

## Head 76 — INLAND REVENUE DEPARTMENT

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

**Estimate 2007–08** ..... **\$1,179.0m**

**Establishment ceiling 2007–08** (notional annual mid-point salary value) representing an estimated 2 823 non-directorate posts as at 31 March 2007 reducing by 30 posts to 2 793 posts as at 31 March 2008..... **\$694.6m**

In addition, there will be an estimated 25 directorate posts as at 31 March 2007 and as at 31 March 2008.

### 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

	2005–06 (Actual)	2006–07 (Original)	2006–07 (Revised)	2007–08 (Estimate)
Financial provision (\$m)	759.2	876.1	758.7 (–13.4%)	875.3 (+15.4%)
				(or –0.1% on 2006–07 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 in respect of persons who passed away before 11 February 2006, following the enactment of the Revenue (Abolition of Estate Duty) Ordinance 2005;
- 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 2006–07, the Department continued to enhance the quality and efficiency of its services through wider use of information technology (IT), re-engineering of work processes and streamlining of procedures. A workflow management system was implemented in September 2006 together with an expansion of the document management system to automate the distribution of tasks, and to control and monitor the flow of work. It facilitates the effective tracking and monitoring of case actions to ensure attainment of performance targets and improve the overall responsiveness to requests from the public.

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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 make use of its website and a 24-hour fax system to provide a series of electronic seminars and a wide range of information for employers, individuals and tax representatives. It commenced the development of a computer project in 2006–07, to be completed in early 2009, on the setting up of a taxpayer portal to assist taxpayers in complying with their tax obligations and to enable them to access a wide range of personalised e-services through a single entry point.

6 The key performance measures are:

### *Targets*

	Target	2005–06 (Actual)	2006–07 (Revised Estimate)	<b>2007–08 (Plan)</b>
<i>Written enquiries</i>				
replies to simple enquiries within seven working days (%)§ .....	95#	100Ω	95	<b>95</b>
replies to technical enquiries within 21 working days (%)§ .....	98.0	99.9	99.0	<b>99.0</b>
<i>Processing of returns</i>				
assessments made within nine months				
profits tax				
business (%).....	80.0	86.5	85.0	<b>85.0</b>
individuals (%).....	96.0	99.2	98.0	<b>98.0</b>
salaries tax (%) .....	96.0	99.2	98.0	<b>98.0</b>
property tax (%).....	96.0	98.5	98.0	<b>98.0</b>
personal assessment (%) .....	96.0	99.2	98.0	<b>98.0</b>
<i>Tax returns for first-time taxpayers</i>				
profits tax				
tax returns issued for chargeable cases within three months (%) .....	98	100	98	<b>98</b>
salaries tax				
tax returns issued for taxable cases				
April to November— within three months (%) .....	98	100	99	<b>99</b>
December to March— within five months (%) .....	98	100	99	<b>99</b>
<i>Company deregistration</i>				
processing of requests for issuance of Notice of No Objection by the Commissioner of Inland Revenue within 21 working days (%)§ .....	98	100	98	<b>98</b>
<i>Tax reserve certificates</i>				
purchase/redemption transactions completed				
January to June—within 12 working days (%)§ .....	98	100	99	<b>99</b>
July to December—within nine working days (%)§.....	98	100	99	<b>99</b>
<i>Notices of objection</i>				
acknowledgements made				
May to August—within 12 working days (%)§ .....	98.0	99.8	99.0	<b>99.0</b>
September to April—within 18 working days (%)§ .....	98.0	99.8	99.0	<b>99.0</b>
notices of settlement/notifications of decision issued within four months (%) .....	98.0	99.9	99.0	<b>99.0</b>
<i>Tax holdover claims</i>				
replies made within 12 working days (%)§ .....	98	100	99	<b>99</b>

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	Target	2005–06 (Actual)	2006–07 (Revised Estimate)	<b>2007–08 (Plan)</b>
<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 five working days (%)§ .....	98.0	99.3	99.0	<b>99.0</b>
contract notes/lease agreements stamped on the day submitted (%) .....	98.0	99.9	99.0	<b>99.0</b>
claims for exemption in respect of intra-group transfers processed within three months (%) .....	85	93	90	<b>90</b>
<i>Business registration</i>				
new business registration certificates applications over the counter issued within 30 minutes (%) .....	99	100	99	<b>99</b>
applications by post or through the Electronic Service Delivery Scheme issued within two working days (%) .....	99	100	99	<b>99</b>
certified extracts of information issued within the next working day (%) .....	99	100	99	<b>99</b>
change of business registration particulars				
notifications over the counter updated within 30 minutes (%) .....	97	100	99	<b>99</b>
notifications by post or through the Electronic Service Delivery Scheme updated within five working days (%)§ .....	99	100	99	<b>99</b>

§ The target processing time has been revised since 1 July 2006 due to the implementation of the five-day week.

