LCQ5: Proposal to assist local residents to acquire properties by levying new taxes

Following is a question by Hon Dennis Kwok and a reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (May 23):

Question:

A report of an international survey organisation has pointed out that among the international metropolises around the globe, Hong Kong has been dubbed the world's most unaffordable city in terms of property price for eight consecutive years. As at the third quarter of last year, the median price of residential units in Hong Kong was around $6.19 million, representing 19.4 times of the annual median income of $319,000 earned by local families. In other words, it takes a family on that income level as long as 19.4 years to acquire a property, even if it did not spend a penny nor buy any food. Meanwhile, as at the end of last year, there were a total of 9 000 unsold units in the completed private residential buildings in the territory, among which 4 000 had remained unsold for more than one year after completion. In connection with assisting local residents in acquiring properties by levying new taxes, will the Government inform this Council whether it will consider:

(1) levying new taxes on the first-hand residential units which have remained unsold for a period of time after completion to increase the cost of hoarding of units by developers, and to push them to offer the units for sale at a faster rate, with a view to increasing the supply of residential units; if so, of the details and the timetable; if not, the reasons for that;

(2) levying new taxes on the vacant residential units owned by non-local residents or companies at least 25 per cent of the beneficial interests of which are held by such persons; if so, of the details and the timetable; if not, the reasons for that; and

(3) levying a capital gains tax on the sale of residential units owned by non-local residents or companies at least 25 per cent of the beneficial interests of which are held by such persons, so as to dampen their desire to purchase residential units; if so, of the details and the timetable; if not, the reasons for that?

Reply:

President,

Owing to abundant liquidity in the global monetary environment, ultra-low interest rates and tight housing demand-supply balance, local housing prices continue to rise. In the face of the overheated property market, the Government has been striving to increase land and housing supply through a multi-pronged approach with a view to addressing the demand-supply imbalance at source in the long run. At the same time, the Government has introduced several rounds of demand-side management measures since 2010 to reduce short-term speculative activities, external demand and investment demand. My reply to various parts of the question raised by the Hon Dennis Kwok is as follows:

As at March 31, 2018, there were around 9 000 unsold first-hand private residential units in completed projects, among which 6 000 units were completed in 2017 or the first quarter of 2018 while the remaining 3 000 units were completed between 2011 and 2016. These unsold units may be vacant units, units occupied by the developers for self use or units rented out by developers as serviced apartments.

In the face of the current housing demand-supply imbalance, the Government has been striving to increase land and housing supply through a multi-pronged approach. The Government has all along been closely monitoring the developments of the private residential property market and the supply of first-hand private residential units. The Government is also aware that the number of unsold first-hand private residential units in completed projects has been increasing in recent years. We are exploring ways to address the situation. As regards the proposal of levying new tax on these unsold units, the Government will carefully consider the justifications, feasibility and effectiveness of the proposal before making a decision.

Under the existing stamp duty regime, unless otherwise specified in the law, the acquisition of residential property by a non-Hong Kong permanent resident (non-HKPR) (including any companies) is subject to the Buyer's Stamp Duty and the New Residential Stamp Duty, both at a flat rate of 15 per cent, i.e. a stamp duty of 30 per cent in aggregate. According to the information provided by the Inland Revenue Department, in the first four months of 2018, the number of residential property transactions involving non-local individuals and non-local companies accounted for only 1 per cent of the total number of transactions, which was lower than 4.5 per cent recorded during the period from January to October 2012 (i.e. before the introduction of the Buyer's Stamp Duty). This indicates that the demand-side management measures have been effective in curbing external and investment demands.

According to the Rating and Valuation Department's statistics, the vacancy rate of private residential units had dropped from 4.3 per cent as at end 2012 to 3.7 per cent as at end 2017, which was substantially lower than the long-term average vacancy rate of 5 per cent from 1997 to 2016. These figures suggest that the overall vacancy rate of private residential units in Hong Kong is at a low level, and there are no notable signs of the idling of private residential units. In fact, it is inevitable for properties to be left vacant for a period of time when landlords seek buyers or tenants, engage in price negotiation, or refurbish their flats. This is a normal market phenomenon. Levying a vacancy tax on residential units owned by non-local residents or companies at least 25 per cent of the beneficial interests of which are held by such persons may therefore not be an effective way to increase housing supply.

As for capital gains tax, introduction of this tax is very controversial and will complicate Hong Kong's longstanding simple tax regime. Given that capital gains tax will only be charged when an owner earns profits from selling his property, we believe that the various demand-side management measures currently in place have a more immediate impact on increasing the transaction costs of non-HKPRs, thereby reducing their demand for local residential properties. The Government has no intention to study the introduction of capital gains tax at this juncture.

The Government will continue to stay vigilant and closely monitor the property market and the ever-changing external circumstances, and implement appropriate measures as and when necessary.

Thank you, Mr President.