

For information

## **Legislative Council Panel on Financial Affairs**

### **Review of Doubled Ad Valorem Stamp Duty (DSD)**

#### **Purpose**

On 22 February 2013, the Government introduced a set of demand-side management measures, which sought to –

- (a) double the ad valorem rates on transactions for residential and non-residential properties acquired on or after 23 February 2013, except for those residential properties acquired by a Hong Kong Permanent Resident (HKPR) acting on his or her own behalf and does not own any other residential property in Hong Kong at the time of acquisition; and
- (b) advance the charging of stamp duty on non-residential property transactions from conveyance on sale to agreement for sale, to be in line with the arrangement for residential property transactions.

2. The Government has all along been monitoring the property market closely. Specifically, we have undertaken to review the demand-side management measures one year after the enactment of the relevant Amendment Ordinances. The Stamp Duty (Amendment) (No. 2) Ordinance 2014, which implements the above measures relating to DSD, was gazetted on 25 July 2014. This paper briefs Members on the outcome of our review of DSD for the past twelve months. As regards the other demand-side management measures, viz, the Special Stamp Duty (SSD) and the Buyer's Stamp Duty (BSD)<sup>1</sup>, the Transport and Housing Bureau separately reported the outcome of review to the Legislative Council Panel on Housing in March 2015, one year after the relevant Amendment Ordinance was gazetted.

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<sup>1</sup> The Stamp Duty (Amendment) Ordinance 2014, which implements the enhanced SSD and BSD, was gazetted on 28 February 2014.

## **The Review**

### ***Objectives of DSD***

3. In the past few years, due to tight local housing demand-supply balance and ultra-low interest rate environment with abundant liquidity, local property prices have been out of line with economic fundamentals, with heightened risk of a bubble. Against such background, the Government has introduced several rounds of demand-side management measures, including SSD (November 2010 and October 2012), BSD (October 2012) and DSD (February 2013).

4. In overall terms, the above measures aim to –

- (a) prevent further exuberance in the property market which may pose significant risks to our macroeconomic and financial stability;
- (b) ensure the healthy and stable development of the property market, which is crucial to the sustainable development of Hong Kong as a whole; and
- (c) accord priority to the home ownership needs of HKPRs in the midst of the present tight housing supply.

5. SSD and BSD have raised the transaction costs for speculators and non-local buyers of residential properties respectively. The two measures have effectively reduced short-term resale by speculators and the purchase of residential properties by buyers who are not HKPRs. The upward momentum in flat prices was temporarily arrested and transactions plunged sharply in November and December 2012. However, on entering 2013, there were renewed signs of exuberance in the residential property market. Further, the non-residential property market had witnessed soaring prices, along with hectic trading activities in respect of retail shop, office and flatted factory space, throughout 2012. It was against such backdrop that DSD was introduced in February 2013, aiming to reinforce management on demand from those who have already acquired residential properties and to forestall the shifting of overheating to the non-residential property market.

### *Number of transactions related to DSD*

6. Between the introduction of DSD on 23 February 2013 and 24 July 2014 (i.e. prior to the gazettal of the relevant Amendment Ordinance on 25 July 2014), the Inland Revenue Department (“IRD”) had recorded a total of 20 460 residential property transactions and 28 270 non-residential property transactions which required the payment of stamp duty at doubled rate. In respect of these transactions, the stamp duty collected after the gazettal of the relevant Amendment Ordinance amounted to \$4.9 billion and \$6.9 billion respectively. As regards the non-residential property transactions, about 5 270 of them involved the advanced payment of DSD on the agreements for sale, amounting to \$3.9 billion.

7. As regards the period between 25 July 2014 and 30 June 2015, a total of 18 215 residential property transactions and 26 000 non-residential property transactions were subject to DSD, amounting to some \$11.4 billion and \$7.9 billion respectively. Breakdown of DSD cases by month is shown at **Annex A**.

### *Effects on the Property Market*

8. DSD raises the transaction costs for buyers who have already acquired one or more residential properties and for all buyers of non-residential properties. It has the effect of dampening demand from these buyers, thus meeting the objective of according priority to the housing needs of HKPRs, in order to help stabilising the property market.

