

22 May 2003

The Honourable Audrey Eu
Chairlady
Bills Committee on Revenue Bill 2003
c/o Legislative Council Secretariat
3rd Floor, Citibank Tower
3 Garden Road, Central
Hong Kong

Dear Ms Eu

First Registration Tax: a follow-up from the Motor Traders' Association

It was extremely valuable to have the opportunity to present to you and other Bills Committee members the concerns of the Motor Traders' Association on plans to reform and raise First Registration Tax on new vehicles. We hope the information we provided will be of help to the committee in its deliberations. In light of issues raised during the meeting – and potentially arising in future deliberations – we would like to follow up with some additional points and clarifications.

First, we recall that the Finance Bureau continues to forecast a moderately speedy recovery in car sales after a temporary fall following the budget announcement. Their spokesman pointed to a recovery in sales late in April as confirmation of this predicted recovery. We need to emphasise that this “improvement” is highly misleading and is in no way reflected in the April data, which show sales at 55% of the 2002-03 weekly average. Not only does the Government data take no account of the difference between registrations, and new sales, but in addition it coincided with specific and fleeting factors:

- Customers who ordered cars before March 5 were taking delivery with price concessions from car dealers.
- Car dealers were taking losses on these transactions, which would be recorded as cars sold in the 2002-03 model and manufacturing year.

In short, once this back-log of stock has been sold, we foresee that sales will slump back to former bleak levels. The data provided in our submission underscore this concern.

Second, we understand that a minority of traders outside the Motor Traders' Association continue to press for cars ordered before March 5 to be exempted from the new tax arrangements. They have similarly sought support for no tax to be

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payable on after-market options and accessories once a car is first registered. We emphasise that MTA members are strongly opposed to this, mainly because these suggestions, if enacted, would be open to extensive abuse. This would powerfully undermine our primary reason for supporting this legislative change – to eliminate abuses that have been widespread for many years, have severely distorted competition, and have starved the Government and the Hong Kong taxpayer of revenues that should have been due to them.

Finally, you will recall we proposed a maximum tax rate of 105% on Hong Kong's most expensive cars (those valued over HK\$500,000 before tax). While we would prefer a lower rate, we recognized our industry's obligation to share in bearing the burden of raising new tax revenues. We note that the Hon Sin Chung Kai has recommended tax rates of 35%, 55%, 75% and a top rate of 95%, and that his proposal has been endorsed by the Liberal Party. If such lower rates could be achieved, we would be keenly supportive. Above all else, we are anxious that the top rate should not be more than 105%. The lower, the better if we are to address anxieties in our industry over the fall in market activity, and the prospect of associated redundancies.

While it is possible that Government officials fear this might lead to a decline in aggregate revenues, we do not believe this would be the case. A lower tax rate will contribute greatly to maintaining sales volumes, which is certain to underpin higher levels of aggregate tax income even if the tax level on an individual car is slightly lower. We emphasise that in the current uncertain market for new cars, exact predictions of car sales for the year ahead, and for associated tax revenues, remain tentative at best. However, we do not believe a slightly lower top tax rate would have an overall negative impact on the forecast tax revenues detailed in our submission to the Bills Committee last week.

We again thank you and fellow Bills Committee members sincerely for giving this important issue such close attention, and would be pleased to meet at any time to your convenience to discuss any issues that remain unclear.

Yours sincerely

Michael Lee
Chairman
The Motor Traders Association of Hong Kong

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cc Bills Committee on Revenue Bill 2003 Members
Mr Martin Glass, FSTB