

## Head 76 — INLAND REVENUE DEPARTMENT

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

**Estimate 2012–13**..... **\$1,375.9m**

**Establishment ceiling 2012–13** (notional annual mid-point salary value) representing an estimated 2 792 non-directorate posts as at 31 March 2012 and as at 31 March 2013 ..... **\$876.3m**

In addition, there will be an estimated 26 directorate posts as at 31 March 2012 and as at 31 March 2013.

### Controlling Officer's Report

#### Programmes

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

##### Programme (1): Assessing Functions

	2010–11 (Actual)	2011–12 (Original)	2011–12 (Revised)	<b>2012–13 (Estimate)</b>
Financial provision (\$m)	826.1	949.4	913.3 (–3.8%)	<b>1,010.5</b> (+10.6%)
				(or +6.4% on 2011–12 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 (Cap. 112) 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; and
- issuing and redeeming tax reserve certificates.

4 In 2011–12, the Department continued to enhance the quality and efficiency of its services through a wider use of information technology (IT), re-engineering of work processes and streamlining of procedures. Under eTAX at GovHK, individual taxpayers can file tax returns, obtain personal tax information, notify changes of personal particulars as well as lodge requests for revision of assessment electronically. They may also select to receive notices and documents related to tax return filing, assessment and tax payment in an electronic form. Small corporations and partnerships can file profits tax returns online. Starting from August 2011, employers can file various notifications in respect of employees under eTAX.

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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 comprehensive information for employers, individuals, businesses and tax representatives. Information on a wide range of topics is also disseminated to the public through GovHK.

6 The key performance measures are:

### *Targets*

	Target	2010-11 (Actual)	2011-12 (Revised Estimate)	<b>2012-13 (Plan)</b>
<i>Written enquiries</i>				
replies to simple enquiries within seven working days (%).....	95.0	99.9	95.0	<b>95.0</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	89.6	85.0	<b>85.0</b>
individuals (%).....	96.0	98.4	98.0	<b>98.0</b>
salaries tax (%).....	96.0	98.4	98.0	<b>98.0</b>
property tax (%).....	96.0	97.5	97.0	<b>97.0</b>
personal assessment (%).....	96.0	98.4	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 (%).....	98.0	99.9	98.0	<b>98.0</b>
<i>Tax reserve certificates</i>				
purchase/redemption transactions completed				
January to June—within 12 working days (%).....	99	100	99	<b>99</b>
July to December—within nine working days (%).....	99	100	99	<b>99</b>
<i>Notices of objection</i>				
replies made				
May to August—within 12 working days (%).....	98.0	99.9	99.0	<b>99.0</b>
September to April—within 18 working days (%).....	98.0	99.9	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 (%).....	98.0	99.9	99.0	<b>99.0</b>

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	Target	2010-11 (Actual)	2011-12 (Revised Estimate)	<b>2012-13 (Plan)</b>
<i>Stamping of documents</i>				
stamping of assignments, sale and purchase agreements and lease agreements through GovHK issued instantly through GovHK after receipt of stamp duty payment by online mode (%) .....	98	100	99	<b>99</b>
issued within two working days through GovHK after receipt of stamp duty payment by off-line mode (%) .....	98.0	99.9	99.0	<b>99.0</b>
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	99.9	99.0	<b>99.0</b>
contract notes/lease agreements stamped on the day submitted (%) .....	98.0	99.7	99.0	<b>99.0</b>
claims for exemption in respect of intra-group transfers processed within three months (%).....	85.0	99.4	90.0	<b>90.0</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 GovHK 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 GovHK updated within five working days (%).....	99	100	99	<b>99</b>
<i>Indicators</i>				
		2010-11 (Actual)	2011-12 (Revised Estimate)	<b>2012-13 (Estimate)</b>
<i>Profits tax</i>				
assessments made .....		430 000	430 000	<b>430 000</b>
assessments per post .....		798	782	<b>776</b>
provision per assessment (\$).....		525.1	574.9	<b>612.1</b>
<i>Salaries tax</i>				
assessments made .....		2 359 000	2 370 000	<b>2 370 000</b>
assessments per post .....		2 486	2 529	<b>2 535</b>
provision per assessment (\$).....		142.1	149.3	<b>159.3</b>
<i>Property tax</i>				
assessments made .....		543 000	540 000	<b>540 000</b>
assessments per post .....		2 888	2 903	<b>2 888</b>
provision per assessment (\$).....		122.8	131.9	<b>140.9</b>

