

20 March 2003

Ms Emily Lau
Convenor
The Frontier
Room 602, Citibank Tower
3 Garden Road
Central
Hong Kong

Dear Ms Lau

First Registration Tax (FRT)

The release of Government's budget two weeks ago produced a great deal of coverage, as well as some confusion, about various aspects of the proposal including the First Registration Tax for automobiles. As you begin to consider the budget within the Legislative Council, the Motor Traders Association of Hong Kong wish to clarify and outline our position regarding this new proposal and tax structure. We recently shared these views with the Secretary for Financial Services and Treasury, Mr Frederick Ma, and thought that you would also appreciate this brief.

For your background information, MTA members sold Hong Kong people 90% of their new cars last year, representing by far the largest group of auto distributors/retailers in the Territory. Our members include some of the most well known and trusted companies in Hong Kong, including Crown Motors, Dah Chong Hong Motor Group, Inchcape Motor Group, Jebsen Motor Group, Sime Darby Motor Group, Taikoo Motor Group and Zung Fu.

We are keen to work in partnership with Government and the Legislative Council during this difficult economic period and understand that all parts of the community need to share in the burden of tax increases.

This is why we have voiced our strong overall support of the new FRT system. The MTA is pleased that Government has suggested waiving of all tax-exempt items in their proposed new FRT, which we believe will create a level playing field for the entire motor trade. In addition, we are pleased with the simple progressive structure of the new FRT system, which is more efficient for the Government to operate. We also believe that this simpler new FRT system will bring manpower savings to the Customs and Excise Department.

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Overall, I can confirm that MTA is pleased with the new FRT system and supportive of it. The only grievance MTA has is the high rates imposed by the new tax. We are alarmed that the high rates might deter new automotive purchases thereby reducing tax revenues. The expected additional \$700 million in Government revenue under this tax rate seems to be too optimistic.

MTA has urged Government's consideration of a revenue-neutral tax reform in all our consultations over the last two years. We will, therefore, request the Government to reconsider the scale new FRT rise so as to maintain a similar or increased market turnover, whilst achieving additional Government revenue.

With regard to the 5 March 2003 new FRT cut-off date, the MTA is supportive of this clear-cut measure. We believe that any attempt to extend a "grace period" would lead to chaos and also possible abuse by some dealers. MTA believe that a "grace period" would deleteriously distort the market for as long as ten months, by causing a rush to clear stocks and provide for further exploitation of the tax regime. Fundamentally, it would subvert the very reasons why the tax was included in the budget to begin with. In this regard, MTA are aware that the residual 10% of Hong Kong vendors may not share MTA's view, but as a representative of 90% of the industry, and the pre-eminent industry association in Hong Kong, we believe it is our responsibility to make our views known.

I hope this letter finds you well and clarifies our views on this issue. Please let me know if you have any further enquiries regarding this issue and do not hesitate to contact me.

I look forward to meeting you and clarify our position in person.

Yours sincerely

Michael Lee
Chairman
The Motor Traders Association of Hong Kong

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