

For information

**Bills Committee on Revenue Bill 2003
Administration's comments on trade submissions in early June after
seeing Administration's paper dated 30 May 2003**

(I) Motor Traders Association of Hong Kong	
<ul style="list-style-type: none"> ● Projection that the revised Government proposal would yield \$421 million of additional revenue is based on static and unrealistic economic models that naively assume a market decline of 19%. ● A market decline of 50% is the current and prospective reality. The latest May sales as compared to 2002 monthly average are down 50%. ● Pick up in new car registration after Budget announcement was due to dealers off-loading old 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. ● MTA urge the Government to accept the Bills Committee's 	<ul style="list-style-type: none"> ● Latest figures show that private car and motorcycle registrations have continued to pick up three months after Budget announcement. ● In the first month after Budget announcement, the number of registrations of private cars was 898, representing 36% of the monthly of 2002-03. In the second month after Budget announcement, the number rose to 1 353, representing 55% of the 2002-03 monthly average. In the third month, the number rose further to 1 783, representing 72% of the 2002-03 monthly average. There were 456 registrations for the week beginning 26 May, representing 80% of the 2002-03 weekly average. ● In the first month after Budget announcement, the number of registrations of motorcycles was 316, representing 81% of the monthly of 2002-03. In the second month after Budget announcement, the number rose to 321, representing 82% of the 2002-03 monthly average. In the third month, the number rose further to 413, representing 105% of the 2002-03 monthly average. There were 118 registrations for the week beginning 26 May, representing 131% of the 2002-03 weekly average. ● No evidence of significant adverse impact on car sales. ● In the aftermath of the SARS outbreak, having considered the general state of the economy and the views expressed by the motor trade as well as Members, the Government revised its

<p>revised tax rate (35-55-75-95%) since this would give relief to motor traders, protect sales and underpin Government revenue.</p>	<p>proposal regarding FRT adjustments to ensure that, on the one hand, the motor trade's business will not be unduly affected and on the other, significant revenue will be raised to help improve the budget deficit situation.</p> <ul style="list-style-type: none"> ● The impact on retail prices for private cars in different tax bands will be more progressive and equitable under the Government's revised proposal than under the Bills Committee's counterproposal. ● The Bills Committee's counterproposal is expected to yield \$181 million of additional revenue. It is not likely to yield more additional revenue than Government's revised proposal, taking into account the extent of market elasticity and possible changes in the pricing strategy of vehicle dealers pursuant to the inclusion of the formerly-exempted items in the calculation of taxable value.
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<p><u>(II) Hong Kong Right Hand Drive Motors Association Limited</u></p>	
<ul style="list-style-type: none"> ● The value of the formerly-exempted items for cars in the third marginal tax band (i.e. \$300,001 - \$500,000) in the Government's impact analysis does not reflect the fact. The value should be around \$96,000, not as \$68,656 as quoted by the Government. Would wish to know the car models sampled by the Government. ● The impact on retail price under the trade's counterproposal 	<ul style="list-style-type: none"> ● The Government's impact analysis is based on the Transport Department's database of all private cars registered in 2002-03. The taxable value (including the value of formerly exempted-items) of 3 408 private cars registered in 2002-03 fell into the third marginal tax band. ● We have put in the Government analysis the tax payable under the pre-Budget FRT regime and the new marginal tax regime. We have presented the percentage increase in retail price projected based on the published retail prices as we believe that it is more convenient to understand from the car buyer's perspective.

<p>should be therefore 5% increase for cars in the third marginal tax band (not 1% as calculated by the Government).</p> <ul style="list-style-type: none"> • Comparison should be made on the taxable payable (not the retail price as in the Government's paper). The trade's proposal, based on Government's calculations, would lead to increases by 46-31-4-30%. 	
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<p><u>(III) Stuttgart Motors Holdings Ltd</u></p>	
<ul style="list-style-type: none"> • The Government's impact analysis is not equitable in a number of places. Stuttgart has re-run the analysis based on actual car prices. (Stuttgart changed the taxable value under the old FRT regime for the third tax band from \$306,478 to \$295,000, and that for the fourth tax band from \$589,486 to \$850,000. The value of the exempted item for the fourth tax band was changed from \$93,631 to \$125,000. The resultant impact on retail prices is smooth and progressive under 	<ul style="list-style-type: none"> • The Government's impact analysis is based on the Transport Department's database of all private cars registered in 2002-03. The taxable value (including the value of formerly exempted-items) of 3 408 private cars registered in 2002-03 fell into the third marginal tax band. The taxable value of 1860 private cars fell into the fourth marginal tax band.

