

Head 76 — INLAND REVENUE DEPARTMENT

Controlling officer: the Commissioner of Inland Revenue will account for expenditure under this Head.

Estimate 2004–05 **\$1,236.3m**

Establishment ceiling 2004–05 (notional annual mid-point salary value) representing an estimated 3 054 non-directorate posts as at 31 March 2004 reducing by 162 posts to 2 892 posts as at 31 March 2005..... **\$779.8m**

In addition there will be an estimated 25 directorate posts as at 31 March 2004 reducing by one post to 24 posts as at 31 March 2005.

Controlling Officer's Report

Programmes

Programme (1) Assessing Functions
Programme (2) Collection
Programme (3) Investigation and Field Audit
Programme (4) Taxpayer Services

These programmes contribute to Policy Area 25: Revenue Collection and Financial Control (Secretary for Financial Services and the Treasury).

Detail

Programme (1): Assessing Functions

	2002–03 (Actual)	2003–04 (Original)	2003–04 (Revised)	2004–05 (Estimate)
Financial provision (\$m)	915.6	964.1	931.2 (–3.4%)	906.3 (–2.7%)
				(or –6.0% on 2003–04 Original)

Aim

2 The aim is to raise revenue through taxes, duties and fees in accordance with the relevant legislation in a cost-effective manner.

Brief Description

3 This programme involves:

- establishing the liabilities of taxpayers under profits tax, salaries tax, property tax and personal assessment;
- processing objections and appeals in relation to tax assessments raised under the Inland Revenue Ordinance which involve complicated issues of fact or law, or disputed assessments that cannot be settled by agreement;
- maintaining an accurate and efficient system for business registration;
- assessing stamp duty chargeable on assignments, agreements for sale and purchase, leases of immovable property and transfers of shares;
- examining estate duty affidavits/accounts, and issuing assessments for dutiable cases and certificates of exemption for exempt cases;
- administering betting duty in respect of horse races, football matches and lotteries;
- collecting tax imposed on accommodation charges of hotels and guest houses; and
- issuing and redeeming tax reserve certificates.

4 In 2003–04, the department continued to enhance services and efficiency through wider use of information technology, re-engineering of work processes and streamlining of procedures. The scope of electronic services was expanded to accept the filing of tax returns over the telephone and the use of password as an alternative means of authentication and fulfilment of the signature requirement for tax return filing and other services via the Internet as from April 2003. The department implemented a document management system to further automate the processes of document capturing, indexing, storage and retrieval. Three processing centres were set up in early 2004 under the department's business process re-engineering project to improve overall efficiency. Feasibility studies and development work continued for various projects under the department's Information Systems Strategy Plan.

Head 76 — INLAND REVENUE DEPARTMENT

5 To assist taxpayers in fulfilling their obligations under the Inland Revenue Ordinance, the department launched a series of electronic seminars for employers and tax representatives on its website in April/May 2003 and provided after-office-hours telephone enquiry services in May 2003.

6 The key performance measures are:

Targets

	Target	2002-03 (Actual)	2003-04 (Revised Estimate)	2004-05 (Plan)
written enquiries				
replies to simple enquiries within ten working days (%)	99	100.0	99.0	99.0
replies to technical enquiries within 25 working days (%)	98	99.7	99.0	99.0
processing of returns				
assessments made within nine months				
profits tax				
business (%).....	80	87.1	85.0	85.0
individuals (%).....	96	99.0	98.0	98.0
salaries tax (%)	96	99.0	98.0	98.0
property tax (%).....	96	99.1	98.0	98.0
personal assessment (%)	96	99.0	98.0	98.0
tax returns for first-time taxpayers				
profits tax				
tax returns issued for chargeable cases within three months (%)	98	100.0	98.0	98.0
salaries tax				
tax returns issued for taxable cases				
April to November- within three months (%)	98	99.7	99.0	99.0
December to March- within five months (%)	98	99.9	99.0	99.0
company deregistration				
processing of requests for issuance of Notice of No Objection by the Commissioner of Inland Revenue within 25 working days (%)	98	100.0	98.0	98.0
tax reserve certificates				
purchase/redemption transactions completed				
January to June-within 14 working days (%)	98	100.0	99.0	99.0
July to December-within ten working days (%)	98	100.0	99.0	99.0
notices of objection				
acknowledgements made				
May to August-within 14 working days (%)	98	99.8	99.0	99.0
September to April-within 21 working days (%)	98	99.8	99.0	99.0
notices of settlement/notifications of decision issued within four months (%)	98	100.0	99.0	99.0
tax holdover claims				
replies made within 14 working days (%).....	98	99.6	99.0	99.0
stamping of documents				
assignments/sale and purchase agreements stamped within six working days (%)	98	100.0	99.0	99.0

