

Head 76 — INLAND REVENUE DEPARTMENT

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

Estimate 2005–06..... **\$1,186.8m**

Establishment ceiling 2005–06 (notional annual mid-point salary value) representing an estimated 2 884 non-directorate posts as at 31 March 2005 reducing by 33 posts to 2 851 posts as at 31 March 2006 **\$705.9m**

In addition, there will be an estimated 24 directorate posts as at 31 March 2005 rising by one post to 25 posts as at 31 March 2006.

Controlling Officer's Report

Programmes

Programme (1) Assessing Functions	These programmes contribute to Policy Area 25: Revenue Collection and Financial Control (Secretary for Financial Services and the Treasury).
Programme (2) Collection	
Programme (3) Investigation and Field Audit	
Programme (4) Taxpayer Services	

Detail

Programme (1): Assessing Functions

	2003–04 (Actual)	2004–05 (Original)	2004–05 (Revised)	2005–06 (Estimate)
Financial provision (\$m)	864.3	906.3	806.3 (–11.0%)	868.2 (+7.7%)
				(or –4.2% on 2004–05 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 2004–05, the Department continued to enhance services and efficiency through wider use of information technology (IT), re-engineering of work processes and streamlining of procedures. The electronic tax return filing service was enhanced to provide new convenient features. The Department introduced a new electronic stamping service. Feasibility studies and development work continued for various projects under the Department's Information Systems Strategy (ISS) Plan.

5 To assist taxpayers in understanding their rights and obligations under the Inland Revenue Ordinance, the Department continued to provide a series of electronic seminars and a wide range of information materials for employers, individuals and tax representatives through its website and a 24-hour fax system.

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6 The key performance measures are:

Targets

	Target	2003–04 (Actual)	2004–05 (Revised Estimate)	2005–06 (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	99.8	99.0	99.0
Processing of returns				
assessments made within nine months				
profits tax				
business (%).....	80	87.0	85.0	85.0
individuals (%).....	96	98.8	98.0	98.0
salaries tax (%).....	96	98.8	98.0	98.0
property tax (%).....	96	99.1	98.0	98.0
personal assessment (%).....	96	98.8	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	100.0	99.0	99.0
December to March- within five months (%).....	98	99.7	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	99.6	99.0	99.0
notices of settlement/notifications of decision issued within four months (%).....	98	99.8	99.0	99.0
Tax holdover claims				
replies made within 14 working days (%).....	98	99.8	99.0	99.0
Stamping of documents				
assignments/sale and purchase agreements stamped within six working days (%).....	98	100.0	99.0	99.0
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

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	Target	2003–04 (Actual)	2004–05 (Revised Estimate)	2005–06 (Plan)
contract notes/lease agreements stamped on the day submitted (%)	98	100.0	99.0	99.0
claims for exemption in respect of intra-group transfers processed within three months (%).....	80	92.7	90.0	90.0
Business registration				
new business registration certificates applications over the counter issued within 30 minutes (%).....	99	100.0	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	81.0	80.0	80.0
exemption certificates for simple cases issued within six weeks (%).....	98	99.7	99.0	99.0

Indicators

	2003–04 (Actual)	2004–05 (Revised Estimate)	2005–06 (Estimate)
Profits tax			
assessments made.....	370 000	370 000	370 000
assessments per post	645	699	702
provision per assessment (\$).....	600.5	568.1	562.7
Salaries tax			
assessments made.....	2 021 000	2 050 000	2 080 000
assessments per post	1 951	2 122	2 162
provision per assessment (\$).....	171.9	160.8	155.5
Property tax			
assessments made.....	471 000	470 000	470 000
assessments per post	2 161	2 350	2 513
provision per assessment (\$).....	152.0	148.1	138.7
Personal assessment			
assessments made.....	324 000	335 000	345 000
assessments per post	2 174	2 428	2 575
provision per assessment (\$).....	160.8	146.9	137.7
Objections and appeals			
objections and appeals processed	915	880@	830@
objections and appeals per post	35	35	33
provision per objection or appeal (\$).....	22,842	22,727	23,494
Business registration			
business registration certificates (new and renewal)			
certificates issued.....	713 000	720 000	740 000
certificates per post	5 402	5 625	5 920
provision per certificate (\$)	62.7	62.9	60.0

