of private cars registered | No. of company owners registering two or more private cars (No. of companies which are vehicle distributors) | No. of private cars registered by each of the companies/vehicle distributors | No. of company owners registering one private car |
|--------------------------------------|--|--|---|
| 2,146                                | 22 (2)   | 2  | 544   |
|                                      | 4 (1)  | 3  |   |
|                                      | 3 (1)  | 5  |   |
|                                      | 1 (0)  | 6  |   |
|                                      | 1 (1)  | 9  |   |
|                                      | 1 (0)  | 11   |   |
|                                      | 1 (1)  | 58   |   |

In March 2003

| Total no. of private cars registered | No. of company owners registering two or more private cars (No. of companies which are vehicle distributors) | No. of private cars registered by each of the companies/vehicle distributors | No. of company owners registering one private car |
|--------------------------------------|--|--|---|
| 1,655                                | 24 (3)   | 2  | 571   |
|                                      | 2 (0)  | 3  |   |
|                                      | 1 (0)  | 4  |   |
|                                      | 3 (0)  | 5  |   |
|                                      | 1 (0)  | 6  |   |
|                                      | 2 (1)  | 10   |   |
|                                      | 1 (0)  | 13   |   |
|                                      | 1 (1)  | 39   |   |

In the week before the 2003-04 Budget Day (5 March)

| Total no. of private cars registered | No. of company owners registering two or more private cars (No. of companies which are vehicle distributors) | No. of private cars registered by each of the companies/vehicle distributors | No. of company owners registering one private car |
|--------------------------------------|--|--|---|
| 1,636                                | 14 (2)   | 2  | 534   |
|                                      | 1 (0)  | 3  |   |
|                                      | 1 (0)  | 5  |   |
|                                      | 1 (1)  | 6  |   |
|                                      | 1 (0)  | 12   |   |
|                                      | 1 (1)  | 14   |   |

## Impact analysis of 2003-04 Budget proposals on individual private car models

| Vehicle Model                 | Old tax system #                          |                                 |   |   |  |  | New tax system @  |   |  |  |  |  |
|-------------------------------|---|---------------------------------|---|---|--|--|---|---|--|--|--|--|
|                               | (I)<br>Taxable value under old FRT regime | (II)<br>Value of exempted items | (III)<br>Tax under old FRT regime (<=\$100,000@40%<br>\$100,001-\$200,000@45%<br>\$200,001-\$300,000@50%<br>>\$300,000@60%) | (IV)<br>Old tax as % of old taxable value | (V)<br>Retail price (including the old taxable value) under old FRT regime | (VI)<br>Old tax as % of old retail price (including the old taxable value) | (VII)<br>New taxable value after including exempted items | (VIII)<br>Tax under new FRT regime (First \$150,000@35%<br>Next \$150,000@75%<br>Next \$200,000@105%<br>Value>\$500,000@150%) | (IX)<br>New retail price (including the new taxable value) | (X)<br>New tax as % of new taxable value | (XI)<br>New tax as % of new retail price (including the new taxable value) | (XII)<br>% difference in retail price (including the taxable value) after tax increase |
| Toyota Picnic                 | 88,700                                    | 63,820                          | 35,480  | 40%                                       | 188,000  | 19%  | 152,520   | 53,382  | 205,902  | 35%                                      | 26%  | 10%  |
| Toyota Corolla                | 61,300                                    | 54,080                          | 24,520  | 40%                                       | 139,900  | 18%  | 115,380   | 40,383  | 155,763  | 35%                                      | 26%  | 11%  |
| Toyota Echo                   | 34,700                                    | 30,420                          | 13,880  | 40%                                       | 79,000   | 18%  | 65,120  | 22,792  | 87,912   | 35%                                      | 26%  | 11%  |
| Toyota Camry                  | 106,500                                   | 63,500                          | 47,925  | 45%                                       | 217,925  | 22%  | 170,000   | 67,500  | 237,500  | 40%                                      | 28%  | 9%   |
| Mercedes C200k - Classic      | 157,000                                   | 35,700                          | 70,650  | 45%                                       | 263,350  | 27%  | 192,700   | 84,525  | 277,225  | 44%                                      | 30%  | 5%   |
| Mercedes E240V6 - Avantgarde  | 250,000                                   | 61,000                          | 125,000   | 50%                                       | 436,000  | 29%  | 311,000   | 176,550   | 487,550  | 57%                                      | 36%  | 12%  |
| Mercedes ML320                | 217,000                                   | 61,000                          | 108,500   | 50%                                       | 386,500  | 28%  | 278,000   | 148,500   | 426,500  | 53%                                      | 35%  | 10%  |
| Lexus - LS430                 | 415,300                                   | 125,520                         | 249,180   | 60%                                       | 790,000  | 32%  | 540,820   | 436,230   | 977,050  | 81%                                      | 45%  | 24%  |
| Mercedes S320L                | 366,000                                   | 53,000                          | 219,600   | 60%                                       | 638,600  | 34%  | 419,000   | 289,950   | 708,950  | 69%                                      | 41%  | 11%  |
| Mercedes S350L                | 480,000                                   | 70,700                          | 288,000   | 60%                                       | 838,700  | 34%  | 550,700   | 451,050   | 1,001,750  | 82%                                      | 45%  | 19%  |
| BMW - 735I                    | 530,000                                   | 106,400                         | 318,000   | 60%                                       | 954,400  | 33%  | 636,400   | 579,600   | 1,216,000  | 91%                                      | 48%  | 27%  |
| Porsche - 911 Carrera 4 Coupe | 654,625                                   | 52,600                          | 392,775   | 60%                                       | 1,100,000  | 36%  | 707,225   | 685,838   | 1,393,063  | 97%                                      | 49%  | 27%  |

