

Head 76 — INLAND REVENUE DEPARTMENT

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

Estimate 2006–07 **\$1,187.0m**

Establishment ceiling 2006–07 (notional annual mid-point salary value) representing an estimated 2 849 non-directorate posts as at 31 March 2006 reducing by 26 posts to 2 823 posts as at 31 March 2007 **\$704.3m**

In addition, there will be an estimated 25 directorate posts as at 31 March 2006 and as at 31 March 2007.

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

	2004–05 (Actual)	2005–06 (Original)	2005–06 (Revised)	2006–07 (Estimate)
Financial provision (\$m)	773.8	868.2	787.3 (–9.3%)	876.1 (+11.3%)
				(or +0.9% on 2005–06 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 2005–06, 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 further enhanced to streamline the filing process and to provide estimation of salaries tax payable. A workflow management system is being developed together with the expansion of the document management system to facilitate and monitor the flow of work with a view to improving efficiency.

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5 To assist taxpayers in understanding their rights and fulfilling their 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. It conducted a feasibility study in 2005–06, to be completed in early 2006, on the setting up of a Taxpayer Portal to assist taxpayers in complying with their tax obligations and to enable them to access a complete range of personalised e-services through a single entry point.

6 The key performance measures are:

Targets

	Target	2004–05 (Actual)	2005–06 (Revised Estimate)	2006–07 (Plan)
<i>Written enquiries</i>				
replies to simple enquiries within ten working days (%).....	99	100.0	99.0	99.0
replies to technical enquiries within 25 working days (%)	98	99.9	99.0	99.0
<i>Processing of returns</i>				
assessments made within nine months				
profits tax				
business (%).....	80	87.4	85.0	85.0
individuals (%).....	96	99.0	98.0	98.0
salaries tax (%).....	96	99.0	98.0	98.0
property tax (%)	96	98.7	98.0	98.0
personal assessment (%)	96	99.0	98.0	98.0
<i>Tax returns for first-time taxpayers</i>				
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	100.0	99.0	99.0
<i>Company deregistration</i>				
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
<i>Tax reserve certificates</i>				
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
<i>Notices of objection</i>				
acknowledgements made				
May to August— within 14 working days (%).....	98	99.7	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	99.9	99.0	99.0

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	Target	2004–05 (Actual)	2005–06 (Revised Estimate)	2006–07 (Plan)
<i>Tax holdover claims</i>				
replies made within 14 working days (%).....	98	100.0	99.0	99.0
<i>Stamping of documents</i>				
processing of requests for stamping of assignments and sale and purchase agreements (including applications to defer payment of stamp duty) within six working days (%)¶.....	98	99.5	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 (%)	85§	93.3	90.0	90.0
<i>Business registration</i>				
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
certified extracts of information issued within the next working day (%)	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 or through the Electronic Service Delivery Scheme updated within six working days (%).....	99	100.0@	99.0	99.0
<i>Estate duty affidavits and statements in lieu of affidavits</i>				
complicated or dutiable cases finalised within two years (%).....	80	86.9	80.0	—Ω
exemption certificates for simple cases issued within six weeks (%).....	98	98.9	99.0	—Ω

¶ Description of target modified to combine targets of similar nature.

§ Improvement over the previous target of 80%.

Against the previous target of 99% within two working days.

@ Against the previous target of 99% within six working days for notifications by post.

Ω Not Applicable. Following the abolition of estate duty, no estate duty affidavits or statements need to be filed in respect of persons who passed away on or after 11 February 2006.

Indicators

	2004–05 (Actual)	2005–06 (Revised Estimate)	2006–07 (Estimate)
<i>Profits tax</i>			
assessments made	390 000	390 000	390 000
assessments per post	737	740	749
provision per assessment (\$).....	527.2	518.7	527.2

