

Head 76 — INLAND REVENUE DEPARTMENT

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

Estimate 2001–02..... **\$1,343.3m**

Establishment ceiling 2001–02 (notional annual mid-point salary value) representing an estimated 3 315 non-directorate posts at 31 March 2001 reducing by 27 posts to 3 288 posts at 31 March 2002.. **\$860.3m**

In addition there will be an estimated 26 directorate posts at 31 March 2001 and at 31 March 2002.

Capital Account commitment balance..... **\$1.3m**

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 the Treasury).

Detail

Programme (1): Assessing Functions

	1999–2000 (Actual)	2000–01 (Approved)	2000–01 (Revised)	2001–02 (Estimate)
Financial provision (\$m)	951.1	954.5 (+0.4%)	965.5 (+1.2%)	1,000.4 (+3.6%)

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 2000, the department launched the Taxpayer's Charter to enhance general awareness of the rights and obligations of a taxpayer. Feasibility studies and development work continued for various projects under the department's Information Systems Strategy Plan and the Government's Electronic Service Delivery (ESD) Scheme. Through the launching of the ESD Scheme in late 2000, the department introduced a wide range of electronic services via Internet. These on-line services enable the public to make enquiries on tax matters, lodge tax returns, purchase tax reserve certificates, submit applications and notifications to the department in a fast and convenient manner.

5 Outreach seminars were conducted in April and outreach enquiry services were provided in May 2000 to assist employers and individual taxpayers in fulfilling their obligations under the Inland Revenue Ordinance. User acceptance survey was conducted in the process of designing tax return forms for use in 2001–02. Information leaflets were published on common issues of concern with a view to stepping up tax education.

6 The key performance measures are:

Head 76 — INLAND REVENUE DEPARTMENT

Targets

	Target	1999 (Actual)	2000 (Estimate)	2001 (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	84.9	85.0	85.0
individuals (%).....	96	98.9	98.0	98.0
salaries tax (%).....	96	98.9	98.0	98.0
property tax (%).....	96	98.5	98.0	98.0
personal assessment (%).....	96	98.9	98.0	98.0
tax returns for first-time taxpayers				
profits tax				
tax returns issued for chargeable cases within three months (%)§	98	N.A.†	98.0	98.0
salaries tax				
tax returns issued for taxable cases				
April to November— within three months (%).....	98#	100.0	99.0	99.0
December to March— within five months (%).....	98	100.0	99.0	99.0
company deregistration				
processing of requests for issuance of Notice of No Objection by the Commissioner of Inland Revenue within 25 working days (%)§	98	N.A.†	98.0	98.0
tax reserve certificates				
purchase/redemption transactions completed				
January to June—within 14 working days (%).....	98	99.1	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	99.6	99.0	99.0
September to April—within 21 working days (%).....	95	99.8	99.0	99.0
notices of settlement/notifications of decision issued within four months (%).....	98	99.9	99.0	99.0
tax holdover claims				
replies made within 14 working days (%).....	95	99.5	99.0	99.0
stamping of documents				
assignments/sale and purchase agreements stamped within six working days (%).....	98	99.9	99.0	99.0
applications for deferred payment of stamp duty on agreements for sale of residential property within six working days (%)§	98	N.A.†	98.0	98.0
contract notes/lease agreements stamped on the day submitted (%)	98	99.9	99.0	99.0
claims for exemption in respect of intra-group transfers processed within three months (%).....	80@	82.3	80.0	80.0

Head 76 — INLAND REVENUE DEPARTMENT

	Target	1999 (Actual)	2000 (Estimate)	2001 (Plan)
business registration				
new business registration certificates applications over the counter issued within 30 minutes (%).....	97Ω	100.0	98.0	98.0
applications by post issued within two working days (%).....	99Ω	100.0	99.0	99.0
extracts of information issued within four working days (%).....	99‡	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	86.6	85.0	85.0
exemption certificates for simple cases issued within six weeks (%).....	98	99.7	99.0	99.0

§ New targets

† Not applicable

This is an improvement over the previous target of “98% within five months”.

