CB(1) 1867/02-03(04)

3 June 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

<u>Response to Finance Bureau 30 May 2003 Submission</u>

Upon review of the Finance Bureau's latest submission to the Bills Committee (CB(1) 1817/02-03(02)), MTA needs to address the following erroneous assumptions made by Government related to the motor trade and the impact of their revised First Registration Tax (FRT):

- Government revenue projections are misleading and use unrealistic sales figures that do not reflect current market conditions;

- Impact from the FRT rate hike will impact motor sales in Hong Kong;

- Lack of recognition by Government that new car registrations after budget speech are in fact loss-making sales of old stock.

In Paragraphs 2 – 4, Government claims that tax revenue generated from their proposal in 2003 – 04 will be approximated $2.5 billion, including an additional $421 million should the 35-70-85-105% tax schedule be adopted. MTA contends these figures are based on static and unrealistic economic models that naively assume a market decline of 19%.

Unfortunately for the motor trade, and eventually for the Finance Bureau, a market decline of 50% is the current and prospective reality. Members need to consider the following: the latest May sales as compared to 2002 monthly average are down 50% on both registration and new sales. This weakness matches similar dismal figures for April from leading MTA members.

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The Finance Bureau readily admits it has not re-adjusted its assumptions on market size and strength since its original submission on 5 March 2003. Clearly, all Members are aware that business is struggling through vastly changed market conditions. These conditions could have been clearly measured in the three months since the budget speech, however Government has failed to recognise the true severity of the situation, and has failed to adjust potential revenue generation to more appropriate levels.

The Finance Bureau also made assertions during the Bills Committee meeting on 30 May 2003, that the motor trade was rebounding from both the budget announcement and slowdowns due to the SARS outbreak by citing an up-tick in new car registrations. What Government does not recognise is that this “increase” was due to dealers off-loading older stocks at a loss rather than registrations from revenue-generating new inventory. Loss-making sales cannot meaningfully be used to calculate the strength of the motor trade. Government officials have acknowledged this reality in oral communication, but have taken no account of it in its LEGCO submission, compromising the authority and credibility of its claims.

In light of the unreasonably optimistic conclusions arising from their false assumptions, the MTA calls yet again for the Government to review afresh its proposed tax rates for new cars, and to lower rates to a level that will inflict less substantial damage on the market (and Government revenues). MTA urge the Government to accept Bills Committee’s revised tax rate (35%, 55%, 75%, 95%) since this would give relief to motor traders in this critical and difficult environment, and would protect sales – while at the same time underpinning Government tax revenues.

The MTA stands ready to provide any further advice or information, as necessary.

Yours sincerely

Michael Lee
Chairman
The Motor Traders Association of Hong Kong

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