

**The Administration's response to the issues raised at
the meeting of the Bills Committee on the Stamp Duty (Amendment)
Bill 2012 held on 28 February 2013**

This paper is in response to the issues raised in the letter dated 1 March 2013 from the Legislative Council Secretariat.

Rationale of introducing the two demand-side management measures

2. The Government monitors the development of the private residential property market closely and remains vigilant on the risk of a property bubble. Before deciding to introduce the two demand-side management measures, i.e. the enhancement to the Special Stamp Duty (SSD) and the introduction of the Buyer's Stamp Duty (BSD) in October 2012, the Government had observed that the exuberant state of the property market was evident in all segments of the market, but particularly at the mass market end. With flat prices rising markedly ahead of income growth, the affordability ratio deteriorated from 31.7% in the fourth quarter of 2008 to around 50% in the third quarter of 2012, close to its long term average of 50.4%. If interest rates were to rise by even three percentage points, the affordability ratio would soar to around 65%, way exceeding the long-term average.

3. The Government considered that property market was moving further away from economic fundamentals, and any further exuberance in the housing market would pose significant risks to the macroeconomic and financial sector stability of Hong Kong. In view of the above, the Financial Secretary announced on 26 October 2012 the two demand-side management measures. The objectives of these measures are to prevent further exuberance in the housing market which may pose significant risks to our macro economic and financial sector stability; to ensure the healthy and stable development of the residential property market; and to accord priority to Hong Kong permanent resident (HKPR) buyers over non-HKPR buyers under the tight supply situation in the property market.

4. The enhancement to the SSD would further increase the cost of speculation and the Government expects that a significant portion of such transactions would diminish after the announcement, especially resale cases at the shorter end. The BSD should be effective in reducing demand from non-HKPR buyers, thereby according priority to meeting

the housing needs of HKPRs under the current tight supply situation in the housing market. In fact, since their announcement, the measures undoubtedly helped cool down the residential property market towards the end of 2012. Transactions plunged sharply as speculative activities and non-local demand was significantly reduced. Specifically, short-term trading of residential property (comprising resale before assignment and resale within 24 months) went down to only a monthly average of 237 cases or 3.4% of total transactions in the first two months of 2013, markedly lower than the long-term average of 1 570 cases or 17.1% over 1997-2010. The BSD has also significantly curtailed demand from non-local buyers. Stamp duty statistics from the Inland Revenue Department indicate that purchases of residential property by non-local individuals and companies (local and non-local) plunged to a monthly average of 294 cases or 4.2% of total transactions in the first two months of 2013, markedly below the respective monthly averages of 1 089 cases or 13.6% in January to October 2012 (i.e. the period before the announcement of the BSD).

Impact of the BSD on redevelopment

5. As we have explained, the policy intent is that the BSD should not hinder redevelopment. A refund mechanism has been proposed under the Bill so that acquisitions of residential properties for redevelopment purpose (whether the residential property acquired is for redevelopment into a residential or a non-residential property) will be exempted from the BSD, provided that the immovable properties being constructed are completed within six years, with extension allowed in specific circumstances. For BSD purposes, our proposal is that the “six-year period” will start counting when the relevant developer has become the owner of the entire lot of the redevelopment concerned. The developer will be considered to have completed the construction if it has obtained, within six years thereafter, the Occupation Permit (OP) in respect of the redevelopment, or the first OP if there is more than one for the entire redevelopment.

6. We would like to emphasise that the proposed “six-year” period is not set on an arbitrary basis. In formulating the mechanism, we have made reference to the redevelopment timeframe set out under the Land (Compulsory Sale for Redevelopment) Ordinance, which stipulates that the redevelopment of the lot sold under an order granted under that Ordinance shall be completed and made fit for occupation within six years after the date on which the purchaser of the lot became the owner of the lot. We have also made reference to the building covenants

stipulated in the land grants, which require the lot owners to complete the developments concerned within the specified periods, generally four to six years

7. To facilitate redevelopment, once the development has acquired its first Occupation Permit within the “six-year period”, this will be regarded as satisfying the refund requirement and a full refund will be granted for all phases in the redevelopment. In short, we consider that the proposed mechanism will not block redevelopment. Indeed, it should be flexible enough to cater for the actual operation of redevelopment.

Other information

8. The statistics on resale cases which were subject to the SSD are set out at **Annex**.

Transport and Housing Bureau
March 2013

Proportion of short-term resale cases

Year	Total no. of agreements for sale ^{Note 1}	Resale cases ^{Note 3} (Number of SSD cases is in brackets)				
		Confirmer cases ^{Note 2}	Resale cases within 24 months after assignment			Sub-total
			≤ 6 months	>6 to ≤ 12 months	>12 to ≤ 24 months	
2009	132 775	4 050	5 339	2 998	12 286	24 673
2010	155 723	3 718 (0)	9 147 (0)	7 719 (0)	10 744 (0)	31 328 (0)
2011	96 034	883 (1)	2 617 (34)	4 857 (45)	9 649 (1)	18 006 (81)
2012	91 264	296 (12)	83 (52)	168 (150)	7 382 (1,541)	7 929 (1,755)

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

Note 2: Refers to resale before assignment.

Note 3: Some of the resale cases involve properties acquired before 20 November 2010, i.e. not subject to SSD. The number of SSD cases is in brackets.