# Old tax system refers to the system which was in place before 2:30 p.m. on 5 March 2003 when the Public Revenue Protection Order took effect.

@ New tax system refers to the system which is in effect since 2:30 p.m. on 5 March 2003 after the Public Revenue Protection Order took effect.

**First Registration of private cars before and after 2003-04 Budget**

| Period                | Number of First Registration of private cars |                      | Total |
|-----------------------|--|----------------------|-------|
|                       | Brand new vehicles (Note)                    | "Second-hand" (Note) |       |
| 20 Feb - 26 Feb 2003  | 561  | 23                   | 584   |
| 27 Feb - 5 Mar 2003 * | 1611   | 25                   | 1636  |
| 6 Mar - 12 Mar 2003   | 30   | 29                   | 59    |
| 13 Mar - 19 Mar 2003  | 97   | 30                   | 127   |
| 20 Mar - 26 Mar 2003  | 214  | 22                   | 236   |
| 27 Mar - 2 Apr 2003   | 347  | 31                   | 378   |
| 3 Apr - 9 Apr 2003    | 235  | 33                   | 268   |

\* 2003-04 Budget Day

Note

The brand new vehicles represent those vehicles not registered outside Hong Kong when imported into Hong Kong and first registered.

The "second-hand" vehicles include those previously registered outside Hong Kong before they are subsequently imported into Hong Kong and auctioned vehicles which are vehicles previously used by the government or confiscated vehicles.



