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For advice

Tax Incentives to Promote the Use of Environment Friendly Cars

PURPOSE

This paper consults Members on a proposal to promote the use of environment friendly cars by way of tax concession.

PROPOSAL

2. To encourage people to reduce pollution through the use of new technologies, the Chief Executive has announced in the Policy Address of this year that a 30% reduction in first registration tax (FRT) will be given to buyers of vehicles with low emissions and high fuel efficiency, subject to a ceiling of \$50,000 per vehicle.

QUALIFYING STANDARDS FOR ENVIRONMENT FRIENDLY CARS

3. The qualifying standards for environment friendly cars are set out below –

- (a) hydrocarbons (HCs) and nitrogen oxides (NO_x) emissions not exceeding 50% of the limits in the Euro IV emission standards or the Japan 2005 emission standards; and
- (b) fuel efficiency (measured by the mileage travelled with a litre of fuel) being at least 40% better than the average fuel efficiency in the corresponding private car class according to vehicle weight.

4. The following principles are used in establishing the fuel efficiency averages of different weight classes –

- (a) The fuel efficiency averages should be representative of the cars in Hong Kong and will be determined for each weight class on a model basis instead of sales volume basis. When determining the averages, the fuel efficiency data submitted by vehicle manufacturers at the time of emission type-approval will be used; and
- (b) Reference to overseas data will be made when there are insufficient local data for compiling the averages, e.g. when the number of vehicle models of a particular weight class imported into Hong Kong is too small.

The specific fuel efficiency limits that have been derived from the above principles are set out in the **Annex**. The limits for vehicles of different weight classes have been worked out on the basis of average fuel performance of vehicle models imported into Hong Kong during 1 January 2006 (the day when Euro IV standards kicked in) to 30 September 2006. These limits will remain in force until 31 March 2008. They will be tightened on 1 April 2008 taking into account the average fuel performance of vehicle models imported into Hong Kong up to 31 December 2007. If the average fuel performance happens to become worse, no change will be made to the fuel efficiency limits on 1 April 2008.

5. We will review the qualifying standards annually in the light of technological advancement so that the tax concession will be restricted to private cars of truly outstanding emission and fuel efficiency performance.

IMPLEMENTATION

6. We aim to introduce this incentive scheme on 1 April 2007. A list of environment friendly car models that have been type-approved to be complying with the qualifying standards for environment friendly cars will be posted on the website of the Environmental Protection Department. The list will also cover car models that are imported by parallel importers and are compliant with the qualifying standards, subject to the production of valid supporting documents. The list will be updated regularly.

GOVERNMENT CARS

7. The Government will give priority to vehicles complying with the specified qualifying standards when Government vehicles are due for replacement each year, subject to operational requirements and the rational utilization of resources.

CONSULTATION

8. We have consulted the Hong Kong Motor Traders Association (HKMTA), whose members are local authorized agents for vehicle manufacturers, on the proposal. We have also worked out jointly with HKMTA the principles for setting fuel efficiency averages. HKMTA supports the proposal. After carefully considering its request to incentivise also private cars complying only with the emission requirement, we have decided to maintain restricting the incentive to private cars emitting less air pollutants and being more fuel efficient at the same time for the benefits of the environment.

9. We have consulted the Right Hand Drive Motors Association (Hong Kong) Limited (RHDMA), which represents parallel importers. RHDMA supports the proposal.

10. The Hong Kong Automobile Association has also been briefed. It supports the proposal and has agreed to help promote the use of environment friendly cars when the incentive scheme is in place.

ENVIRONMENTAL IMPLICATION

11. Environment friendly cars emit about 50% less HCs and NO_x and consume about 40% less fuel than conventional petrol Euro IV private cars. Owing to their higher fuel efficiency, they also emit about 40% less carbon dioxide (CO₂), a key greenhouse gas contributing to global warming. Promoting the use of environment friendly cars can bring substantial environmental benefits. If 15% of the petrol private car fleet are replaced by them, the vehicular emissions of CO₂, HCs and NO_x would be reduced by about 1%, 5% and 1% respectively.

FINANCIAL AND CIVIL SERVICE IMPLICATIONS

12. It is difficult to estimate with precision the effect of the incentive on

buyers' preference for environment friendly cars. However, the 30% FRT reduction, coupled with the fuel cost saving, will likely be sufficient to make buyers give more serious consideration to these clean vehicles.

13. To administer the scheme, the Transport Department will require a non-recurrent \$1.5 million to enhance its computer system for checking eligibility and computation of FRT. Additional workload in administering the program will be absorbed by the existing staff.

ADVICE SOUGHT

14. Members' views are sought on the proposal.