

**The Administration's response to the issues raised at
the meeting of the Bills Committee on the Stamp Duty (Amendment)
Bill 2012 held on 4 February 2013**

This paper is a response to the issues raised in the letter dated 6 February 2013 from the Legislative Council Secretariat.

Effectiveness of the SSD

2. The SSD aims at curbing short-term speculative activities in the residential property market to ensure the market's healthy and stable development. As mentioned in our reply to the submission from the Hon James To issued on 15 February 2013, the SSD has been effective in curbing short-term speculative activities since its implementation in November 2010. According to the Inland Revenue Department (IRD), after the enactment of enabling legislation for the SSD in July 2010, the numbers of confirmor and resale cases within 24 months have dropped significantly. The total number of such transactions in 2011 represented a 42.5% reduction as compared with 2010, and a further drop of 56% was recorded in 2012 as compared with 2011. The SSD has been most effective in curbing confirmor cases and resale cases within 6 months. The detailed figures are at **Annex A**.

3. We have reviewed the SSD in view of the continued exuberant state of the property market. We consider that there is a need to further enhance the SSD with a view to strengthening its effectiveness to combat speculative activities. In the first nine months of 2012, i.e. before the announcement of the new demand-side management measures in October 2012, on average there were a total of 15 cases per month for resale within 12 months (including confirmor transactions) which were subject to the SSD. During the same period, the monthly average number of transactions for resale between 12 to 24 months subject to the SSD was higher, at 102 cases. Moreover, the number of such cases has been on the rise, from 83 in March 2012 to 218 in September 2012, as properties bought in the early months after the introduction of the SSD reach the end of the first year of the higher SSD rates. Given the current tight supply, we see a need to provide a stronger disincentive for speculators and short-term investors. Accordingly, we propose to enhance the SSD by increasing its coverage period from 24 months to 36 months, and increase the SSD rates for the different holding periods.

4. While some have expressed the view that the SSD might lead to a further rise in residential property prices, we would like to emphasise that the objective of the SSD is to help maintain the healthy and stable development of the property market through combating short-term speculative activities. We are of the view that the SSD will reduce the impact of short-term speculative activities immediately, which will in turn reduce the risk of a property bubble. With most speculators driven out of the market, the number of flats held by speculators will gradually decrease. As to the genuine homebuyers, in general most will not resell residential properties they acquired within a short period in the first place, therefore the introduction/enhancement of the SSD should not have a significant effect on the supply of flats held by these end-users. Overall, the end result will be a more healthy market of end-users. We see no significant impact on the overall supply of property for sale. We are of the view that the current exuberant market situation is the combined result of various factors, including the overall demand and supply imbalance, the influx of capital, the ultra-low interest rate environment, etc.

5. As we do not have information on whether a home buyer / seller is a “genuine” buyer / seller, it is not possible to provide the proportions of transactions which involve these buyers and sellers.

The BSD

6. The objective of the BSD is to accord priority to Hong Kong permanent resident (HKPR) buyers over non-HKPR buyers under the current market situation. In fact, there have been concerns that the share of residential property market transactions taken up by non-local buyers¹ is on a general uptrend, with estimates suggesting that this has risen from 3.1% of all transactions in residential properties in 2008 to 6.5% in 2011; and from 5.7% of transactions in the primary market to 19.5% in 2011². The Government envisages that the BSD would reduce the demand from non-HKPRs for properties in both primary and secondary markets, thus according priority to HKPR buyers.

¹ Proxied as non-Hong Kong Identity (HKID) card holders for non-local individual buyers, as for individual buyers we can only distinguish transactions involving buyers who provided information on their ID cards, but do not have information on the HKPR status of buyers under the present stamp duty collection arrangement.

² The figures for the overall market and primary market for 2012 (including the period after 26 October 2012 where the BSD has already been announced) are 4.6% and 13.2% respectively. If non-HKPR buyers who are HKID card holders are also included, the relevant shares will be even higher.