# Improvement over the previous target of 99% within ten working days as from 2006–07.

Ω Against the previous target of 99% within ten working days.

### *Indicators*

	2005–06 (Actual)	2006–07 (Revised Estimate)	<b>2007–08 (Estimate)</b>
<i>Profits tax</i>			
assessments made .....	381 000	390 000	<b>392 000</b>
assessments per post .....	723	747	<b>747</b>
provision per assessment (\$) .....	518.9	515.9	<b>530.1</b>
<i>Salaries tax</i>			
assessments made .....	2 051 000	2 100 000	<b>2 100 000</b>
assessments per post .....	2 136	2 211	<b>2 213</b>
provision per assessment (\$) .....	148.6	143.2	<b>147.7</b>
<i>Property tax</i>			
assessments made .....	494 000	494 000	<b>494 000</b>
assessments per post .....	2 642	2 699	<b>2 699</b>
provision per assessment (\$) .....	124.3	125.3	<b>128.5</b>
<i>Personal assessment</i>			
assessments made .....	307 000	315 000	<b>315 000</b>
assessments per post .....	2 291	2 368	<b>2 368</b>
provision per assessment (\$) .....	145.9	146.0	<b>150.2</b>
<i>Objections and appeals</i>			
objections and appeals processed .....	798	810	<b>810</b>
objections and appeals per post .....	32	32	<b>32</b>
provision per objection or appeal (\$) .....	23,308	23,210	<b>23,704</b>

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	2005–06 (Actual)	2006–07 (Revised Estimate)	2007–08 (Estimate)
<i>Business registration</i>			
business registration certificates (new and renewal)			
certificates issued .....	796 000	796 000	<b>820 000</b>
certificates per post.....	6 368	6 368	<b>6 560</b>
provision per certificate (\$) .....	48.6	50.0	<b>51.2</b>
extracts of information			
extracts issued .....	252 000	260 000	<b>260 000</b>
extracts per post.....	8 690	8 966	<b>8 966</b>
provision per extract (\$) .....	31.0	30.8	<b>31.5</b>
<i>Stamp duty</i>			
documents stamped .....	1 331 000	1 350 000	<b>1 350 000</b>
stamped documents per post.....	12 922	13 500	<b>13 636</b>
provision per stamped document (\$) .....	25.4	25.3	<b>25.9</b>
<i>Estate duty</i>			
cases finalised.....	17 000	7 600¶	<b>3 500¶</b>
cases per post.....	340	152@	<b>184@</b>
provision per case (\$) .....	1,047	2,289@	<b>2,257@</b>
<i>Betting duty</i>			
returns processed .....	234	239	<b>248</b>
returns per post.....	117	120	<b>124</b>
provision per return (\$) .....	2,137	2,510	<b>2,419</b>
<i>Hotel accommodation tax</i>			
quarterly returns processed.....	784	858	<b>914</b>
quarterly returns per post.....	131	143	<b>152</b>
provision per quarterly return (\$) .....	2,041	1,981	<b>1,969</b>
<i>Tax reserve certificates</i>			
purchase/redemption transactions.....	178 000	180 000	<b>180 000</b>
transactions per post .....	16 182	18 000	<b>18 000</b>
provision per transaction (\$).....	19.1	18.9	<b>19.4</b>

¶ 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 with the Department 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. Notwithstanding this, the Department will continue to provide support services for estate beneficiaries before the Home Affairs Department takes over these services from 1 April 2007 onwards.

@ The decrease in the number of cases per post and the increase in provision per case are mainly due to the need to provide support services for estate beneficiaries after the abolition of estate duty in 2006–07, and clear the outstanding complicated cases and litigation cases in 2007–08.

