

Head 76 — INLAND REVENUE DEPARTMENT

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

Estimate 2013–14..... **\$1,432.0m**

Establishment ceiling 2013–14 (notional annual mid-point salary value) representing an estimated 2 792 non-directorate posts as at 31 March 2013 rising by eight posts to 2 800 posts as at 31 March 2014 **\$929.6m**

In addition, there will be an estimated 26 directorate posts as at 31 March 2013 and as at 31 March 2014.

Controlling Officer's Report

Programmes

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

	2011–12 (Actual)	2012–13 (Original)	2012–13 (Revised)	2013–14 (Estimate)
Financial provision (\$m)	848.1	1,010.5	962.3 (-4.8%)	1,045.4 (+8.6%)
				(or +3.5% on 2012–13 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 or 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 2012–13, the Department continued to enhance the quality and efficiency of its services through a wider use of information technology (IT) 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 April 2012, employers can file annual returns in addition to various notifications in respect of their 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	2011–12 (Actual)	2012–13 (Revised Estimate)	2013–14 (Plan)
<i>Written enquiries</i>				
replies to simple enquiries within seven working days (%).....	95.0	99.9	95.0	95.0
replies to technical enquiries within 21 working days (%).....	98.0	99.9	99.0	99.0
<i>Processing of returns</i>				
assessments made within nine months				
profits tax				
business (%).....	80.0	90.2	85.0	85.0
individuals (%).....	96.0	98.7	98.0	98.0
salaries tax (%).....	96.0	98.7	98.0	98.0
property tax (%).....	96.0	97.3	97.0	97.0
personal assessment (%).....	96.0	98.7	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	98	98
salaries tax				
tax returns issued for taxable cases				
April to November—within three months (%).....	98	100	99	99
December to March—within five months (%).....	98	100	99	99
<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	98.0
<i>Tax reserve certificates</i>				
purchase/redemption transactions completed				
January to June—within 12 working days (%).....	99	100	99	99
July to December—within nine working days (%).....	99	100	99	99
<i>Notices of objection</i>				
replies made				
May to August—within 12 working days (%).....	98.0	99.9	99.0	99.0
September to April—within 18 working days (%).....	98.0	99.9	99.0	99.0
notices of settlement/notifications of decision issued within four months (%).....	98.0	99.9	99.0	99.0
<i>Tax holdover claims</i>				
replies made within 12 working days (%).....	98.0	99.9	99.0	99.0

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	Target	2011–12 (Actual)	2012–13 (Revised Estimate)	2013–14 (Plan)
<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 (%)	99Λ	100	99	99
issued within two working days through GovHK after receipt of stamp duty payment by off-line mode (%)	99Λ	100	99	99
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	99.0
contract notes/lease agreements stamped on the day submitted (%)	98.0	99.7	99.0	99.0
claims for exemption in respect of intra-group transfers processed within three months (%)	85.0	99.8	90.0	90.0
<i>Business registration</i>				
new business registration certificates applications over the counter issued within 30 minutes (%)	99	100	99	99
applications by post or through GovHK issued within two working days (%)	99	100	99	99
certified extracts of information issued within the next working day (%)	99	100	99	99
change of business registration particulars				
notifications over the counter updated within 30 minutes (%)	97	100	99	99
notifications by post or through GovHK updated within five working days (%)	99	100	99	99

Λ Improvement over the previous targets of 98 per cent since April 2012.

Indicators

	2011–12 (Actual)	2012–13 (Revised Estimate)	2013–14 (Estimate)
<i>Profits tax</i>			
assessments made	438 000	434 000	439 000
assessments per post	796	783	783
provision per assessment (\$)	548.4	595.9	635.3
<i>Salaries tax</i>			
assessments made	2 399 000	2 500 000	2 500 000
assessments per post	2 560	2 674	2 671
provision per assessment (\$)	147.4	152.2	160.7
<i>Property tax</i>			
assessments made	552 000	552 000	552 000
assessments per post	2 968	2 952	2 952
provision per assessment (\$)	127.7	136.8	145.1

