

**For information  
on 16 May 2003**

**Bills Committee on Revenue Bill 2003  
Administration's comments on trade submissions**

<b>(I) Motor Traders Association of Hong Kong</b>	
<ul style="list-style-type: none"> <li>● Supportive of the new tax structure.</li> <li>● Proposed high tax rates has severely damaging effect on the automotive trade. This in turn would not generate the increase in revenue the Government is seeking.</li> <li>● Counter-propose reducing the tax rates for the second to fourth marginal tax bands to 60%, 85% and 105%.</li> <li>● Motor traders that only operate in the single-brand high-end price sector are under enormous pressure.</li> <li>● Trader's margins are thin. Foreign exchange rates movements have already cut deeply into dealers' margins. Very few distributors would have the ability to adjust their margins to make up for the increase in retail price.</li> </ul>	<ul style="list-style-type: none"> <li>● Slow-down in car sales should only be temporary. Car sales should pick up after the initial psychological impact of the tax increase on consumers has faded. This should have a limited impact on the business and employment situation of trade.</li> <li>● Impact of the proposals is higher for more expensive private cars. Nevertheless, these represent only a small portion of the private car market in Hong Kong (6%, or 1,800 of the private cars first registered in 2002-03 had taxable value in excess of \$500,000). For the bulk (i.e. 94%) of private cars, increase in retail price is projected to range between 5% - 12% based on the Government's representative model analysis.</li> <li>● According to a survey by the Customs and Excise Department in March 2003, for five out of the 12 representative models, the retail prices had not increased by the full amount of the increase in tax liability. Vehicle distributors have absorbed 0.1% - 19% of the tax of four of the models, and 74% for the remaining one.</li> <li>● There was surge in private car registrations in the week before the Budget this year. Market has needed time to digest this surge in volume. While the number of first registrations immediately after the Budget announcement slowed down, this has started to pick up gradually as expected.</li> <li>● In the month following the Budget announcement, there were 898 first</li> </ul>

<ul style="list-style-type: none"> <li>● Disagree that the high FRT rates would only cause a short-term dip in new car sales. In the wake of SARS, the association strenuously object to such assessment.</li> <li>● Licences in units in April plummeted by 51% when compared with January. Closures in units dropped by 60%.</li> <li>● The real drop in first registration could be more along the lines of 30% instead of 15%. With MTA's proposed rates, MTA predicts that the drop would be around 18% instead of 30%. The additional revenue gain for Government would be \$308 million.</li> <li>● According to a recent survey of MTA members, 92% of respondents plan to lay off workers. 38% of MTA members have already laid off staff this year. On average, respondents will lay off 20% of their staff. 61% of MTA Members will put forward salary cuts / unpaid leave schemes or they have already done so this year.</li> </ul>	<p>registrations for private cars, representing 36% of the monthly average for 2002-03. In the second month after Budget announcement, the number rose to 1,353, representing 55% of the 2002-03 monthly average. The most recent figures are 422 registrations for the week beginning 28 April, representing some 74% of the 2002-03 weekly average. The sales situation is therefore gradually picking up.</p> <ul style="list-style-type: none"> <li>● No evidence of significant adverse impact on car sales.</li> <li>● Similar sales pattern was observed when we last adjusted FRT rates in 1990-91 and 1991-92. At the end of both financial years, the tax increases yielded significant additional revenue.</li> <li>● Though the sales situation is expected to pick up gradually, our estimate of additional revenue has taken into account the possibility of distributors changing their pricing strategy (drop in average tax payable by 10%) and possible drop in sales (by 15%).</li> <li>● As an immediate relief for businesses to tide over cashflow and business difficulties during the outbreak of SARS, the Administration has put in place a \$3.5 million loan guarantee scheme. Vehicle distributors should be eligible for the scheme if they are suffering from business losses due to the SARS outbreak.</li> <li>● According to the records of Companies Registry, from 5 March to 12 May 2003, no active vehicle distributor which is a limited company has commenced winding up (including voluntary and compulsory winding up). According to the Inland Revenue Department, during the same period, one distributor has ceased its business registration. We cannot ascertain if these have anything to do with the FRT proposals.</li> </ul>
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<ul style="list-style-type: none"> <li>● Immediate danger of 2,400 redundancies.</li> </ul>	<ul style="list-style-type: none"> <li>● About 12,330 persons are engaged in the wholesale, retail and import and export trade of motor vehicles, motorcycles and bicycles.</li> <li>● MTA's counter-proposal would be less progressive than Government's proposal, and would bring less revenue for the Government.</li> </ul>
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<b><u>(II) Hong Kong Right Hand Drive Motors Association Limited</u></b>	
<ul style="list-style-type: none"> <li>● Sales volumes of private cars over \$0.3 m, \$0.5 m and \$1 m have dropped to 40%, 25% and below 10% respectively.</li> <li>● According to a survey, 77% of respondents considered the FRT increase as high or very high; 63.4% had their intention to buy a car affected; 63.5% would not consider to buy a car for the time being; 66% trade practitioners saw a drop in business; and 66.7% trade practitioners saw a drop or significant drop in commission in the past month.</li> <li>● A good number of distributors had cashflow problem, and were forced to lay off staff or close down. Might lead to unemployment of over 1,000.</li> <li>● According to a</li> </ul>	<ul style="list-style-type: none"> <li>● Slow-down in car sales should only be temporary. Car sales should pick up after the initial psychological impact of the tax increase on consumers has faded. This should have a limited impact on the business and employment situation of trade.</li> <li>● In the month following the Budget announcement, there were 898 first registrations for private cars, representing 36% of the monthly average for 2002-03. In the second month after Budget announcement, the number rose to 1,353, representing 55% of the 2002-03 monthly average. The most recent figures are 422 registrations for the week beginning 28 April, representing some 74% of the 2002-03 weekly average. The sales situation is therefore gradually picking up as expected.</li> <li>● No evidence of significant adverse impact on car sales.</li> <li>● According to TD's record, in the first month after Budget announcement, the number of registrations of private cars with a taxable value (including formerly tax-exempted items) over \$500,000 was 76, representing 47% of the 2002-03 monthly average. In the second month after Budget announcement, the number has increased to 97, representing 60% of the 2002-03 monthly average. Registrations of private cars over \$500,000 actually outperformed the overall average for the cars in other tax bands.</li> </ul>