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	2010–11 (Actual)	2011–12 (Revised Estimate)	2012–13 (Estimate)
<i>Personal assessment</i>			
assessments made .....	340 000	340 000	<b>325 000</b>
assessments per post .....	2 615	2 615	<b>2 539</b>
provision per assessment (\$).....	138.8	148.5	<b>158.5</b>
<i>Objections and appeals</i>			
objections and appeals processed .....	811	810	<b>810</b>
objections and appeals per post .....	32	32	<b>32</b>
provision per objection or appeal (\$).....	23,674	26,296	<b>27,284</b>
<i>Business registration</i>			
business registration certificates (new and renewal)			
certificates issued.....	1 125 000‡	1 090 000‡	<b>1 070 000</b>
certificates per post.....	8 789	8 720	<b>8 629</b>
provision per certificate (\$) .....	40.4	45.6	<b>49.5</b>
extracts of information			
extracts issued.....	339 000	341 000	<b>341 000</b>
extracts per post.....	11 300	11 759	<b>11 759</b>
provision per extract (\$) .....	28.3	30.8	<b>32.8</b>
<i>Stamp duty</i>			
documents stamped.....	1 955 000	1 900 000	<b>1 900 000</b>
stamped documents per post .....	19 747	17 593	<b>17 593</b>
provision per stamped document (\$).....	18.9	22.7	<b>24.1</b>
<i>Estate duty</i>			
cases finalised .....	1 583	1 400	<b>1 400</b>
cases per post.....	528	467	<b>467</b>
provision per case (\$) .....	884	1,143	<b>1,214</b>
<i>Betting duty</i>			
returns processed .....	267	264	<b>256</b>
returns per post .....	134	132	<b>128</b>
provision per return (\$).....	2,247	2,652	<b>2,734</b>
<i>Tax reserve certificates</i>			
purchase/redemption transactions .....	175 000	175 000	<b>175 000</b>
transactions per post .....	17 500	17 500	<b>17 500</b>
provision per transaction (\$).....	18.3	20.6	<b>21.7</b>

‡ The higher number of business registration applications and renewals was due to the waiver of business registration fee for the period from 1 April 2010 to 31 July 2011.

### **Matters Requiring Special Attention in 2012–13**

7 During 2012–13, the maintenance of yield from taxes and the development of IT opportunities will continue to be matters of high priority. The Department will:

- continue to step up efforts to promote taxpayers' voluntary compliance through publicity programmes and enhanced services; and
- promote the use of electronic services and expand the scope of eTAX services to implement electronic filing of annual employer's returns.

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

	2010–11 (Actual)	2011–12 (Original)	2011–12 (Revised)	2012–13 (Estimate)
Financial provision (\$m)	129.1	136.7	138.9 (+1.6%)	<b>147.6</b> (+6.3%)

(or +8.0% on  
2011–12 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.

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10 During 2011–12, the Department continued to promote the use of electronic services for tax payment.

11 The key performance measures are:

### *Targets*

	Target	2010–11 (Actual)	2011–12 (Revised Estimate)	2012–13 (Plan)
<i>Tax payment</i>				
receipts issued for tax payments made by electronic means				
July to November—within four working days (%).....	99	100	99	<b>99</b>
December to June—within six working days (%).....	99	100	99	<b>99</b>
<i>Refund of tax</i>				
arising from overpayment of tax in excess of the amount demanded within 18 working days (%).....	98.0	99.9	98.0	<b>98.0</b>
arising from revision of assessment within 10 working days (%)Ψ.....	98	100	99	<b>99</b>

Ψ The Department has shortened the target period from 12 working days to 10 working days since April 2011.

