

Head 76 — INLAND REVENUE DEPARTMENT

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

Estimate 2000–01 **\$1,283.1m**

Establishment ceiling 2000–01 (notional annual mid-point salary value) representing an estimated 3 349 non-directorate posts at 31 March 2000 rising by 17 posts to 3 366 posts at 31 March 2001 **\$916.5m**

In addition there will be an estimated 26 directorate posts at 31 March 2000 and at 31 March 2001.

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 the Treasury).</p>
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Detail

Programme (1): Assessing Functions

	1998–99 (Actual)	1999–2000 (Approved)	1999–2000 (Revised)	2000–01 (Estimate)
Financial provision (\$m)	875.1	952.2 (+8.8%)	934.6 (–1.8%)	954.5 (+2.1%)

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 and lotteries;
- collection of tax imposed on accommodation charges of hotels and guest houses; and
- issuing and redeeming tax reserve certificates.

4 In 1999, outreaching services including a series of tax seminars were carried out in April and May 1999 to help taxpayers and their employers to fulfil their obligations under the Inland Revenue Ordinance. Computer software was further enhanced to assist employers in preparing employer's returns. In November 1999, a new service was launched to issue notices of no objection to companies applying for deregistration upon request and payment of fees. The Business Registration Office has shortened its response time to issue new business registration certificates from six working days to four working days. Also, a Business Registration Number Enquiry System was implemented to facilitate applications for extracts of information.

5 The Electronic Tax Reserve Certificates (TRCs) Scheme was introduced in September 1999 for all taxpayers to purchase scripless TRCs also through electronic means.

6 The key performance measures are:

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Targets

	Target	1998–99 (Actual)	1999–2000 (Estimate)	2000–01 (Plan)
written enquiries				
replies to simple enquiries within ten working days (%).....	99	100.0	99.0	99.0
replies to technical enquiries within 25 working days (%).....	96	99.7	99.0	99.0
processing of returns				
assessments made within nine months				
profits tax				
business (%)	80	87.5	85.0†	85.0
individuals (%)	96	98.6	98.0	98.0
salaries tax (%).....	96	98.6	98.0	98.0
property tax (%)	96	98.3	98.0	98.0
personal assessment (%)	96	98.6	98.0	98.0
tax returns for first-time salaries taxpayers				
tax returns issued for taxable cases within five months (%).....	98	99.8	99.0	99.0
tax reserve certificates				
purchase/redemption transactions completed				
January to June—within 14 working days (%)	98	98.9	99.0	99.0
July to December—within ten working days (%)	98	100.0	99.0	99.0
notices of objection				
acknowledgements made				
May to August—within 14 working days (%)	95	99.4	98.0§	98.0
September to April—within 21 working days (%)	95	99.7	98.0§	98.0
notices of settlement/notifications of decision issued within four months (%)	98	99.9	98.0	98.0
tax holdover claims				
replies made within 14 working days (%)	95	99.9	99.0	99.0
stamping of documents				
assignments/sale and purchase agreements stamped within six working days (%)	98	100.0	98.0	98.0
contract notes/lease agreements stamped on the day submitted (%)...	98	99.9	98.0	98.0
claims for exemption in respect of intra-group transfers processed within three months (%)	70	83.1	80.0	80.0
business registration				
new business registration certificates issued within four working days (%)	98	100.0#	98.0	98.0
extracts of information issued within four working days (%).....	96	100.0	99.0	99.0
notifications on change of business registration particulars processed within ten working days (%).....	99	100.0	99.0	99.0
estate duty affidavits and statements in lieu of affidavits				
complicated or dutiable cases finalised within two years (%).....	80	88.0	85.0@	85.0
exemption certificates for simple cases issued within six weeks (%) ...	98	99.8	99.0	99.0

† The new concessions for profits tax have a negative effect on performance because it takes more time to process a return. Furthermore, the number of loss cases with further extension of filing time granted in 1999–2000 is substantially greater than that in 1998–99 (19% increase). These taxpayers are allowed an extension to file profits tax returns by 31.1.2000 which is already beyond the target assessment time of nine months.

