



香港地產建設商會

THE REAL ESTATE DEVELOPERS ASSOCIATION OF HONG KONG

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Room 1403, World-Wide House, 19 Des Voeux Road Central, Hong Kong.
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27 June 2024

The Honourable Lau Kwok-fan, MH, JP
Chairman of the
Bills Committee on Rating (Amendment) Bill 2024
c/o Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central Hong Kong

Dear Mr. Lau,

Rating (Amendment) Bill 2024

It is regrettable that the Administration has decided to introduce the Rating (Amendment) Bill 2024 into the Council with no regard to the very serious concerns raised in the community. It is apparent that the Administration is trying to rush the Bill through on the basis that this only affects 1.9% of the residential households in Hong Kong without fully considering its very serious implications.

In short, the proposal is to increase Rates from a flat rate of 5% of Rateable Value (RV) (equivalent to annual rental value of a property) up to 12% for those premises with a RV above \$800,000. This proposal is predicated on the underlying assumption that owners of such properties 'can afford it'. Whilst that may be true in some cases, it is a broad generalisation which is not based on fact and such a proposal, if implemented, may well have all sorts of consequences.

We therefore write to respectfully request that the implications of this proposal be seriously considered by members of the Council and either rejected or amended extensively to materially reduce the damage this will cause. The principal reasons for this request are as follows: -



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- First and foremost is the direct impact this has on Hong Kong's highly respected, and envied, low tax regime, guaranteed under the Basic Law to be a simple and low tax system, at a time when confidence is still at a low ebb and the economy and the property markets are struggling to recover from 5 years of social unrest/pandemic/elevated interest rates and the 'laat chiu' have only recently been removed in a belated attempt to stimulate the local property market. Indeed, despite an initial upturn in sales volume, prices are still falling due to overhang of inventory and high interest rates plus reluctance in the banking system to advance mortgages for many purchasers of residential property which will inevitably lead to further turmoil.

The importance of stability in the property market was recently underlined by Vice-Premier, He Lifeng, who told Mainland officials "The real estate sector concerns people's interests and the overall situation of China's economic and social development" (SCMP 19/5/2024). The same is equally true in Hong Kong.

- Secondly, this proposal is in direct contradiction to the sincere efforts which the Administration is making to attract top talent and family offices to Hong Kong as this the socio-economic bracket which will be most impacted by the proposed increase in Rates.
- Thirdly, it should be noted that by their very nature Rates are already a progressive tax. The higher the RV, the higher the quantum of Rates to be paid. The introduction of a Progressive Rates regime will inevitably have a distorting effect on the market by pushing demand downwards to smaller units which will clash with the rising demand for improved living accommodation, probably impacting future pricing in this middle sector. At the same time it will inevitably cause developers to downsize flat sizes in order to ensure future occupancy costs are more affordable and will



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definitely discourage landlords from holding residential property for rental purposes which is an important part of the housing mix.

Has this ‘collateral damage’ been considered when formulating this proposal? Is this distorting effect (similar to the deadening effect of ‘laat chiu’ on the overall market, especially the secondary market) truly what the Administration wishes to achieve?

- Fourthly, and not to be underestimated, is the impact on retirees – an important consideration in our aging society. It is a generalised assumption that owners/occupants of higher end property (say, over 1,000 sf saleable area) can afford this massive increase in occupancy costs. Many owners will have purchased homes for their own use and occupation years ago, but are now retired and living on savings or much reduced incomes. This proposal is not like a salaries tax or profits tax which taxes (net) income, but is a direct ‘wealth tax’ on assets which has never been in Hong Kong’s DNA and will inevitably impact many middle-class households, with unknown social and economic impacts. For this reason alone, this faulted initiative should be discontinued.
- Finally, is it worth it? By the FS’s own admission, this increase in Rates will ‘only’ raise some \$820million. Whilst no small sum on its own, this is a paltry amount compared to the current deficit in Government revenue which could easily be reduced, or more likely eliminated, by a recovery in the real estate market and a revival of land sales – something which this proposal will surely delay.

It is paradoxical that the Government, via the Exchange Fund held by HKMA, is holding reserves of some \$4,000 billion, much of which has been contributed via hardworking residents through the property market/land sales mechanism and now this Administration plans to levy an additional



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wealth tax on those very people who have contributed to the economy and invested in their home, Hong Kong.

This unprecedented attack on Hong Kong's simple and low tax system can be considered the thin edge of the wedge. Once in place, the present and future Administrations will be able to manipulate this tax at will, just as has happened with the introduction of VAT in the UK introduced at an initial rate of 3% but which now stands at 20% and has a deadening impact on economic growth. For all these valid reasons, REDA sincerely hope that members of this Council will consider it appropriate not to proceed with, or at least to substantially reduce the rates proposed in this misconceived Progressive Rates regime and rather allow the property market and the broader economy to continue its slow and uncertain recovery after the combined impact of the events of recent years.

Yours ever,

Keith Kerr
President

Stewart Leung
Chairman, Executive Committee