@ This is an improvement over the previous target of 70%.

Ω This is an improvement over the previous target of “98% within four working days”.

‡ This is an improvement over the previous target of 96%.

Indicators

	1999 (Actual)	2000 (Estimate)	2001 (Estimate)
profits tax			
no. of assessments made.....	407 000	385 000†	385 000
no. of assessments per post.....	636	602	615
provision per assessment (\$).....	562.7	613.8	637.4
salaries tax			
no. of assessments made.....	2 165 000	2 150 000	2 150 000
no. of assessments per post.....	1 901	1 881	1 876
provision per assessment (\$).....	157.5	166.7	173.9
property tax			
no. of assessments made.....	473 000	470 000	470 000
no. of assessments per post.....	1 931	1 918	1 942
provision per assessment (\$).....	153.9	156.8	165.7
personal assessment			
no. of assessments made.....	341 000	320 000α	320 000
no. of assessments per post.....	2 042	1 916	1 975
provision per assessment (\$).....	152.5	170.6	179.7
objections and appeals			
no. of objections and appeals processed.....	1 338	1 060φ	1 040
no. of objections and appeals per post.....	42	39	39
provision per objection or appeal (\$).....	17,040	19,528	20,289
business registration (BR)			
BR certificates (new and renewal)			
no. of certificates issued.....	687 000	684 000	689 000
no. of certificates per post.....	4 432	4 471	4 624
provision per certificate (\$).....	69.6	72.7	75.0
extracts of information			
no. of extracts issued.....	239 000	234 000	236 000
no. of extracts per post.....	7 469	7 548	7 867
provision per extract (\$).....	38.9	41.5	41.1
stamp duty			
no. of documents stamped.....	1 040 000	1 050 000	1 132 000
no. of stamped documents per post.....	8 667	8 974	10 107
provision per stamped document (\$).....	34.5	36.5	33.4
estate duty			
no. of cases finalised.....	14 200	14 000	14 000
no. of cases per post.....	278	275	280

Head 76 — INLAND REVENUE DEPARTMENT

	1999 (Actual)	2000 (Estimate)	2001 (Estimate)
provision per case (\$)	1,218	1,229	1,300
betting duty			
no. of returns processed	188	191	189
no. of returns per post	94	96	95
provision per return (\$)	3,723	3,665	3,704
hotel accommodation tax			
no. of quarterly returns processed	669	660	680
no. of quarterly returns per post	112	110	113
provision per quarterly return (\$)	2,990	3,182	3,235
tax reserve certificates			
no. of purchase/redemption transactions	154 000	150 000	150 000
no. of transactions per post	11 846	11 538	11 538
provision per transaction (\$)	27.9	30.0	31.3

† The economic downturn and reduction in the number of new business registrations in the last couple of years are contributory to the reduction in the number of assessments of profits tax in 2000.

α Personal Assessment is a relief measure. 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 estimated reduction in the number of profits tax assessments and property tax assessments in 2000 will lead to fewer personal assessments in the year.

φ In 1999, the Appeals Section undertook a special exercise to speed up the processing of simple objection cases. Staff were temporarily redeployed to the Section to clear the relatively simple property dealing cases on hand. The Section also provided training and guidance to the assessing units to enable them to deal with simple objection cases. With the successful completion of the exercise, the Appeals Section now concentrates on handling the more complex cases. The output and cases processed per post are hence estimated to be lower in 2000 and 2001.

Matters Requiring Special Attention in 2001–02

7 During 2001–02, 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:

- streamline the assessing procedures by automating the selection of tax returns for assessments purposes;
- step up efforts to promote the use of electronic services for lodging tax returns, making tax enquiries, submitting business registration applications, purchasing tax reserve certificates and requesting extracts of the Business Register;
- promote taxpayers' voluntary compliance through publicity programmes and enforcement of taxation requirements;
- continue to improve the overall service of the Business Registration Office by further shortening the time for issue of extracts of business registration records and accepting notifications on change of business registration particulars by sole proprietors via Internet; and
- continue to carry out development work and conduct feasibility studies on computer projects arising from the Information Systems Strategy Plan.