Head 76 — INLAND REVENUE DEPARTMENT

	Target	2002–03 (Actual)	2003–04 (Revised Estimate)	2004–05 (Plan)
applications for deferred payment of stamp duty on agreements for sale of residential property processed within six working days (%).....	98	100.0	99.0	99.0
contract notes/lease agreements stamped on the day submitted (%).....	98	99.9	99.0	99.0
claims for exemption in respect of intra-group transfers processed within three months (%)	80	93.0	90.0	90.0
business registration				
new business registration certificates				
applications over the counter issued within 30 minutes (%).....	99	99.1	99.0	99.0
applications by post or through the Electronic Service Delivery Scheme issued within two working days (%).....	99	100.0	99.0	99.0
extracts of information issued within two working days (%)	99	100.0	99.0	99.0
change of business registration particulars				
notifications over the counter updated within 30 minutes (%).....	97	100.0	99.0	99.0
notifications by post updated within six working days (%).	99	100.0	99.0	99.0
estate duty affidavits and statements in lieu of affidavits				
complicated or dutiable cases finalised within two years (%).....	80	86.5	85.0	85.0
exemption certificates for simple cases issued within six weeks (%).	98	99.7	99.0	99.0

Indicators

	2002–03 (Actual)	2003–04 (Revised Estimate)	2004–05 (Estimate)
profits tax			
no. of assessments made	375 000	365 000	365 000
no. of assessments per post.....	636	636	686
provision per assessment (\$)	613.3	619.2	600.0
salaries tax			
no. of assessments made	2 108 000	2 100 000	2 140 000
no. of assessments per post.....	1 899	2 027	2 206
provision per assessment (\$)	174.0	170.9	161.3
property tax			
no. of assessments made	476 000	470 000	470 000
no. of assessments per post.....	2 052	2 156	2 338
provision per assessment (\$)	158.8	157.7	153.2
personal assessment			
no. of assessments made	342 000	345 000	345 000
no. of assessments per post.....	2 151	2 315	2 464
provision per assessment (\$)	162.6	156.8	150.7
objections and appeals			
no. of objections and appeals processed.....	965	920	880
no. of objections and appeals per post.....	36	35	35
provision per objection or appeal (\$)	22,487	21,957	22,273
business registration			
business registration certificates (new and renewal)			
no. of certificates issued	744 000	720 000	720 000
no. of certificates per post	5 131	5 455	5 669
provision per certificate (\$)	62.4	65.3	64.0

Head 76 — INLAND REVENUE DEPARTMENT

	2002–03 (Actual)	2003–04 (Revised Estimate)	2004–05 (Estimate)
extracts of information			
no. of extracts issued	246 000	260 000	260 000
no. of extracts per post	8 483	8 966	8 966
provision per extract (\$)	35.4	35.4	35.4
stamp duty			
no. of documents stamped	1 118 000	1 130 000	1 130 000
no. of stamped documents per post	10 352	10 367	10 865
provision per stamped document (\$)	31.9	33.5	31.9
estate duty			
no. of cases finalised	15 300	15 000	15 000
no. of cases per post	306	300	300
provision per case (\$)	1,203	1,227	1,227
betting duty			
no. of returns processed.....	191	201†	207†
no. of returns per post.....	96	101	104
provision per return (\$)	3,665	3,483	3,382
hotel accommodation tax			
no. of quarterly returns processed	657	637	663
no. of quarterly returns per post	110	106	111
provision per quarterly return (\$)	2,892	3,454	3,167
tax reserve certificates			
no. of purchase/redemption transactions	197 000	185 000	176 000
no. of transactions per post.....	15 154	15 417	16 000
provision per transaction (\$).....	22.8	21.6	21.0

† The increase in number of returns processed was due to the increased number of Mark Six draws and the introduction of football betting in 2003.

Matters Requiring Special Attention in 2004–05

7 During 2004–05, maintenance of the yield from taxes, contribution to expenditure-saving programmes through organisational restructuring and streamlining of procedures, and the development of IT opportunities will be matters of high priority. The department will:

- provide a new electronic stamping service;
- continue to step up efforts to promote taxpayers' voluntary compliance through publicity programmes and enforcement of taxation requirements;
- continue to improve the overall service of the Business Registration Office; and
- continue to make progress in computer projects under the Information Systems Strategy Plan.