### *Matters Requiring Special Attention in 2007–08*

7 During 2007–08, maintenance of the yield from taxes and the development of IT opportunities will be matters of high priority. The Department will:

- continue to set up a taxpayer portal to provide a single entry point for taxpayers to access a wide range of personalised e-services;
- continue to promote the use of electronic services;
- 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 drawing up a final report of the public consultation on tax reform.

### **Programme (2): Collection**

	2005–06 (Actual)	2006–07 (Original)	2006–07 (Revised)	2007–08 (Estimate)
Financial provision (\$m)	116.6	124.3	117.5 (–5.5%)	<b>121.1</b> (+3.1%)
				(or –2.6% on 2006–07 Original)

## Head 76 — INLAND REVENUE DEPARTMENT

### 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 2006–07, the Department continued to promote the use of electronic services for tax payment.

11 The key performance measures are:

#### Targets

	Target	2005–06 (Actual)	2006–07 (Revised Estimate)	2007–08 (Plan)
<i>Tax payment</i>				
receipts issued for tax payments made by electronic means				
July to November—within four working days (%).....	99Δ	100	99	<b>99</b>
December to June—within six working days (%)§.....	99Δ	100	99	<b>99</b>
<i>Refund of tax</i>				
arising from overpayment of tax in excess of the amount demanded within 21 working days (%)§ .....	98.0	99.8	98.0	<b>98.0</b>
arising from revision of assessment within 21 working days (%)§ .....	98	100	99	<b>99</b>

Δ Improvement over the previous targets of 98% as from 2007–08.

§ The target processing time has been revised since 1 July 2006 due to the implementation of the five-day week.

#### Indicators

	2005–06 (Actual)	2006–07 (Revised Estimate)	2007–08 (Estimate)
<i>Collection of tax</i>			
payments processed.....	2 402 000	2 450 000	<b>2 520 000</b>
payments per post.....	44 481	46 226	<b>47 547</b>
provision per payment (\$) .....	8.8	8.7	<b>8.9</b>
<i>Refund of tax</i>			
refunds made .....	379 000	390 000	<b>390 000</b>
refunds per post .....	16 478	16 957	<b>16 957</b>
provision per refund (\$).....	17.4	17.7	<b>18.2</b>
<i>Recovery of tax</i>			
completed recovery cases .....	178 000	177 000	<b>177 000</b>
completed recovery cases per post .....	597	598	<b>600</b>
provision per completed recovery case (\$).....	459.0	464.4	<b>476.8</b>

### Matters Requiring Special Attention in 2007–08

12 During 2007–08, the Department will continue to promote the use of electronic services for tax payment.

### Programme (3): Investigation and Field Audit

	2005–06 (Actual)	2006–07 (Original)	2006–07 (Revised)	2007–08 (Estimate)
Financial provision (\$m)	157.2	166.7	158.8 (–4.7%)	<b>163.2</b> (+2.8%)

(or –2.1% on  
2006–07 Original)

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### *Aim*

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

### *Brief Description*

14 This programme 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 promotion of voluntary compliance with taxation requirements; and
- audit on tax avoidance cases and rejection of unacceptable avoidance schemes so as to uphold the tax base of Hong Kong.

15 In 2006–07, the Department continued its determined efforts to combat tax evasion and counter tax avoidance schemes.

16 The key performance measures are:

### *Target*

	Target	2005–06 (Actual)	2006–07 (Revised Estimate)	2007–08 (Plan)
<i>Tax audit and investigation</i>				
field audit and tax investigation cases processed within two years (%) .....	80.0	86.9	85.0	<b>85.0</b>

### *Indicators*

	2005–06 (Actual)	2006–07 (Revised Estimate)	2007–08 (Estimate)
<i>Field audit and tax investigation</i>			
cases completed.....	1 873	1 860	<b>1 860</b>
back tax and penalty assessed (\$m) .....	2,118.3	2,100.0	<b>2,100.0</b>
cases per post.....	6.9	6.9	<b>6.9</b>
provision per case (\$) .....	83,502	84,892	<b>87,204</b>
back tax and penalty per case (\$m) .....	1.1	1.1	<b>1.1</b>
back tax and penalty per post (\$m).....	7.8	7.8	<b>7.7</b>
back tax and penalty per dollar of provision (\$).....	13.5	13.3	<b>12.9</b>
<i>Property tax compliance check</i>			
cases completed.....	10 294	18 000 $\beta$	<b>35 000<math>\beta</math></b>
back tax assessed (\$m) .....	40.9	25.8 $\beta$	<b>33.0<math>\beta</math></b>
cases per post.....	3 431	4 500	<b>8 750</b>
provision per case (\$) .....	77.7	50.0	<b>28.6</b>
back tax per case (\$).....	3,968	1,433	<b>943</b>
back tax per post (\$m).....	13.6	6.5	<b>8.3</b>
back tax per dollar of provision (\$).....	51.1	28.7	<b>33.0</b>