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	2011–12 (Actual)	2012–13 (Revised Estimate)	2013–14 (Estimate)
<i>Personal assessment</i>			
assessments made.....	339 000	327 000	338 000
assessments per post	2 608	2 555	2 641
provision per assessment (\$).....	146.0	156.0	164.5
<i>Objections and appeals</i>			
objections and appeals processed	811	810	810
objections and appeals per post	32	32	32
provision per objection or appeal (\$).....	25,524	27,531	29,383
<i>Business registration</i>			
business registration certificates (new and renewal)			
certificates issued.....	1 159 000	1 210 000	1 180 000
certificates per post.....	9 272	9 758	9 516
provision per certificate (\$)	42.2	43.0	45.2
extracts of information			
extracts issued.....	333 000	340 000	340 000
extracts per post.....	11 483	11 724	11 724
provision per extract (\$).....	30.3	32.1	33.5
<i>Stamp duty</i>			
documents stamped.....	1 707 000	1 680 000	1 650 000
stamped documents per post	15 806	15 556	15 278
provision per stamped document (\$).....	25.1	27.0	29.2
<i>Estate duty</i>			
cases finalised	1 324	1 200	1 200
cases per post.....	441	400	400
provision per case (\$)	1,208	1,417	1,500
<i>Betting duty</i>			
returns processed	264	263	265
returns per post	132	132	133
provision per return (\$).....	2,652	2,662	3,019
<i>Tax reserve certificates</i>			
purchase/redemption transactions	173 000	175 000	175 000
transactions per post	17 300	17 500	17 500
provision per transaction (\$).....	20.2	21.7	21.7

Matters Requiring Special Attention in 2013–14

7 During 2013–14, 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, enhance eTAX services and revamp the Department's website.

Programme (2): Collection

	2011–12 (Actual)	2012–13 (Original)	2012–13 (Revised)	2013–14 (Estimate)
Financial provision (\$m)	135.8	147.6	144.1 (–2.4%)	154.1 (+6.9%)
				(or +4.4% on 2012–13 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 2012–13, the Department continued to promote the use of electronic services for tax payment.

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11 The key performance measures are:

Targets

	Target	2011–12 (Actual)	2012–13 (Revised Estimate)	2013–14 (Plan)
<i>Tax payment</i>				
receipts issued for tax payments made by electronic means				
July to November—within four working days (%)	99	100	99	99
December to June—within six working days (%)	99	100	99	99
<i>Refund of tax</i>				
arising from overpayment of tax in excess of the amount demanded within 18 working days (%)	98.0	99.7	98.0	98.0
arising from revision of assessment within 10 working days (%)	98	100	99	99

Indicators

	2011–12 (Actual)	2012–13 (Revised Estimate)	2013–14 (Estimate)
<i>Collection of tax</i>			
payments processed	2 847 000	2 690 000	2 800 000
payments per post	56 940	52 745	53 846
provision per payment (\$)	8.7	9.3	9.9
<i>Refund of tax</i>			
refunds made	492 000	580 000§	480 000
refunds per post	20 500	24 167	20 000
provision per refund (\$)	17.3	16.0	19.4
<i>Recovery of tax</i>			
completed recovery cases	215 000	220 000	220 000
completed recovery cases per post	721	738	741
provision per completed recovery case (\$)	461.4	480.9	514.1

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

Matters Requiring Special Attention in 2013–14

12 During 2013–14, the Department will continue to promote the use of electronic payment services.

Programme (3): Investigation and Field Audit

	2011–12 (Actual)	2012–13 (Original)	2012–13 (Revised)	2013–14 (Estimate)
Financial provision (\$m)	182.2	194.0	194.6 (+0.3%)	207.1 (+6.4%)
				(or +6.8% on 2012–13 Original)

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.

