THEexperienceGROUP

18th June, 2003

Hon. Mrs. Rita Fan Hsu Lai-Tai, GBS, JP
Legislative Council
Room 109
Legislative Council Building
8 Jackson Road
Central
Hong Kong

By Email & By Post
(rfan@legco.gov.hk)

Honorable Chair and Honorable Legislative Council Members,

Support the 95% proposal for private car First Registration Tax
We call on your support for the proposed 95% (95%, 75%, 55%, 35%) model for the First Registration Tax.

The 95% proposal will increase the tax revenue from each private car sold
The Administration has calculated the tax payable under the 95% proposal for 12 different car models. Compared with the Pre-March 5 system, the tax revenue increases between 2 and 65% per car sold. (Annex B of CB(1)1749/02-03(02).

The 95% proposal will increase the Government's revenue from Registration Tax
The Financial Services and Treasury Bureau estimates the FRT revenue to increase by HK$181 million under the '95% Model' (CB (1) 1925/02-03 (15). This is estimated under the same strict assumptions as used for estimating the HK$700million increase in FRT for the current punitive 150% taxation system, namely: a 15% reduction in private car registrations due to higher retail prices and a 10% reduction in tax payable per car because of an expected lower CIF factory prices and dealer margins.

Administration claims WRONGLY that the 95% proposal has a charging effect
The Administration claims in its submission to the LegCo's Bills Committee (CB(1) 1925/02-03) that the 95% proposal from the Members MAY have a charging effect based on three WRONG assumptions: a potential change in pricing strategy by the trade, 606 examples of lower tax per car, and a further drop in the sales of cars.

1. **Prices will go up, not down – tax revenues will go up for each car sold**
   A change in the 'pricing strategy' by motor traders is commercially unrealistic. Due to the global deflation and the competitive nature of the Hong Kong car business the industry is already operating at the lowest possible CIF prices and the lowest possible dealer margins. Any future deflation of the global prices for cars is NOT in any way related to Hong Kong's taxation system. More likely, due to the devaluation of the US$ dollar, factory CIF prices will increase resulting in higher tax revenues.

   Under the old system there was a clear incentive to over-value the share of the tax-exempt items versus the taxable value, within the total declared value of the car (Factory CIF Price plus Hong Kong Dealer Margin). Under the new tax system, tax-exempt items have been removed and tax is payable over the total declared value. The industry does not have a magic reduction in prices available, the industry has been operating at minimum dealer margins since 1997 and the new tax system does no longer allow for any tax minimization.

2. **Unrealistic examples have no material relevance for tax collection**
   The Administration cites 606 car registration cases in 2002/2003 whereby the First Registration Tax would be lower. These are exceptional examples of inexperienced dealers with bad pricing strategies whereby unnecessary high taxes were paid under the old system. Under the new marginal tax system, this 'exempt-items pricing strategy' is no longer relevant. One example, a car with a taxable value of HK$306,478, is quoted by the administration in Annex B of CB(1) 1817/02-03(02). No experienced dealer would ever price a car right at the bottom of a tax band in the old system. With a taxable value of HK$306,478 the tax is HK$183,887 while if the car was priced at HK$300,000, he would only pay HK$150,000 tax, thus making his car HK$27,409 more competitive. More importantly, these cases only represent 5% of all registrations and a marginal amount of tax lost

3. **Car sales will go up when taxes are lower – increasing tax revenues**
   In justifying the 150% punitive tax system, the Administration claimed that car sales is inelastic and would bring in HK$700million additional tax revenues. Since the budget announcement the market has recovered to only 50% of previous levels, demonstrating that sales volume is sensitive to retail prices. It is therefore also reasonable to expect that more cars will be sold under the lower '95%' proposal than under higher tax rates. Further, any downturn in the car market due to reasons other than a change in retail prices, can not be taken into account when deciding whether a certain tax system is charging or not.

The 95% proposal is easy to administrate and will reduce cost of oversight
The Motor Trade has agreed with the removal of tax-exempt items and has agreed to pay tax in the future over the entire amount of the car value (CIF plus dealer margin). This will further improve the Government's ability to collect tax revenues, and reduce the cost of administration of the First Registration Tax system.

All Motor Traders support the 95% model proposed by the Legislative Council
All Motor Traders, including both the Motor Traders Association representing the official importers and the Right Hand Drive Association representing the grey-channel importers, unanimously support the Bills Committee Members' proposal for the 95% system, as well as marginal taxation, increased tax bands and the removal of tax-exempt items.

Motor Traders have incurred significant financial losses since March 5
The Motor Trade has suffered enormously since the application of the 150% punitive taxation scheme on March 5. Business has only recovered to about 50% of previous levels. This recovery of car sales since the Budget, which is regularly quoted by the Administration as 'good news', 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. This is confirmed by the Customs & Excise Department (CB (1) 1708/02-03(01). 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.

Private cars are part of a World Class Lifestyle in Hong Kong
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 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 and Members of the Bills Committee is expected to increase Government 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.

Yours sincerely,

Paul Zimmerman
on behalf of the representatives of
Aston Martin
Lamborghini
Alfa Romeo
Rolls Royce

cc : Legislative Council Members