

The Administration's Responses to the Issues Raised at the Meeting of the Bills Committee on Stamp Duty (Amendment) Bill 2013 ("the Bill") held on 15 July 2013

At the meeting held on 15 July 2013, Members raised questions on the following areas -

- (a) the Administration should provide a breakdown of the number and proportion of residential property transactions involving Hong Kong Identity Card ("HKIC") holders who are first-time buyers and who hold one or more properties in Hong Kong on the date of acquisition in respect of the transactions conducted between March and May 2013; and
 - (b) the Administration should provide justifications for setting a six-month timeframe for replacing properties for Hong Kong permanent residents ("HKPRs") who acquire a new residential property before disposing of their only residential property in Hong Kong.
2. This paper sets out the Administration's responses to the above issues.

According priority to the housing needs of Hong Kong permanent residents

3. In the past year, the Government implemented various demand-side management measures to address the property market, including enhancing Special Stamp Duty ("SSD") and introducing Buyer's Stamp Duty ("BSD") in October 2012, as well as increasing the ad valorem stamp duty ("AVD") in February 2013. The exuberant property market has thus far been cooled down.

4. Under the existing mechanism of the demand-side management measures, HKPRs who do not own any other residential properties in Hong Kong at the time of acquisition of residential properties are not required to pay SSD, BSD and doubled AVD. According to the statistics of the Inland Revenue Department ("IRD") based on the agreements for sale and purchase of residential properties submitted for stamping -

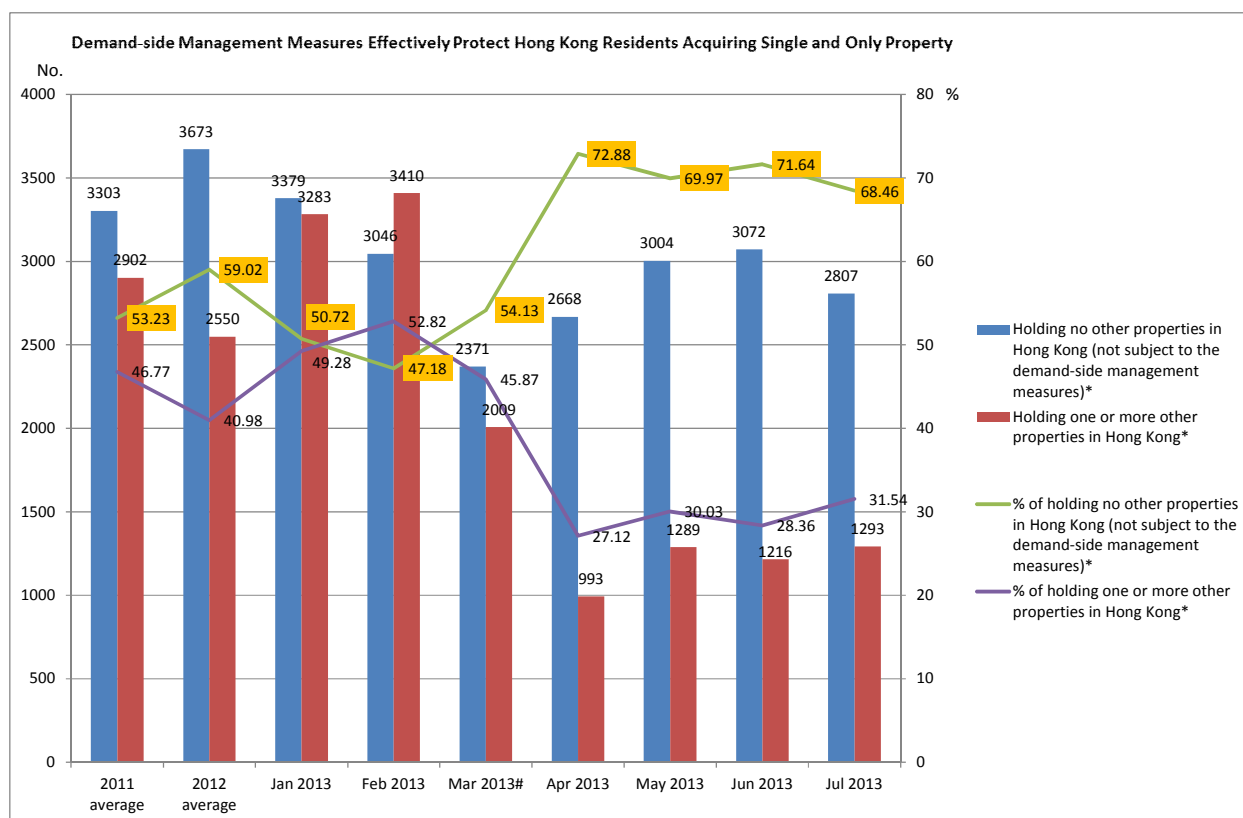
- (a) The monthly average number of cases where the buyers are HKIC holders¹ that **do not own any other properties in Hong Kong** at the time of acquiring their residential properties is 2 888 between April and July 2013, which is largely comparable to the monthly average between January and March 2013² at 2 932, but it registers a slight reduction from the monthly average numbers for 2011 and 2012. This indicates that the impact of the relevant measure on HKIC holders who acquire single and only residential properties is relatively mild;
- (b) The monthly average number of cases where the buyers are HKIC holders that **hold one or more than one other property in Hong Kong** at the time of acquiring their residential properties is 1 198 between April and July 2013, which marks a significant decrease as compared to the monthly average number between January and March 2013 at 2 900; and
- (c) Amongst the number of agreements for sale and purchase of residential properties involving buyers who are HKIC holders, **the percentage of buyers who do not own any other properties in Hong Kong** at the time of transaction for April to July 2013 is 71% on average, which is above the monthly average of 51% for January to March 2013. Such percentage is also higher than the monthly averages of 53% and 59% for 2011 and 2012 respectively.