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§ The actual performance in the first three quarters to 31.12.1999 was comparable to that of 1998–99. Because of the extension allowed for loss cases, more returns will be received in the last quarter of the year. In addition, some resources have been re-deployed to deal with the new service to process applications for issuance of notice of no objection for companies applying for deregistration and with the new IT projects. This may affect the overall performance of acknowledgement and processing of objections. The redeployment of staff is expected to continue in 2000–01.

Against the previous target of “90% within six working days”

@ The Estate Duty Office conducted a special exercise to clear backlogs of simple and exempt cases in the first two quarters of the year. The performance of the processing of complicated or dutiable cases was therefore slightly affected.

Indicators

	1998–99 (Actual)	1999–2000 (Estimate)	2000–01 (Estimate)
profits tax			
no. of assessments made.....	427 000	385 000‡	385 000
no. of assessments per post.....	664	598	597
provision per assessment (\$).....	527.6	599.5	605.7
salaries tax			
no. of assessments made.....	2 250 000	2 100 000φ	2 100 000
no. of assessments per post.....	2 013	1 821	1 789
provision per assessment (\$).....	143.5	165.4	168.4
property tax			
no. of assessments made.....	471 000	450 000Ω	450 000
no. of assessments per post.....	1 751	1 815	1 822
provision per assessment (\$).....	164.3	161.8	161.8
personal assessment			
no. of assessments made.....	367 000	320 000α	320 000
no. of assessments per post.....	2 383	1 939	1 928
provision per assessment (\$).....	127.8	166.9	168.8
objections and appeals			
no. of objections and appeals processed.....	1 330	1 140	1 152
no. of objections and appeals per post.....	44	42	43
provision per objection or appeal (\$).....	14,962	17,193	17,795
business registration (BR)			
BR certificates (new and renewal)			
no. of certificates issued.....	686 000	673 000	670 000
no. of certificates per post.....	4 133	4 342	4 351
provision per certificate (\$).....	71.7	74.6	73.3
extracts of information			
no. of extracts issued.....	228 000	225 000	230 000
no. of extracts per post.....	7 355	7 031	7 419
provision per extract (\$).....	38.6	43.1	41.3
stamp duty			
no. of documents stamped.....	1 068 000	1 100 000	1 050 000
no. of stamped documents per post.....	9 051	8 800	8 400
provision per stamped document (\$).....	33.8	33.7	36.0
estate duty			
no. of cases finalised.....	13 800	13 800	13 800
no. of cases per post.....	271	271	271
provision per case (\$).....	1,210	1,203	1,232
betting duty			
no. of returns processed.....	188	188	191
no. of returns per post.....	94	94	96
provision per return (\$).....	3,192	3,723	3,665
hotel accommodation tax			
no. of quarterly returns processed.....	668	670	690
no. of quarterly returns per post.....	111	112	115
provision per quarterly return (\$).....	2,844	3,134	3,044
tax reserve certificates			
no. of purchase/redemption transactions.....	134 000	145 000	145 000
no. of transactions per post.....	10 308	11 154	11 154
provision per transaction (\$).....	32.1	31.0	30.3

‡ The economic downturn and the budgetary concessions are both contributory factors to the reduction in the number of assessments of profits tax in 1999–2000. So far as corporations and partnerships are concerned, the number of new files opened in 1999–2000 dropped by approximately 26% as compared with that in 1998–99.

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The reduction in the number of new business registrations in the last couple of years accounts for the downward trend.