### *Indicators*

	2010–11 (Actual)	2011–12 (Revised Estimate)	2012–13 (Estimate)
<i>Collection of tax</i>			
payments processed .....	2 637 000	2 690 000	<b>2 690 000</b>
payments per post .....	51 706	53 800	<b>52 745</b>
provision per payment (\$).....	8.9	9.3	<b>9.9</b>
<i>Refund of tax</i>			
refunds made.....	523 000§	500 000§	<b>420 000</b>
refunds per post .....	21 792	20 833	<b>17 500</b>
provision per refund (\$).....	15.7	17.4	<b>21.0</b>
<i>Recovery of tax</i>			
completed recovery cases .....	209 000	210 000	<b>210 000</b>
completed recovery cases per post.....	701	705	<b>705</b>
provision per completed recovery case (\$).....	446.4	479.0	<b>512.4</b>

§ The higher number of refund cases was due to the one-off tax reduction.

### *Matters Requiring Special Attention in 2012–13*

12 During 2012–13, the Department will continue to promote the use of electronic payment services.

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

	2010–11 (Actual)	2011–12 (Original)	2011–12 (Revised)	2012–13 (Estimate)
Financial provision (\$m)	171.5	182.1	183.6 (+0.8%)	<b>194.0</b> (+5.7%)
				(or +6.5% on 2011–12 Original)

### *Aim*

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

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### *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 preserve the tax base of Hong Kong.

**15** In 2011–12, the Department continued its determined effort to combat tax evasion and counter tax avoidance schemes. The computer-assisted risk-based case selection programme was used to facilitate the identification of high-risk cases for audit and investigation.

**16** The key performance measures are:

#### *Target*

	Target	2010–11 (Actual)	2011–12 (Revised Estimate)	<b>2012–13 (Plan)</b>
<i>Tax audit and investigation</i>				
field audit and tax investigation cases processed within two years (%).....	80.0	89.9	85.0	<b>85.0</b>

#### *Indicators*

	2010–11 (Actual)	2011–12 (Revised Estimate)	<b>2012–13 (Estimate)</b>
<i>Field audit and tax investigation</i>			
cases completed .....	1 805	1 800	<b>1 800</b>
back tax and penalty assessed (\$m) .....	3,827.4	6,000.0 <sup>λ</sup>	<b>2,500.0</b>
cases per post.....	6.7	6.7	<b>6.7</b>
provision per case (\$) .....	94,349	101,278	<b>107,056</b>
back tax and penalty per case (\$m).....	2.1	3.3	<b>1.4</b>
back tax and penalty per post (\$m).....	14.2	22.4	<b>9.4</b>
back tax and penalty per dollar of provision (\$).....	22.5	32.9	<b>13.0</b>
<i>Property tax compliance check</i>			
cases completed .....	90 700	102 000 <sup>β</sup>	<b>115 000<sup>β</sup></b>
back tax assessed (\$m).....	46.3	53.0	<b>54.0</b>
cases per post.....	18 140	20 400	<b>23 000</b>
provision per case (\$) .....	13.2	12.7	<b>11.3</b>
back tax per case (\$) .....	510	520	<b>470</b>
back tax per post (\$m) .....	9.3	10.6	<b>10.8</b>
back tax per dollar of provision (\$) .....	38.6	40.8	<b>41.5</b>

<sup>λ</sup> The anticipated amount of back tax and penalty assessed in 2011–12 is exceptionally high due to the settlement of several large tax avoidance cases.

<sup>β</sup> The increase in the number of property tax compliance check cases is due to the anticipated increase in the number of tenancy agreements.

### *Matters Requiring Special Attention in 2012–13*

**17** During 2012–13, the Department will continue to exert determined effort to combat tax evasion and counter tax avoidance schemes.