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15 In 2012–13, 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	2011–12 (Actual)	2012–13 (Revised Estimate)	2013–14 (Plan)
<i>Tax audit and investigation</i>				
field audit and tax investigation cases processed within two years (%).....	80.0	90.1	85.0	85.0

Indicators

	2011–12 (Actual)	2012–13 (Revised Estimate)	2013–14 (Estimate)
<i>Field audit and tax investigation</i>			
cases completed	1 804	1 800	1 800
back tax and penalty assessed (\$m)	6,003.0 ^λ	3,300.0	2,500.0
cases per post	6.7	6.7	6.7
provision per case (\$)	100,277	107,389	114,278
back tax and penalty per case (\$m).....	3.3	1.8	1.4
back tax and penalty per post (\$m).....	22.4	12.4	9.4
back tax and penalty per dollar of provision (\$)	33.2	17.1	12.2
<i>Property tax compliance check</i>			
cases completed	102 400	115 000 [@]	132 000[@]
back tax assessed (\$m).....	53.1	54.0	62.0
cases per post	20 480	23 000	26 400
provision per case (\$)	12.7	11.3	10.6
back tax per case (\$)	519	470	470
back tax per post (\$m)	10.6	10.8	12.4
back tax per dollar of provision (\$)	40.8	41.5	44.3

^λ The amount of back tax and penalty assessed in 2011–12 was exceptionally high due to the settlement of several large tax avoidance cases.

[@] 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 2013–14

17 During 2013–14, the Department will continue to exert determined effort to combat tax evasion and counter tax avoidance schemes.

Programme (4): Taxpayer Services

	2011–12 (Actual)	2012–13 (Original)	2012–13 (Revised)	2013–14 (Estimate)
Financial provision (\$m)	22.4	23.8	23.7 (–0.4%)	25.4 (+7.2%)
				(or +6.7% on 2012–13 Original)

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.

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20 In May 2012, 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	2011–12 (Actual)	2012–13 (Revised Estimate)	2013–14 (Plan)
<i>Enquiry service centre</i>				
waiting time for over-the-counter enquiry service not to exceed ten minutes				
during peak hours (%).....	95.0	99.5	98.0	98.0
outside peak hours (%).....	99	100	99	99
connected telephone calls answered within three minutes				
July to April (%).....	90.0	95.7	95.0	95.0
May to June (%).....	80.0	90.9	90.2	90.0
<i>Complaints</i>				
interim reply within seven working days (%).....	99	100	99	99
substantial reply within 15 working days (%).....	99	100	99	99
<i>eTAX Account</i>				
access code notices issued for applications through GovHK within two working days (%).....	98	100	98	98
electronic receipts issued for tax payments made by electronic means within two working days (%).....	99	100	99	99

Indicators

	2011–12 (Actual)	2012–13 (Revised Estimate)	2013–14 (Estimate)
<i>Over-the-counter enquiry service</i>			
enquiries.....	362 000	365 000	365 000
enquiries processed per post.....	12 929	13 036	13 036
<i>Telephone enquiry service</i>			
enquiries.....	1 223 000	1 300 000	1 300 000
enquiries processed per post.....	33 054	35 135	35 135
<i>Complaints</i>			
complaints processed.....	290	330	330
complaints processed per post.....	97	110	110

Matters Requiring Special Attention in 2013–14

22 During 2013–14, 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

Programme	2011-12 (Actual) (\$m)	2012-13 (Original) (\$m)	2012-13 (Revised) (\$m)	2013-14 (Estimate) (\$m)
(1) Assessing Functions	848.1	1,010.5	962.3	1,045.4
(2) Collection	135.8	147.6	144.1	154.1
(3) Investigation and Field Audit	182.2	194.0	194.6	207.1
(4) Taxpayer Services	22.4	23.8	23.7	25.4
	1,188.5	1,375.9	1,324.7 (-3.7%)	1,432.0 (+8.1%)
				(or +4.1% on 2012-13 Original)

Analysis of Financial and Staffing Provision

Programme (1)

Provision for 2013-14 is \$83.1 million (8.6%) higher than the revised estimate for 2012-13. This is mainly due to the provision for possible increase in expenditure on interest on tax reserve certificates, net increase of eight posts, filling of vacancies, salary increments for staff and increase in operating expenses.