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	2004–05 (Actual)	2005–06 (Revised Estimate)	2006–07 (Estimate)
<i>Salaries tax</i>			
assessments made	2 021 000	2 050 000	2 050 000
assessments per post	2 092	2 135	2 153
provision per assessment (\$).....	158.3	152.0	154.3
<i>Property tax</i>			
assessments made	480 000	485 000	485 000
assessments per post	2 400	2 594	2 650
provision per assessment (\$).....	139.2	130.9	133.4
<i>Personal assessment</i>			
assessments made	328 000	335 000	335 000
assessments per post	2 377	2 500	2 519
provision per assessment (\$).....	147.0	141.2	143.6
<i>Objections and appeals</i>			
objections and appeals processed	848	840	840
objections and appeals per post	34	34	34
provision per objection or appeal (\$).....	23,113	23,452	23,452
<i>Business registration</i>			
business registration certificates (new and renewal)			
certificates issued.....	734 000	760 000	780 000
certificates per post.....	5 734	6 080	6 240
provision per certificate (\$)	55.2	54.6	55.1
extracts of information			
extracts issued.....	250 000	260 000	260 000
extracts per post.....	8 621	8 966	8 966
provision per extract (\$)	32.4	31.9	32.3
<i>Stamp duty</i>			
documents stamped.....	1 187 000	1 250 000	1 250 000
stamped documents per post.....	11 305	12 136	12 500
provision per stamped document (\$)	30.2	28.2	28.5
<i>Estate duty</i>			
cases finalised	15 900	15 600	7 000#
cases per post.....	318	312	140
provision per case (\$)	1,145	1,154	2,614
<i>Betting duty</i>			
returns processed	224	235	235
returns per post	112	118	118
provision per return (\$).....	2,679	2,553	2,553
<i>Hotel accommodation tax</i>			
quarterly returns processed.....	746	777	834
quarterly returns per post.....	124	130	139
provision per quarterly return (\$)	2,413	2,317	2,278
<i>Tax reserve certificates</i>			
purchase/redemption transactions.....	162 000	180 000	188 000
transactions per post	14 727	16 364	18 800
provision per transaction (\$).....	22.2	20.6	19.1

The decrease in the number of estate duty cases finalised is attributable to the fact that no estate duty affidavits or statements need to be filed in respect of persons who passed away on or after 11 February 2006 following the enactment of the Revenue (Abolition of Estate Duty) Ordinance 2005. From 11 February 2006 to the end of March 2007, the Department will provide support services for estate beneficiaries before the Home Affairs Bureau establishes a new unit to take over these services.

Matters Requiring Special Attention in 2006–07

7 During 2006–07, 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:

- implement a workflow management system to automate the distribution of tasks, and control and monitor the flow of work. It will enable effective tracking and monitoring of case actions to ensure that performance targets are met and improve the overall responsiveness to requests from the public;
- continue to promote the use of electronic services;

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- continue to step up efforts to promote taxpayers' voluntary compliance through publicity programmes and enhanced services; and
- assist the Financial Services and the Treasury Bureau in the public consultation on implementation of a Goods and Services Tax.

Programme (2): Collection

	2004–05 (Actual)	2005–06 (Original)	2005–06 (Revised)	2006–07 (Estimate)
Financial provision (\$m)	123.2	129.8	122.9 (–5.3%)	124.3 (+1.1%)
				(or –4.2% on 2005–06 Original)

Aim

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

Brief Description

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

- 10 During 2005–06, the Department continued to promote the use of electronic payment services.

- 11 The key performance measures are:

Targets

	Target	2004–05 (Actual)	2005–06 (Revised Estimate)	2006–07 (Plan)
<i>Tax payment</i>				
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
<i>Refunds of tax</i>				
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

	2004–05 (Actual)	2005–06 (Revised Estimate)	2006–07 (Estimate)
<i>Collection of tax</i>			
payments processed	2 271 000	2 400 000	2 400 000
payments per post	41 291	44 444	45 283
provision per payment (\$).....	9.9	9.6	9.8
<i>Refund of tax</i>			
refunds made	374 000	374 000	374 000
refunds per post	16 261	16 261	16 261
provision per refund (\$).....	19.3	19.3	19.5
<i>Recovery of tax</i>			
completed recovery cases	177 000	176 000	175 000
completed recovery cases per post	588	591	591
provision per completed recovery case (\$).....	484.2	483.5	491.4

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Matters Requiring Special Attention in 2006–07

12 During 2006–07, the Department will continue to promote the use of electronic services for payment of tax.

Programme (3): Investigation and Field Audit

	2004–05 (Actual)	2005–06 (Original)	2005–06 (Revised)	2006–07 (Estimate)
Financial provision (\$m)	162.8	167.2	163.6 (–2.2%)	166.7 (+1.9%)
				(or –0.3% on 2005–06 Original)

Aim

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

Brief Description

14 The work involves:

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

15 In 2005–06, the Department continued its determined efforts to combat tax evasion and counter tax avoidance schemes. A computer-assisted risk-based case selection programme has been utilised to enable more efficient and sophisticated selection of cases for audit and investigation.