<p>company providing vehicle repossession and debt collection service, from 15 March to 30 April, more than four vehicle trading companies had closed down and over 50 secured vehicles had been repossessed.</p> <ul style="list-style-type: none"> <li>● Short of supply in the second-hand vehicle market. This would lead to closures of second-hand vehicle dealers. 20% of the renters at the Association's exhibition venue at Kai Tak had ceased operation.</li> <li>● Car owners might commit an offence if he forgot to declare to TD anti-theft devices and audio equipment after first registration. The business of accessories companies was affected.</li> <li>● According to a sample survey, retail price of private cars would increase by 12% - 100% (vis-à-vis 5% - 27% according to Administration's representative model analysis).</li> <li>● The Administration's argument that the FRT increases would only</li> </ul>	<ul style="list-style-type: none"> <li>● According to the records of the Companies Registry, from 5 March to 12 May 2003, no active vehicle distributor which is a limited company has commenced winding up (including voluntary and compulsory winding up). According to the Inland Revenue Department, during the same period, one distributor has ceased its business registration. We cannot ascertain if these have anything to do with the FRT proposals.</li> <li>● About 12,330 persons are engaged in the wholesale, retail and import and export trade of motor vehicles, motorcycles and bicycles.</li> <li>● There were about 10,000 persons who were engaged in the servicing and repairing of motor vehicles and motorcycles as at March 2002. This group might benefit if people tend to hold on to their existing vehicles for a longer period.</li> <li>● The post-registration declaration requirement is not new. The penalty level is also in line with what is now in the law. The purpose of the requirement is to avoid tax evasion by procurement of accessories and warranties after first registration. We used to require declaration and payment of additional tax for accessories fitted by registered distributors within three months from first registration. To level the playing field for all traders and to avoid tax avoidance, we propose to extend the requirement to accessories and warranties provided by <i>any persons</i>, apart from registered distributors. We also propose to extend the period from three to six months to avoid abuse and in response to MTA's suggestion.</li> <li>● RHDMA's counter-proposal would be much less progressive than Government's proposal, particularly because of the removal of the top marginal tax band. It would also bring less revenue for the Government.</li> <li>● Exclusion of orders placed before the Budget</li> </ul>
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<p>have relatively significant effect on only 6% (private cars over \$500,000) of the market was misleading, because these cars contribute to over 30% of the total FRT revenue.</p> <ul style="list-style-type: none"> <li>● The absence of labour disputes involving vehicle dealers (as pointed out by the Administration) did not mean that there was no lay off in the trade. Since the second half of March, a Japanese dealer had laid off 50 salesmen, 35 office staff and 30 repair centre staff. Another dealer had laid off 30 staff. There were also a number of reports of lay off and wage cut from parallel importers.</li> <li>● Counter-propose reducing the tax rates for the second to fourth marginal tax bands to 55%, 75% and 75%.</li> <li>● Support abolition of the tax exempted items.</li> <li>● Government should withdraw the requirement for declaring and paying</li> </ul>	<p>announcement is not in line with established practice nor the spirit of levying the motor vehicles FRT. FRT is a tax on the registration of vehicles for use in Hong Kong. When FRT rates are changed, the new rates always apply to all vehicles which have not been registered at the time when the changes take effect. This has been the practice in the past for the FRT adjustments of 1990-91 and 1991-92 and is also the practice for other tax measures, such as duties on alcohol and tobacco.</p> <ul style="list-style-type: none"> <li>● Any exemption for cars on order is difficult to enforce. The major difficulty lies in verifying whether sale and purchase has occurred or a deposit has been paid on a particular date. There will be an incentive for people to submit back-dated or fabricated documents to achieve tax savings. Even if a case appeared suspicious, investigations may be very difficult as they would have to rely on the voluntary co-operation of the vehicle sellers and buyers. Documentary proof may not be available in all cases for verification of the date of sale and purchase or payment of deposit. Please see our letter to the LegCo ALA commenting on his draft CSA to exempt existing orders for details.</li> </ul>
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<p>FRT for accessories fitted within six months after first registration for reasons on double taxation and practical difficulty in enforcement.</p> <ul style="list-style-type: none"> <li>● Subject vehicles for which distributors had placed orders with overseas entities before 5 March to the old FRT regime.</li> </ul>	
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<p><b><u>(III) Stuttgart Motors Holdings Ltd</u></b></p>	
<ul style="list-style-type: none"> <li>● The tax increase would discourage car purchase, leading to reduction in tax revenue.</li> <li>● Use of old vehicles on the roads in Hong Kong will bring about environmental problem.</li> <li>● In addition to parallel importers, related trades e.g. repairers and second-hand vehicle dealers will also be affected, leading to unemployment.</li> <li>● A number of distributors have laid-off staff or closed down since Budget announcement.</li> </ul>	<ul style="list-style-type: none"> <li>● Slow-down in car sales should only be temporary. Car sales should pick up after the initial psychological impact of the tax increase on consumers has faded. This should have a limited impact on the business and employment situation of trade.</li> <li>● Though the sales situation is expected to pick up gradually, our estimate of additional revenue has taken into account the possibility of distributors changing their pricing strategy (drop in average tax payable by 10%) and possible drop in sales (by 15%).</li> <li>● According to the records of the Companies Registry, from 5 March to 12 May 2003, no active vehicle distributor which is a limited company has commenced winding up (including voluntary and compulsory winding up). According to the Inland Revenue Department, during the same period, one distributor has ceased its business registration. We cannot ascertain if these have anything to do with the FRT proposals.</li> <li>● About 12,330 persons are engaged in the wholesale, retail and import and export trade of</li> </ul>

