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**Bills Committee on Motor Vehicles (First Registration Tax)
(Amendment) Bill 2011**

Background brief

Purpose

This paper sets out the background to the Motor Vehicles (First Registration Tax) (Amendment) Bill 2011 (the Bill). It also summarizes the major views and concerns expressed by the Subcommittee on Public Revenue Protection (Motor Vehicles First Registration Tax) Order 2011 (the Subcommittee).

Background

Public Revenue Protection (Motor Vehicles First Registration Tax) Order 2011

2. The Public Revenue Protection (Motor Vehicles First Registration Tax) Order 2011 (the Order) was made by the Chief Executive under section 2 of the Public Revenue Protection Ordinance¹ (Cap. 120) (the Ordinance) after consultation with the Executive Council to give immediate effect to the proposal in paragraph 166 of the 2011-2012 Budget Speech delivered by the Financial Secretary on 23 February 2011, namely to increase the first registration tax (FRT) for

¹ Section 2 of the Ordinance provides, among other things, that if the Chief Executive approves of the introduction into the Legislative Council (LegCo) of a bill whereby, if the bill were to become law any duty, tax, fee, rate, etc., would be imposed, removed or altered, the Chief Executive may make an order giving full force and effect of law to all the provisions of the bill.

private cars by about 15%.

3. The Order was made for the purpose of the Bill. The objective of the Order is to protect public revenue by giving temporary effect to the proposal in the Bill which, if not implemented immediately upon announcement, many vehicles buyers will advance their purchase in anticipation of the tax increases, thus defeating the objective of the proposal to contain the growth in private car. The Order came into force at 11 a.m. on 23 February 2011.

Subcommittee on Public Revenue Protection (Motor Vehicles First Registration Tax) Order 2011

4. The Subcommittee was formed on 11 March 2011 to study the Order. The Subcommittee has held three meetings and has received views from the relevant trade associations/organizations and members of the public. A list of the deputations and individuals who have submitted views to the Subcommittee is at **Appendix I**. The Subcommittee reported its deliberations to the House Committee on 15 April 2011. In the course of deliberations, the Subcommittee examined the following major issues -

- (a) effectiveness of the measure in easing traffic congestion;
- (b) tax incentives for environment-friendly petrol private cars and deregistered vehicles;
- (c) exemption for vehicles pre-ordered before the effective date of the Order; and
- (d) proposal to repeal the Order.

The Subcommittee has provided a report to the House Committee on 15 April 2011.

5. Subcommittee members in general were unconvinced that the proposed increase in FRT would be an effective measure to curb the growth of private cars and ease traffic conditions of Hong Kong. They considered that to tackle the traffic congestion effectively, the

Administration should embark on a comprehensive plan to ease traffic congestion, instead of only resorting to one single measure of increasing FRT for private cars, which might only achieve limited short-term effect. Subcommittee members also considered that the Administration had failed to provide detailed information on the actual situation of the traffic congestion, and adequate justifications to support its view that the traffic congestion problem was caused by growth of private cars. The Subcommittee expressed grave concern that the increase in FRT for private cars might discourage private car owners from car replacement and delay phasing out old cars from driving on the roads, thus adversely affecting air quality. The Subcommittee also expressed concern about the large increase in the importation of used private cars in the past few years and sought an explanation from the Administration.

6. The Subcommittee also requested the Administration to consider the following proposals put forward by members -

- (a) granting tax rebate to buyers of newly registered private cars from the proposed FRT increase if they had their old cars deregistered (paragraphs 19 and 20 of the report);
- (b) exempting buyers of newly registered environment-friendly petrol private cars as approved by the Environment Protection Department from the proposed FRT increase and increasing the existing FRT concessions for these vehicles (paragraphs 19 and 20 of the report); and
- (c) exempting buyers of private cars which had been ordered but not yet been registered before the effective date of the Order² (paragraphs 21 to 23 of the report).

In response, the Administration advised that the above proposals could be further discussed and deliberated on in the context of the discussion of the Bill.

The Motor Vehicles (First Registration Tax) (Amendment) Bill 2011

7. The Bill was gazetted on 8 April 2011 and introduced into LegCo

² According to information provided by the Motor Traders Association of Hong Kong (HKMTA), purchase orders placed with HKMTA members before 23 February 2011 involved a total of 6 057 private cars which have not yet been registered before that date.

on 13 April 2011. The Bill implements the revenue measures proposed in the 2011-2012 Budget relating to the increase in FRT for private cars. At the House Committee meeting on 15 April 2011, a bills committee was formed to study the Bill.

Relevant papers

Report of the Subcommittee on Public Revenue Protection (Motor Vehicles First Registration Tax) Order 2011

<http://www.legco.gov.hk/yr10-11/english/hc/papers/hc0415cb1-1897-e.pdf>

Paper provided by the Administration for the meeting on 24 March 2011

http://www.legco.gov.hk/yr10-11/english/hc/sub_leg/sc11/papers/sc110324cb1-1683-e.pdf

Administration's response to the list of follow-up actions arising from the discussion at the meeting on 24 March 2011

http://www.legco.gov.hk/yr10-11/english/hc/sub_leg/sc11/papers/sc110404cb1-1780-1-e.pdf

Administration's response to the list of follow-up actions arising from the meeting on 4 April 2011

http://www.legco.gov.hk/yr10-11/english/hc/sub_leg/sc11/papers/sc110411cb1-1827-1-e.pdf

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