CB(1) 1867/02-03(03)

Hong Kong, June 2, 2003

Bills Committee
Legislative Council Building
8 Jackson Road
Central, Hong Kong

Dear Sirs,

At no time has the Administration stated its case for the punitive taxation of private cars other than the need to raise funds and the assumption that the car market can handle higher prices. In fact, continuously during the debate, the Administration demonstrated a complete disregard for commercial realities. Specifically three issues are misrepresented by the Administration.

The Impact Analyses of the proposed First Registration Taxes provided by the Financial Services and Treasury Branch on May 30, 2003, are hypothetical, using commercially unrealistic reference points with effective taxation rates and the taxable values skewered to demonstrate the lowest possible retail price increases. Below we highlight one example, not the most glaring mistake in the analysis, but representative of ongoing unrealistic representations:

> *Under the old taxation, no sane dealer would ever price a car at the bottom of the tax band such as at HK$306,478 and pay HK$183,887 in tax if with a taxable value of HK$300,000 it would only pay HK$150,000 tax, thus making his car significantly more competitive. The tax increase, without changing any of the other assumptions of this model, would then show a 7% and not the 1% increase highlighted by the Government in their lobbying efforts against the trade's proposal. Lacking access to the core data, it is hard to provide Legislators with revised models, but we estimate that retail prices will increase between 10-20% under the trade's proposal.*

The temporary 75% recovery of car sales since the Budget, which is regularly quoted by the Administration, has merely been the result of the liquidation of existing stock by Motor Traders at pre-FRT rates, while paying the government the new tax rates. Dealers have been reducing stock levels and bank debt by moving out existing models at old retail prices. Consumers took this as their last chance to pick up a car at old prices, before the new FRT and devaluation of the dollar would be included. This increased revenue for the Government, while Motor Traders incurred significant financial losses. Employees have lost their jobs and many more casualties, both staff and businesses, are expected during the summer.

Finally, the price elasticity in the motor vehicle market, which is regularly quoted by the Administration as 'inelastic', is increasing significantly with the global deflationary trends and ongoing loss in income opportunities for individuals. The Administration is invited to visit the showrooms on Saturday, and to listen to car salesmen and shoppers.

Private cars are important business tools for Hong Kong's factory owners and traders who need the mobility to source production throughout the Pearl River Delta. Car ownership and the appearance of luxury cars on the roads of Hong Kong is also part of the World Class life style Hong Kong hopes to promote to attract the talent required for a swift recovery of Hong Kong's economy.

Motor traders have accepted their responsibility in helping the Hong Kong Government to increase revenue and to reduce Budget deficits. Although smaller, the tax increase proposed by the Trade is expected to increase tax revenues by at least HK$181million, assuming only an 85% recovery of the sales volume. This will bring the revenue from Vehicle Registration close to HK$2.8billion - a significant contribution to the cost of the Administration of Hong Kong.

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On behalf of Aston Martin (HK) Limited