- φ The general freeze or decline in salary levels is one of the reasons for the reducing number of assessments of salaries tax. The introduction of the new concessionary deductions - Home Loan Interest and Elderly Residential Care Expenses - as well as other budgetary concessions also contribute to the lower number of assessments as they increase the tax threshold. To implement the two concessionary deductions, the staff strength was increased. This also accounts for the lower number of assessments per post for 1999–2000.
- Ω The contributory factors to the estimated reduction in the number of assessments on property tax are as follows -
 - (a) the slowdown of leasing activities;
 - (b) fewer ownership transfers in 1998–99 due to downturn of the property market. Hence there were fewer cessation and commencement cases (one sale and purchase during a year of assessment will give rise to two property tax assessments - a cessation assessment for the seller and a commencement assessment for the buyer); and
 - (c) more taxpayers occupying their property as a residential home due to the introduction of “home loan interest” deduction.
- α Personal Assessment is a relieving section. It enables individuals chargeable to standard rate (under Profits Tax and Property Tax) to claim allowances and be charged at progressive rates, thus reducing their tax liability. The number of personal assessment decreased in the same manner as the estimated reduction in the number of profits tax assessments and property tax assessments in 1999–2000 and 2000–01 compared with 1998–99.

Matters Requiring Special Attention in 2000–01

7 During 2000–01, maintenance of the yield from taxes, contribution to the Enhanced Productivity Programme through organisation restructuring and streamlining of procedures, and the development of IT opportunities will be matters of high priority. The department will:

- introduce new performance pledges on the issue of first Profits Tax returns for first time taxpayers and for processing requests for issuance of notices of no objection for companies applying for deregistration;
- step up efforts to combat tax avoidance and detect incorrect or false claims;
- promote taxpayers’ compliance through publicity programmes and enforcement of taxation requirements;
- introduce a new performance pledge for processing applications for deferred payment of stamp duty on agreements with effect from April 2000;
- implement arrangements to accept electronic submission of applications for business registration by sole proprietors and applications for copies of extracts of the Business Register by the end of 2000;
- exempt mandatory adjudication from the payment of adjudication fee and raise the adjudication fee for voluntary adjudication as provided under the Stamp Duty (Amendment) Ordinance 2000. Working procedures will be modified to implement the new Scheme;
- continue to monitor the effects of various legislative provisions on advance ruling and double taxation, and conduct a feasibility study on information technology projects arising from the Information Systems Strategy Review; and
- continue to improve the overall service of the Business Registration Office through upgrading its Document Management System to shorten the time required for issue of extracts of information.

Programme (2): Collection

	1998–99 (Actual)	1999–2000 (Approved)	1999–2000 (Revised)	2000–01 (Estimate)
Financial provision (\$m)	136.9	133.3 (–2.6%)	134.6 (+1.0%)	136.4 (+1.3%)

Aim

- 8 The aim is to collect taxes due under the Ordinances administered by the department 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 The reduction in the number of assessments issued as a result of the economic downturn, coupled with an increased number of claims for holdover of provisional tax due to the introduction of the new concessionary deductions, has led to a reduction in the number of payments processed and recovered in 1999.

- 11 The key performance measures are:

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Targets

	Target	1998–99 (Actual)	1999–2000 (Estimate)	2000–01 (Plan)
tax payment				
receipts issued for tax payments by electronic means				
July to November —within four working days (%)	95	N.A.§	99.0	99.0
December to June—within seven working days (%).....	95	N.A.§	99.0	99.0
refund of tax				
arising from overpayment of tax in excess of the amount demanded				
within 25 working days (%).....	96	99.3	100.0	99.0
arising from revision of assessment within 30 working days (%).....	99	100.0	100.0	99.0

§ Not Applicable since these are new indicators introduced in 1999–2000.

Indicators

	1998–99 (Actual)	1999–2000 (Estimate)	2000–01 (Estimate)
collection of tax			
no. of payments processed.....	2 365 000	2 100 000	2 100 000
no. of payments per post.....	31 118	28 767	28 767
provision per payment (\$)	12.6	12.4	13.0
refund of tax			
no. of refunds made	1 820 000#	470 000	350 000
no. of refunds per post.....	70 000	18 800	14 000
provision per refund (\$).....	4.2	20.6	23.4
recovery of tax			
no. of cases requiring recovery action.....	210 000	178 000	178 000
no. of recovery cases per post.....	689	582	582
provision per recovery case (\$)	415.2	488.2	502.2

Over 1.5 million refund notices were issued in one go during the Tax Rebate Exercise in March 1999. These refund notices were issued by computer which required minimal manual effort and therefore brought down the average cost for 1998–99.