16 The key performance measures are:

Target

	Target	2004–05 (Actual)	2005–06 (Revised Estimate)	2006–07 (Plan)
<i>Tax audit and investigation</i>				
complete processing of field audit and tax investigation cases within two years (%).....	80	88.3	85.0	85.0

Indicators

	2004–05 (Actual)	2005–06 (Revised Estimate)	2006–07 (Estimate)
<i>Field audit and tax investigation</i>			
cases completed	1 863	1 860	1 860
back tax and penalty assessed (\$m)	2,828φ	2,100	2,100
cases per post	6.9	6.9	6.9
provision per case (\$)	86,903	87,473	89,140
back tax and penalty per case (\$m)	1.5	1.1	1.1
back tax and penalty per post (\$m)	10.5	7.8	7.8
back tax and penalty per dollar of provision (\$)	17.5	12.9	12.7
<i>Property tax compliance check</i>			
cases completed	4 600	10 500§	18 000§
back tax assessed (\$m)	23.3	39.5	45.5
cases per post	1 533	3 500	6 000
provision per case (\$)	195.7	85.7	50.0
back tax per case (\$)	5,065	3,762	2,528
back tax per post (\$m)	7.8	13.2	15.2
back tax per dollar of provision (\$)	25.9	43.9	50.6

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- φ The high level of back tax and penalty assessed was mainly due to the Department's successful crackdown on major tax avoidance schemes towards the end of 2004–05.
- § The increase in the number of completed property tax compliance check cases is due to the automation of the work process since the end of 2005 and the expansion of coverage of the compliance check.

Matters Requiring Special Attention in 2006–07

17 During 2006–07, the Department will continue to combat tax evasion and step up various initiatives in tackling tax avoidance.

Programme (4): Taxpayer Services

	2004–05 (Actual)	2005–06 (Original)	2005–06 (Revised)	2006–07 (Estimate)
Financial provision (\$m)	19.4	21.6	21.2 (–1.9%)	19.9 (–6.1%)
				(or –7.9% on 2005–06 Original)

Aim

18 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

19 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.

20 In May 2005, the Department extended telephone enquiry service 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. The aged Interactive Voice Response System was replaced in February 2006 to enhance reliability and efficiency in delivering telephone enquiry service to the public.

21 The key performance measures are:

Targets

	Target	2004–05 (Actual)	2005–06 (Revised Estimate)	2006–07 (Plan)
<i>Enquiry service centre</i>				
waiting time for over-the-counter enquiry service not to exceed ten minutes				
during peak hours (%).....	95	98.9	98.0	98.0
outside peak hours (%).....	99	100.0	99.0	99.0
connected telephone calls answered within three minutes				
July to April (%).....	90	97.7	95.0	95.0
May to June (%).....	80	83.7	84.0	84.0
<i>Complaints</i>				
interim reply within ten working days (%).....	99	100.0	99.0	99.0
substantial reply within 18 working days (%).....	99	100.0	99.0	99.0

Indicators

	2004–05 (Actual)	2005–06 (Revised Estimate)	2006–07 (Estimate)
<i>Over-the-counter enquiry service</i>			
enquiries	395 000	410 000	410 000
enquiries processed per post.....	12 742	13 226	13 226
<i>Telephone enquiry service</i>			
enquiries	1 358 000	1 360 000	1 360 000
enquiries processed per post.....	42 438	42 500	42 500

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	2004–05 (Actual)	2005–06 (Revised Estimate)	2006–07 (Estimate)
<i>Complaints</i>			
complaints processed	404	430	430
complaints processed per post	101	108	108

