

## **Information Paper**

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

#### **Purpose**

This paper provides the Administration's responses to the questions raised by Members at the meeting of the Subcommittee on 11 April 2011 in relation to the Public Revenue Protection (Motor Vehicles First Registration Tax) Order (the PRPO) 2011.

#### **Traffic Congestion in Hong Kong**

2. "Vehicle journey speed" is widely used in the world to reflect the extent of traffic congestion. Cities including Singapore, London in the United Kingdom and Copenhagen in Denmark have all employed "vehicle journey speed" as an indicator of traffic congestion. The Transport Department (TD) has all along analysed the traffic congestion in Hong Kong by making use of "vehicle journey speed" as well.

3. "Vehicle journey speed" can be measured on site. In the course of TD's vehicle journey time surveys, parameters such as geographical factor and actual traffic situation (e.g. the impact of a traffic light junction on vehicle speed) have been taken into account. As mentioned in the paper we previously submitted [CB(1)1827/10-11(01)], TD conducts annual vehicle journey time survey on a total of 60 routes throughout the territory<sup>1</sup>. The vehicle journey time surveys are conducted by TD during the morning peak hours (i.e. from 8:00a.m. to 9:30a.m.) on normal weekdays between September and December each year as stipulated in the Transport Planning and Design Manual. Surveyors will conduct 4 to

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<sup>1</sup> Including 28 routes in urban areas and 32 routes in the New Territories.

8 surveys for each selected route to measure the travelling time between pre-determined checkpoints along the route. The survey result will be used to derive the regional and territorial average “vehicle journey speeds”. To ensure that the survey results accurately reflect the real situation, TD will arrange for additional re-runs if the vehicle journey speed is affected by any road works or traffic accident at the time of the survey. As suggested by the survey records from 2008 to 2010, none of the roads involved in the vehicle journey speed surveys has its speed limit lowered due to road works. Members may refer to Annex I to the paper CB(1)1827/10-11(01) for the vehicle journey speeds of the major roads of Hong Kong over the same period.

4. In the 10 years between 2001 and 2010, the total road length of Hong Kong had increased by 8.6%. Over the same period, the sizes of the vehicle fleet and private car fleet had expanded by about 15.7% and 21.8% respectively, while the numbers of franchised buses and goods vehicles had recorded a drop of 9.4% and 2.8% respectively<sup>2</sup>. According to TD’s statistics for January 2011, there were over 7.2 million trips making use of land based public transport (excluding railway) everyday. The negative impact on public transport brought about by traffic congestion should not be overlooked.

### **Imported used private cars and home-delivery private cars**

5. According to the Motor Vehicles (First Registration Tax) Ordinance (Cap.330), all private cars imported for first registration in Hong Kong, be it imported used private cars or home-delivery private cars registered in the name of the importer in a place outside Hong Kong before its importation, have to be declared to the Customs and Excise Department (the Customs) as required by the law<sup>3</sup>, and pay the first registration tax (FRT) based on the taxable value assessed by the Customs.

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<sup>2</sup> From 2001 to 2010, total no. of vehicles had increased from 525 376 to 607 796; among which no. of private cars had increased from 340 568 to 414 966, whereas no. of franchised buses had dropped from 6 320 to 5 729 and goods vehicles from 112 585 to 109 416.

<sup>3</sup> When submitting the declaration form to the Customs, importers have to submit the following documents:

- (a) Manufacturers’ and dealers’ invoices or payment receipts (if available).
- (b) Insurance certificate/receipt (if available).
- (c) Shipping documents (Bill of Lading, Air Waybill, Packing List, etc.).
- (d) Original registration documents (for used vehicle only).

Among the 9 412 imported used private cars and home-delivery private cars first registered in 2010, 84% came from Japan, 15% were from Europe, and less than 1% were from the United States. These figures reveal the demand of Hong Kong for the private cars in question under the prevailing market situation. The breakdown of the imported private cars in question by taxable value in the past 5 years is at **Annex**.

6. TD will calculate and collect FRT in respect of home-delivery private cars, based on the taxable value assessed by the Customs, in accordance with the requirements under the Motor Vehicles (First Registration Tax) Ordinance (Cap.330). Under the existing law, importer of a home-delivery private car can either be a natural or legal person. With respect to the circumstances of each application, the Customs will obtain the necessary information from the importer to ascertain his or her identity as well as the information relevant to the imported private car in question for carrying out tax assessment. Making false or inaccurate declaration in relation to a home-delivery private car is liable to a fine of \$500,000 and to imprisonment of 12 months as provided in Section 4I of the Motor Vehicles (First Registration Tax) Ordinance (Cap.330).

### **Other suggestions**

7. There are other suggestions in respect of the Administration's proposal to increase FRT for private cars. We are of the view that any suggestion has to be consistent with the premise of containing vehicle growth so as to match with the measure and policy objective of the Administration, otherwise the intended effect of the Administration's proposal would be undermined. Also, any suggestion should not lead to loopholes in the law or administrative confusion.