the trade's counterproposal.)	
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<u>(IV) Taxation Institute of Hong Kong</u>	
<ul style="list-style-type: none"> • The revised proposal only results in relatively mild increase in the effective tax rates. • No further comments, although it has been our position that any increases in FRT are not appropriate under the current economic circumstances. 	<ul style="list-style-type: none"> • Slow-down in car sales should only be temporary. Car sales should pick up after the initial psychological impact of the tax increase on consumers has faded. This should have a limited impact on the business and employment situation of trade. • Private car registration numbers are gradually rising to 80% of the weekly average of 2002-03 in the week commencing 26 May. No evidence of significant adverse impact on car sales. • According to a study carried out by the Government Economist, the Budget proposals on FRT would not have a significant effect on the economy as a whole. The effect of the increases on GDP growth is estimated to be very insignificant, amounting to less than a hundredth of a percentage point.

<u>(V) Motorcycle Union, Hong Kong Motorcycle Association and Hong Kong Motorcycle of Commerce</u>	
<ul style="list-style-type: none"> • Figures of motorcycle registrations in March - April partly reflects the sales in January or before. They cannot fully reflect the sale situation after Budget announcement. • The motorcycle trade is facing difficulties 	<ul style="list-style-type: none"> • Motorcycles normally do not have air-conditioners and audio-equipment. According to a survey we conducted, motorcycles are usually provided with one or two of the items exempted under the old taxation regime. Compared with private cars which are usually fitted with three to four such items, the impact of abolishing exemptions is significantly higher on private cars than on motorcycles. • Based on the published retail price of the motorcycles registered in 2002-03, their price inclusive of the tax component should rise by 8%, or \$2,771, on average after the abolition of

<p>like refusal by insurers to provide third-party insurance for vehicle buyers and forfeiture of deposit paid.</p> <ul style="list-style-type: none"> • The sale performance of the more expensive motorcycles (e.g. those worth \$30,000 - \$60,000) has been sluggish after Budget announcement. • The Government has neglected the demands of the motorcycle trade. It was unfair to the motorcycle trade by giving only two tax concession items to motorcycles under the old system, while private cars were given four. 	<p>the exempted items, assuming no change in pricing strategies. This is smaller than the projected increase in retail price of 11% for the representative models of lower-priced private cars with taxable value below \$150,000.</p> <ul style="list-style-type: none"> • According to the Transport Department's registration statistics, there is no apparent trading down in the motorcycles first registered after Budget announcement. • All four tax exempted items apply to motorcycles as well under the old tax system.
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<u>(VI) Hong Kong Vehicle Repair Merchants Association Ltd</u>	
<ul style="list-style-type: none"> • The Association thanks the Government for its understanding of public opinion in moving CSAs. 	<ul style="list-style-type: none"> • Noted.

<u>(VII) The Experience Group (Mr Paul Zimmerman)</u>	
<ul style="list-style-type: none"> • The Government's impact analysis is 	<ul style="list-style-type: none"> • The Government's impact analysis is based on the Transport Department's database of all

<p>hypothetical, using commercially unrealistic reference points with effective taxation rates and the taxable values skewed to demonstrate the lowest possible retail price increases.</p> <ul style="list-style-type: none"> ● The temporary 75% recovery of car sales since the Budget 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. ● 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 tax increase proposed by the trade is expected to increase tax revenues by at least \$181 million, assuming only 85% recovery of the sales volume, 	<p>private cars registered in 2002-03.</p> <ul style="list-style-type: none"> ● Latest figures show that private car and motorcycle registrations have continued to pick up three months after Budget announcement. ● In the first month after Budget announcement, the number of registrations of private cars was 898, representing 36% of the monthly of 2002-03. In the second month after Budget announcement, the number rose to 1 353, representing 55% of the 2002-03 monthly average. In the third month, the number rose further to 1 783, representing 72% of the 2002-03 monthly average. There were 456 registrations for the week beginning 26 May, representing 80% of the 2002-03 weekly average. ● In the first month after Budget announcement, the number of registrations of motorcycles was 316, representing 81% of the monthly of 2002-03. In the second month after Budget announcement, the number rose to 321, representing 82% of the 2002-03 monthly average. In the third month, the number rose further to 413, representing 105% of the 2002-03 monthly average. There were 118 registrations for the week beginning 26 May, representing 131% of the 2002-03 weekly average. ● No evidence of significant adverse impact on car sales. ● We have not commented that the motor vehicle market is inelastic. In fact, though the sales situation is expected to pick up gradually, our estimate of additional revenue has taken into account the possibility of distributors changing their pricing strategy (drop in average tax payable by 10%) and possible drop in sales (by 15%).
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<p>which is a significant contribution to Government revenue.</p>	
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