

7 May 2003

Mrs. Mary Tang
Bills Committee
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Mrs. Tang,

Thank you for your letter of April 25, 2003 inviting us to submit our views on the Revenue Bill 2003, relating to the motor vehicles first registration tax ("FRT").

The FRT proposal is a part of the revenue proposals in the 2003-04 Budget. One primary objective of the proposals has been eliminating Hong Kong's structural deficit before 2006-07 by raising additional revenues from various sources. As we understand it, the government intends to spread the additional financial burden among a wide spectrum of the members of the society and the proposal relating to the FRT is believed to be a measure that will have a greater impact on the more affluent group of citizens.

However, the FRT is an indirect tax on transactions; it actually affects all parties involved in the transactions including car buyers, dealers, salesmen, and insurance agents. It also suppresses the consumption of cars and other complementary goods and services. Accordingly, determining who would actually bear the tax burden is anything but straightforward. According to our observation, the car dealers have not been able to shift the burden to the buyers and at a time of deflation, the dealers and their salesmen have to share the burden in the main. As a result, jobs, consumption and income are destroyed in the process. Clearly, this is not the intended effect of the FRT proposal.

Since this measure is inconsistent with the broader objective of boosting consumption for growth and is evidently at odds with the original policy objective of collecting more FRT revenue from the expensive car buyers, we suggest the proposed FRT measures be withdrawn.

Yours sincerely,

Joseph Fu
President

c.c. Council Members of The Taxation Institute of Hong Kong