<ul style="list-style-type: none"> <li>Counter-propose reducing the tax rates for the second to fourth marginal tax bands to 55%, 75% and 95%.</li> </ul>	<p>motor vehicles, motorcycles and bicycles.</p> <ul style="list-style-type: none"> <li>There were about 10,000 persons who were engaged in the servicing and repairing of motor vehicles and motorcycles as at March 2002. This group might benefit if people tend to hold on to their existing vehicles for a longer period.</li> <li>We expect that slow-down in sales of new cars should only be temporary. Even if more people hold on to their old vehicles for longer time, all vehicles are required to comply with air pollution legislation. For example, the older and more polluting pre-Euro diesel light vehicles will be required to be retrofitted with emission reduction devices under a new regulation to be introduced in mid-2003. Commercial vehicles over one year old and private cars over six years old are subject to annual roadworthiness inspection (including emission test) before licence renewal. We expect that older vehicles complying with legislation will not aggravate air pollution.</li> <li>Stuttgart's counter-proposal would be less progressive than Government's proposal, and would bring less revenue for the Government.</li> </ul>
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<p><b><u>(IV) Taxation Institute of Hong Kong</u></b></p>	
<ul style="list-style-type: none"> <li>The FRT proposals affect car buyers, dealers, salesmen and insurance agents, and suppress the consumption of cars and other complementary goods and services.</li> <li>Car dealers have not been able to shift the burden to the buyers and at a time of</li> </ul>	<ul style="list-style-type: none"> <li>Slow-down in car sales should only be temporary. Car sales should pick up after the initial psychological impact of the tax increase on consumers has faded. This should have a limited impact on the business and employment situation of trade.</li> <li>Private car registration numbers are gradually rising to 74% of the weekly average of 2002-03 in the week commencing 28 April. No evidence of significant adverse impact on car sales.</li> <li>Though the sales situation is expected to pick up</li> </ul>