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	2003–04 (Actual)	2004–05 (Revised Estimate)	2005–06 (Estimate)
extracts of information			
extracts issued	257 000	260 000	270 000
extracts per post	8 862	8 966	9 310
provision per extract (\$).....	32.7	33.8	33.0
Stamp duty			
documents stamped.....	1 198 000	1 200 000	1 250 000
stamped documents per post	10 991	11 429	12 136
provision per stamped document (\$).....	30.7	30.4	29.2
Estate duty			
cases finalised	15 600	15 600	15 600
cases per post	312	312	312
provision per case (\$)	1,173	1,179	1,179
Betting duty			
returns processed	201	225	233
returns per post	101	113	117
provision per return (\$).....	3,483	3,111	3,004
Hotel accommodation tax			
quarterly returns processed	638	766	869
quarterly returns per post	106	128	145
provision per quarterly return (\$).....	2,978	2,611	2,302
Tax reserve certificates			
purchase/redemption transactions	248 000φ	180 000	184 000
transactions per post	20 667φ	16 364	16 727
provision per transaction (\$).....	17.3	20.6	20.1

@ The decrease in the number of objections and appeals processed was due to complexity of the cases and a significant increase in the number of court cases being handled, which generally take longer time to conclude.

φ The volume of transactions handled in 2003–04 was exceptionally high, possibly due to the special promotion campaign launched under the Electronic Services Delivery Scheme.

Matters Requiring Special Attention in 2005–06

7 During 2005–06, maintenance of the yield from taxes, contribution to expenditure-saving programmes through streamlining of procedures and the development of IT opportunities will be matters of high priority. The Department will:

- simplify the process of reviewing inactive tax files for individuals with a view to reducing taxpayers' compliance cost and to achieve savings in staff resources; and
- continue to make progress in computer projects under the ISS Plan.

8 The Department will continue to assist the Financial Services and the Treasury Bureau in the public consultation on implementation of a Goods and Services Tax.

Programme (2): Collection

	2003–04 (Actual)	2004–05 (Original)	2004–05 (Revised)	2005–06 (Estimate)
Financial provision (\$m)	133.3	135.8	132.5 (–2.4%)	129.8 (–2.0%)

(or –4.4% on
2004–05 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 2004–05, the Department continued to promote the use of electronic payment services.

12 The key performance measures are:

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Targets

	Target	2003–04 (Actual)	2004–05 (Revised Estimate)	2005–06 (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	99.8	98.0	98.0
arising from revision of assessment				
within 25 working days (%).....	98	100.0	99.0	99.0

Indicators

	2003–04 (Actual)	2004–05 (Revised Estimate)	2005–06 (Estimate)
Collection of tax			
payments processed	2 176 000	2 300 000§	2 400 000
payments per post	35 672	41 818	44 444
provision per payment (\$).....	12.7	11.3	10.2
Refund of tax			
refunds made.....	1 637 000#	370 000	370 000
refunds per post	65 480	16 087	16 087
provision per refund (\$).....	5.1#	20.5	20.5
Recovery of tax			
completed recovery cases	182 000	176 000	178 000
completed recovery cases per post.....	597	585	597
provision per completed recovery case (\$).....	493.4	516.5	505.6

§ The increase in the number of payments processed was mainly due to the addition of a second payment date for Property Tax demand notes.

Over 1.25 million refund notices were issued 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 2005–06

13 During 2005–06, the Department will continue to promote the use of electronic services for payment of tax.

Programme (3): Investigation and Field Audit

	2003–04 (Actual)	2004–05 (Original)	2004–05 (Revised)	2005–06 (Estimate)
Financial provision (\$m)	167.2	173.7	168.0 (–3.3%)	167.2 (–0.5%)
				(or –3.7% on 2004–05 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;

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- 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 2004–05, the Department continued its determined efforts to combat tax evasion and counter tax avoidance schemes. The computer-assisted risk-based case selection programme has been enhanced to enable comprehensive tax compliance measurement and support more efficient and sophisticated selection of cases for audit and investigation.