Programme (2)

Provision for 2013-14 is \$10.0 million (6.9%) higher than the revised estimate for 2012-13. This is mainly due to the filling of vacancies, salary increments for staff and increase in operating expenses.

Programme (3)

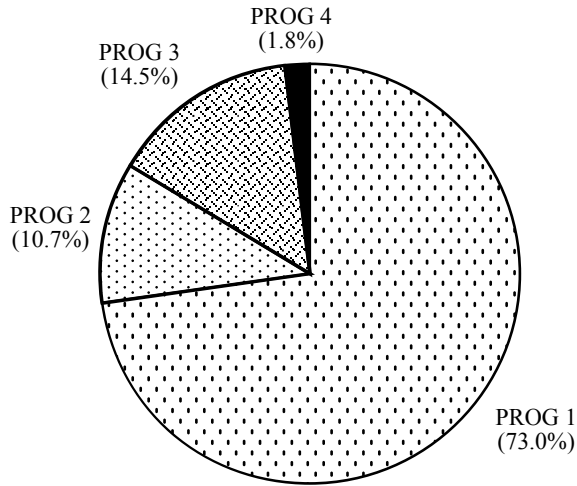
Provision for 2013-14 is \$12.5 million (6.4%) higher than the revised estimate for 2012-13. This is mainly due to the filling of vacancies, salary increments for staff and increase in operating expenses.

Programme (4)

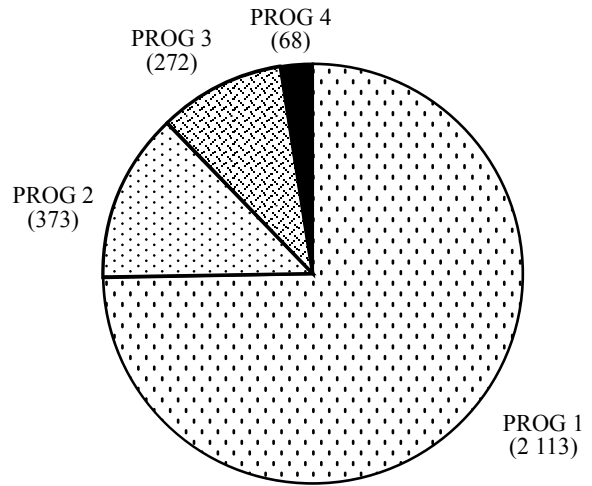
Provision for 2013-14 is \$1.7 million (7.2%) higher than the revised estimate for 2012-13. This is mainly due to the filling of vacancies, salary increments for staff and increase in operating expenses.

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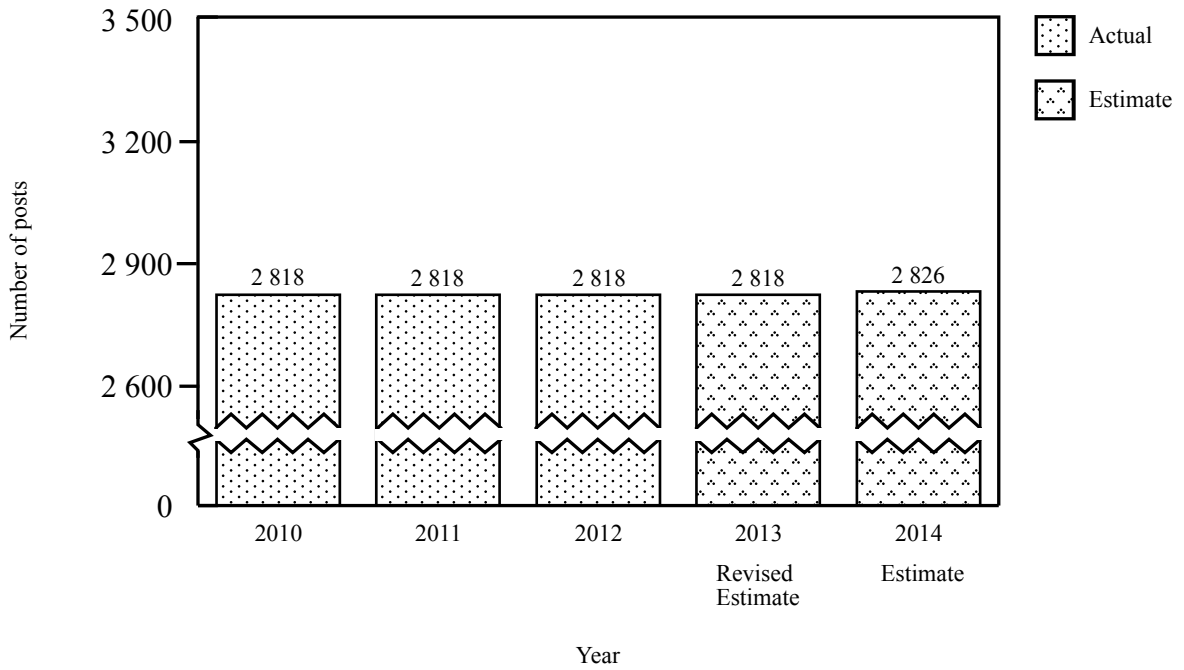
Allocation of provision to programmes (2013-14)



