

LCQ19: Rate of stamp duty on stock transfers

Following is a question by the Hon Mrs Regina Ip and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (July 5):

Question:

To explore a new source of government revenue, the Financial Secretary announced in the 2021-2022 Budget an adjustment to the rate of stamp duty on stock transfers payable by both buyers and sellers from 0.1 per cent to 0.13 per cent of the transaction amounts, and the new rate has been implemented since August 1, 2021. However, according to the statistics from the Hong Kong Exchanges and Clearing Limited, the total turnover in the securities market in the whole of 2022 was \$30.7271 trillion, representing a 25.4 per cent decrease as compared with \$41.1823 trillion in 2021. There are views that the shift to weak turnover is one of the causes for the decline in the market capitalisations of quite a number of listed companies, and the decline in market capitalisations has knock-on effects, including affecting enterprises' desire to list in Hong Kong and not favouring Hong Kong's positioning as an international financial centre. Regarding the rate of stamp duty on stock transfers, will the Government inform this Council whether it will, in the light of the external environmental factors, the geopolitical situation and the high interest rate environment, consider adjusting the rate in the near future, such as restoring the rate to 0.1 per cent, or even lowering it to 0 per cent; if so, of the details; if not, the relevant considerations and reasons?

Reply:

President,

Over the past few years, the combined effects of the COVID-19 pandemic and economic downturn, as well as the Government's launch of counter-cyclical measures to support the public and businesses, had posed substantial pressure on public finance. There is therefore a need to adopt measures to contain government expenditure and increase government revenue. Thoroughly taking account of the potential impact on the securities market and our global competitiveness, the 2021-22 Budget proposed that the rate of Stamp Duty on Stock Transfers (Stamp Duty) be adjusted upward from 0.1 per cent to the current level of 0.13 per cent of the consideration or value of each transaction payable by buyers and sellers respectively. The relevant Amendment Bill upon passage by the Legislative Council came into effect in August 2021.

In the first few months after the implementation of the new rate of Stamp Duty (i.e. from August to December 2021), the average daily turnover in

the Hong Kong market still recorded an increase of some 2 per cent as compared to that of the same period in 2020. In tandem with the rebound of the Hong Kong stock market in December 2022, the average daily turnover also rose by 15 per cent compared to the same month in 2021. In 2022, the average daily turnover was about \$125 billion, and that in the first quarter of this year was \$128 billion. These figures, though below the peak in 2021, are comparable to the average daily turnover of \$129.5 billion in 2020, i.e. the year before the implementation of the new rate of Stamp Duty. Separately, as one of the indicators of stock trading and liquidity, the overall share turnover ratio (Note) (also known as "turnover rate") measuring the rate of shares changing hands in the market during a particular period increased from 0.22 per cent in 2020 to 0.27 per cent in 2022, suggesting that trading activities not having been adversely affected by the upward adjustment of the rate of Stamp Duty. Therefore, we consider that the overall stock market turnover is more prone to the drop in stock prices, and relevant price movements are mainly driven by external factors.

According to past experiences, a cut in the rate of Stamp Duty may not necessarily stimulate market turnover. For example, the Government reduced the rate of Stamp Duty three times between 1998 and 2001, but the average daily turnover dropped from \$14.3 billion in 1997 to \$6 billion in 2002. On the other hand, with an estimation based on the actual revenue of Stamp Duty in 2022-23, a downward adjustment of the Stamp Duty rate to 0.1 per cent or 0 per cent would reduce government revenue by \$12.3 billion and \$53.1 billion respectively, accounting for about 2 per cent or 9 per cent of the overall revenue in that year.

To bolster the turnover and competitiveness of the stock market, the Government in co-ordination with the financial regulators and the Hong Kong Exchanges and Clearing Limited (HKEX) have kept up efforts in promoting market innovation and development. Measures implemented include allowing new economy companies with a weighted voting rights structure as well as pre-revenue or pre-profit biotechnology companies to list in Hong Kong; facilitating secondary listing and dual-primary listing of Greater China and overseas companies in Hong Kong; making legislative amendments to exempt the Stamp Duty on trading of exchange-traded funds and transactions conducted by dual-counter market makers; and expanding the mutual market access in the stock market, etc. With concerted efforts of parties concerned, 28 companies were already newly listed in the first five months of this year, an increase of 33 per cent as compared to the same period in 2022. In March this year, the HKEX launched the listing regime for specialist technology companies to further expand the listing channel for issuers. It is also working to reform GEM to provide a more effective fundraising platform for companies concerned.

The Government will, as in the past, continue to examine government revenue individually and holistically, and take relevant factors into full consideration when deciding whether there is a need for revision, while launching targeted policy measures to promote market diversification and development in an orderly manner, thereby consolidating Hong Kong's status as an international financial centre.

Note: Calculating the average value of Hang Seng Composite Large Cap, Mid Cap and Small Cap Indexes constituent stocks.