Matters Requiring Special Attention in 2006–07

22 During 2006–07, the Department will continue to deliver quality customer services and 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	2004–05 (Actual) (\$m)	2005–06 (Original) (\$m)	2005–06 (Revised) (\$m)	2006–07 (Estimate) (\$m)
(1) Assessing Functions.....	773.8	868.2	787.3	876.1
(2) Collection.....	123.2	129.8	122.9	124.3
(3) Investigation and Field Audit.....	162.8	167.2	163.6	166.7
(4) Taxpayer Services.....	19.4	21.6	21.2	19.9
	1,079.2	1,186.8	1,095.0 (–7.7%)	1,187.0 (+8.4%)

**(or comparable with
2005–06 Original)**

Analysis of Financial and Staffing Provision

Programme (1)

Provision for 2006–07 is \$88.8 million (11.3%) higher than the revised estimate for 2005–06. This is mainly due to the provision for possible increase in expenditure on interest on tax reserve certificates, filling of vacant posts and salary increments for staff, partly offset by the net deletion of 23 posts in 2006–07.

Programme (2)

Provision for 2006–07 is \$1.4 million (1.1%) higher than the revised estimate for 2005–06. This is mainly due to filling of vacant posts and salary increments for staff, partly offset by the net deletion of three posts in 2006–07 and reduced requirement for general departmental expenses.

Programme (3)

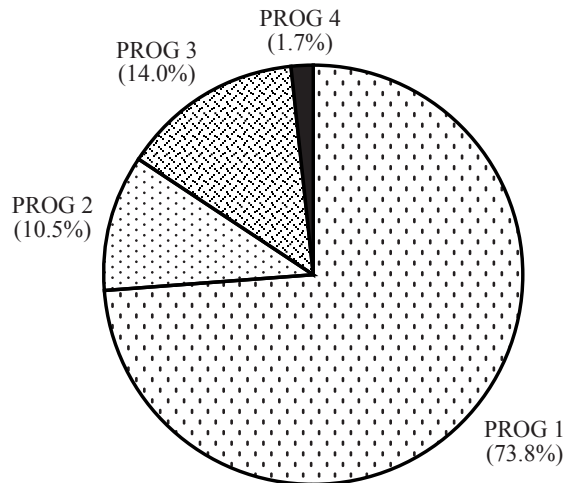
Provision for 2006–07 is \$3.1 million (1.9%) higher than the revised estimate for 2005–06. This is mainly due to filling of vacant posts and salary increments for staff.

Programme (4)

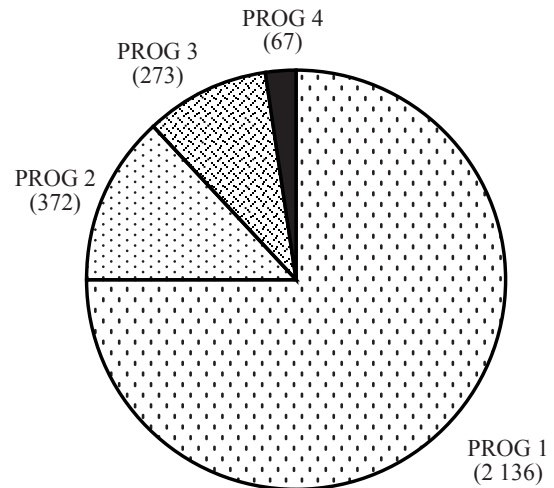
Provision for 2006–07 is \$1.3 million (6.1%) lower than the revised estimate for 2005–06. This is mainly due to the completion of replacement of obsolete systems and equipment, partly offset by filling of vacant posts and salary increments for staff.

