

LEGISLATIVE COUNCIL BRIEF

Stamp Duty Ordinance (Cap. 117)

Stamp Duty (Amendment) (Stock Transfers) Bill 2023

INTRODUCTION

At the meeting of the Executive Council on 25 October 2023, the Council **ADVISED** and the Chief Executive **ORDERED** that the Stamp Duty (Amendment) (Stock Transfers) Bill 2023 (the Amendment Bill), at **Annex**, should be introduced into the Legislative Council (LegCo) to implement the initiative in the 2023 Policy Address on solidifying the competitiveness of Hong Kong's stock market by reducing the rate of Stamp Duty on Stock Transfers (the Stamp Duty) from 0.13% to 0.1%.

JUSTIFICATIONS

Recommendation of the Task Force on Enhancing Stock Market Liquidity (Task Force)

2. After an upward trajectory from 2000 to 2021, the average daily turnover of Hong Kong's stock market is experiencing a downturn, declining from a peak of \$167 billion in 2021 to \$125 billion in 2022 and to \$110 billion in the first nine months of 2023. The Task Force, comprising industry experts and representatives from financial regulators as well as the Hong Kong Exchanges and Clearing Limited (HKEX), was formed in August 2023 to study the underlying factors and put forward specific proposals for promoting trading and the sustainable development of Hong Kong's stock market.

3. The Task Force submitted its report to the Chief Executive in early October 2023. The report provides an analysis of Hong Kong's stock market liquidity, and concludes that the decline in market turnover is primarily attributed to the drop in stock prices caused by various external factors, including a liquidity-tightening macro-environment, escalating geopolitical tensions, and weaker confidence in the global economic outlook.

4. While Task Force members agreed that the reversal of the current declining trend would depend on an improvement of the above-mentioned external factors, there are practical enhancements that should be implemented to

address specific structural issues identified in Hong Kong's stock market. In this regard, the Task Force has proposed a set of 12 short-term initiatives, covering the listing regime, market structure, trading mechanism, etc. considered to be conducive to boosting investor sentiment and increasing market competitiveness. In addition, the Task Force has proposed a range of medium and long-term initiatives pointing to the strategic directions that should be further examined by financial regulators and HKEX.

The Stamp Duty

5. The rate of the Stamp Duty is prescribed under Head 2(1)(A) of the First Schedule to the Stamp Duty Ordinance (Cap . 117) (SDO). At present, both buyers and sellers are required to pay the stamp duty at 0.13% (each side) of the amount of the transaction. The Stamp Duty accounts for 90% of the fixed transaction cost¹ of stock trading in Hong Kong, which also includes the Securities and Futures Commission's transaction levy (0.0027%), investor compensation levy (0.002%), the Accounting and Financial Reporting Council's transaction levy (0.00015%), and the trading fee charged by the Stock Exchange of Hong Kong Limited (0.00565%). As one of the 12 short-term initiatives proposed, the Task Force recommends that the Government should reduce the rate of the Stamp Duty across all equities in order to lower the transaction cost of stock trading and improve investor sentiment. The Task Force has deliberated and decided not to make any specific proposal on the rate of reduction, while recommending the Government to maintain a proper balance between market development and healthy fiscal position.

THE PROPOSAL

6. Having considered all relevant factors, the Chief Executive announced in the 2023 Policy Address the reduction of the rate of the Stamp Duty to 0.1% as part of the efforts to improve market sentiment and enhance the competitiveness of Hong Kong's stock market. The proposal also strikes a balance between promoting the development of the stock market and maintaining a healthy fiscal position.

OTHER OPTIONS

7. Amending the SDO is the only way to give effect to the proposed reduction of the Stamp Duty. There is no other option.

¹ According to the analysis of the Task Force, the fixed transaction cost and bid-ask spread each constitutes around half of the total transaction cost of stock trading in Hong Kong. The bid-ask spread, which refers to the price difference between the best prices quoted for purchase and sale, is an indirect cost component driven by the trading and liquidity of individual stocks. The Task Force supports HKEX to commence a separate study to review the minimum trading spread as one of the 12 short-term initiatives.