Matters Requiring Special Attention in 2000–01

12 During 2000–01, the department will continue to explore new payment methods to enhance the cost-effectiveness of its collection services. Specifically, it will provide new electronic means for tax payments and purchase of tax reserve certificates after the implementation of the Electronic Service Delivery Project (Phase One) in the second half of 2000.

Programme (3): Investigation and Field Audit

	1998–99 (Actual)	1999–2000 (Approved)	1999–2000 (Revised)	2000–01 (Estimate)
Financial provision (\$m)	159.8	169.8 (+6.3%)	169.7 (–0.1%)	174.5 (+2.8%)

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, including detailed investigations where tax evasion is suspected, and the imposition of penalties and the 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

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- audit on tax avoidance cases, rejecting unacceptable avoidance schemes so as to uphold the tax base of Hong Kong.

15 In 1999, the department continued its determined efforts to combat tax evasion, counter tax avoidance schemes and bring to account taxpayers who failed to meet their obligations. Staff were redeployed to increase the productivity in investigation work. An additional field audit team was set up as planned to tackle tax avoidance cases and to promote tax compliance.

16 The key performance measures are:

Targets

	Target	1998–99 (Actual)	1999–2000 (Estimate)	2000–01 (Plan)
tax audit and investigation				
processing of field audit and tax investigation cases completed within two years (%)	80	84.0#	70.0#	80.0

Against the previous target of “70% within two years” applied to the processing of tax investigation cases before the merger of the Field Audit Group with the Investigation Unit in 2000–01.

Indicators

	1998–99 (Actual)	1999–2000 (Estimate)	2000–01 (Estimate)
tax investigation			
no. of cases completed	901	920	920
back tax and penalty assessed (\$m)	1,065	1,020	1,030
no. of cases per post	5.6	5.8	5.9
provision per case (\$)	108,102	112,391	113,152
back tax and penalty per case (\$m)	1.2	1.1	1.1
back tax and penalty per post (\$m)	6.7	6.4	6.6
back tax and penalty per dollar of provision (\$)	10.9	9.9	9.9
field audit			
no. of cases completed	911	950	1 000
back tax and penalty assessed (\$m)	1,076	1,300	1,150
no. of cases per post	7.8	7.9	8.3
provision per case (\$)	67,289	68,632	69,300
back tax and penalty per case (\$m)	1.2	1.4	1.2
back tax and penalty per post (\$m)	9.2	10.7	9.5
back tax and penalty per dollar of provision (\$)	17.6	19.9	16.6
property tax compliance check			
no. of cases completed	4 640	4 440	4 600
back tax and penalty assessed (\$m)	23.2	22.5	23.2
no. of cases per post	1 095	1 110	1 150
provision per case (\$)	237.1	247.7	239.1
back tax and penalty per case (\$)	5,000	5,068	5,044
back tax and penalty per post (\$m)	5.4	5.6	5.8
back tax and penalty per dollar of provision (\$)	21.1	20.5	21.1

Matters Requiring Special Attention in 2000–01

17 During 2000–01, the department will continue to combat tax evasion and minimise opportunities for tax avoidance. The Field Audit Group will merge with the Investigation Unit to form the Field Audit and Investigation Unit to achieve better utilisation of staff resources and to enhance efficiency in enforcing tax compliance.

Programme (4): Taxpayer Services

	1998–99 (Actual)	1999–2000 (Approved)	1999–2000 (Revised)	2000–01 (Estimate)
Financial provision (\$m)	16.2	17.4 (+7.4%)	17.3 (–0.6%)	17.7 (+2.3%)

Aim

18 The aim is to provide a high level of service to the public by delivering timely and accurate advice and thereby promote voluntary taxation compliance.