#### **Programme (4): Taxpayer Services**

	2010–11 (Actual)	2011–12 (Original)	2011–12 (Revised)	<b>2012–13 (Estimate)</b>
Financial provision (\$m)	21.1	22.1	22.6 (+2.3%)	<b>23.8</b> (+5.3%)

(or +7.7% on  
2011–12 Original)

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### *Aim*

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

### *Brief Description*

19 This programme involves the provision of telephone and over-the-counter enquiry services as well as personalised electronic services through the Internet, and the investigation of complaints made by members of the public.

20 In May 2011, 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 from 9:00 a.m. to 1:00 p.m. on Saturday. During peak periods, the Department also redeployed manpower resources and employed part-time staff to strengthen the daytime telephone enquiry service.

21 The key performance measures are:

### *Targets*

	Target	2010–11 (Actual)	2011–12 (Revised Estimate)	2012–13 (Plan)
<i>Enquiry service centre</i>				
waiting time for over-the-counter enquiry service not to exceed ten minutes				
during peak hours (%).....	95.0	99.3	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	93.9	95.0	<b>95.0</b>
May to June (%).....	80.0	90.9	90.9	<b>90.0</b>
<i>Complaints</i>				
interim reply within seven working days (%).....	99	100	99	<b>99</b>
substantial reply within 15 working days (%).....	99	100	99	<b>99</b>
<i>eTAX Account</i>				
access code notices issued for applications through GovHK within two working days (%).....	98	100	98	<b>98</b>
electronic receipts issued for tax payments made by electronic means within two working days (%).....	99	100	99	<b>99</b>

### *Indicators*

	2010–11 (Actual)	2011–12 (Revised Estimate)	2012–13 (Estimate)
<i>Over-the-counter enquiry service</i>			
enquiries .....	374 000	365 000	<b>365 000</b>
enquiries processed per post .....	13 357	13 036	<b>13 036</b>
<i>Telephone enquiry service</i>			
enquiries .....	1 188 000	1 200 000	<b>1 200 000</b>
enquiries processed per post .....	32 108	32 432	<b>32 432</b>
<i>Complaints</i>			
complaints processed .....	292	320	<b>320</b>
complaints processed per post .....	97	107	<b>107</b>

### *Matters Requiring Special Attention in 2012–13*

22 During 2012–13, the Department will continue to deliver quality customer service and promote the use of electronic services through which taxpayers can file tax returns, obtain their personal tax information and documents, notify changes of personal particulars and lodge requests for holdover of tax and revision of assessment.

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**ANALYSIS OF FINANCIAL PROVISION**

<b>Programme</b>	2010–11 (Actual) (\$m)	2011–12 (Original) (\$m)	2011–12 (Revised) (\$m)	<b>2012–13 (Estimate) (\$m)</b>
(1) Assessing Functions .....	826.1	949.4	913.3	<b>1,010.5</b>
(2) Collection .....	129.1	136.7	138.9	<b>147.6</b>
(3) Investigation and Field Audit .....	171.5	182.1	183.6	<b>194.0</b>
(4) Taxpayer Services .....	21.1	22.1	22.6	<b>23.8</b>
	1,147.8	1,290.3	1,258.4 (–2.5%)	<b>1,375.9</b> <b>(+9.3%)</b>
				<b>(or +6.6% on 2011–12 Original)</b>

**Analysis of Financial and Staffing Provision**

**Programme (1)**

Provision for 2012–13 is \$97.2 million (10.6%) higher than the revised estimate for 2011–12. This is mainly due to the provision for possible increase in expenditure on interest on tax reserve certificates, filling of vacancies, salary increments for staff and increase in operating expenses.

**Programme (2)**

Provision for 2012–13 is \$8.7 million (6.3%) higher than the revised estimate for 2011–12. This is mainly due to the filling of vacancies, salary increments for staff and increase in operating expenses.

**Programme (3)**

Provision for 2012–13 is \$10.4 million (5.7%) higher than the revised estimate for 2011–12. This is mainly due to the filling of vacancies, salary increments for staff and increase in operating expenses.