THE AMENDMENT BILL

8. The main provision of the Amendment Bill (Clause 3) amends the First Schedule to the SDO to reduce the rate of the Stamp Duty to 0.1% payable on contract notes for the sale or purchase of Hong Kong stock and correspondingly on certain transfers of such stock.

LEGISLATIVE TIMETABLE

9. The legislative timetable will be –

Publication in the Gazette	25 October 2023
First Reading and commencement of Second Reading debate	1 November 2023
Resumption of Second Reading debate, committee stage and Third Reading	To be notified

IMPLICATIONS OF THE PROPOSAL

10. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. The proposal will not affect the binding effect of the SDO, and has no civil service, productivity, environmental, gender or family implications. There are no sustainability implications other than those set out in the economic implications below.

Economic Implications

11. The proposal will reduce investors' transaction costs, improve market sentiment, and enhance the competitiveness of Hong Kong's stock market. Nevertheless, the effect of the proposal on boosting market turnover needs to be observed since market performance would primarily be driven by external factors, such as changes in the macroeconomic environment. Therefore, whether there would be an increase in the Stamp Duty revenue arising from improved market turnover is uncertain.

Financial Implications

12. Based on the original estimate of the government revenue from the Stamp Duty for the 2023-24 financial year, it is estimated that the proposal will translate into revenue forgone of \$14.1 billion each year.

PUBLIC CONSULTATION

13. The Government launched the public consultation exercise for the 2023 Policy Address on 31 July 2023. On the issue of the Stamp Duty, the industry has advocated strongly for its reduction. The Task Force has deliberated the matter thoroughly and submitted its recommendation to the Chief Executive. The proposal has taken into account the views received from stakeholders during the Policy Address consultation process as well as the recommendation of the Task Force.

PUBLICITY

14. We will issue a press release upon publication of the Amendment Bill in the Gazette. A spokesperson will be available to answer media enquiries.

BACKGROUND

15. With effect from 1 August 2021, the rate of the Stamp Duty was adjusted from 0.1% to the current level of 0.13% of the consideration or value of each transaction payable by buyers and sellers respectively.

ENQUIRIES

16. Enquiries on this brief can be directed to Mr Larry Chu, Principal Assistant Secretary for Financial Services and the Treasury (Financial Services), at 2810 2056.

Financial Services and the Treasury Bureau
25 October 2023

A BILL

To

Amend the Stamp Duty Ordinance to give effect to the proposal in the Chief Executive's 2023 Policy Address to reduce the rate of stamp duty on certain instruments in respect of Hong Kong stock.

Enacted by the Legislative Council.

1. Short title and commencement

- (1) This Ordinance may be cited as the Stamp Duty (Amendment) (Stock Transfers) Ordinance 2023.
- (2) This Ordinance comes into operation on the day immediately following the day on which it is published in the Gazette.

2. Stamp Duty Ordinance amended

The Stamp Duty Ordinance (Cap. 117) is amended as set out in section 3.

3. First Schedule amended

- (1) First Schedule, head 2(1), paragraph (A)—

Repeal

“0.13%”

Substitute

“0.1%”.

- (2) First Schedule, head 2(3), paragraph (A)—

Repeal

“0.26%”

Substitute

“0.2%”.

Explanatory Memorandum

The object of this Bill is to amend the Stamp Duty Ordinance (Cap. 117) (*Ordinance*) to give effect to the proposal in the Chief Executive's 2023 Policy Address to reduce the rate of stamp duty on certain instruments in respect of Hong Kong stock.

2. Clause 1 sets out the short title and provides for commencement.
3. Clause 3 amends head 2(1) and (3) in the First Schedule to the Ordinance—
 - (a) to reduce the rate of stamp duty chargeable on a contract note for the sale or purchase of any Hong Kong stock not being jobbing business from 0.13% to 0.1%; and
 - (b) to reduce the rate of stamp duty chargeable on a transfer operating as a voluntary disposition inter vivos or made for the purpose of effectuating a transaction whereby the beneficial interest in Hong Kong stock passes otherwise than on sale and purchase from 0.26% to 0.2%.