8 The department will also assist the Financial Services and the Treasury Bureau in the conduct of a study on implementation of a Goods and Services Tax.

Programme (2): Collection

	2002–03 (Actual)	2003–04 (Original)	2003–04 (Revised)	2004–05 (Estimate)
Financial provision (\$m)	138.3	142.0	143.7 (+1.2%)	135.8 (–5.5%)
				(or –4.4% on 2003–04 Original)

Aim

9 The aim is to collect taxes due under the relevant Ordinances in a cost-effective manner.

Brief Description

10 This programme involves processing tax payments and refunds and taking recovery action in relation to tax in default.

11 During 2003–04, the department continued to promote the use of electronic payment services.

12 The key performance measures are:

Head 76 — INLAND REVENUE DEPARTMENT

Targets

	Target	2002–03 (Actual)	2003–04 (Revised Estimate)	2004–05 (Plan)
tax payment				
receipts issued for tax payments				
made by electronic means				
July to November-within four				
working days (%)	98	100.0	99.0	99.0
December to June-within				
seven working days (%)	98	100.0	99.0	99.0
refunds of tax				
arising from overpayment of tax in				
excess of the amount demanded				
within 25 working days (%)	98	99.1	98.0	98.0
arising from revision of assessment				
within 25 working days (%)	98	100.0	99.0	99.0

Indicators

	2002–03 (Actual)	2003–04 (Revised Estimate)	2004–05 (Estimate)
collection of tax			
no. of payments processed.....	2 129 000	2 080 000	2 120 000
no. of payments per post.....	30 855	34 098	39 259
provision per payment (\$)	13.7	13.2	12.0
refund of tax			
no. of refunds made	380 000	1 621 000†	370 000
no. of refunds per post.....	15 833	64 840	15 417
provision per refund (\$).....	21.1	8.8†	20.8
recovery of tax			
no. of completed recovery cases.....	176 000	174 000	174 000
no. of completed recovery cases per post.....	579	570	578
provision per completed recovery case (\$).....	533.5	543.7	543.7

† Over 1.25 million refund notices were issued in one go during the tax rebate exercise in July 2003. These refund notices were issued by computer which required minimal manual effort and therefore brought down the average cost for 2003–04.

Matters Requiring Special Attention in 2004–05

13 During 2004–05, the department will continue to promote the use of existing and new electronic services for payment of tax.

Programme (3): Investigation and Field Audit

	2002–03 (Actual)	2003–04 (Original)	2003–04 (Revised)	2004–05 (Estimate)
Financial provision (\$m)	174.2	179.7	174.2 (–3.1%)	173.7 (–0.3%)

(or –3.3% on
2003–04 Original)

Aim

14 The aim is to counter tax evasion, minimise opportunities for tax avoidance and promote voluntary compliance by taxpayers.

Brief Description

15 The work involves:

- tax investigation, imposition of penalties and institution of prosecution proceedings to create a deterrent to tax evasion;

Head 76 — INLAND REVENUE DEPARTMENT

- field audit, including site visits and examination of accounting records of taxpayers, and the promotion of voluntary compliance with taxation requirements; and
- audit on tax avoidance cases and rejecting unacceptable avoidance schemes so as to uphold the tax base of Hong Kong.

16 In 2003–04, the department continued its determined efforts to combat tax evasion and counter tax avoidance schemes. It enhanced staff investigation skills in tackling tax evasion and avoidance through strengthening training of staff, organising experience-sharing workshops and enhancing the use of information technology.

17 The key performance measures are:

Target

	Target	2002–03 (Actual)	2003–04 (Revised Estimate)	2004–05 (Plan)
tax audit and investigation				
complete processing of field audit and tax investigation cases within two years (%)	80	89.2	85.0	85.0

Indicators

	2002–03 (Actual)	2003–04 (Revised Estimate)	2004–05 (Estimate)
field audit and tax investigation			
no. of cases completed.....	1 862	1 860	1 860
back tax and penalty assessed (\$m)	2,052	2,050	2,100
no. of cases per post	6.7	6.7	6.9
provision per case (\$)	93,072	93,172	92,903
back tax and penalty per case (\$m)	1.1	1.1	1.1
back tax and penalty per post (\$m).....	7.4	7.4	7.8
back tax and penalty per dollar of provision (\$).....	11.8	11.8	12.2
property tax compliance check			
no. of cases completed.....	4 600	4 600	4 600
back tax and penalty assessed (\$m).....	23.2	23.2	23.2
no. of cases per post	1 533	1 533	1 533
provision per case (\$)	195.7	195.7	195.7
back tax and penalty per case (\$)	5,044	5,044	5,044
back tax and penalty per post (\$m).....	7.7	7.7	7.7
back tax and penalty per dollar of provision (\$).....	25.8	25.8	25.8

