

## LCQ10: Upward adjustment of first registration tax and licence fees for private cars

Following is a question by the Hon Mrs Regina Ip and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (May 5):

Question:

In recent years, as the vehicle sales industry has been hard hit successively by the Sino-US trade conflicts, the disturbances arising from the opposition to the proposed legislative amendments and the coronavirus disease 2019 epidemic, its business environment has been very difficult. The sales volume of new private cars (PCs) in 2020 dropped by 12.4 per cent as compared with that in 2018, and the rate of the drop in the sales volume of non-electric PCs during the same period even reached 22.5 per cent. On the other hand, in delivering the 2021-2022 Budget on February 24 this year, the Financial Secretary proposed adjusting upwards the rates of the various tax bands for the first registration tax for PCs (including electric PCs), and the annual licence fees for PCs and electrically powered passenger vehicles (the tax and fees), by 15 per cent and 30 per cent respectively. Members of the industry consider that such a move by the Government has undoubtedly rubbed salt into their wounds. In this connection, will the Government inform this Council:

(1) whether, under the current economic downturn, the Government had, before deciding to adjust upwards the tax and fees, taken into account the blow that such a move would deal to the vehicle sales industry; and

(2) given that some members of the vehicle sales industry have called on the Government to defer or phase (e.g. over three to six years) the implementation of the upward adjustment of the tax and fees, so as to give the industry some breathing space, whether the Government will consider such suggestions; if so, specifically how it will implement them; if not, of the reasons for that?

Reply:

President,

My consolidated reply to the two parts of the Hon Mrs Regina Ip's question is as follows:

Given that Hong Kong is a small and densely-populated city, the Government has been encouraging the public to take public transport instead of driving private cars (PCs) for commuting, in order to optimise the use of limited road space. However, the fleet size of licensed PCs in Hong Kong is

enormous and has grown continuously. Its number substantially increased by almost 40 per cent from about 420 000 in 2010 to about 570 000 in 2020, resulting in the worsening of road traffic congestion.

To alleviate traffic congestion, the Government has all along adopted a multi-pronged strategy that includes improving the transport infrastructure, expanding and enhancing the public transport system and managing road use. Nonetheless, a number of these alleviating measures take time to materialise and meanwhile, Hong Kong's land resources remain scarce. With the continuous growth of vehicles in Hong Kong, the effect of these alleviating measures could hardly sustain in the long run.

Fiscal measure is one of the effective ways to control the growth of PCs, and had been introduced in the past. However, the first registration tax (FRT) rates for PCs were last increased in 2011, whereas the vehicle licence fee (VLF) levels for PCs have been frozen since 1991. In determining the magnitude of increase of the FRT rates and VLF levels for PCs by 15 per cent and 30 per cent respectively, we have taken into account such factors as the prevailing socio-economic circumstances and public acceptability, striking a balance among considerations of all parties.

Although it is noted that the growth of PCs slightly slowed down in the recent couple of years, which may be attributed to socio-economic factors, the growth of first registered and licensed PCs has resumed in recent months. The year-on-year growth rate of licensed PCs was 2.5 per cent in March 2021, with its total number reaching the historical high of almost 580 000 as at end March 2021. We expect the number of PCs to increase by a larger magnitude once the pandemic further subsides. If we do not take resolute and immediate action to curb the growth of PCs, it would be even more challenging to implement measures to alleviate traffic congestion in future.

In adjusting the FRT and VLF for PCs, we have given exemptions to PCs on order, or PCs imported for personal use and arranged by the vehicle owners for shipment to Hong Kong, prior to the effective time. Exemption is also given to PCs eligible for licence renewal on or before February 24, 2021. In other words, the abovementioned PCs are not subject to the new tax rates or new licence fees, cushioning the impact on the public and the trade. As regards the proposal of deferring or phasing the implementation of the adjustment of FRT rates, upon careful consideration, we are of the view that the proposal will in effect encourage prospective PC buyers to expedite the purchases before the adjustment of the FRT rates in order to enjoy the lower tax rates. This will lead to a substantial surge in car sales and subsequently the number of licensed PCs in the near future, which is contrary to our objective of curbing the growth of PCs. All in all, we must bear in mind the overall interest of the community and pragmatically address the issue of traffic congestion in Hong Kong, which has stemmed from its dense population and scarce land resources.