

More expensive imported cars

BY SLOW CHEN MING I

The Edge 05/09/05

Prices of imported cars, especially of Korean makes, have either gone up or are on the verge of being increased. This is because industry players are declaring the full CIF (cost, insurance and freight) value of the cars. Previously, some players had exploited loopholes to pay less tax and allow them to price their cars more competitively compared to the national marques.

One reason car prices have gone up is the imposition of a profit and general expense (PGE) charge on certain models by the government.

On July 23, the Finance Ministry said it would start imposing a PGE charge on 34 models, from six carmakers. This is believed to be related to the issue of under-declaration of taxes for cars coming into the country.

The six affected brands are Kia, Chevrolet, Hyundai, Chery, Fiat and Mahindra Scorpio. Without going into details, the government had said that a PGE charge of 30% will be imposed on affected vehicles with engine capacities below 1.6 litres, and 38% on cars above 1.6 litres.

The PGE is not a tax but a method used to determine the acceptable CIF value of the imported car. It works based on a reverse pricing mechanism method.

For instance, a car with an engine capacity of under 1.6 litres selling at RM46,000 would first be stripped of its profit margin, estimated at 30%. This would bring its value down to RM32,200. The next step would be to strip out the import taxes paid of about RM15,000.

When this amount is further deducted, the remaining value — supposedly the cost of the car — would work out to RM17,200. If this amount is higher than the previous CIF value declared, it will be used as the fair CIF value on which taxes will be based.

"Price increases are generally seen in Korean models largely due to the PGE. The government imposed the PGE first on Korean cars and may later on, expand it to other brands," says Datuk Aishah Ahmad, president of the Malaysian Automotive Association (MAA).

In recent weeks, the price of a 1.1-litre Kia Picanto has increased by almost RM6,000 to RM54,508.78, from RM48,684.89 previously. That would put it at a similar level to the Hyundai Atos when it was first imported into the local market a few years ago and sold for around RM56,000.

Meanwhile, the price of a 1.3-litre Kia Rio has increased by about RM6,000 to RM65,373.17. However, a dealer from Naza-Kia's main branch in Kampung Baru, Kuala Lumpur, says existing stocks will still be sold at RM59,150 during the promotional period, though the price has been "officially" increased.

"We are clearing the remaining stocks. This is because the company will launch a new Rio 1.4 litre model soon at RM75,435. We are already accepting bookings for this new model," says a dealer.

It is worth noting that the indicative price for the new Rio 1.4-litre model is about RM15,000 higher than the RM59,150 price tag for the old 1.3-litre model.

While it is not clear if the price changes were solely caused by the imposition of PGE or due to a combination of other factors, the latest development serves as a benchmark for Korean car prices in the market.

Apart from Naza-Kia, DRB-Hicom Bhd has also increased the prices of its Chevrolet Aveo 1.5-litre model to RM79,099.50, from RM74,495 previously.

Although Hyundai Sime Darby Bhd has yet

to increase the price of its Getz 1.3 model, which is being maintained at RM66,187.40 (since January this year), dealers contacted said there may be a possible increase after existing stocks are sold.

The recent developments have resulted in a bigger price gap between the South Korean imports and the national cars.

Analysts see the imposition of the PGE as

benefiting Proton and Perodua. But does the government benefit from PGE?

"The PGE does not recover back-taxes owed for vehicles under-declared in the past. While the PGE increases tax collections per car, bear in mind that prices of these models have increased and this will affect their sales volume. How will the government increase total tax collection if the vol-

ume falls?" asks an analyst.

The hike in Korean car prices has swayed industry players to favour the assembly of these models through increasing the localisation of parts and content. But as the automotive tax structure is still unclear, despite earlier speculation that it would be announced by the end of August, industry players are in for a long wait. ■