



HONG KONG TAX ALERT

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Hong Kong proposes a new vacancy tax on properties

Summary

The Hong Kong government has recently announced plans to introduce a new vacancy tax on residential properties.

The vacancy tax is targeted at newly built flats and will apply where properties remain unoccupied for six months during any year.

The impact of the measures will depend on the detailed arrangements which have not yet been released, and there are certain areas that will need to be addressed. We expect these matters to be addressed when draft legislation is introduced.

The Hong Kong government has announced plans to introduce a new tax on vacant properties. The tax is targeted at newly built flats and will apply where properties remain unoccupied for six months in any year. A grace period will apply for the first twelve months after obtaining an occupation permit. It is proposed that the tax will be levied at the rate of 200% of the property's annual rental value, calculated by reference to market rates as determined by government assessors. Developers will be required to submit a report on the status of their properties annually. The new tax will not apply to vacant properties held by persons other than developers.

The new measures will need to be approved by the Legislative Council before they become law.

Unlike most taxes, the new tax does not aim to produce revenue. It is intended to encourage developers to release residential units more quickly into the market and address concerns about the spiralling cost of real estate in Hong Kong.

KPMG observations

Clearly, the degree of impact the measures will have will depend on the detailed arrangements, which have not yet been released. Issues that need to be addressed include how "developers" are defined, the treatment of intra-group transactions and how occupation is to be measured and policed. We expect these matters to be addressed when draft legislation is introduced.

Please contact your usual tax advisor or one of our tax contacts below.

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