

立法會
Legislative Council

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Paper for the House Committee meeting on 14 March 2014

**Report of Subcommittee on Proposed Resolution under
Section 5(4) of the Motor Vehicles (First Registration Tax) Ordinance**

Purpose

This paper reports on the deliberations of the Subcommittee on Proposed Resolution under Section 5(4) of the Motor Vehicles (First Registration Tax) Ordinance ("the Subcommittee").

Background

2. To promote the use of electric vehicles ("EVs"), the Administration has granted them exemption from the payment of first registration tax ("FRT") since 1994. According to the Administration, 432 EVs were registered in the past five years with an FRT forgone of about \$132 million, bringing the total number of EVs to 592 units¹, up from 74 in end-2010 and 242 in end-2011.

3. Section 5(3) of the Motor Vehicles (First Registration Tax) Ordinance ("the Ordinance") provides exemption from FRT for motor vehicles which are propelled solely by electric power and do not emit any exhaust gas. Section 5(4) of the Ordinance further provides that such exemption shall expire at midnight on 31 March 1997 or such later date as the Legislative Council ("LegCo") may by resolution determine. The expiry date, which was first extended by a resolution (L.N. 237 of 1997) and has since been further extended by subsequent resolutions², is now midnight on 31 March 2014.

¹ These EVs include 458 private cars, 56 motorcycles, 34 light goods vehicles, two medium goods vehicles, five light buses, 33 taxis and four buses.

² L.N. 237 of 1997 has been amended by section 3 of the Revenue (No. 2) Ordinance 2000 (27 of 2000), L.N. 77 of 2003, L.N. 53 of 2006 and L.N. 50 of 2009.

The Proposed Resolution

4. The Secretary for the Environment ("SEN") originally intended to move a proposed resolution (given in **Appendix I**) under section 5(4) of the Ordinance ("the Proposed Resolution") at the LegCo meeting of 19 March 2014. The purpose of the Proposed Resolution is to further extend the exemption to midnight on 31 March 2017.

The Subcommittee

5. At the meeting of the House Committee held on 28 February 2014, members agreed to form a subcommittee to study the Proposed Resolution. At the request of the House Committee, Acting SEN wrote to the Clerk to LegCo on 4 March 2014 to withdraw SEN's notice to move the Proposed Resolution at the Council meeting of 19 March 2014. Under the chairmanship of Dr Hon Fernando CHEUNG, the Subcommittee has held a meeting to examine the Proposed Resolution. The membership list of the Subcommittee is in **Appendix II**.

Deliberations of the Subcommittee

6. The Subcommittee in general supports the Administration's initiatives to promote the use of EVs through granting FRT exemption. It has no objection to SEN moving the Proposed Resolution at the Council meeting of 26 March 2014 and will not propose any amendment to it. In the course of examination of the Proposed Resolution, members have expressed concerns and views on whether luxury EVs should be entitled to the FRT exemption, the implementation of other measures to promote the use of EVs, the disposal of waste batteries, etc.

Exemption of first registration tax for luxury electric vehicles

7. The Subcommittee notes that recently an American EV manufacturer, in promoting its products to the Hong Kong market, has highlighted that, if the FRT exemption for EVs is to be extended beyond 31 March 2014, purchasers of its cars will realize upfront tax savings of HK\$463,350 to HK\$673,570, depending on the car model. The prices of the cars, excluding FRT, range from HK\$579,000 to \$761,800. The Chairman is gravely concerned about the granting of FRT exemption to purchasers of these luxury sports EVs. Since the Hong Kong dealer of the EV has announced that more than 300 orders have been received, it is

estimated that the FRT exemption for these purchasers will lead to the Administration forgoing tax revenue of tens of millions of dollars. As the exemption is a form of subsidy, it is doubtful whether public monies should be so spent. The Chairman is of the strong view that the Administration should consider granting the FRT exemption to EVs for specified uses only, for example, public transportation, goods transportation and daily personal transportation.