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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 1999, the department replaced the Interactive Telephone Enquiry System and installed 33 additional telephone lines to provide taxpayers with more efficient and user-friendly telephone services. In May 1999, telephone enquiry services to the taxpaying public on completion of tax returns were extended to 7:00 p.m. from Monday to Saturday. We will continue to do so during the peak season in 2000.

21 The key performance measures are:

Targets

	Target	1998–99 (Actual)	1999–2000 (Estimate)	2000–01 (Plan)
enquiry service centre				
waiting time for over-the-counter enquiry service not to exceed ten minutes				
during peak hours (%)	95	97.9	98.0	98.0
outside peak hours (%)	99	99.7	99.0	99.0
connected telephone calls answered within three minutes				
July to April (%)	90	94.0	94.0	94.0
May to June (%)	70	62.3	86.6	75.0
complaints				
interim reply within ten working days (%)	99	100.0	100.0	99.0
substantial reply within 18 working days (%)	99	100.0	100.0	99.0

Indicators

	1998–99 (Actual)	1999–2000 (Estimate)	2000–01 (Estimate)
over-the-counter enquiry service			
no. of enquiries	517 000	461 000	470 000
no. of enquiries processed per post.....	16 156	13 970	14 242
telephone enquiry service			
no. of enquiries	1 409 000	1 510 000	1 600 000
no. of enquiries processed per post.....	52 185	53 929	57 143
complaints			
no. of complaints processed	619	650	630
no. of complaints processed per post.....	155	163	158

Matters Requiring Special Attention in 2000–01

22 During 2000–01, the department will continue to improve services to customers. It will enhance services through developing an interactive taxpayer enquiry system for taxpayers to enquire about their account details via various electronic means.

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ANALYSIS OF FINANCIAL PROVISION

Programme	1998–99 (Actual) (\$m)	1999–2000 (Approved) (\$m)	1999–2000 (Revised) (\$m)	2000–01 (Estimate) (\$m)
(1) Assessing Functions.....	875.1	952.2	934.6	954.5
(2) Collection.....	136.9	133.3	134.6	136.4
(3) Investigation and Field Audit.....	159.8	169.8	169.7	174.5
(4) Taxpayer Services.....	16.2	17.4	17.3	17.7
	1,188.0	1,272.7 (+7.1%)	1,256.2 (–1.3%)	1,283.1 (+2.1%)

Analysis of Financial and Staffing Provision

Programme (1)

Provision for 2000–01 is \$19.9 million (2.1%) higher than the revised estimate for 1999–2000. This is mainly due to salary increments for existing staff, an increased requirement for interest payable on tax reserve certificates and creation of 30 posts in 2000–01 for a tax assessment computer project and a project to improve records management, partly offset by deletion of 13 posts and reduced requirement in overtime allowance under the Enhanced Productivity Programme.

Programme (2)

Provision for 2000–01 is \$1.8 million (1.3%) higher than the revised estimate for 1999–2000. This is mainly due to salary increments for existing staff, partly offset by reduced requirement on special legal expenses.

Programme (3)

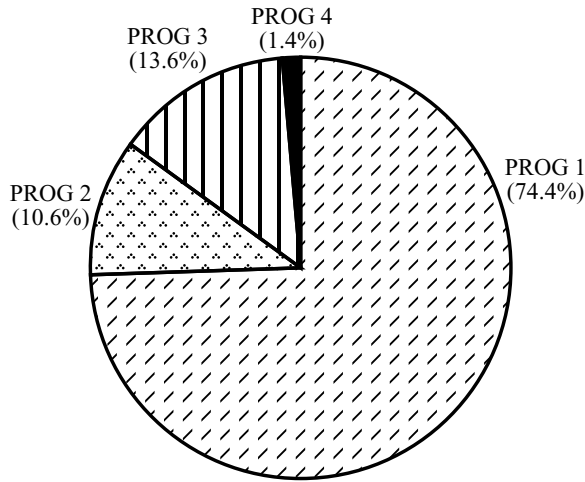
Provision for 2000–01 is \$4.8 million (2.8%) higher than the revised estimate for 1999–2000. This is mainly due to salary increments for existing staff.