9. As highlighted in Table 1 below, trading activities for residential properties have seen a marked decline since the introduction of DSD in February 2013. Compared with the period from January 2009 to February 2013, the monthly average of sale and purchase agreements for residential properties received by the Land Registry plunged by 44% from 8 568 to 4 822 cases during March 2013 to June 2015. This was sharply below the long-term monthly average of 7 740 cases during the period from 1995 to 2014 (Chart 2 at **Annex B**).

10. As to prices and rentals, the monthly average rate of increase for overall flat prices moderated from 1.7% during the period from January 2009 to February 2013 to 0.8% during the period from March 2013 to June 2015. The increase in overall rentals also slowed from 0.9% per month on average to 0.5% over the same period (Chart 1 at **Annex B**).

**Table 1 : DSD has helped stabilise the residential property market**

<b>Residential Properties</b>	<b>Pre-DSD (Jan 2009 – Feb 2013)</b>	<b>Post DSD (Mar 2013 – Jun 2015)</b>
Monthly transactions	8 568	4 822 (-44%)
Prices (average monthly change)	+1.7%	+0.8%
Rentals (average monthly change)	+0.9%	+0.5%

11. As to non-residential property market, as highlighted in Table 2 below, the transaction volume for non-residential properties has dwindled since the introduction of DSD. Compared with the period from January 2009 to February 2013, the monthly average of sale and purchase agreements for retail shop, office and flatted factory space plunged to 236 cases (-58%), 112 cases (-57%) and 263 cases (-60%) respectively during March 2013 to June 2015 (Chart 4 at **Annex C**).

12. Following the introduction of DSD, the increase in non-residential property prices and rentals has moderated significantly. Prices of retail shop, office and flatted factory space increased by a monthly average of 0.4% each during March 2013 to June 2015, a notable deceleration from 2.2%, 1.8% and 2.3% respectively during January 2009 to February 2013. As regards rentals of retail shop, office and flatted factory space, the monthly average rates of increase was 0.7%, 0.5% and 0.6% respectively during January 2009 to February 2013, which were comparable to those during March 2013 to June 2015 (Chart 3 at **Annex C**).

**Table 2: DSD has also helped stabilise the non-residential property market**

Non-residential Properties	Pre-DSD (Jan 2009 – Feb 2013)	Post DSD (Mar 2013 – Jun 2015)
Monthly transactions		
● Retail shop	562	236 (-58%)
● Office	263	112 (-57%)
● Flatted factory	659	263 (-60%)
Prices (average monthly change)		
● Retail shop	+2.2%	+0.4%
● Office	+1.8%	+0.4%
● Flatted factory	+2.3%	+0.4%
Rentals (average monthly change)		
● Retail shop	+0.7%	+0.5%
● Office	+0.5%	+0.5%
● Flatted factory	+0.6%	+0.8%

***Effects on the demand of buyers who have acquired other residential properties in Hong Kong***

13. DSD has been effective in suppressing the demand of buyers who have already acquired one or more residential properties in Hong Kong. According to the statistics compiled by IRD, amongst the number of agreements for sale and purchase of residential properties involving buyers who are HKPRs<sup>2</sup>, the percentage of buyers who do not own any other properties in Hong Kong at the time of transaction reached 77% on average (about 3 756 cases per month) during the period from March 2013 to June 2015, as compared with 56% on average (about

<sup>2</sup> As IRD did not have information on the Hong Kong permanent residence status of the buyer prior to the introduction of DSD, these figures relate to purchases made by individuals holding Hong Kong identity card (including non-HKPRs) who already owned another property (which may be residential or non-residential). Further, IRD compiled the statistics based on its database on applicants for stamping. If there is more than one purchaser in the transaction, only the property holding record of the first buyer has been considered.

4 003 cases per month) from January 2010<sup>3</sup> to February 2013. This is in line with our policy objective of according priority to the housing needs of HKPRs who do not own any other residential properties in Hong Kong. Relevant statistics on agreements for sale and purchase for residential properties acquired by HKPRs are at **Annex D**. Breakdown of residential property transactions with HKPR buyers by consideration is shown at **Annex E**.