8. The Subcommittee notes that Hon Frankie YICK holds the view that as long as a vehicle meets the exemption criteria under the law, i.e. it is propelled solely by electric power and does not emit any exhaust gas, it is entitled to FRT exemption. Among the hybrid cars eligible for other forms of tax concessions, there are also high-performance models. It will be difficult to draw a line to exclude certain EVs from FRT exemption with reference to their prices or uses. Hon WU Chi-wai opines that a progressive rate for partial FRT exemption for EVs could be considered in due course and the issue of whether to grant FRT exemption to luxury EVs could be studied in the context of taxation on luxury products.

9. The Administration has explained that due to the relatively small production scale of EVs worldwide, in general the price of EVs is still much higher than that of conventional vehicles. Hence, the FRT exemption can help offset the higher price premium for EVs and is a key element of the Administration's strategy in promoting the use of EVs. As the use of EVs is in a development stage and the choices of EVs on the market are limited, it may be premature to bar certain uses or vehicles from enjoying the tax incentives. Moreover, a wider customer base will enable manufacturers to have more feedback for improving the technology and design of EVs, which will help the EV market develop and lower the price. Successful development of EV technology on high-performance cars such as sports cars will be conducive to the transfer of the technology onto other types of vehicles demanding high performance, for example, taxis, minibuses, goods vehicles, thus promoting the broader adoption of EVs to improve roadside air quality. The Administration has stressed that the FRT exemption arrangement for EVs is a time-limited measure that is reviewed regularly. In the long run, when the use of EVs has become popular and financial incentives are no longer necessary, the Administration will consider whether to discontinue or impose conditions on the exemption arrangement.

10. The Chairman does not fully subscribe to the Administration's views. He has suggested that the Administration should report regularly to the Panel on Environmental Affairs the types and number of EVs

registered so that Panel members will be able to monitor whether the FRT exemption arrangement achieves its objective and is not abused on the purchase of luxury cars.

11. The Subcommittee notes that LegCo is empowered under section 5(4) of the Ordinance to determine by resolution the expiry date of the FRT exemption, and, therefore, any amendments to specify other conditions or restrictions to the FRT exemption appear to be inconsistent with such power. The Chairman has proposed that, when the Administration finds it necessary to impose such conditions or restrictions in future, it should introduce a bill to amend the Ordinance.

Promoting wider use of electric vehicles

12. The Subcommittee has examined the adequacy of the Administration's measures to promote wider use of EVs in Hong Kong other than granting FRT exemption. It notes that there are some 1 000 public charging facilities in Hong Kong to serve EVs. They include 500 standard charging facilities installed by the Administration in 18 public car parks managed by the Transport Department and the Government Property Agency, and some 500 charging facilities installed by the private sector. The Subcommittee has examined the main difficulties for the Administration to expand the charging network.

13. The Administration has advised that the main obstacle to increasing public charging facilities is the lack of a universal standard for the chargers. At present, there are different standards adopted by EV manufacturers in the United States, European countries, Japan and China. Since it is not feasible to install all types of chargers at a charging place, some EV users may find the distribution of public charging facilities inadequate. The problem can only be solved gradually as the international market for EVs develops. Nevertheless, to promote the use of EVs, the Administration will launch a pilot scheme to enable suppliers of electric taxis to install quick chargers at six car parks administered by the Transport Department. Up to some 50 quick charging points can be installed at these car parks. In addition, the Administration will establish 100 medium chargers in various districts to shorten charging time. As compared with normal chargers, medium chargers can save the charging time by up to 60%. Hon Frankie YICK has proposed that the Administration can explore the feasibility of using charging adaptors to overcome the problem arising from the split between the charging standards.

14. Pointing out that the electric bicycle is a green mode of transportation with zero carbon emission, Hon WU Chi-wai has queried why it is not allowed for use on the roads of Hong Kong. The Administration has explained that in considering whether electric bicycles should be allowed to travel on the roads, road safety is the prime concern. The Subcommittee holds the view that the prohibition is not in line with the policy of promoting the use of EVs. It has suggested that the issue be followed up jointly by the Panel on Transport and the Panel on Environmental Affairs.