Programme (2): Collection

	1999–2000 (Actual)	2000–01 (Approved)	2000–01 (Revised)	2001–02 (Estimate)
Financial provision (\$m)	140.5	136.4 (–2.9%)	138.4 (+1.5%)	143.3 (+3.5%)

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 Payment of tax and fees via the Internet, made feasible under the Government's Electronic Service Delivery Scheme, was introduced in late 2000.

- 11 The key performance measures are:

Head 76 — INLAND REVENUE DEPARTMENT

Targets

	Target	1999 (Actual)	2000 (Estimate)	2001 (Plan)
tax payment				
receipts issued for tax payments made by electronic means				
July to November —within four working days (%).....	98§	100.0	99.0	99.0
December to June —within seven working days (%).....	98§	100.0	99.0	99.0
refunds of tax				
arising from overpayment of tax in excess of the amount demanded				
within 25 working days (%).....	98#	98.7	98.0	98.0
arising from revision of assessment within 30 working days (%).....	100	100.0	100.0	100.0

§ This is an improvement over the previous target of 95%.

This is an improvement over the previous target of 96%.

Indicators

	1999 (Actual)	2000 (Estimate)	2001 (Estimate)
collection of tax			
no. of payments processed.....	2 052 000	2 050 000	2 050 000
no. of payments per post.....	28 110	28 873	28 873
provision per payment (\$).....	13.4	13.5	13.9
refund of tax			
no. of refunds made.....	450 000@	370 000	350 000
no. of refunds per post.....	18 000	14 800	14 000
provision per refund (\$).....	22.9	22.2	24.0
recovery of tax			
no. of completed recovery cases.....	200 000	178 000Ω	178 000
no. of completed recovery cases per post.....	654	584	584
provision per completed recovery case (\$).....	451.0	508.4	533.7

@ The large number of refund cases for 1999 was exceptional due to two reasons: (i) some of the tax rebates in the 1999 Tax Rebate Exercise were effected in the early months of 1999–2000; and (ii) the economic downturn had resulted in more refund cases.

Ω The reduction in the number of completed recovery cases is a result of the decrease in the number of demand notes issued over the past years.

Matters Requiring Special Attention in 2001–02

12 During 2001–02, the department will continue to explore means to provide collection service in a more cost-effective manner. The department will also review the enforcement of filing of employers' returns and employers' notifications, and consider the introduction of other appropriate cost-effective means for assessing and collecting salaries tax.

Programme (3): Investigation and Field Audit

	1999–2000 (Actual)	2000–01 (Approved)	2000–01 (Revised)	2001–02 (Estimate)
Financial provision (\$m)	166.9	174.5 (+4.6%)	176.9 (+1.4%)	179.7 (+1.6%)

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;

Head 76 — INLAND REVENUE DEPARTMENT

- field audit, including site visits and examination of accounting records of taxpayers, and the promotion of voluntary compliance with taxation requirements; and
- audit on tax avoidance cases, rejecting unacceptable avoidance schemes so as to uphold the tax base of Hong Kong.

15 In April 2000, the Field Audit Group merged with the Investigation Unit to enhance productivity and make more effective use of resources. The performance pledge for tax investigation was extended to cover field audit and the performance target was also enhanced. The performance indicators for tax audit and investigation were combined.

16 The key performance measures are:

Targets

	Target	1999 (Actual)	2000 (Estimate)	2001 (Plan)
tax audit and investigation				
processing of field audit and tax investigation cases completed within two years (%).....	80	84.0§	80.0	80.0

§ Against the previous target of “70% within two years” applied to the processing of tax investigation cases.