<p>deflation, the dealers and their salesmen have to share the burden in the main.</p> <ul style="list-style-type: none"> <li>• Jobs, consumption and income are destroyed as a result.</li> <li>• The FRT proposals should be withdrawn as they are at odds with the original policy objective of collecting more FRT.</li> </ul>	<p>gradually, our estimate of additional revenue has taken into account the possibility of distributors changing their pricing strategy (drop in average tax payable by 10%) and possible drop in sales (by 15%).</p> <ul style="list-style-type: none"> <li>• About 12,330 persons are engaged in the wholesale, retail and import and export trade of motor vehicles, motorcycles and bicycles.</li> <li>• There were about 10,000 persons who were engaged in the servicing and repairing of motor vehicles and motorcycles as at March 2002. This group might benefit if people tend to hold on to their existing vehicles for a longer period.</li> <li>• According to a study carried out by the Government Economist, the Budget proposals on FRT would not have a significant effect on the economy as a whole. The effect of the increases on GDP growth is estimated to be very insignificant, amounting to less than a hundredth of a percentage point.</li> </ul>
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<b><u>(V) Motorcycle Union and Hong Kong Motorcycle Association</u></b>	
<ul style="list-style-type: none"> <li>• Assuming that a motorcycle and a private car are both worth \$60,000, the tax payable for the motorcycle would be \$3,000 more than the private car.</li> <li>• The Administration is wrong to say that the impact of the FRT proposals of the motorcycle trade is small.</li> <li>• About 10% of motorcycles are used for transport of</li> </ul>	<ul style="list-style-type: none"> <li>• Motorcycles normally do not have air-conditioners and audio-equipment. According to a survey we conducted, motorcycles are usually provided with one or two of the items exempted under the old taxation regime. Compared with private cars which are usually fitted with three to four such items, the impact of abolishing exemptions is significantly higher on private cars than on motorcycles.</li> <li>• The price, hence taxable value, of motorcycles is generally much lower than that of private cars. Direct comparison cannot be made between a private car and a motorcycle of the same value.</li> <li>• Based on the published retail price of the motorcycles registered in 2002-03, their price inclusive of the tax component should rise by 8%, or \$2,771, on average after the abolition of</li> </ul>



<p>goods. It is not fair that the tax rate for motorcycles is higher than all vehicles.</p> <ul style="list-style-type: none"> <li>• The tax rate for motorcycles should be reduced to 32%.</li> </ul>	<p>the exempted items, assuming no change in pricing strategies. This is smaller than the projected increase in retail price of 11% for the representative models of lower-priced private cars with taxable value below \$150,000.</p> <ul style="list-style-type: none"> <li>• The counter-proposal will yield less additional revenue for the Government.</li> </ul>
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<b>(VI) Hong Kong Motorcycle of Commerce</b>	
<ul style="list-style-type: none"> <li>• Support removal of tax exempted items.</li> <li>• Five distributors have closed down. Over 50 people have been laid off.</li> <li>• Registrations of new motorcycles, particularly the expensive ones, have reduced drastically.</li> <li>• The Administration will not receive additional revenue as expected because of the impact of the FRT proposals. For example, the sales value of a distributor has dropped by 40% in 2003 over 2002.</li> <li>• More use of old motorcycles on the roads in Hong Kong will bring about environmental problem.</li> <li>• The tax rate for motorcycles should be reduced to 32%.</li> </ul>	<ul style="list-style-type: none"> <li>• Slow-down in car sales should only be temporary. Car sales should pick up after the initial psychological impact of the tax increase on consumers has faded. This should have a limited impact on the business and employment situation of trade.</li> <li>• There were 105 motorcycle first registrations in the week before the Budget this year. The market has needed some time to digest this surge in volume. The number dropped to 61 for the week from 6 to 12 March. However, this has started to rise after this initial period. For the month following the Budget announcement there were 316 first registrations for motorcycles. For the second month after, the number rose to 321, representing some 87% of the monthly average of 368 for 2002-03.</li> <li>• According to the records of the Companies Registry, from 5 March to 12 May 2003, no active vehicle distributor which is a limited company has commenced winding up (including voluntary and compulsory winding up). According to the Inland Revenue Department, during the same period, one distributor has ceased its business registration. We cannot ascertain if these have anything to do with the FRT proposals.</li> <li>• About 12,330 persons are engaged in the wholesale, retail and import and export trade of motor vehicles, motorcycles and bicycles.</li> <li>• We expect that slow-down in sales of new cars</li> </ul>

