LCQ10: Stamp duty on stock transactions

Following is a question by the Hon Chung Kwok-pan and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (February 3):

Question:

At present, both the buyers and the sellers of securities listed in Hong Kong are required to pay stamp duty on stock transactions of an amount equivalent to 0.1% of the values of the transactions. While there are comments that increasing the rate of this tax will help alleviate the serious fiscal deficit, there are views that such a move will undermine the international competitiveness of Hong Kong's stock market, given that no such tax is collected in Japan, Singapore and the United States. In this connection, will the Government inform this Council:

(1) of the estimated and actual revenue from stamp duty on stock transactions in each of the past five financial years, as well as the estimated revenue from this tax in each of the coming three financial years (set out in a table);

(2) as opinions are widely divided as to whether such tax should be maintained or abolished, or be adjusted upward or downward, whether the Government conducted in the past five years any quantitative analysis on the impacts of changing such tax on (i) tax revenue, (ii) the international competitiveness of Hong Kong's stock market, as well as (iii) the turnover rate and trading volumes of stocks, etc.; if so, of the details; if not, whether it will conduct such analysis expeditiously; and

(3) whether it has plans to adjust the rate of the tax and the relevant policy in the near future; if so, of the details; if not, the reasons for that?

Reply:

President,

As a small and fully open economy, Hong Kong maintains a simple and low tax regime. The Government revenue is easily affected by the changes in macroeconomic environment. The trend of revenue from stamp duty, among others, is particularly influenced by asset prices, market conditions and trading volume.

At present, both the buyers and sellers of stock transactions are required to pay stamp duty equivalent to 0.1% of the value of the transactions respectively. Stamp duty on stock transactions is one of the main sources of Government revenue. Take financial year 2019-20 as an example, stamp duty accounted for about 10% of Government revenue, and half of which was stamp duty on stock transactions. In 2020, the average daily turnover of the securities market reached $129 billion, representing over 48% increase over the amount in 2019. Revenue from stamp duty on stock transactions will therefore continue to be an important source of Government revenue for financial year 2020-21.

My reply to the three parts of the question is as follows:

(1) The estimates and actual receipts of stamp duty on stock transactions for each financial year since 2015-16 are tabulated as follows:

Financial Year	Original estimates ($ million)	Actual receipts ($ million)
2015-16	23,000	33,410
2016-17	23,000	23,567
2017-18	23,000	36,930
2018-19	43,000	33,102
2019-20	33,500	33,231
2020-21	35,000	–

The Government will provide estimates of stamp duty revenue for the next financial year during the preparation of the annual Budget. As such, the revenue estimates for the next three years are yet to be available at the moment.

(2) and (3) The Government is aware of the views that we should increase the rate of stamp duty on stock transactions in order to increase Government revenue. At the same time, there are opposing views which request the Government to reduce the rate of stamp duty on stock transactions, or even abolish such stamp duty, in order to stimulate trading and promote market development. The Government has been reviewing the rate of stamp duty on stock transactions from time to time, seeking to strike a balance between Government revenue and market development, especially the need to maintain our competitiveness vis-à-vis other major stock markets.

In the past five years, we have promoted the development of individual types of investment products through waiving the stamp duty on stock transactions in a targeted manner. For example, the Government has provided stamp duty waiver in respect of secondary market transactions of exchange-traded funds (ETF) since 2015. We have also expanded the stamp duty waiver to primary market activities of ETF market makers since August last year to reduce the transaction cost of ETFs and strengthen the competitiveness of Hong Kong as a listing venue of ETFs. We implemented a new listing regime in 2018 to promote the listing of more companies in Hong Kong which increases the trading activities in the market and the revenue from stamp duty on stock transactions.

We will continue to examine the rate of stamp duty on stock transactions having regard to the need to strike a balance among different factors including Government revenue, market development and the competitiveness of Hong Kong's stock market.