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Clerk to Bills Committee
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Attn: Ms. May Leung

By e-mail: bc_05_12@legco.gov.hk

Dear Bills Committee,

STAMP DUTY (AMENDMENT) BILL 2013

The American Chamber of Commerce in Hong Kong ("AmCham") thanks you for your invitation to provide our views regarding the Stamp Duty (Amendment) Bill 2013 (the "Bill").

AmCham is generally supportive of the objectives of the Bill to control escalating real estate values across both residential and commercial sectors in Hong Kong, however we are concerned with the methodology of using targeted, transactional taxation to subdue real estate demand when in fact the problem is largely driven by a lack supply across the real estate sector.

With respect to commercial office transactions, AmCham believes the stamp duty bill is counter-productive and will simply add to the high cost of doing business in Hong Kong. With commercial office vacancy in the city at or below 5% in all districts (amongst the lowest in Asia), these taxation measures will only serve to discourage development, placing additional pressures on a market already dealing with a severe lack of space, and increase rents and capital values even further for end users.

As Asia's leading business and finance hub, we should in fact be encouraging those corporates looking to purchase commercial property in the city for self-use or those investors looking to hold for a certain minimum period. It is our view that in the short-term that these purchasers should be exempt from the additional stamp duties that have been tabled.

With respect to the high cost of residential real estate in Hong Kong, AmCham members are as equally affected as other local residents who are progressively being priced out of property ownership due to the investment activity of offshore speculators and international hot money flows. The structure of addressing these investment pressures through increased stamp duties has brought a rapid halt to offshore speculation, yet we believe the reliance on these types of aggressive and sector specific tax measures will be detrimental to Hong Kong's long term reputation as a flat tax destination for open markets, investment and trade. As such, we would encourage the Hong Kong government to only maintain such punitive stamp duty measures for as short a period as possible until the speculative pressures are relieved.

Notwithstanding AmCham's general appreciation of the Bill's objectives, we feel the measures will not address the long-term challenge facing workers and residents in Hong Kong and in our view alternative measures could be implemented to improve the availability and affordability of real estate. Some common-sense measures could include:

- 1) the implementation of a special rates premium to be paid on flats that are held vacant. According to government estimates, private flats held by investors which are held empty for speculative purposes are believed to number from 48,000 flats at the low end of the estimate range to as many as 200,000. As such, if the government instituted a method to substantially increase the holding cost of a vacant flat, this would encourage the owner or developer to either:
 - a. rent the flat, helping to lower rents in Hong Kong, or
 - b. sell the flat, helping to increase transactions in the market during periods of weak pricing,
- 2) a meaningful effort to increase the amount of new supply, including efforts to:
 - a. encourage the further development of land in the New Territories. The substantial parcels of agricultural lands that are being held in private hands would result in hundreds of thousands of flats being built if the government and private developers were able to come to an agreement on premiums. In this regard, we feel the government should move towards both reducing the hurdle of high conversion premiums for land owners whilst at the same time increasing holding costs for unutilized or undeveloped land, similar to the mechanism as discussed above. This approach would release gridlock with a carrot and stick approach without necessarily reducing the gross land revenue to government,
 - b. revise village house policy to allow developers to use village land to build upwards rather than outwards as it is currently done. Such a measure would both serve to improve the crucial problems of fire safety and access in villages, while at the same time alleviate the shortage of residential flats in Hong Kong, and,
 - c. selectively and responsibly identify sections of green areas and park lands (after a thorough and sensitive evaluation) which would serve to make available land for development in locations which are not critical to the environmental or visual integrity of Hong Kong's green areas.

In conclusion, AmCham believes that the overwhelming problems of real estate shortages in Hong Kong should not be addressed through mechanisms that work against free market principles such as punitive stamp duties and other forms of transactional and investment taxation. In the long run, the solution to high property prices and rent in Hong Kong can only be alleviated through focusing on supply measures to meet the needs of Hong Kong's residential and business communities. Doing so will help Hong Kong maintain its preeminent position as the global financial and business hub for Asia and support its international reputation as a desirable location to both live and work.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Richard R. Vuytke", with a long horizontal flourish extending to the right.