17 The key performance measures are:

Target

	Target	2003–04 (Actual)	2004–05 (Revised Estimate)	2005–06 (Plan)
Tax audit and investigation complete processing of field audit and tax investigation cases within two years (%).....	80	87.3	85.0	85.0

Indicators

	2003–04 (Actual)	2004–05 (Revised Estimate)	2005–06 (Estimate)
Field audit and tax investigation			
cases completed	1 863	1 860	1 860
back tax and penalty assessed (\$m)	2,059	2,100	2,100
cases per post	6.8	6.9	6.9
provision per case (\$)	89,265	89,839	89,409
back tax and penalty per case (\$m)	1.1	1.1	1.1
back tax and penalty per post (\$m)	7.5	7.8	7.8
back tax and penalty per dollar of provision (\$)	12.4	12.6	12.6
Property tax compliance check			
cases completed	4 600	4 600	4 600
back tax and penalty assessed (\$m)	23.2	23.2	23.2
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 2005–06

18 During 2005–06, the Department will continue to combat tax evasion and step up various initiatives in tackling tax avoidance.

Programme (4): Taxpayer Services

	2003–04 (Actual)	2004–05 (Original)	2004–05 (Revised)	2005–06 (Estimate)
Financial provision (\$m)	19.4	20.5	20.3 (–1.0%)	21.6 (+6.4%)
				(or +5.4% on 2004–05 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 tax 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.

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21 In May 2004, 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.

22 The key performance measures are:

Targets

	Target	2003–04 (Actual)	2004–05 (Revised Estimate)	2005–06 (Plan)
Enquiry service centre				
waiting time for over-the-counter enquiry service not to exceed ten minutes				
during peak hours (%).....	95	98.0	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	94.7	94.7	94.7
May to June (%).....	80	83.2	83.7	82.0
Complaints				
interim reply within ten working days (%).....	99	99.8	99.0	99.0
substantial reply within 18 working days (%).....	99	100.0	99.0	99.0

Indicators

	2003–04 (Actual)	2004–05 (Revised Estimate)	2005–06 (Estimate)
Over-the-counter enquiry service at the head office			
enquiries.....	404 000	410 000	410 000
enquiries processed per post	13 467	13 226	13 226
Telephone enquiry service			
enquiries.....	1 448 000#	1 400 000	1 400 000
enquiries processed per post	45 250#	43 750	43 750
Complaints			
complaints processed	461	450	450
complaints processed per post	115	113	113

These higher figures were attributable to the large volume of enquiries on the one-off tax rebate exercise.

Matters Requiring Special Attention in 2005–06

23 During 2005–06, the Department will continue to improve services to customers. It will replace the existing Interactive Voice Response System so as to enhance efficiency and effectiveness in delivering telephone enquiry service to the public. Besides, it will continue to promote the use of the “TeleTax” service, whereby taxpayers can file tax returns, obtain information about the status of their tax return lodgement, assessments and tax payment and about tax reserve certificate account balances, as well as lodge requests for documents through a secured automated telephone system.

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ANALYSIS OF FINANCIAL PROVISION

Programme	2003–04 (Actual) (\$m)	2004–05 (Original) (\$m)	2004–05 (Revised) (\$m)	2005–06 (Estimate) (\$m)
(1) Assessing Functions	864.3	906.3	806.3	868.2
(2) Collection	133.3	135.8	132.5	129.8
(3) Investigation and Field Audit	167.2	173.7	168.0	167.2
(4) Taxpayer Services	19.4	20.5	20.3	21.6
	1,184.2	1,236.3	1,127.1 (–8.8%)	1,186.8 (+5.3%)
				(or –4.0% on 2004–05 Original)

Analysis of Financial and Staffing Provision

Programme (1)

Provision for 2005–06 is \$61.9 million (7.7%) higher than the revised estimate for 2004–05. This is mainly due to the provision for possible increase in expenditure on interest on tax reserve certificates and salary increments for staff, partly offset by the full-year effect of the 2005 civil service pay cut and net deletion of 28 posts in 2005–06.

Programme (2)

Provision for 2005–06 is \$2.7 million (2.0%) lower than the revised estimate for 2004–05. This is mainly due to the full-year effect of the 2005 civil service pay cut, net deletion of four posts in 2005–06 and reduced expenditure on special legal expenses, partly offset by salary increments for staff.

