

27 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 Rates –
Clarification from the Motor Traders' Association**

In response to the Committee's deliberations last Friday, 23 May 2003, MTA felt it was necessary to clarify its position in regards to the various tax rates proposed due to the questions posed by Members and statements by the Finance Bureau.

MTA again wishes to reaffirm our support the proposal offered by the Hon Sin Chung Kai and supported by the Liberal Party for rates at 35%, 55%, 75% and a top rate of 95%, as mentioned in our letter of 22 May 2003. We hope that the Government seriously considers this plan as it finalises the budget.

MTA is very pleased that Government last week offered a more realistic rate scale versus its initial proposal. We are also pleased that Government adopted many of MTA's counterproposal rates. However, MTA wishes to reinforce to Government and Bills Committee Members that we hope that the Government will revise down their rates of 70% for the second tier costs (\$150,000 – \$300,000) to the Hon Sin's rate of 55% (noting that MTA's proposed 60% rate is an absolute ceiling).

MTA, in its counterproposal, suggested maximum rates of 35%, 60%, 85% and 105% based on a need for the Government to raise HK\$700 million in revenue. The Finance Bureau's new rates are 35%, 70%, 85% and 105% remain unnecessarily high, causing undue damage to new car sales, and unfairly penalising middle class customers. The 10% difference for the second tier affects the vast majority of motor vehicles sold in Hong Kong and unfairly targets middle class consumers. We estimate 87% of cars sold in Hong Kong have a pre-tax price under HK\$500,000, by reducing the second tier tax, Government can help ensure that these consumers have a lesser burden and maintain buying sentiment during this difficult period.

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As a reminder to Members, MTA originally offered its counterproposal to clarify the Association's ceiling for tax rates. It was our intention to provide Government and Legco benchmark tax rates within normal economic circumstances that would not grievously impact market demand. But it is important to emphasise that when MTA made its counterproposal in March, the economic climate was vastly different to what we face now. Even discounting the impact of SARS, the trade is facing a devastated marketplace. We initially understood that the industry was being targeted to help buoy Government revenues by HK\$700 million and therefore attempted to be very flexible and understanding about the tax rise. But now such rates will truly undermine any attempts to re-ignite motor vehicle consumption.

As the Finance Bureau acknowledged during the Bills Committee proceedings on May 23, exact predictions of car sales for the year ahead, and for associated tax revenues, remain tentative at best. However, we believe that even the Government's latest proposal will result in an 25% drop in the auto market. We hope Members will consider the following: April's sales as compared to January/monthly average are down 50% and 60% respectively on registration and new sales. As a result, we recommend that the Bills Committee and the Government strive for the rates proposed by the Hon Sin Chung Kai which we believe are wholly more appropriate for current market conditions.

Once again, we remain grateful to Members for their continued diligence on this issue and welcome any inquires in regards to MTA's position.

Yours sincerely

Michael Lee
Chairman
The Motor Traders Association of Hong Kong

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cc Bills Committee on Revenue Bill 2003 Members (via Fax : 2869 6794)
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