**Programme (4)**

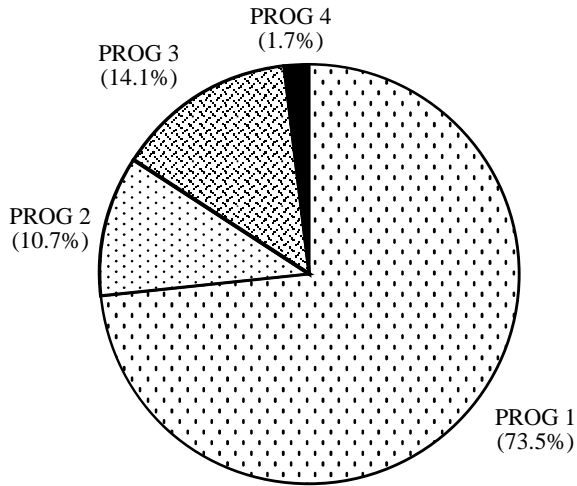
Provision for 2012–13 is \$1.2 million (5.3%) higher than the revised estimate for 2011–12. This is mainly due to the filling of vacancies, salary increments for staff and increase in operating expenses.



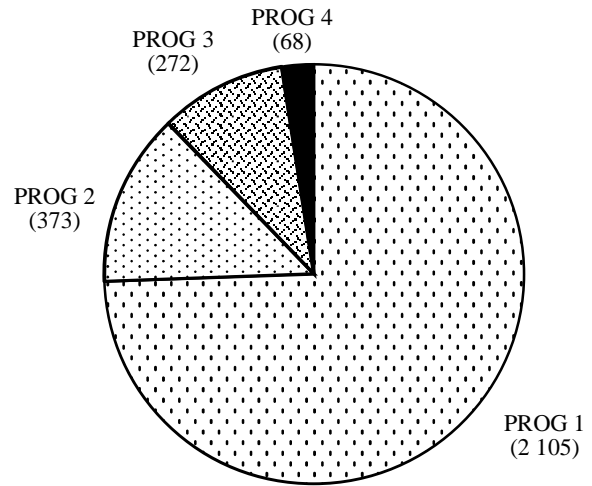
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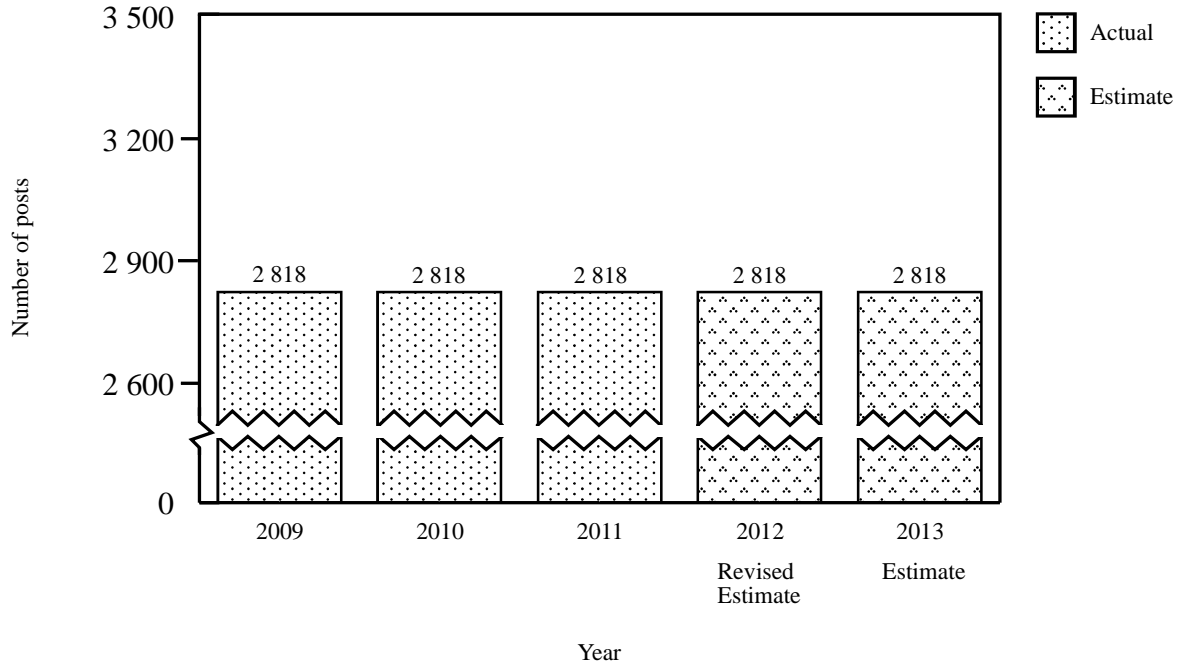
*Allocation of provision  
to programmes  
(2012-13)*