	<p>should only be temporary. Even if more people hold on to their old vehicles for longer time, all vehicles are required to comply with air pollution legislation. In any case, motorcycles, which are driven by petrol, are relatively much more environmentally-friendly than diesel-driven vehicles.</p> <ul style="list-style-type: none"> <li>• The counter-proposal will yield less additional revenue for the Government.</li> </ul>
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<b>(VII) Hong Kong Vehicle Repair Merchants Association Ltd</b>	
<ul style="list-style-type: none"> <li>• The vehicle repair industry has operational difficulties after the increase in FRT because the number of new cars will reduce. For the old cars, some car owners will scrap the vehicles as maintenance and repair costs increase with the age of the vehicles.</li> <li>• Vehicle distributors have lengthened warranty period to 4 - 5 years in order to attract more customers. Vehicle repairers have lowered their fees in view of competition, while placing less emphasis on technique and quality.</li> </ul>	<ul style="list-style-type: none"> <li>• Slow-down in car sales should only be temporary. Car sales should pick up after the initial psychological impact of the tax increase on consumers has faded. This should have a limited impact on the business and employment situation of trade.</li> <li>• No evidence of significant adverse impact on car sales.</li> <li>• There were about 10,000 persons who were engaged in the servicing and repairing of motor vehicles and motorcycles as at March 2002. This group might benefit if people tend to hold on to their existing vehicles for a longer period.</li> </ul>

**(VIII) Hong Kong Auto (Parts & Machinery) Association Ltd**

<ul style="list-style-type: none"><li>• The FRT proposals will not raise additional revenue.</li><li>• Many motor traders have laid off staff or closed down.</li><li>• Increased use of old vehicles as a result of the FRT proposals will lead to more traffic congestion, accidents and serious air pollution.</li><li>• Government should shelve the FRT increase and implement the scrapping incentive scheme for private cars again.</li></ul>	<ul style="list-style-type: none"><li>• Slow-down in car sales should only be temporary. Car sales should pick up after the initial psychological impact of the tax increase on consumers has faded. This should have a limited impact on the business and employment situation of trade.</li><li>• Private car registration numbers are gradually rising to 74% of the weekly average of 2002-03 in the week commencing 28 April. No evidence of significant adverse impact on car sales.</li><li>• Though the sales situation is expected to pick up gradually, our estimate of additional revenue has taken into account the possibility of distributors changing their pricing strategy (drop in average tax payable by 10%) and possible drop in sales (by 15%).</li><li>• According to the records of the Companies Registry, from 5 March to 12 May 2003, no active vehicle distributor which is a limited company has commenced winding up (including voluntary and compulsory winding up). According to the Inland Revenue Department, during the same period, one distributor has ceased its business registration. We cannot ascertain if these have anything to do with the FRT proposals.</li><li>• About 12,330 persons are engaged in the wholesale, retail and import and export trade of motor vehicles, motorcycles and bicycles.</li><li>• We expect that slow-down in sales of new cars should only be temporary. Even if more people hold on to their old vehicles for longer time, all vehicles are required to comply with air pollution legislation. For example, the older and more polluting pre-Euro diesel light vehicles will be required to be retrofitted with emission reduction devices under a new regulation to be introduced in mid-2003. Commercial vehicles over one</li></ul>
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	<p>year old and private cars over six years old are subject to annual roadworthiness inspection (including emission test) before licence renewal. We expect that older vehicles complying with legislation will not aggravate air pollution.</p> <ul style="list-style-type: none"><li>• The annual roadworthiness test will also ensure the safety of vehicles. In this respect, the test covers brake, steering, suspension, tyres, vehicle body, lighting, emission system, safety items and seat belts.</li></ul>
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