$\beta$  The increase in the number of cases completed is made possible with the automation of the checking process since the end of 2005 and the expansion of the coverage of compliance check. These measures allow more frequent checking and early detection of incorrect reporting of income. As a result, compliance is expected to improve with a decrease in back tax assessed.

### *Matters Requiring Special Attention in 2007–08*

17 During 2007–08, the Department will continue to combat tax evasion and step up various initiatives in tackling tax avoidance.

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### Programme (4): Taxpayer Services

	2005–06 (Actual)	2006–07 (Original)	2006–07 (Revised)	<b>2007–08 (Estimate)</b>
Financial provision (\$m)	20.8	19.9	19.0 (–4.5%)	<b>19.4</b> (+2.1%)
				(or –2.5% on 2006–07 Original)

#### Aim

**18** The aim is to provide a high level and quality of service to the public through the provision of timely and accurate advice, thereby promoting voluntary tax compliance.

#### Brief Description

**19** This programme involves the provision of telephone and over-the-counter enquiry services, and the investigation of complaints made by members of the public.

**20** In May 2006, the Department extended the 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.

**21** The key performance measures are:

#### Targets

	Target	2005–06 (Actual)	2006–07 (Revised Estimate)	<b>2007–08 (Plan)</b>
<i>Enquiry service centre</i>				
waiting time for over-the-counter enquiry service not to exceed ten minutes				
during peak hours (%).....	95.0	98.7	98.0	<b>98.0</b>
outside peak hours (%).....	99	100	99	<b>99</b>
connected telephone calls answered within three minutes				
July to April (%).....	90.0	97.2	95.0	<b>95.0</b>
May to June (%).....	80.0	89.1	84.0	<b>84.0</b>
<i>Complaints</i>				
interim reply within seven working days (%)§ .....	99	100Ψ	99	<b>99</b>
substantial reply within 15 working days (%)§ .....	99.0	99.8	99.0	<b>99.0</b>

§ The target processing time has been revised since 1 July 2006 due to the implementation of the five-day week.

Ψ Against the previous target of 99% within ten working days.

#### Indicators

	2005–06 (Actual)	2006–07 (Revised Estimate)	<b>2007–08 (Estimate)</b>
<i>Over-the-counter enquiry service</i>			
enquiries .....	402 000	402 000	<b>402 000</b>
enquiries processed per post.....	12 968	12 968	<b>12 968</b>
<i>Telephone enquiry service</i>			
enquiries .....	1 328 000	1 340 000	<b>1 340 000</b>
enquiries processed per post.....	41 500	41 875	<b>41 875</b>
<i>Complaints</i>			
complaints processed.....	410	450	<b>450</b>
complaints processed per post.....	103	113	<b>113</b>

#### Matters Requiring Special Attention in 2007–08

**22** During 2007–08, the Department will continue to deliver quality customer service and promote the use of electronic services, through which taxpayers can file tax returns, notify the changes of postal address, lodge requests for documents and obtain their personal tax information.

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### ANALYSIS OF FINANCIAL PROVISION

<b>Programme</b>	2005-06 (Actual) (\$m)	2006-07 (Original) (\$m)	2006-07 (Revised) (\$m)	2007-08 (Estimate) (\$m)
(1) Assessing Functions.....	759.2	876.1	758.7	875.3
(2) Collection.....	116.6	124.3	117.5	121.1
(3) Investigation and Field Audit.....	157.2	166.7	158.8	163.2
(4) Taxpayer Services.....	20.8	19.9	19.0	19.4
	1,053.8	1,187.0	1,054.0 (-11.2%)	1,179.0 (+11.9%)
				(or -0.7% on 2006-07 Original)

#### Analysis of Financial and Staffing Provision

##### Programme (1)

Provision for 2007-08 is \$116.6 million (15.4%) higher than the revised estimate for 2006-07. This is mainly due to the provision for possible increase in expenditure on interest on tax reserve certificates, filling of vacant posts, salary increments for staff and increased requirement for general departmental expenses, partly offset by the net deletion of 30 posts in 2007-08.