*Staff by programme  
(as at 31 March 2013)*



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



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Sub-head (Code)	Actual expenditure 2010-11	Approved estimate 2011-12	Revised estimate 2011-12	<b>Estimate 2012-13</b>	
	\$'000	\$'000	\$'000	<b>\$'000</b>	
<b>Operating Account</b>					
Recurrent					
000	Operational expenses .....	1,108,838	1,180,836	1,193,720	<b>1,267,169</b>
189	Interest on tax reserve certificates .....	34,934	104,000	60,000	<b>104,000</b>
209	Special legal expenses .....	4,048	5,503	4,703	<b>4,704</b>
	Total, Recurrent .....	<u>1,147,820</u>	<u>1,290,339</u>	<u>1,258,423</u>	<b><u>1,375,873</u></b>
	Total, Operating Account .....	<u>1,147,820</u>	<u>1,290,339</u>	<u>1,258,423</u>	<b><u>1,375,873</u></b>
<hr/>					
	Total Expenditure .....	<u><u>1,147,820</u></u>	<u><u>1,290,339</u></u>	<u><u>1,258,423</u></u>	<b><u><u>1,375,873</u></u></b>

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### Details of Expenditure by Subhead

The estimate of the amount required in 2012–13 for the salaries and expenses of the Inland Revenue Department is \$1,375,873,000. This represents an increase of \$117,450,000 over the revised estimate for 2011–12 and of \$228,053,000 over actual expenditure in 2010–11.

#### Operating Account

##### Recurrent

**2** Provision of \$1,267,169,000 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 2012 will be 2 817 permanent posts and one supernumerary post. No net change in establishment is expected in 2012–13. Subject to certain conditions, the controlling officer may under delegated power create or delete non-directorate posts during 2012–13, but the notional annual mid-point salary value of all such posts must not exceed \$876,279,000.

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

	2010–11 (Actual) (\$'000)	2011–12 (Original) (\$'000)	2011–12 (Revised) (\$'000)	2012–13 (Estimate) (\$'000)
Personal Emoluments				
- Salaries .....	968,074	985,855	1,027,588	<b>1,046,180</b>
- Allowances .....	8,785	13,366	12,297	<b>14,871</b>
- Job-related allowances.....	—	45	20	<b>43</b>
Personnel Related Expenses				
- Mandatory Provident Fund contribution .....	1,923	929	1,765	<b>1,077</b>
- Civil Service Provident Fund contribution .....	4,009	7,674	7,964	<b>11,349</b>
Departmental Expenses				
- General departmental expenses .....	126,047	172,967	144,086	<b>193,649</b>
	1,108,838	1,180,836	1,193,720	<b>1,267,169</b>

**5** Provision of \$104,000,000 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 (Cap. 289). The increase of \$44,000,000 (73.3%) over the revised estimate for 2011–12 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 2012–13.

**6** Provision of \$4,704,000 under *Subhead 209 Special legal expenses* is for expenditure on court fees in connection with the registration of writs for tax recovery.