### *Prevailing market situation and outlook in 2015*

14. Having cooled off in 2013 and early 2014 after the introduction of SSD, BSD and DSD, the residential property market revived in April 2014 and remained generally active since then. Overall flat prices in June 2015 have risen by 8% over December 2014. During January to July 2015, transactions for residential property, as proxied by the number of sale and purchase agreement received by the Land Registry, averaged at around 5 380 per month, representing a rise of 9% over a year earlier.

15. By comparison, the non-residential property market was relatively steady. During the first half of 2015, prices and rentals of office space rose modestly by 5% and 4% respectively, while those of retail shop space rose by 3% only. As to flatted factory space, prices and rentals rose by 6% and 4% respectively. Taken together, there were around 650 transactions per month of office space, retail shop and flatted factory space combined during the first half of 2015, as compared with the monthly average of 620 transactions throughout 2014.

16. The exuberant market sentiment has been supported by continuous demand-supply imbalance in the property market and the expectation of a continued low interest rate environment in the near term. While the Government has continued to accord priority to increase flat supply through increasing land supply<sup>4</sup>, we have stayed vigilant in reducing possible risks to financial stability from an exuberant property market. In late February 2015, the Hong Kong Monetary Authority announced the seventh round of macro-prudential measures on property mortgage to strengthen banks' risk management and resilience<sup>5</sup>.

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<sup>3</sup> IRD does not have statistics on the portfolio of buyers of residential property before January 2010.

<sup>4</sup> The projected total supply in the coming three to four years rose to another record high of 83 000 units as estimated at end-June 2015.

<sup>5</sup> This included cutting maximum loan-to-value ratio for residential properties with value below \$7 million, and lowering the maximum debt-servicing ratio for borrowers who buy a second residential property or a non-self use property.

17. Looking ahead, while the US Federal Reserve still expects interest rate to be raised within this year, the exact timing and pace of the rate hike remain uncertain, much contingent on upcoming economic data. In contrast, other major central banks, in particular in the eurozone and Japan, have continued with monetary easing measures. More recently, the deterioration in the Greek debt crisis and the correction in the Mainland stock market have added further uncertainty to the prospects for global economic growth and monetary policy direction. The local property market may experience considerable fluctuations as market sentiment and fund flows shift along with changes in these external factors.

### **Looking Ahead**

18. All along, it has been one of the Government's top priorities to maintain the healthy and stable development of the property market. Empirical data as set out in paragraphs 8 to 13 above demonstrate that DSD helps stabilise the property market and is particularly effective in reinforcing the demand management on buyers who have already acquired residential properties.

19. Having considered the prevailing local market conditions and external economic situation, we consider it necessary to keep DSD in place for the time being. The Government will continue to adopt a two-pronged approach of securing a stable supply of land and flats on the one hand, and maintaining efforts to manage market demand on the other. We will continue to monitor the property market and the evolving external environment to guard against market volatilities compromising the macroeconomic and financial stability of Hong Kong.

## Background

20. The basic and doubled ad valorem stamp duty (AVD) rates are as follows –

<b>Property consideration or market value (whichever is the higher)</b>	<b>Basic AVD rate (i.e. Scale 2)</b>	<b>Doubled AVD rate (i.e. Scale 1)</b>
Up to \$2,000,000	\$100	1.5%
\$2,000,001 to \$3,000,000	1.5%	3.00%
\$3,000,001 to \$4,000,000	2.25%	4.5%
\$4,000,001 to \$6,000,000	3.00%	6.00%
\$6,000,001 to \$20,000,000	3.75%	7.50%
\$20,000,001 and above	4.25%	8.50%

Note: There is marginal relief among different value bands.

Financial Services and the Treasury Bureau  
August 2015



## Annex A

### Number of Double Stamp Duty (DSD) cases (from 25 July 2014 to 30 June 2015)

#### Breakdown of DSD cases by month

Month	Residential Properties		Non-residential Properties	
	Number of DSD cases processed	Amount of DSD involved (\$ million)	Number of DSD cases processed	Amount of DSD involved (\$ million)
July 2014	7	3.5	14	3.0
August 2014	998	456.8	1 215	507.8
September 2014	2 087	1,247.7	2 856	898.0
October 2014	1 986	1,556.0	2 383	830.9
November 2014	1 515	942.8	2 158	600.5
December 2014	1 736	899.6	2 325	800.0
January 2015	2 082	1,613.2	2 504	489.1
February 2015	1 755	854.2	2 718	569.5
March 2015	1 274	852.2	2 432	747.4
April 2015	1 731	1,077.1	2 231	673.8
May 2015	1 351	857.2	2 313	672.9
June 2015	1 693	1,059.2	2 851	1,095.1
<b>Total</b>	<b>18 215</b>	<b>11,419.5</b>	<b>26 000</b>	<b>7,888.0</b>