##### Programme (2)

Provision for 2007-08 is \$3.6 million (3.1%) higher than the revised estimate for 2006-07. This is mainly due to filling of vacant posts, salary increments for staff and increased requirement for general departmental expenses, partly offset by the deletion of one post in 2007-08.

##### Programme (3)

Provision for 2007-08 is \$4.4 million (2.8%) higher than the revised estimate for 2006-07. This is mainly due to filling of vacant posts, salary increments for staff and increased requirement for general departmental expenses. In addition, one post will be created in 2007-08.

##### Programme (4)

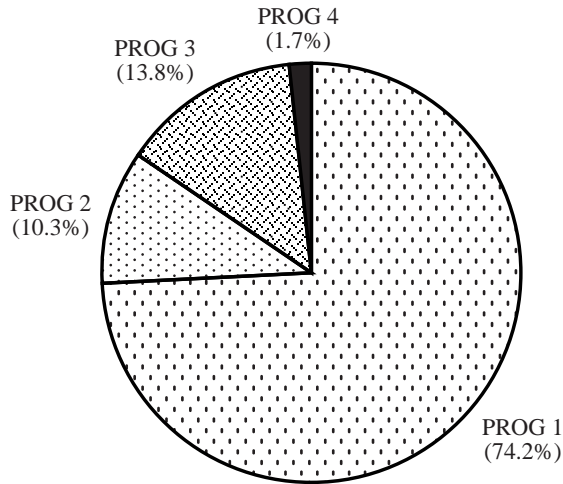
Provision for 2007-08 is \$0.4 million (2.1%) higher than the revised estimate for 2006-07. This is mainly due to filling of vacant posts and salary increments for staff.



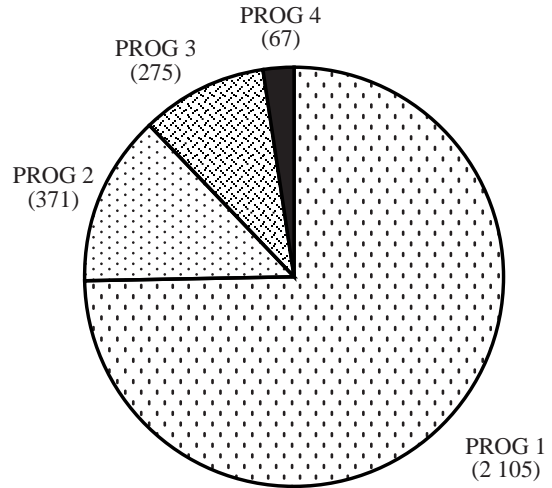
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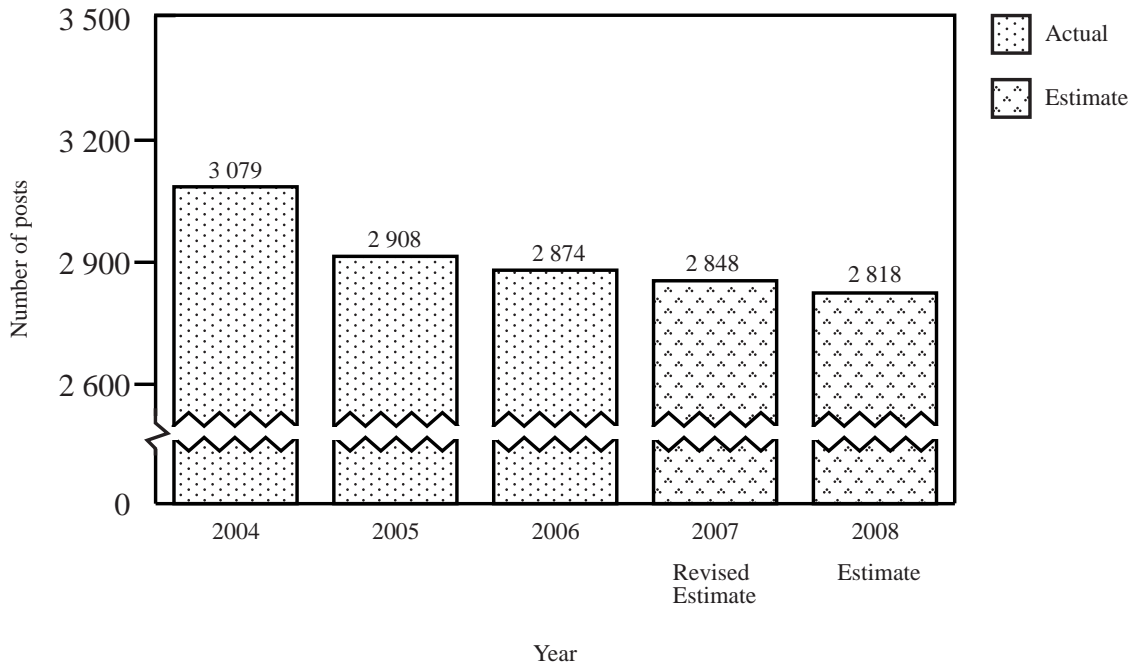
*Allocation of provision  
to programmes  
(2007-08)*