Programme (4)

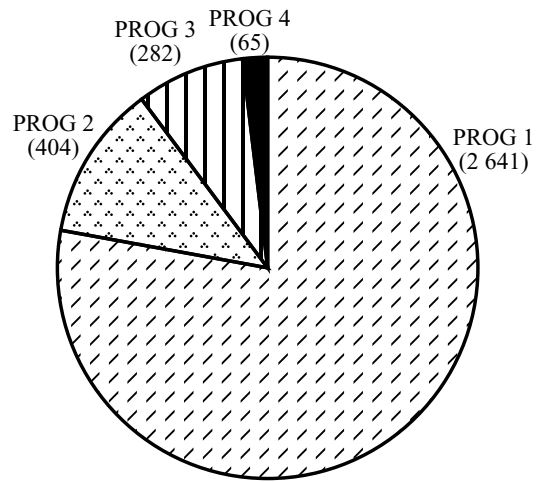
Provision for 2000–01 is \$0.4 million (2.3%) higher than the revised estimate for 1999–2000. This is mainly due to salary increments for existing staff, partly offset by reduced expenditure on equipment.

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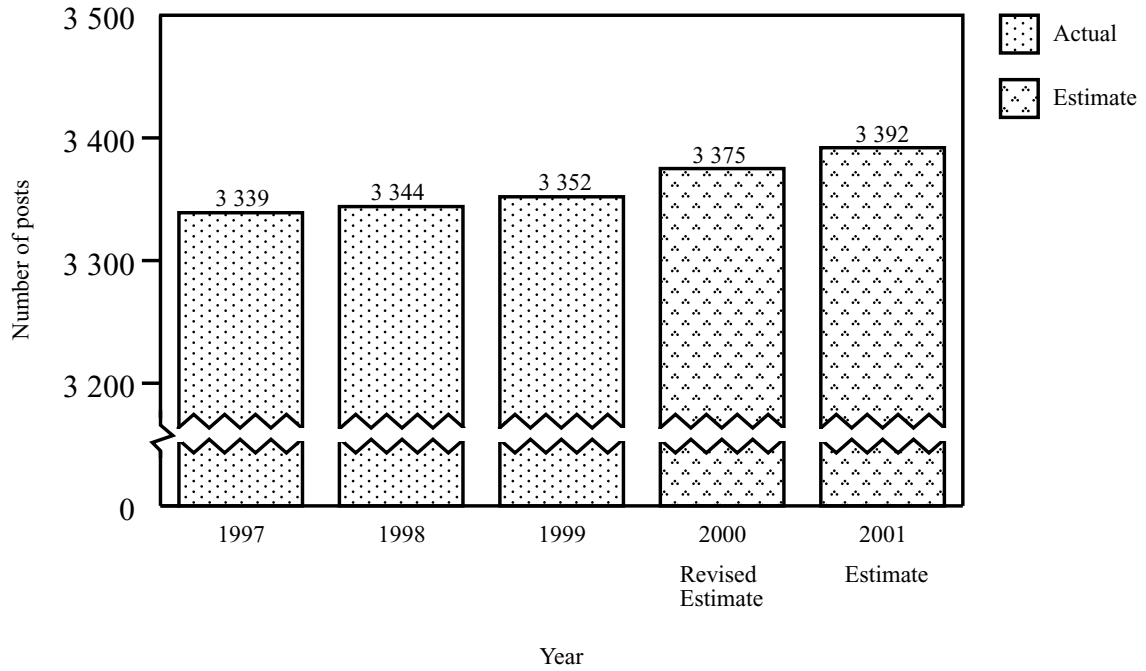
Allocation of provision to programmes (2000-01)



Staff by programme (as at 31 March 2001)