**Source: Inland Revenue Department**

Note : The statistics on non-residential property transactions cannot be further broken down into retail shop, office and flatted factory space as the applicants are not required to state the usage of non-residential property in the stamping request form. As such, IRD does not have the relevant statistics.

Prices, rentals and trading of residential property

Chart 1 : Prices and rentals of residential property

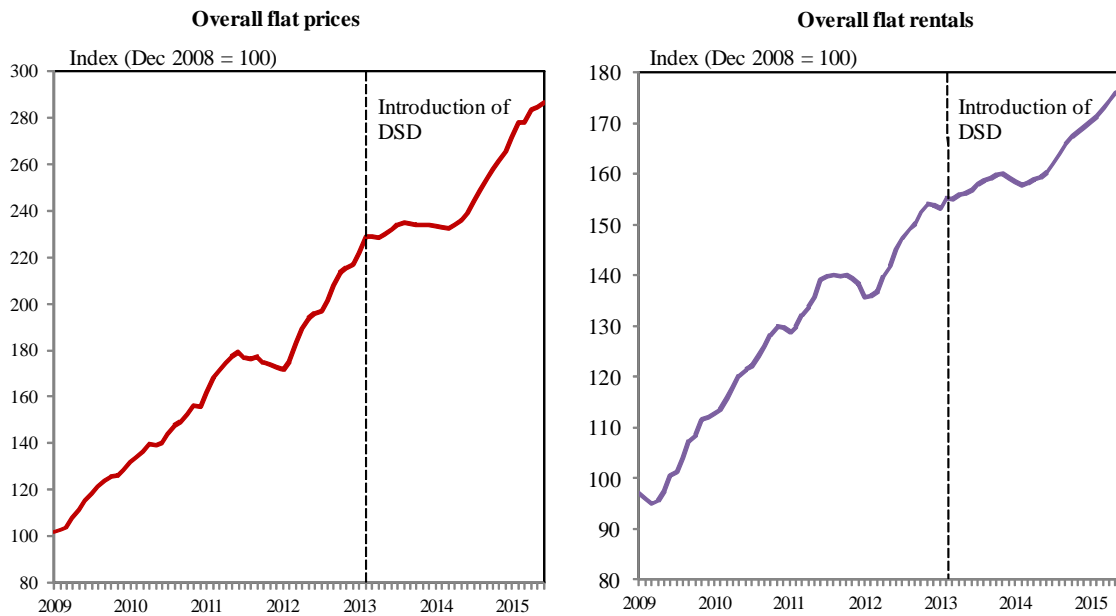
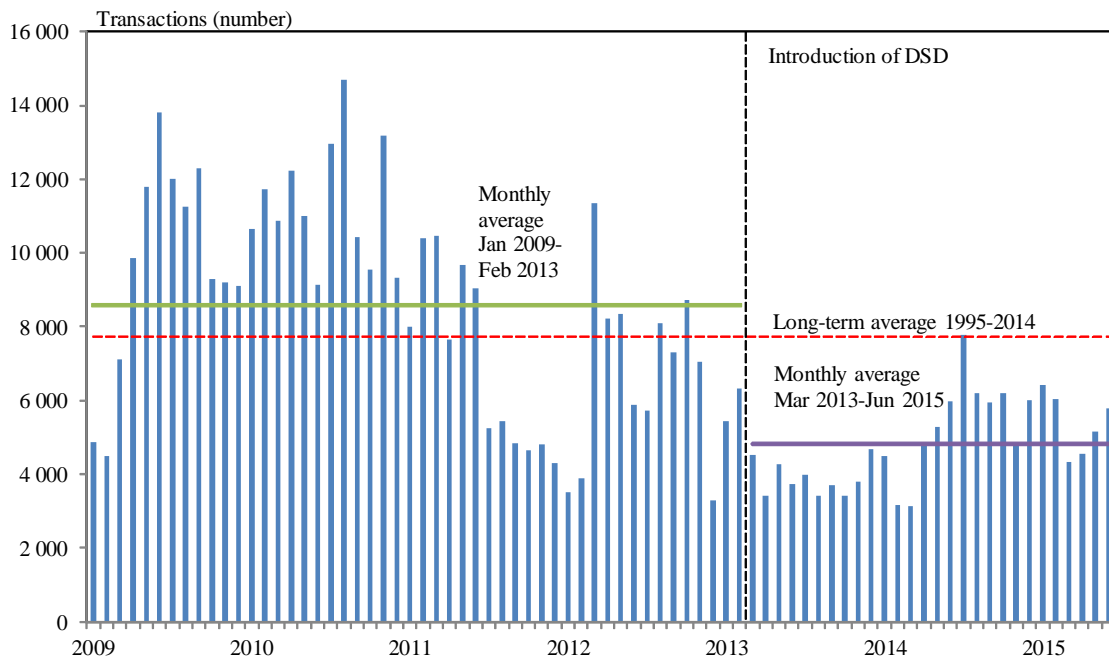