The above situations are in line with the Government's policy objective of introducing various demand-side management measures.

¹ Under the existing stamp duty regime, IRD can only differentiate those who are HKIC holders. Subject to the passage of the relevant Bill, IRD can then rely on the buyers' declarations to compile the number of cases involving HKPRs.

² The doubled AVD measure was introduced with effect from 23 February 2013. Since the buyers can submit to IRD for stamping within 30 days from the date of the agreements for sale and purchase, the figures in March broadly reflect the number of agreements for sale and purchase signed in February. Therefore, we compare the period from January to March 2013 with the period from April to July 2013 for evaluation of the effectiveness of the doubled AVD measure.

5. The relevant statistics are illustrated in the chart below -



The doubled AVD was introduced with effect from 23 February 2013. Since buyers can submit to IRD for stamping within 30 days from the date of the agreements for sale and purchase, the figures in March broadly reflect the number of agreements for sale and purchase signed in February.

* Other properties include residential and non-residential properties solely/jointly owned by the buyers.

Note: The above statistics are compiled by IRD from its database of stamping applicants. The figures only take into account the first buyer who is a HKIC holder in each of the agreements for sale and purchase of residential properties. If the buyer conducts more than one transaction during the relevant period, IRD will take into account the last transaction in computing the number of properties held by the buyer.

Arrangements for owners having acquired a new residential property before disposing of the original one

6. The Government’s prevailing policy is to accord priority to the housing needs of HKPRs amidst the tight supply situation. Therefore, the exemptions proposed in the Bill are to target specifically for HKPRs who do not hold any other residential properties in Hong Kong. As long as the relevant HKPRs are not beneficial owners of any other residential property in Hong Kong on the date of acquisition of their residential properties, they are exempted

from the doubled AVD and only need to pay AVD at the original rate, be they first-time buyers or not. That said, in order to cater for the replacement need of HKPRs and having regard to the fact that HKPRs may own more than one residential property during the process of purchasing a new property for replacement of the existing one, we have purposely drawn up a refund mechanism to properly handle cases of replacement of properties.

7. Under the proposed refund mechanism, a residential property owner having acquired another residential property before disposing of the original one will have to pay AVD for the newly-acquired residential property at the enhanced AVD rates in the first instance. The difference in AVD payment between the old and new rates will be refunded upon application to IRD within two years from the date of instrument in acquiring the new residential property provided that the owner has entered into an agreement for sale of the only other residential property in Hong Kong within six months from the date of acquiring the new property (but not required to complete the conveyance on sale within the six-month period) and completed the disposal transaction thereafter.

8. The proposed refund mechanism fulfills the aforesaid policy objective with due regard to the practicalities of changing properties and overseas practice. The justifications are -

- (a) The Government's policy objective is by way of demand-side management to accord priority to the home ownership needs of **HKPRs** (including those who may hold two residential properties for a **short period of time** during the process of replacement of their properties) given the tight supply of housing. We consider it necessary to require a residential property owner having acquired another residential property to sell the original one within a specified timeframe. This is to prevent a property owner from acquiring another residential property under the guise of replacement and delaying disposal of his original one, which in effect lets him hold more than one residential property for a long period of time, inconsistent with the Government's policy objective;
- (b) According to the preliminary findings based on IRD's database of stamping agreements for sale and purchase, between 2011 and 2012, roughly half of the HKIC buyers who sold their other residential properties after acquiring residential properties have their disposal transactions done within six months from acquisition. Besides, a

residential property owner having acquired another residential property, in general, will not hold the original one for a long period of time for cash flow considerations. We understand that some banks in the market are providing bridging loans for customers replacing their properties so that they can complete the mortgage procedures for their newly-acquired residential properties. The repayment period of such bridging loans usually spans six months; and

- (c) When contemplating the relevant arrangement, we are aware that under Singapore's refund mechanism, a married couple (with a Singapore citizen spouse) can get refund of "Additional Buyer's Stamp Duty" paid on their second residential property provided that they enter into an agreement for sale for their first residential property within six months from the date of acquiring the second one.

9. Overall speaking, the current "six-month period" allowed in the refund mechanism strikes a balance between addressing the needs of HKPRs to replace their properties and safeguarding the effectiveness of the demand-side management measures.

Effectiveness of the Demand-side Management Measures

10. Since the introduction of two rounds of demand-side management measures, we have observed notable results. Both speculative activities and purchases of residential properties by non-local individuals and non-local companies have diminished and stayed subdued since the enhancement of SSD and introduction of BSD. The property market has also cooled off since the announcement of the doubled AVD measure. Overall flat prices increased by an average 0.4% per month during March to July 2013, a notable deceleration from the monthly average increase of 2.7% in the first two months of 2013. On the non-residential property market, prices of retail, office and flatted factory space increased by an average 0.4%, 0.6% and 1% respectively per month during March to July 2013, a notable deceleration from the monthly average increase of 2%, 2.5% and 4% respectively in the first two months of 2013 and a remarkable reduction from the monthly average increase of 3.4%, 2% and 3.8% respectively in 2012. The above shows that the relevant demand-side management measures have been effective in addressing the irrational property market exuberance. We have also reversed the irrational market expectation

that property prices could only go up further. However, the risk of a property bubble cannot be neglected given that the market sentiment remains unsettled and taking account of the conditions of low interest rates and excessive liquidity against the backdrop of tight supply in the short run. Thus, it is essential for us to maintain the relevant demand-side management measures.

Financial Services and the Treasury Bureau
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