15. The Subcommittee has examined the adoption of EVs by the public transport sector, which plays an important role in reducing roadside air pollution. As franchised bus companies are procuring electric buses for trial with the Government's funding support, views have been expressed that the same support be rendered to the trial of electric light buses, which are more environmental-friendly than light buses powered by liquefied petroleum gas, which are currently in use in Hong Kong.

16. The Administration has advised that a \$300 million Pilot Green Transport Fund has been put in place since March 2011 for application by public transport operators and goods vehicle owners to try out innovative green and low carbon transport technologies. Public light bus operators are welcomed to apply for funds under the scheme if they have identified suitable models for testing.

17. As the use of EVs becomes popular, consumption of electricity will increase. The Chairman is of the view that the two power companies in Hong Kong, which will benefit from increases in electricity consumption, should have an obligation to promote the adoption of EVs. The Administration has advised that the two power companies are users of EVs as well as providers of a number of public charging facilities. As regards the control of profits, under the existing Scheme of Control agreements made between the Administration and individual power companies, the latter have an obligation to supply electricity at the lowest possible cost and the annual permitted rate of return is capped.

Disposal of waste batteries

18. In anticipation of the large number of waste batteries to be generated from EVs upon its wide adoption, the Subcommittee has examined the Administration's plan for monitoring the disposal of such batteries, which contain heavy metals and acid liquids, against possible

damage to the environment. The Administration has explained that at the present stage, most EV manufacturers are prepared to collect waste batteries from customers for other uses. The disposal of waste car batteries is regulated under the Waste Disposal Ordinance and the Waste Disposal (Chemical Waste) (General) Regulation. The Administration will monitor the development and ensure that the disposal of waste car batteries follows the requirements under the law.

Follow-up action

19. With reference to the issues mentioned in paragraphs 10 and 14, the Subcommittee has suggested that the Administration should report to the Panel on Environmental Affairs regularly the types and numbers of EVs registered, and that the Panel on Transport and the Panel on Environmental Affairs should hold joint discussions on the use of electric bicycles on the roads.

Recommendation

20. The Subcommittee is generally in support of the Proposed Resolution and will not propose any amendment.

Advice sought

21. Members are invited to note the deliberations of the Subcommittee.

Council Business Division 1
Legislative Council Secretariat
13 March 2014

Motor Vehicles (First Registration Tax) Ordinance

Resolution

(Under section 5(4) of the Motor Vehicles (First Registration Tax)
Ordinance (Cap. 330))

Resolved that the Resolution made and passed by the Legislative Council on 14 May 1997 and published in the Gazette as Legal Notice No. 237 of 1997, as amended—

- (a) by section 3 of the Revenue (No. 2) Ordinance 2000 (27 of 2000);
- (b) by the Resolution made and passed by the Legislative Council on 19 March 2003 and published in the Gazette as Legal Notice No. 77 of 2003;
- (c) by the Resolution made and passed by the Legislative Council on 8 March 2006 and published in the Gazette as Legal Notice No. 53 of 2006; and
- (d) by the Resolution made and passed by the Legislative Council on 18 March 2009 and published in the Gazette as Legal Notice No. 50 of 2009,

be amended as set out in the Schedule.

Schedule

Amendment to Resolution of the Legislative Council

1. Resolution amended

The Resolution—

Repeal

“2014”

Substitute

“2017”.

Appendix II

Subcommittee on Proposed Resolution under Section 5(4) of the Motor Vehicles (First Registration Tax) Ordinance

Membership list

Chairman Dr Hon Fernando CHEUNG Chiu-hung

Members Hon Alan LEONG Kah-kit, SC
Hon Frankie YICK Chi-ming
Hon WU Chi-wai, MH

(Total : 4 members)

Clerk Ms Sharon CHUNG

Legal Adviser Ms Clara TAM