Staff by programme (as at 31 March 2014)



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



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Sub-head (Code)	Actual expenditure 2011-12	Approved estimate 2012-13	Revised estimate 2012-13	Estimate 2013-14	
	\$'000	\$'000	\$'000	\$'000	
Operating Account					
Recurrent					
000	Operational expenses	1,179,099	1,267,169	1,260,733	1,341,994
189	Interest on tax reserve certificates	6,115	104,000	60,000	86,000
209	Special legal expenses	3,243	4,704	4,003	4,005
	Total, Recurrent	<u>1,188,457</u>	<u>1,375,873</u>	<u>1,324,736</u>	<u>1,431,999</u>
	Total, Operating Account.....	<u>1,188,457</u>	<u>1,375,873</u>	<u>1,324,736</u>	<u>1,431,999</u>
<hr/>					
	Total Expenditure	<u><u>1,188,457</u></u>	<u><u>1,375,873</u></u>	<u><u>1,324,736</u></u>	<u><u>1,431,999</u></u>

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Details of Expenditure by Subhead

The estimate of the amount required in 2013–14 for the salaries and expenses of the Inland Revenue Department is \$1,431,999,000. This represents an increase of \$107,263,000 over the revised estimate for 2012–13 and of \$243,542,000 over actual expenditure in 2011–12.

Operating Account

Recurrent

2 Provision of \$1,341,994,000 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 2013 will be 2 817 permanent posts and one supernumerary post. It is expected that there will be a net increase of eight permanent posts in 2013–14. Subject to certain conditions, the controlling officer may under delegated power create or delete non-directorate posts during 2013–14, but the notional annual mid-point salary value of all such posts must not exceed \$929,639,000.

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

	2011–12 (Actual) (\$'000)	2012–13 (Original) (\$'000)	2012–13 (Revised) (\$'000)	2013–14 (Estimate) (\$'000)
Personal Emoluments				
- Salaries	1,021,641	1,046,180	1,077,198	1,096,489
- Allowances	10,669	14,871	14,552	16,685
- Job-related allowances.....	17	43	48	51
Personnel Related Expenses				
- Mandatory Provident Fund contribution	1,883	1,077	2,113	2,048
- Civil Service Provident Fund contribution	7,858	11,349	11,100	13,919
Departmental Expenses				
- General departmental expenses	137,031	193,649	155,722	212,802
	1,179,099	1,267,169	1,260,733	1,341,994

5 Provision of \$86,000,000 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 \$26,000,000 (43.3%) over the revised estimate for 2012–13 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 and appeal cases entailing redemption of these TRCs with payment of substantial amount of interest in 2013–14.

6 Provision of \$4,005,000 under *Subhead 209 Special legal expenses* is for expenditure on court fees in connection with the registration of writs for tax recovery.