### To increase the FRT concession for environment-friendly petrol private cars

8. At present, environment-friendly petrol private cars are entitled to a 30% FRT concession with a cap of \$50,000. Such measure effectively encourages persons with genuine need to purchase a new car

to opt for an environment-friendly petrol private car which is less polluting. We encourage people to make use of public transport as far as possible, which can reduce roadside air pollution and at the same time ease traffic congestion. Containing the growth in private cars will also help reduce the emission of the overall vehicle fleet, improve air quality and reduce green house gases such as carbon dioxide.

9. Any increase in the concession for environment-friendly petrol private cars has to be consistent with the principle of containing vehicle growth. This suggestion has to be carefully considered to strike a balance between containing vehicle growth and environment protection.

#### Incentive scheme for scrapping of old private cars

10. From the traffic management perspective, if vehicle owners scrap their old private cars and replace them with new ones, the number of private cars will not be reduced and not in consistency with the principle of containing vehicle growth.

11. From the environment protection angle, the major source of roadside air pollution in Hong Kong is diesel commercial vehicles, accounting for about 95% and 88% of the total vehicular emission of respirable suspended particulates (RSP) and nitrogen oxides (NO<sub>x</sub>) respectively, which are the two main air pollutants at the roadside. Private cars only contribute to 1% and 5% of the total vehicular emission of RSP and NO<sub>x</sub> respectively. Furthermore, the overall age of private car fleet is also relatively young at present. Over one-third of the private cars in Hong Kong comply with Euro IV emission standard, and another one-third meet Euro III emission standard. As such, the existing incentive scheme for car replacement only covers replacing old diesel commercial vehicles.

12. If concession is provided for those who replace their scrapped private cars with an environment-friendly private car, it may turn out to be subsidising existing vehicle owners for car replacement. Those intended only to scrap their old private car without replacement may opt for a new private car as a result of the incentive provided. We have to

carefully examine whether this suggestion complies with the principle of containing vehicle growth.

#### Vehicle licence for restricted use of private cars during non-peak hours

13. There is a suggestion that Hong Kong may model on Singapore to introduce a vehicle licence that only enables a private car to be used in non-peak hours. To encourage vehicle owners to switch to such licence, the licence fee or tax payable has to be more attractive than that for private cars with a full vehicle licence. When compared with Singapore, the tax imposed on a new car is relatively simple and the tax rate is comparatively low in Hong Kong. There exists little room for concession which may be ineffective in persuading drivers to switch to the vehicle licence for non-peak hours only. On the contrary, if such vehicle licence is appealing, it may lead to an undesirable result of inviting non-private car owners to purchase private cars, which stimulates private car growth and is inconsistent with the policy of containing vehicle growth. Apart from that, the number of registered vehicles is restricted in Singapore, which is different from Hong Kong. As such, this suggestion may not be applicable to Hong Kong.

#### Exemption for vehicles pre-ordered before the Public Revenue Protection (Motor Vehicles First Registration Tax) Order 2011 took effect

14. All vehicles registered for use in Hong Kong have to pay FRT when they are first registered in accordance with the effective FRT rates at the time of the registration. It has been the practice for FRT adjustments in the past that the new rates applied to all vehicles which had not been registered at the time when the changes took effect.

15. In practice, the main difficulty with granting exemption for pre-ordered vehicles would be on verification of the specific date when the transaction or the deposit was made, as documentary proof may not be available in all cases for verification purpose (especially for parallel imported private cars). The proposal may hence be vulnerable to abuse.

16. The same issue has been deliberated at the LegCo in 2003. Having noted the consequences of granting such exemption, and considered that most of the transactions had already been completed, the Bills Committee at that time agreed to maintain the existing practice since the exemption may cause undue inconvenience to the trade. We are of the view that such analysis is applicable to the current proposal of FRT increase.

17. Besides, the Motor Traders Association of Hong Kong (the MTA) pointed out in its supplementary information paper [CB(1)1827/10-11(03)] that there are 6 057 private cars that were sold by its members but yet to be registered before 23 February 2011. The 4 917 private cars mentioned in our paper submitted previously [CB(1)1780/10-11(03)] refer to the private cars first registered between 11a.m. of 23 February 2011 and 31 March 2011, among which some could be the private cars included in the statistics provided by the MTA, parallel imported private cars, imported used private cars, etc.

18. We would like to reiterate that any suggestion has to be consistent with the principle of containing vehicle growth and should not lead to any loophole in the law or administrative confusion.

**Transport Branch**  
**Transport and Housing Bureau**  
**April 2011**

**Annex**

**Breakdown of imported used private cars  
and home-delivery private cars by taxable value in the past 5 years**

**Imported used private cars**

Year	Taxable Value				Total
	\$150,000 or below	\$150,001 - \$300,000	\$300,001 - \$500,000	\$500,001 or above	
2007	2 487	723	31	3	3 244
2008	2 686	855	52	11	3 604
2009	4 119	203	31	31	4 384
2010	8 540	354	89	102	9 085

**Home-delivery private cars**

Year	Taxable Value				Total
	\$150,000 or below	\$150,001 - \$300,000	\$300,001 - \$500,000	\$500,001 or above	
2007	35	17	7	5	64
2008	91	38	13	15	157
2009	92	57	43	73	265
2010	139	88	34	66	327