Matters Requiring Special Attention in 2004–05

18 During 2004–05, the department will continue to combat tax evasion and to step up various initiatives in tackling tax avoidance. It plans to enhance the computer-assisted risk-based case selection programme to facilitate the identification of high-risk cases for audit and investigation.

Programme (4): Taxpayer Services

	2002–03 (Actual)	2003–04 (Original)	2003–04 (Revised)	2004–05 (Estimate)
Financial provision (\$m)	20.6	19.9	20.0 (+0.5%)	20.5 (+2.5%)

(or +3.0% on
2003–04 Original)

Aim

19 The aim is to provide a high level and quality of service to the public by delivering timely and accurate advice thereby promoting voluntary taxation compliance.

Brief Description

20 This programme is concerned with the provision of telephone and over-the-counter enquiry services, and the investigation of complaints made by members of the public.

Head 76 — INLAND REVENUE DEPARTMENT

21 In May 2003, the department extended telephone enquiry services to the taxpaying public on completion of tax returns to 7:00 p.m. from Monday to Friday and to 5:00 p.m. on Saturday. It introduced an electronic queuing system in the department's enquiry centre to improve customer service and operational efficiency.

22 The key performance measures are:

Targets

	Target	2002-03 (Actual)	2003-04 (Revised Estimate)	2004-05 (Plan)
enquiry service centre				
waiting time for over-the-counter				
enquiry service not to exceed ten				
minutes				
during peak hours (%).....	95	99.2	98.0	98.0
outside peak hours (%)	99	99.9	99.0	99.0
connected telephone calls answered				
within three minutes				
July to April (%).....	90	93.4	94.0	94.0
May to June (%).....	80	82.2	83.2	82.0
complaints				
interim reply within ten working				
days (%)				
substantial reply within 18 working	99	99.6	99.0	99.0
days (%)	99	100.0	99.0	99.0

Indicators

	2002-03 (Actual)	2003-04 (Revised Estimate)	2004-05 (Estimate)
over-the-counter enquiry service at the head office			
no. of enquiries.....	371 000	410 000†	440 000†
no. of enquiries processed per post	13 741	13 667	14 194
telephone enquiry service			
no. of enquiries.....	1 398 000	1 460 000	1 460 000
no. of enquiries processed per post	43 688	45 625	45 625
complaints			
no. of complaints processed	469	500	500
no. of complaints processed per post.....	117	125	125

† Including enquiries directed to the head office since the closure of two sub-offices on 1 August 2003.

Matters Requiring Special Attention in 2004-05

23 During 2004-05, the department will continue to deliver quality customer services and promote the use of "TeleTax" service, whereby taxpayers can file tax returns, obtain information about the status of their returns, tax assessments, payment and refund, account and balances, and lodge requests for documents through an automated telephone system.

Head 76 — INLAND REVENUE DEPARTMENT

ANALYSIS OF FINANCIAL PROVISION

Programme	2002-03 (Actual) (\$m)	2003-04 (Original) (\$m)	2003-04 (Revised) (\$m)	2004-05 (Estimate) (\$m)
(1) Assessing Functions.....	915.6	964.1	931.2	906.3
(2) Collection.....	138.3	142.0	143.7	135.8
(3) Investigation and Field Audit.....	174.2	179.7	174.2	173.7
(4) Taxpayer Services.....	20.6	19.9	20.0	20.5
	1,248.7	1,305.7	1,269.1 (-2.8%)	1,236.3 (-2.6%)
				(or -5.3% on 2003-04 Original)

Analysis of Financial and Staffing Provision

Programme (1)

Provision for 2004-05 is \$24.9 million (2.7%) lower than the revised estimate for 2003-04. This is mainly due to the effect of the 2004 and 2005 civil service pay cut, deletion of 145 posts in 2004-05 and redeployment of one post to Programme (4).

Programme (2)

Provision for 2004-05 is \$7.9 million (5.5%) lower than the revised estimate for 2003-04. This is mainly due to the effect of the 2004 and 2005 civil service pay cut. In addition, 12 posts will be deleted in 2004-05.