Chart 2 : Sale and purchase agreements of residential property



Prices, rentals and trading of non-residential properties

Chart 3 : Prices and rentals of non-residential properties

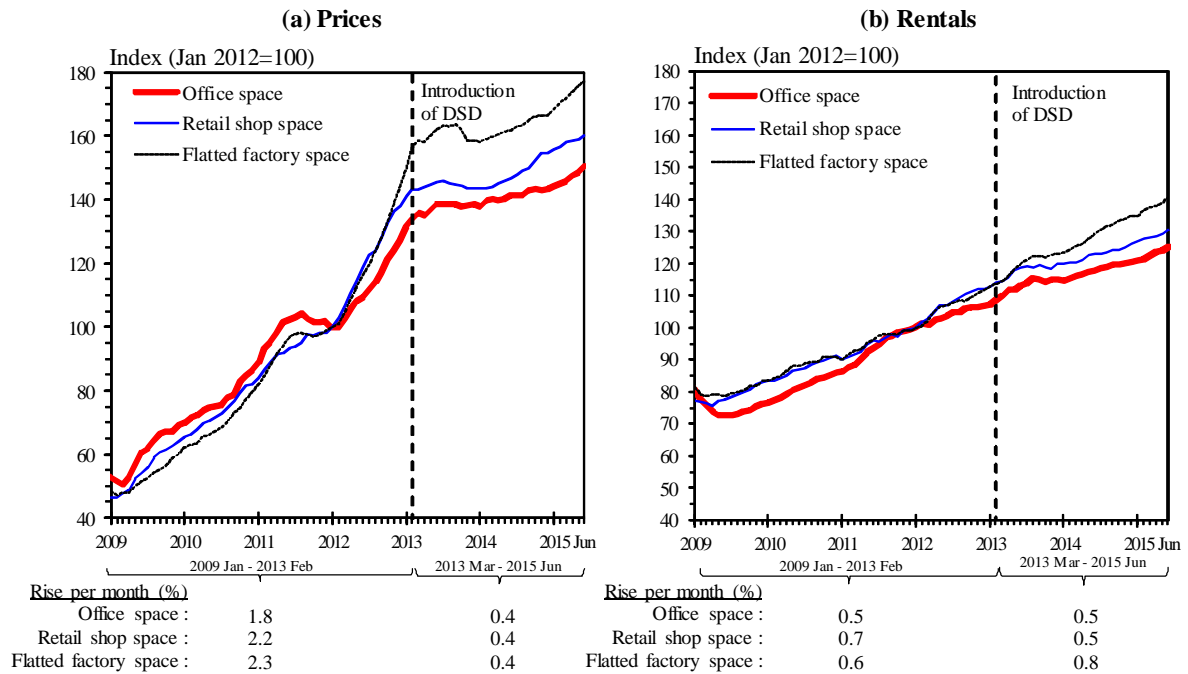
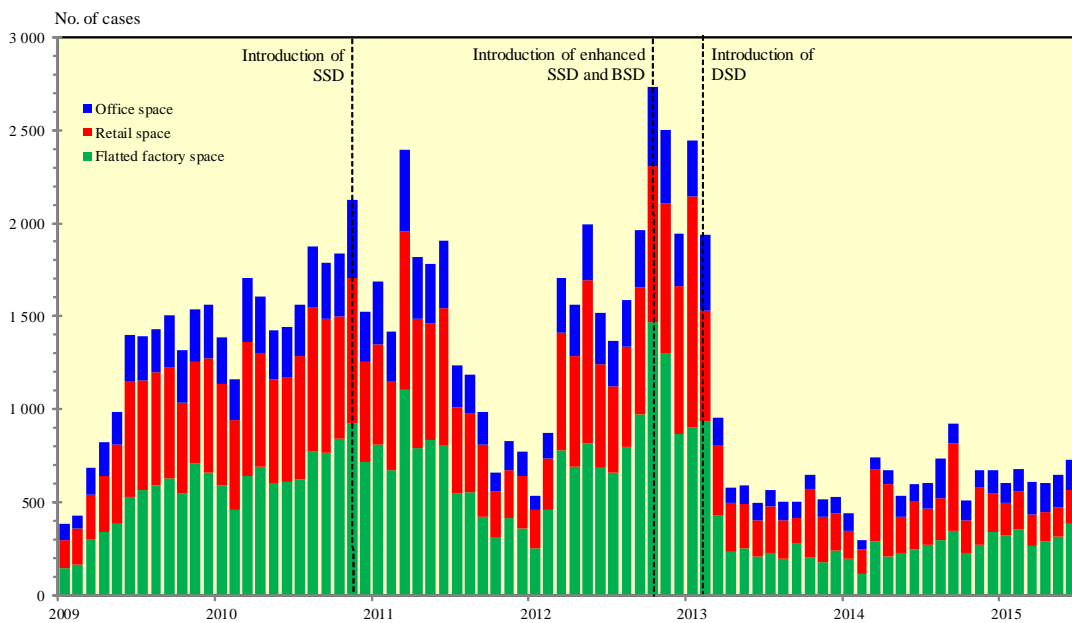