|           | Total FRT revenue for all vehicles types (\$million) | Date of Budget | No. of private cars first registration |          |           |           |           |           |          |          |           |           |           |         |          |           |           |           |           |           |          |           |           |           |           |           | One week before Budget Day or date of change of tax rate / system | One week after Budget Day or date of change of tax rate / system | One month before Budget Day or date of change of tax rate / system | One month after Budget Day or date of change of tax rate / system | Total number of first registration | Monthly Average | Weekly Average |     |
|-----------|--|----------------|--|----------|-----------|-----------|-----------|-----------|----------|----------|-----------|-----------|-----------|---------|----------|-----------|-----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|-----------|-----------|---|--|--|---|------------------------------------|-----------------|----------------|-----|
|           |  |                | January                                |          |           |           |           |           | February |          |           |           |           | March   |          |           |           |           | April     |           |          |           |           |           |           |           |   |  |  |   |                                    |                 |                |     |
|           |  |                | Week 1                                 | Week 2   | Week 3    | Week 4    | Week 5    | Week 6    | Week 1   | Week 2   | Week 3    | Week 4    | Week 5    | Week 1  | Week 2   | Week 3    | Week 4    | Week 5    | Week 6    | Week 1    | Week 2   | Week 3    | Week 4    | Week 5    | Week 6    |           |   |  |  |   |                                    |                 |                |     |
| 1997-98   | 4,246  | 12.3.1997      | 1-4 Jan                                | 5-11 Jan | 12-18 Jan | 19-25 Jan | 26-31 Jan |           | 1 Feb    | 2-8 Feb  | 9-15 Feb  | 16-22 Feb | 23-28 Feb |         | 1 Mar    | 2-8 Mar   | 9-15 Mar  | 16-22 Mar | 23-29 Mar | 30-31 Mar |          | 1-5 Apr   | 6-12 Apr  | 13-19 Apr | 20-26 Apr | 27-30 Apr |   | 651  | 772  | 2,551   | 3,301                              | 44,056          | 3,671          | 847 |
| 1998-99   | 2,237  | 18.2.1998      | 1-3 Jan                                | 4-10 Jan | 11-17 Jan | 18-24 Jan | 25-31 Jan |           | 1-7 Feb  | 8-14 Feb | 15-21 Feb | 22-28 Feb |           | 1-7 Mar | 8-14 Mar | 15-21 Mar | 22-28 Mar | 29-31 Mar |           | 1-4 Apr   | 5-11 Apr | 12-18 Apr | 19-25 Apr | 26-30 Apr |           | 522       | 507   | 3,167  | 3,021  | 29,641  | 2,470                              | 570             |                |     |
| 1999-2000 | 2,613  | 3.3.1999       | 1-2 Jan                                | 3-9 Jan  | 10-16 Jan | 17-23 Jan | 24-30 Jan | 31 Jan    | 1-6 Feb  | 7-13 Feb | 14-20 Feb | 21-27 Feb | 28 Feb    | 1-6 Mar | 7-13 Mar | 14-20 Mar | 21-27 Mar | 28-31 Mar |           | 1-3 Apr   | 4-10 Apr | 11-17 Apr | 18-24 Apr | 25-30 Apr |           | 324       | 483   | 1,306  | 2,157  | 32,231  | 2,686                              | 620             |                |     |
| 2000-01   | 3,025  | 8.3.2000       | 1 Jan                                  | 2-8 Jan  | 9-15 Jan  | 16-22 Jan | 23-29 Jan | 30-31 Jan | 1-5 Feb  | 6-12 Feb | 13-19 Feb | 20-26 Feb | 27-29 Feb | 1-4 Mar | 5-11 Mar | 12-18 Mar | 19-25 Mar | 26-31 Mar |           | 1 Apr     | 2-8 Apr  | 9-15 Apr  | 16-22 Apr | 23-29 Apr | 30 Apr    | 2,030     | 200   | 3,780  | 1,877  | 34,346  | 2,862                              | 661             |                |     |
| 2001-02   | 2,676  | 7.3.2001       | 1-6 Jan                                | 7-13 Jan | 14-20 Jan | 21-27 Jan | 28-31 Jan |           | 1-3 Feb  | 4-10 Feb | 11-17 Feb | 18-24 Feb | 25-28 Feb | 1-3 Mar | 4-10 Mar | 11-17 Mar | 18-24 Mar | 25-31 Mar |           | 1-7 Apr   | 8-14 Apr | 15-21 Apr | 22-28 Apr | 29-30 Apr |           | 1,701     | 343   | 3,789  | 2,217  | 33,274  | 2,773                              | 640             |                |     |
| 2002-03   | 2,605 α  | 6.3.2002       | 1-5 Jan                                | 6-12 Jan | 13-19 Jan | 20-26 Jan | 27-31 Jan |           | 1-2 Feb  | 3-9 Feb  | 10-16 Feb | 17-23 Feb | 24-28 Feb | 1-2 Mar | 3-9 Mar  | 10-16 Mar | 17-23 Mar | 24-30 Mar | 31 Mar    | 1-6 Apr   | 7-13 Apr | 14-20 Apr | 21-27 Apr | 28-30 Apr |           | 673       | 415   | 1,760  | 2,042  | 29,687  | 2,474                              | 571             |                |     |
| 2003-04   |  | 5.3.2003 @     | 1-4 Jan                                | 5-11 Jan | 12-18 Jan | 19-25 Jan | 26-31 Jan |           | 1 Feb    | 2-8 Feb  | 9-15 Feb  | 16-22 Feb | 23-28 Feb | 1 Mar   | 2-8 Mar  | 9-15 Mar  | 16-22 Mar | 23-29 Mar | 30-31 Mar | 1-5 Apr   | 6-12 Apr |           |           |           |           | 1,636     | 59  | 3,026  | 581 ^  |   |                                    |                 |                |     |

Note: The data is captured as at 14.4.2003

\* Change of tax rates

# Change of tax system w.e.f. 1.8.1994

@ Change of tax system and rates w.e.f. 5.3.2003

^ Statistics up to 28 March 2003

α 2002-03 Revised Estimate