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



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Sub-head (Code)		Actual expenditure 1998-99	Approved estimate 1999-2000	Revised estimate 1999-2000	Estimate 2000-01
		\$'000	\$'000	\$'000	\$'000
Recurrent Account					
I — Personal Emoluments					
001	Salaries	989,982	1,013,307	1,003,187	1,020,923
002	Allowances	32,858	40,926	36,056	33,910
007	Job-related allowances	203	171	169	171
	Total, Personal Emoluments	<u>1,023,043</u>	<u>1,054,404</u>	<u>1,039,412</u>	<u>1,055,004</u>
III — Departmental Expenses					
149	General departmental expenses	87,385	106,648	114,648	116,891
	Total, Departmental Expenses	<u>87,385</u>	<u>106,648</u>	<u>114,648</u>	<u>116,891</u>
IV — Other Charges					
189	Interest on tax reserve certificates	65,145	99,700	89,700	99,700*
209	Special legal expenses	12,384	11,464	11,983	11,464*
	Total, Other Charges	<u>77,529</u>	<u>111,164</u>	<u>101,683</u>	<u>111,164</u>
	Total, Recurrent Account	<u>1,187,957</u>	<u>1,272,216</u>	<u>1,255,743</u>	<u>1,283,059</u>
Capital Account					
I — Plant, Equipment and Works					
	Minor plant, vehicles and equipment (block vote)	91	450	450	—
	Total, Plant, Equipment and Works	<u>91</u>	<u>450</u>	<u>450</u>	<u>—</u>
	Total, Capital Account	<u>91</u>	<u>450</u>	<u>450</u>	<u>—</u>
	Total Expenditure	<u><u>1,188,048</u></u>	<u><u>1,272,666</u></u>	<u><u>1,256,193</u></u>	<u><u>1,283,059</u></u>

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Details of Expenditure by Subhead

The estimate of the amount required in 2000–01 for the salaries and expenses of the Inland Revenue Department is \$1,283,059,000. This represents an increase of \$26,866,000 over the revised estimate for 1999–2000 and of \$95,011,000 on actual expenditure in 1998–99.

Recurrent Account

Personal Emoluments

2 Provision of \$1,055,004,000 for personal emoluments represents an increase of \$15,592,000 over the revised estimate for 1999–2000 and takes into account salary increments for existing staff and net creation of posts in 2000–01.

3 The establishment at 31 March 2000 will be 3 375 permanent posts. It is expected that a net 17 permanent posts will be created in 2000–01.

4 Subject to certain conditions, the controlling officer may under delegated powers create or delete non-directorate posts during 2000–01, but the notional annual mid-point salary value of all such posts must not exceed \$916,525,000.

5 Provision of \$33,910,000 under *Subhead 002 Allowances* is for standard allowances. The decrease of \$2,146,000 (6.0%) against the revised estimate for 1999–2000 is mainly due to reduced requirement for overtime allowance under the Enhanced Productivity Programme.

6 Provision of \$171,000 under *Subhead 007 Job-related allowances* is for standard job-related allowances.

Other Charges

7 Provision of \$99,700,000 under *Subhead 189 Interest on tax reserve certificates* is for the payment of interest on tax reserve certificates, including certificates purchased under the Save-As-You-Earn (SAYE) Scheme, formerly known as Pay-As-You-Earn (PAYE) Scheme, by the Commissioner of Inland Revenue under the Tax Reserve Certificates Ordinance (Cap. 289). It represents an increase of \$10,000,000 (11.1%) over the revised estimate for 1999–2000. This is mainly due to the anticipated increase in requirement for payment of interest on tax reserve certificates due for redemption in 2000–01.

8 Provision of \$11,464,000 under *Subhead 209 Special legal expenses* is for expenditure on court fees in connection with the registration of writs. The decrease of \$519,000 (4.3%) against the revised estimate for 1999–2000 is mainly due to an anticipated reduction in the number of writs of summons in 2000–01 in respect of default cases.