Programme (3)

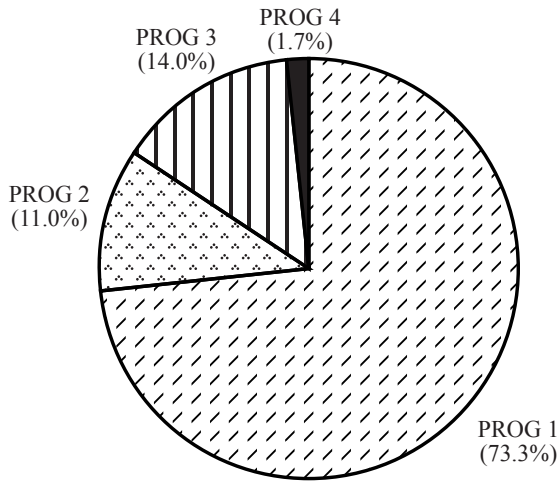
Provision for 2004-05 is \$0.5 million (0.3%) lower than the revised estimate for 2003-04. This is mainly due to the effect of the 2004 and 2005 civil service pay cut. In addition, there will be a net deletion of six posts in 2004-05.

Programme (4)

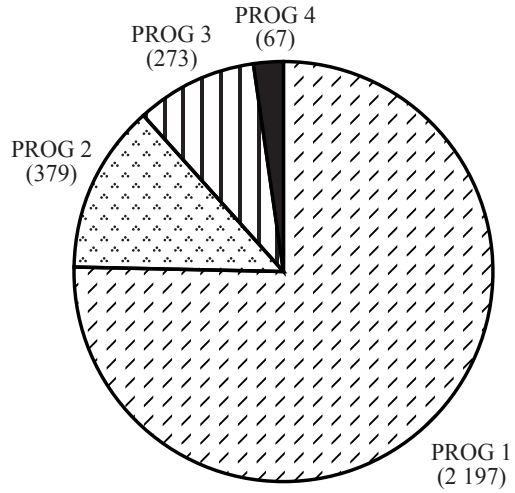
Provision for 2004-05 is \$0.5 million (2.5%) higher than the revised estimate for 2003-04. This is mainly due to the redeployment of one post from Programme (1) to this Programme and salary increments for staff, partly offset by the effect of the 2004 and 2005 civil service pay cut.

Head 76 — INLAND REVENUE DEPARTMENT

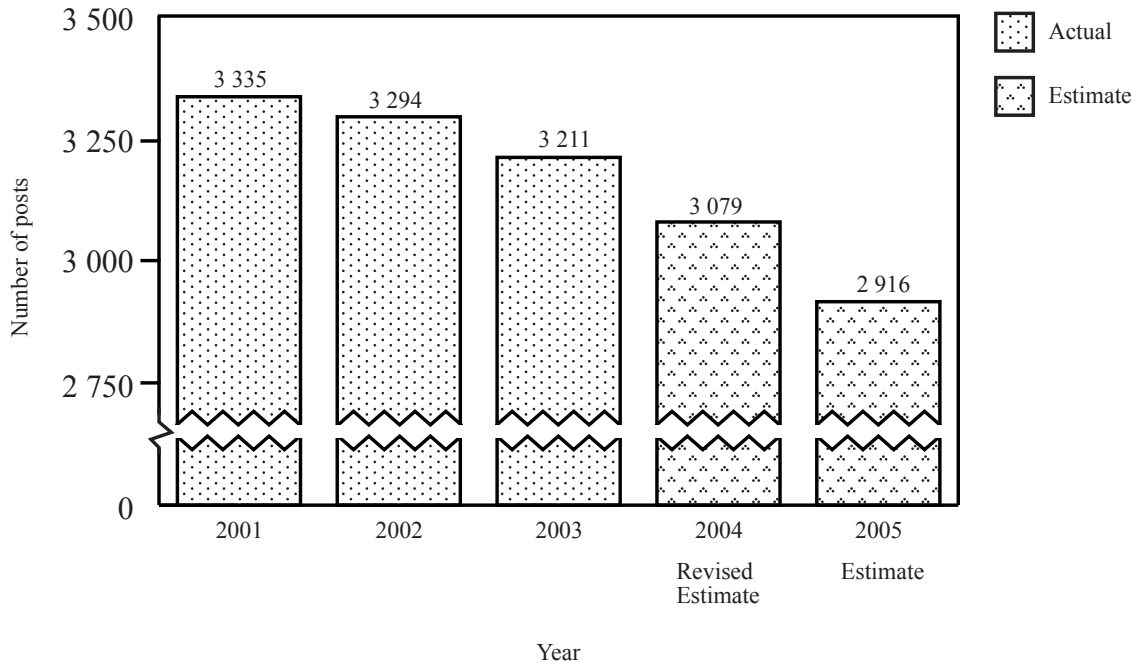
*Allocation of provision
to programmes
(2004-05)*