7. It is the policy intent that all companies, regardless of whether the shareholder(s) or director(s) is / are HKPR(s), should be subject to the BSD. As we have repeatedly explained in previous meetings and in our written responses to the Bills Committee, we do not consider it appropriate to exempt company buyers from the BSD. The major concern is that doing so would lead to the problem that the HKPR shareholders can circumvent the BSD through transferring property entitlement to non-HKPR shareholders, and thus seriously undermine the effectiveness of the BSD. The required figures in relation to company buyers (both local and non-local) are at **Annex B** for reference.

Other information

8. The annual changes in residential property prices since November 2010 as requested by Members is at **Annex C**.

Transport and Housing Bureau
February 2013

Annex A

Table 1(a): Proportion of short-term resale cases

Year	Total no. of agreements for sale ^{Note 1} (a)	Resale cases ^{Note 2}					Proportion of resale cases, i.e. (b)/(a)
		Confirmor cases	Resale cases within 24 months after assignment			Sub-total (b)	
			≤ 6 months	>6 to ≤ 12 months	>12 to ≤ 24 months		
2010 ^{Note 3}	9,041	217	651	472	715	2,055	22.73%
2011	96,034	883	2,617	4,857	9,649	18,006	18.75%
2012	91,264	296	83	168	7,382	7,929	8.69%

Note 1: It refers to the number of stamping applications received by the IRD within the particular period.

Note 2: Some of the resale cases involve properties acquired before 20 November 2010, i.e. not subject to SSD.

Note 3: IRD has started recording the statistics on resale cases since December 2010. The 2010 figures here represent those for December 2010.

**Table 1(b): breakdown of SSD cases by consideration
(as at end 2012)**

Consideration	No. of SSD cases	Proportion
< 10M	1,794	97.71%
≥10M and <20M	18	0.98%
≥ 20M	24	1.31%
Total	1,836	100%

Note : No SSD case under the proposed enhanced regime has been recorded.

Annex B

No. of transactions involving company buyers (both local / non-local) in the primary and secondary markets

	Primary market			Secondary market			Overall		
Year	Total no. of agreements for sale*	No. of agreements for sale involving company buyers	Proportion	Total no. of agreements for sale	No. of agreements for sale involving company buyers	Proportion	Total no. of agreements for sale	No. of agreements for sale involving company buyers	Proportion
2005	13,797	3,434	24.89%	105,976	12,967	12.24%	119,773	16,401	13.69%
2006	13,282	1,451	10.92%	83,352	9,441	11.33%	96,634	10,892	11.27%
2007	18,621	3,109	16.70%	123,981	14,802	11.94%	142,602	17,911	12.56%
2008	9,919	1,901	19.17%	100,555	11,623	11.56%	110,474	13,524	12.24%
2009	15,681	2,209	14.09%	117,094	12,003	10.25%	132,775	14,212	10.70%
2010	12,671	2,361	18.63%	143,052	18,976	13.27%	155,723	21,337	13.70%
2011	10,365	1,939	18.71%	85,669	9,096	10.62%	96,034	11,035	11.49%
2012**	12,273	1,809	14.74%	78,991	6,980	8.84%	91,264	8,789	9.63%

* It refers to the number of stamping applications received by the IRD within the particular period.

** It includes transactions which took place after 26 October 2012, i.e. when the BSD was announced.

Change in residential property prices

Classes A – C flats ^{Note 1}

	Price index ^{Note 2}	% change
Nov 2010	94.2	-
End 2010	93.8	-0.4%
End 2011	104.4	+11.3%
End 2012	131.1	+25.6%

Classes D – E flats ^{Note 3}

	Price index ^{Note 2}	% change
Nov 2010	111.7	-
End 2010	110.5	-1.1%
End 2011	118.4	+7.1%
End 2012	133.6	+12.8%

Source: Rating and Valuation Department

Note 1: Refers to units with saleable area below 100 sq.m.

Note 2: Base year: 1997

Note 3: Refers to units with saleable area of or above 100 sq.