Chart 4: Transactions for non-residential properties



Note : Carpark transactions are not included.

Source : Rating and Valuation Department

**Portfolio of Buyers of Residential Property  
Before and After the DSD Measure**

Residential Property Transactions	January 2010 – February 2013		March 2013 – June 2015	
	Monthly Average	Percentage	Monthly Average	Percentage
HKPR buyers who <u>own</u> other residential property	3 174	44%	1 105	23%
HKPR buyers who <u>do not own</u> other residential property	4 003	56%	3 742	77%

**Source:** Inland Revenue Department

Note: As IRD did not have information on the Hong Kong permanent residence status of the buyer prior to the introduction of DSD, these figures relate to purchases made by individuals holding Hong Kong identity card (including non-HKPRs) who already owned another property (which may be residential or non-residential). Furthermore, IRD compiled the statistics based on its database on applicants for stamping. If there is more than one purchaser in the transaction, only the property holding record of the first buyer has been considered.

## Annex E

**Breakdown of Residential Property Transactions with  
HKPR buyers by consideration  
(March 2013 – June 2015)**

Property consideration	Total Monthly Average Transaction (a)	HKPR buyers who <u>own</u> other residential property		HKPR buyers who <u>do not own</u> other residential property		Percentage of HKPR buyers who <u>do not own</u> other residential property (d) = (c)/(a)
		Monthly Average (b)	% to Total	Monthly Average (c)	% to Total	
Up to \$2,000,000	546	115	10.2%	431	11.5%	79%
\$2,000,001 to \$3,000,000	714	172	15.3%	542	14.4%	76%
\$3,000,001 to \$4,000,000	946	170	15.2%	776	20.7%	82%
\$4,000,001 to \$6,000,000	1 208	237	21.1%	971	25.9%	80%
\$6,000,001 to \$20,000,000	1 329	383	34.1%	946	25.2%	71%
\$20,000,001 and above	135	45	4.1%	90	2.3%	67%
<b>Total</b>	<b>4 878</b>	<b>1 122</b>	<b>100%</b>	<b>3 756</b>	<b>100%</b>	<b>77%</b>

Source: Inland Revenue Department