*Staff by programme  
(as at 31 March 2008)*



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



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Sub-head (Code)	Actual expenditure 2005-06	Approved estimate 2006-07	Revised estimate 2006-07	<b>Estimate 2007-08</b>	
	\$'000	\$'000	\$'000	<b>\$'000</b>	
<b>Operating Account</b>					
Recurrent					
000	Operational expenses.....	1,016,511	1,069,384	1,020,812	<b>1,043,558</b>
189	Interest on tax reserve certificates .....	28,364	110,200	25,000	<b>128,270</b>
209	Special legal expenses .....	7,250	7,450	7,200	<b>7,203</b>
	Total, Recurrent .....	<u>1,052,125</u>	<u>1,187,034</u>	<u>1,053,012</u>	<b><u>1,179,031</u></b>
	Total, Operating Account.....	<u>1,052,125</u>	<u>1,187,034</u>	<u>1,053,012</u>	<b><u>1,179,031</u></b>
<b>Capital Account</b>					
Plant, Equipment and Works					
	Minor plant, vehicles and equipment (block vote) .....	1,719	—	1,030	—
	Total, Plant, Equipment and Works .....	<u>1,719</u>	<u>—</u>	<u>1,030</u>	<u>—</u>
	Total, Capital Account .....	<u>1,719</u>	<u>—</u>	<u>1,030</u>	<u>—</u>
	Total Expenditure.....	<u><u>1,053,844</u></u>	<u><u>1,187,034</u></u>	<u><u>1,054,042</u></u>	<b><u><u>1,179,031</u></u></b>

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### Details of Expenditure by Subhead

The estimate of the amount required in 2007–08 for the salaries and expenses of the Inland Revenue Department is \$1,179,031,000. This represents an increase of \$124,989,000 over the revised estimate for 2006–07 and of \$125,187,000 over actual expenditure in 2005–06.

#### *Operating Account*

#### Recurrent

**2** Provision of \$1,043,558,000 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 2007 will be 2 848 permanent posts. It is expected that there will be a net deletion of 30 permanent posts in 2007–08. Subject to certain conditions, the controlling officer may under delegated power create or delete non-directorate posts during 2007–08, but the notional annual mid-point salary value of all such posts must not exceed \$694,608,000.

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

	2005–06 (Actual) (\$'000)	2006–07 (Original) (\$'000)	2006–07 (Revised) (\$'000)	2007–08 (Estimate) (\$'000)
Personal Emoluments				
- Salaries.....	888,828	926,253	881,536	<b>895,366</b>
- Allowances.....	8,171	9,868	6,999	<b>7,675</b>
- Job-related allowances.....	—	27	1	<b>27</b>
Personnel Related Expenses				
- Mandatory Provident Fund contribution.....	697	600	524	<b>807</b>
- Civil Service Provident Fund contribution.....	12	252	149	<b>713</b>
Departmental Expenses				
- General departmental expenses.....	118,803	132,384	131,603	<b>138,970</b>
	1,016,511	1,069,384	1,020,812	<b>1,043,558</b>

**5** Provision of \$128,270,000 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 \$103,270,000 (413.1%) over the revised estimate for 2006–07 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 2007–08.

**6** Provision of \$7,203,000 under *Subhead 209 Special legal expenses* is for expenditure on court fees in connection with the registration of writs.