

Stamp Duty (Amendment) Bill 2013

The Government's response to the revised draft Committee Stage Amendments proposed by the Hon Abraham SHEK Lai-him

This paper sets out the Government's response to the further amendments to the draft Committee Stage Amendments ("CSAs") proposed by the Hon Abraham SHEK Lai-him (LC Paper No. CB(1)1380/13-14(01)), as enclosed to the letter of 7 May 2014 from the Legislative Council Secretariat.

Revised draft CSAs

2. The further amendments to the draft CSAs proposed by Hon Abraham SHEK seek to exempt non-residential property transactions from the doubled ad valorem stamp duty ("AVD") and pay at the old AVD rates; and to keep intact the timing for charging stamp duty on non-residential property transactions, i.e. to follow the existing practice of charging at the time of conveyance on sale but not to advance the timing for charging to the agreement for sale as proposed in the Bill.

Policy objectives

3. The Government's policy objective of introducing demand-side management measures is to cool down the residential and non-residential property market immediately by way of managing demand, thereby reversing the market expectation that property prices could only go up. In order to achieve the instant cooling effect, we need to double the AVD rates having regard to the prevailing situation in the property market. The adjustment applies to both residential and non-residential properties.

4. Besides, we propose to advance the timing for charging AVD for non-residential property transactions from the conveyance on sale to the agreement for sale. This proposed change is meant to be a permanent measure with an aim to tally with the existing arrangement for residential properties. The proposed increase in AVD rates and the advancement of the timing for charging AVD in respect of non-residential property transactions are complementary measures, which could hopefully forestall the shifting of rampant speculation or investment demand from the residential property market to the non-residential property market, thereby achieving the immediate cooling effect on the non-residential market.

5. As reflected by statistics, the prices of office and flatted factory space increased by an average of 0.3% and 0.1% respectively per month during March

2013 to March 2014, a notable deceleration from the monthly average increases of 2.6% and 4.1% respectively in the first two months of 2013. The prices of retail space between March 2013 and March 2014 showed virtually no change further to the monthly average increase of 1.9% in the first two months of 2013. During the same period, the monthly average increase of rental prices of retail, office and flatted factory space continued to decelerate. For example, in the case of retail space, the increase was reduced to 0.4% from 0.7%, with an obvious drop when compared with the monthly average increase of 1.0% in 2012.

6. The above shows that the successive rounds of demand-side management measures introduced by the Government have addressed the overheating situation in the property market effectively, which is in line with our policy objective. Despite the preliminary results, uncertainty still prevails in the market and the supply of properties remains tight. Hence, we consider it necessary to maintain the measures.

7. Some Members consider that exemption should be provided for non-residential property transactions, similar to the arrangement for residential property transactions under the Bill. However, given their differences in nature, they should not be treated in the same way. The policy considerations for non-residential properties are not on a par with those for addressing the home ownership needs of Hong Kong Permanent Residents. To ensure the effectiveness of the measures and prevent the spread of overheating situation to the non-residential property market, the Government does not propose to provide exemption for non-residential property transactions.

8. We understand the measures will cause inconvenience to the business community. The measures are extraordinary ones introduced under exceptional circumstances with an aim to prevent the macroeconomic and financial stability from being affected by wide fluctuations in the property market. It is essential for the Government to manage demand so as to address the exuberance in the non-residential property market and to minimise the possible risk to financial stability. We believe that local and foreign companies running operations in Hong Kong will ultimately benefit from a stable business environment with steady development in the property market. Thus, the Government does not agree to the proposed CSAs.

Review

9. As reiterated on various occasions, the Government will continue to monitor closely the property market conditions and changes in the external factors, take appropriate measures, including making timely adjustment to the measures with a view to safeguarding the healthy and stable development of the

property market. Thus, the Government undertakes to conduct a review and report to the Legislative Council one year after the enactment of the legislation.

**Financial Services and the Treasury Bureau
May 2014**