For information
on 24 March 2011

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

Purpose

This paper provides the Administration's response to the Clerk to the Subcommittee's letter of 18 March 2011.

Background

2. We enjoy high levels of mobility in Hong Kong. This success has been achieved through improving transport infrastructure and emphasis on railways, further promoting the use of public transport services by improving their quality and coordination and managing road use. A key determinant of road usage is the extent of ownership and usage of private cars. People with access to private cars tend to make more trips and are less likely to use public transport. Both of these car ownership effects increase road usage, and result in less efficient use of our road space. Stated simply, private vehicle ownership and usage increases produce an increased level of road congestion, and a greater need for new road infrastructure. However, new infrastructure is becoming increasingly expensive and difficult to construct in Hong Kong's unique geographic situation. Therefore, we need to monitor the growth of the private cars to ensure that they will not lead to congestions in our major travel corridors which in turn will reduce the mobility of our road public transport services. Fiscal measures like first registration tax (FRT) to restrain private car ownership have proved to be effective in controlling the private car fleet in the past.

3. The 2011-12 Budget proposes to increase the rates for all FRT bands for private cars by around 15% in order to control the size of the vehicle fleet and therefore the number of vehicles using the road system. For revenue protection, the proposal was effected as from 11:00a.m. on the Budget Day (23 February 2011) under the Public Revenue Protection (Motor Vehicles First Registration Tax) Order 2011 (the PRPO).

Justifications and estimated impact of the proposed FRT increase

4. In the past years, traffic situation has been by and large stable despite some fluctuations in car journey speeds and growth of the vehicle fleet. However, significant deterioration in all aspects was observed in 2010, mainly due to the growth in private cars, which account for a major portion (about 68%) of the total vehicle fleet size. The total number of licensed private cars stood at 414 966 at end 2010. While year-on-year growth rate of the number of licensed private cars remained at around 3% or below for the past decade, it rose to 5.4% in December 2010 (or an increase of 21 154 private cars over the private car fleet of 393 812 at end 2009), a record high for more than a decade. In 2010, a total of 41 240 private cars were newly registered, representing an increase of over 45% compared with the previous year, or about 20% when compared with 2008 before the financial tsunami.

5. Notwithstanding on-going improvement works to relieve existing congestion, such as those on Tuen Mun Road and Tolo Highway, car journey speeds declined throughout the territory in 2010 for the first time in five years, at an unprecedented decline rate of over 5% across-the-board. As no significant expansion in the road network is expected before 2016-17 when the roads associated with Hong Kong-Zhuhai-Macau Bridge and Central-Wanchai Bypass are due for completion, traffic conditions would only continue to worsen if no action is taken to contain the growth of private cars. We must take decisive measures to curb the growth of private cars before traffic congestion deteriorates to the point which could hardly be relieved even if more stringent measures are put in place.

6. In order to control the size of the vehicle fleet and therefore the number of vehicles using the road system, the 2011-12 Budget proposes to increase the rates for all FRT bands for private cars by around 15%. Increase in FRT rates have proven to be effective in controlling private vehicle numbers. The Government increased FRT rates in 1982, 1990, 1991, 1994 and 2003, leading to a reduction of about 2 to 3 percentage points in the year-on-year growth rate of private cars, or a decrease in the total number of private cars.

7. The existing FRT rates have been in place since 2003. Since then, Gross Domestic Product has increased by 39.9% and inflation by 12.4%. We expect that the proposed increase in FRT should be able to contain the number of newly registered private cars at the 2010 level. From past experience, such effect is expected to last for more than a year. The FRT for other types of vehicles and the existing concession for electric vehicles and environment-friendly petrol private cars, that is the concession mechanism with concession cap, will remain unchanged.

Consequences of repealing the PRPO

8. The objective of the PRPO is to protect public revenue by giving temporary effect to the proposal in the Motor Vehicles (First Registration Tax) (Amendment) Bill 2011 (the Bill) which, if not implemented immediately upon announcement, many vehicles buyers will advance their purchase in anticipation of the tax increases, defeating the objective of the proposal to contain the growth in private car.

9. In the event that the PRPO is repealed by the Legislative Council, FRT will be charged at the old rates as before the commencement of the PRPO. There is however no immediate refund in respect of the excess taxes collected when the PRPO was in force. As provided in section 34(2) of the Interpretation and General Clauses Ordinance (Cap.1), the resolution to repeal the PRPO will not prejudice anything done under the PRPO.

10. If the PRPO is repealed and in the event that the Bill is subsequently passed by the Legislative Council without amendment, the Administration will have to recover the FRT underpaid for the period from after the date of publication of the resolution repealing the PRPO to the date of enactment of the Bill. If the Bill is not passed by the Legislative Council, there will be refund of the excess tax collected during the period when the PRPO was effective (up to its repeal).

11. Repealing the PRPO before the Bill is deliberated or before the outcome of the Bill is known will invite speculation, cause confusion to the trade and vehicle buyers and pose operational difficulties. Therefore, the Administration is opposed to any attempt to repeal the PRPO.

12. On the other hand, if the PRPO remains in force, any excess tax collected under the PRPO will be refunded in the event that the Bill is subsequently passed with tax rates lower than proposed or not passed at all. The Administration considers that the refunding mechanism under the Public Revenue Protection Ordinance (Cap.120) is fair and the interest of car owners will not be jeopardized. It should also be stressed that the PRPO is just a temporary measure pending the enactment of the Bill. Discussion on the merits of the proposal as set out in the Bill should take place in the context of the Bill, not the PRPO.

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