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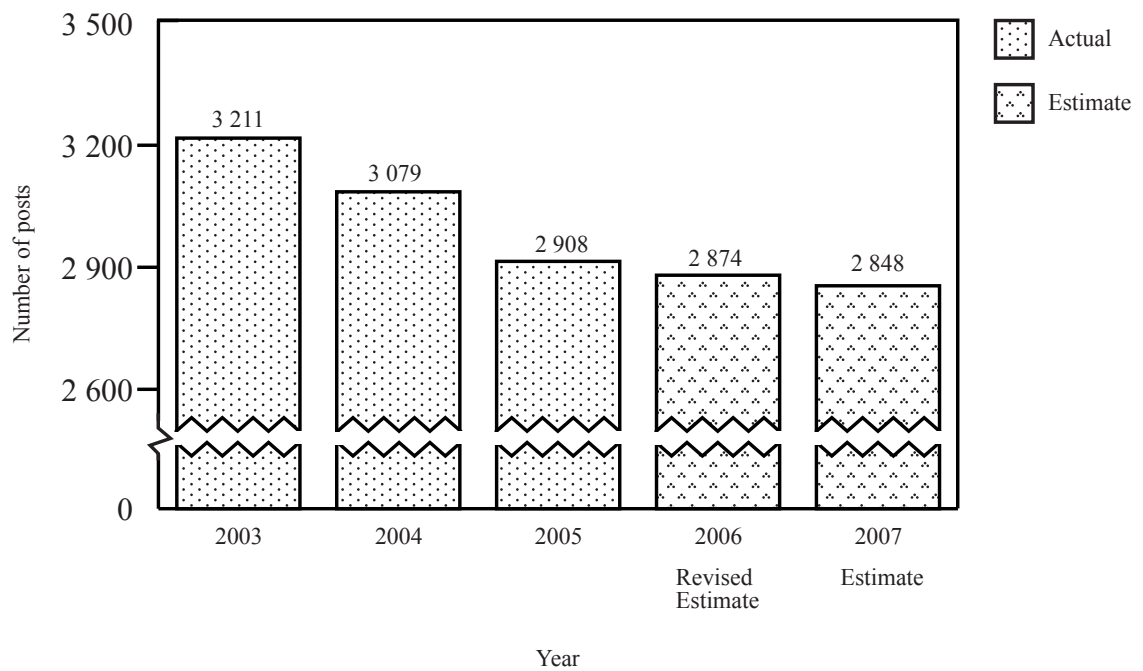
*Allocation of provision
to programmes
(2006-07)*



*Staff by programme
(as at 31 March 2007)*



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



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Sub-head (Code)	Actual expenditure 2004-05	Approved estimate 2005-06	Revised estimate 2005-06	Estimate 2006-07
	\$'000	\$'000	\$'000	\$'000
Operating Account				
Recurrent				
000 Operational expenses	1,066,119	1,087,093	1,051,507	1,069,384
189 Interest on tax reserve certificates	4,996	89,726	33,726	110,200
209 Special legal expenses	7,922	7,700	7,500	7,450
Total, Recurrent.....	1,079,037	1,184,519	1,092,733	1,187,034
Total, Operating Account.....	1,079,037	1,184,519	1,092,733	1,187,034
Capital Account				
Plant, Equipment and Works				
Minor plant, vehicles and equipment (block vote)	211	2,267	2,267	—
Total, Plant, Equipment and Works	211	2,267	2,267	—
Total, Capital Account	211	2,267	2,267	—
Total Expenditure.....	1,079,248	1,186,786	1,095,000	1,187,034

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Details of Expenditure by Subhead

The estimate of the amount required in 2006–07 for the salaries and expenses of the Inland Revenue Department is \$1,187,034,000. This represents an increase of \$92,034,000 over the revised estimate for 2005–06 and of \$107,786,000 over actual expenditure in 2004–05.

Operating Account

Recurrent

2 Provision of \$1,069,384,000 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 2006 will be 2 874 permanent posts. It is expected that there will be a net deletion of 26 permanent posts in 2006–07. Subject to certain conditions, the controlling officer may under delegated power create or delete non-directorate posts during 2006–07, but the notional annual mid-point salary value of all such posts must not exceed \$704,285,000.

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

	2004–05 (Actual) (\$'000)	2005–06 (Original) (\$'000)	2005–06 (Revised) (\$'000)	2006–07 (Estimate) (\$'000)
Personal Emoluments				
- Salaries	946,598	941,539	908,672	926,253
- Allowances	9,988	8,321	9,868	9,868
- Job-related allowances	9	27	—	27
Personnel Related Expenses				
- Mandatory Provident Fund contribution	842	931	821	600
- Civil Service Provident Fund contribution	—	—	18	252
Departmental Expenses				
- General departmental expenses	108,682	136,275	132,128	132,384
	<u>1,066,119</u>	<u>1,087,093</u>	<u>1,051,507</u>	<u>1,069,384</u>

5 Provision of \$110,200,000 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 \$76,474,000 (226.8%) over the revised estimate for 2005–06 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 2006–07.

6 Provision of \$7,450,000 under *Subhead 209 Special legal expenses* is for expenditure on court fees in connection with the registration of writs.