*Staff by programme
(as at 31 March 2005)*



*Changes in the size of the establishment
(as at 31 March)*



Head 76 — INLAND REVENUE DEPARTMENT

Sub-head (Code)	Actual expenditure 2002-03	Approved estimate 2003-04	Revised estimate 2003-04	Estimate 2004-05	
	\$'000	\$'000	\$'000	\$'000	
Operating Account					
Recurrent					
000	Operational expenses.....	1,185,595	1,217,875	1,182,105	1,145,364
189	Interest on tax reserve certificates	49,583	78,450	78,450	82,250*
209	Special legal expenses	7,288	8,126	7,400	8,126*
	Total, Recurrent	<u>1,242,466</u>	<u>1,304,451</u>	<u>1,267,955</u>	<u>1,235,740</u>
Non-Recurrent					
	General non-recurrent.....	5,843	1,000	850	—
	Total, Non-Recurrent	<u>5,843</u>	<u>1,000</u>	<u>850</u>	<u>—</u>
	Total, Operating Account.....	<u>1,248,309</u>	<u>1,305,451</u>	<u>1,268,805</u>	<u>1,235,740</u>
Capital Account					
Plant, Equipment and Works					
661	Minor plant, vehicles and equipment (block vote).....	344	259	259	571
	Total, Plant, Equipment and Works	<u>344</u>	<u>259</u>	<u>259</u>	<u>571</u>
	Total, Capital Account	<u>344</u>	<u>259</u>	<u>259</u>	<u>571</u>
	Total Expenditure.....	<u><u>1,248,653</u></u>	<u><u>1,305,710</u></u>	<u><u>1,269,064</u></u>	<u><u>1,236,311</u></u>

Head 76 — INLAND REVENUE DEPARTMENT

Details of Expenditure by Subhead

The estimate of the amount required in 2004–05 for the salaries and expenses of the Inland Revenue Department is \$1,236,311,000. This represents a decrease of \$32,753,000 against the revised estimate for 2003–04 and of \$12,342,000 against actual expenditure in 2002–03.

Operating Account

Recurrent

2 Provision of \$1,145,364,000 under *Subhead 000 Operational expenses* is for the salaries, allowances and other operating expenses of the Inland Revenue Department.

3 The establishment as at 31 March 2004 will be 3 079 permanent posts. There will be a net deletion of 163 permanent posts in 2004–05. Subject to certain conditions, the controlling officer may under delegated power create or delete non-directorate posts during 2004–05, but the notional annual mid-point salary value of all such posts must not exceed \$779,780,000.

4 An analysis of the financial provision under *Subhead 000 Operational expenses* is as follows:

	2002–03 (Actual) (\$'000)	2003–04 (Original) (\$'000)	2003–04 (Revised) (\$'000)	2004–05 (Estimate) (\$'000)
Personal Emoluments				
- Salaries.....	1,062,323	1,062,211	1,036,143	996,783
- Allowances.....	13,124	16,303	15,458	12,274
- Job-related allowances.....	144	182	67	28
Personnel Related Expenses				
- Mandatory Provident Fund contribution.....	—	769	973	973
Departmental Expenses				
- General departmental expenses.....	110,004	138,410	129,464	135,306
	1,185,595	1,217,875	1,182,105	1,145,364

5 Provision of \$82,250,000 under *Subhead 189 Interest on tax reserve certificates* is for the payment of interest on tax reserve certificates by the Commissioner of Inland Revenue under the Tax Reserve Certificates Ordinance.

6 Provision of \$8,126,000 under *Subhead 209 Special legal expenses* is for expenditure on court fees in connection with the registration of writs. The increase of \$726,000 (9.8%) over the revised estimate for 2003–04 is mainly due to an expected rise in the number of cases requiring the initiation of legal actions.

Capital Account

Plant, Equipment and Works

7 Provision of \$571,000 under *Subhead 661 Minor plant, vehicles and equipment (block vote)* represents an increase of \$312,000 (120.5%) over the revised estimate for 2003–04. This is mainly due to the increased provision required for replacing minor equipment in 2004–05.