Programme (3)

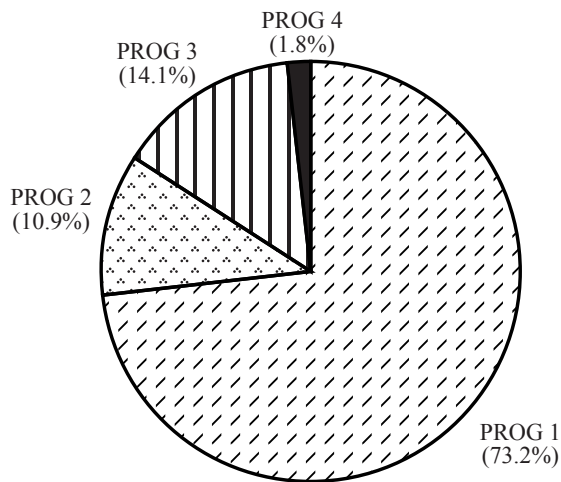
Provision for 2005–06 is \$0.8 million (0.5%) lower than the revised estimate for 2004–05. This is mainly due to the full-year effect of the 2005 civil service pay cut, partly offset by salary increments for staff.

Programme (4)

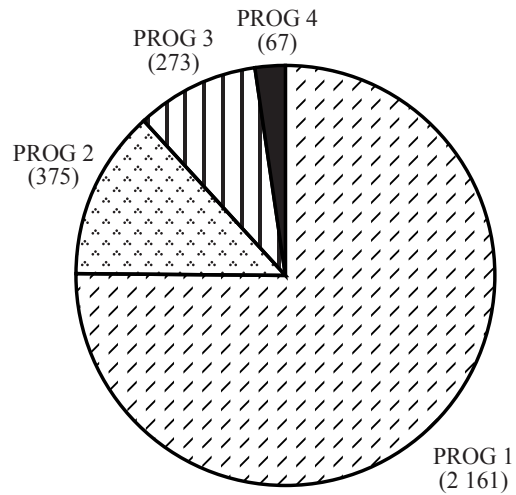
Provision for 2005–06 is \$1.3 million (6.4%) higher than the revised estimate for 2004–05. This is mainly due to the replacement of the aged Interactive Voice Response System for the Enquiry Service Centre and salary increments for staff, partly offset by the full-year effect of the 2005 civil service pay cut.

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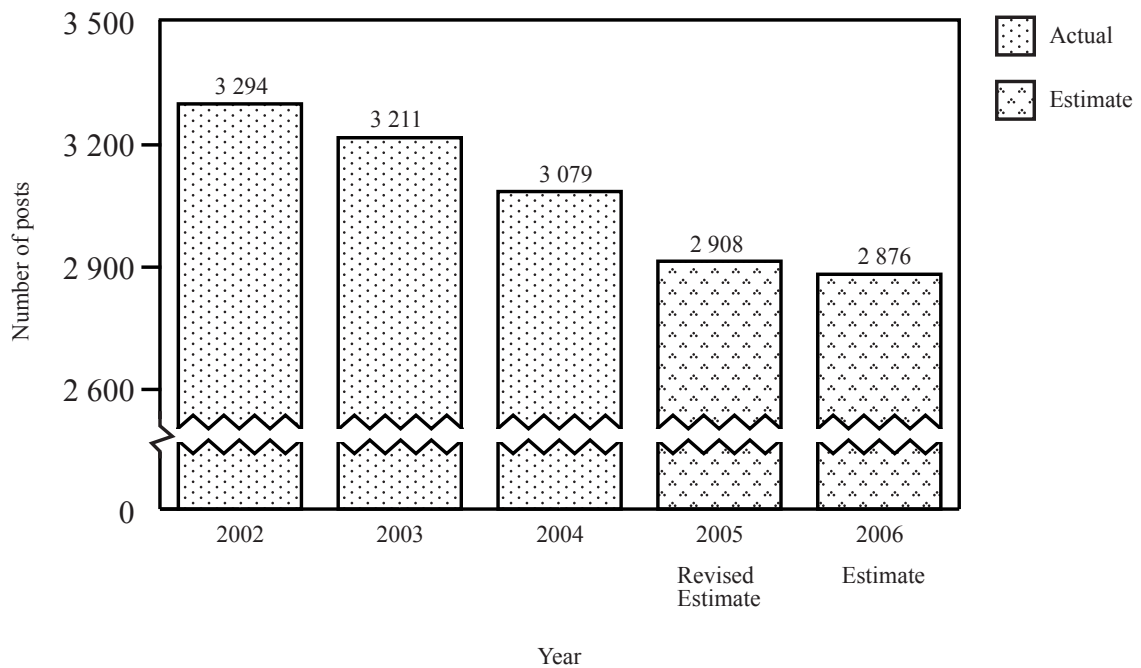
*Allocation of provision
to programmes
(2005-06)*



*Staff by programme
(as at 31 March 2006)*



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



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Sub-head (Code)		Actual expenditure 2003-04	Approved estimate 2004-05	Revised estimate 2004-05	Estimate 2005-06
		\$'000	\$'000	\$'000	\$'000
Operating Account					
Recurrent					
000	Operational expenses	1,141,003	1,145,364	1,106,129	1,087,093
189	Interest on tax reserve certificates	34,985	82,250	12,250	89,726*
209	Special legal expenses	7,441	8,126	8,126	7,700*
	Total, Recurrent	1,183,429	1,235,740	1,126,505	1,184,519
Non-Recurrent					
	General non-recurrent	504	—	—	—
	Total, Non-Recurrent	504	—	—	—
	Total, Operating Account	1,183,933	1,235,740	1,126,505	1,184,519
Capital Account					
Plant, Equipment and Works					
661	Minor plant, vehicles and equipment (block vote)	250	571	571	2,267
	Total, Plant, Equipment and Works	250	571	571	2,267
	Total, Capital Account	250	571	571	2,267
	Total Expenditure	1,184,183	1,236,311	1,127,076	1,186,786

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Details of Expenditure by Subhead

The estimate of the amount required in 2005–06 for the salaries and expenses of the Inland Revenue Department is \$1,186,786,000. This represents an increase of \$59,710,000 over the revised estimate for 2004–05 and of \$2,603,000 over actual expenditure in 2003–04.

Operating Account

Recurrent

2 Provision of \$1,087,093,000 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 2005 will be 2 908 permanent posts. It is expected that there will be a net deletion of 32 permanent posts in 2005–06. Subject to certain conditions, the controlling officer may under delegated power create or delete non-directorate posts during 2005–06, but the notional annual mid-point salary value of all such posts must not exceed \$705,915,000.

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

	2003–04 (Actual) (\$'000)	2004–05 (Original) (\$'000)	2004–05 (Revised) (\$'000)	2005–06 (Estimate) (\$'000)
Personal Emoluments				
- Salaries	1,025,281	996,783	952,783	941,539
- Allowances	11,720	12,274	11,208	8,321
- Job-related allowances	65	28	10	27
Personnel Related Expenses				
- Mandatory Provident Fund contribution	894	973	931	931
Departmental Expenses				
- General departmental expenses	103,043	135,306	141,197	136,275
	<u>1,141,003</u>	<u>1,145,364</u>	<u>1,106,129</u>	<u>1,087,093</u>

5 Provision of \$89,726,000 under *Subhead 189 Interest on tax reserve certificates* is for the payment of interest on tax reserve certificates (TRCs) by the Commissioner of Inland Revenue under the Tax Reserve Certificates Ordinance. The increase of \$77,476,000 (632.5%) over the revised estimate for 2004–05 is mainly due to the provision for possible increase in the amount of interest payable in respect of conditional standover order TRCs, having regard to the value of this particular type of TRCs in hand and the possibility of the finalisation of a number of tax objection/appeal cases entailing redemption of these TRCs with payment of substantial amount of interest in 2005–06.

6 Provision of \$7,700,000 under *Subhead 209 Special legal expenses* is for expenditure on court fees in connection with the registration of writs. The decrease of \$426,000 (5.2%) against the revised estimate for 2004–05 is mainly due to an expected drop in the number of cases requiring the initiation of legal actions.

Capital Account

Plant, Equipment and Works

7 Provision of \$2,267,000 under *Subhead 661 Minor plant, vehicles and equipment (block vote)* represents an increase of \$1,696,000 (297.0%) over the revised estimate for 2004–05. This is mainly due to the increased requirement for the purchase of minor equipment in 2005–06.