Indicators

	1999 (Actual)	2000 (Estimate)	2001 (Estimate)
field audit and tax investigation#			
no. of cases completed.....	1 874	1 920	1 920
back tax and penalty assessed (\$m).....	2,319	2,180	2,100
no. of cases per post.....	6.7	6.9	6.8
provision per case (\$).....	88,474	91,563	93,073
back tax and penalty per case (\$m).....	1.2	1.1	1.1
back tax and penalty per post (\$m).....	8.3	7.8	7.5
back tax and penalty per dollar of provision (\$m).....	14.0	12.4	11.8
property tax compliance check			
no. of cases completed.....	4 400	4 600	4 600
back tax and penalty assessed (\$m).....	23.3	23.2	23.2
no. of cases per post.....	1 100	1 150	1 533
provision per case (\$).....	250	239	217
back tax and penalty per case (\$).....	5,296	5,044	5,044
back tax and penalty per post (\$m).....	5.8	5.8	7.7
back tax and penalty per dollar of provision (\$m).....	21.2	21.1	23.2

The indicators under this section are combination of individual performance indicators for tax audit and investigation.

Matters Requiring Special Attention in 2001–02

17 During 2001–02, the department will continue to combat tax evasion and minimise opportunities for tax avoidance.

Programme (4): Taxpayer Services

	1999–2000 (Actual)	2000–01 (Approved)	2000–01 (Revised)	2001–02 (Estimate)
Financial provision (\$m)	17.5	17.7	18.0	19.9
		(+1.1%)	(+1.7%)	(+10.6%)

Aim

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

Brief Description

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

20 The increase of telephone lines for enquiry service from 87 to 120 since August 1999 led to the growth in telephone enquiries in 2000 and a consequential reduction in counter enquiries. More staff were redeployed to handle telephone enquiries which is a more convenient channel to the public.

Head 76 — INLAND REVENUE DEPARTMENT

21 In May 2000, telephone enquiry services on completion of tax returns were extended to 7:00 p.m. from Monday to Friday and to 5:00 p.m. on Saturday. We will continue to do so during the peak season in 2001. In late 2000, the department introduced an interactive tax enquiry service via the Internet under the Government's Electronic Services Delivery Scheme.

22 The key performance measures are:

Targets

	Target	1999 (Actual)	2000 (Estimate)	2001 (Plan)
enquiry service centre				
waiting time for over-the-counter enquiry service not to exceed ten minutes				
during peak hours (%)	95	99.4	98.0	98.0
outside peak hours (%)	99	100.0	99.0	99.0
connected telephone calls answered within three minutes				
July to April (%)	90	96.6	94.0	94.0
May to June (%)	70	86.6	88.2	80.0
complaints				
interim reply within ten working days (%)	99	100.0	99.0	99.0
substantial reply within 18 working days (%)	99	100.0	99.0	99.0

Indicators

	1999 (Actual)	2000 (Estimate)	2001 (Estimate)
over-the-counter enquiry service			
no. of enquiries	455 000	410 000§	390 000
no. of enquiries processed per post	13 788	15 185	14 444
telephone enquiry service			
no. of enquiries	1 454 000	1 600 000	1 650 000
no. of enquiries processed per post	51 929	50 000	50 000
complaints			
no. of complaints processed	614	600	600
no. of complaints processed per post	154	150	150

§ The number of over-the-counter enquiries in 2000 is expected to be lower than that in 1999 as a result of the improvement to the telephone enquiry services after addition of 33 telephone lines and redeployment of staff resources from counter enquiries to handle telephone enquiries since August 1999.

Matters Requiring Special Attention in 2001–02

23 During 2001–02, the department will continue to improve services to customers. It will enhance services by developing an interactive tax enquiry system whereby taxpayers can enquire about their own accounts by telephone.

Head 76 — INLAND REVENUE DEPARTMENT

ANALYSIS OF FINANCIAL PROVISION

Programme	1999–2000 (Actual) (\$m)	2000–01 (Approved) (\$m)	2000–01 (Revised) (\$m)	2001–02 (Estimate) (\$m)
(1) Assessing Functions	951.1	954.5	965.5	1,000.4
(2) Collection	140.5	136.4	138.4	143.3
(3) Investigation and Field Audit	166.9	174.5	176.9	179.7
(4) Taxpayer Services	17.5	17.7	18.0	19.9
	1,276.0	1,283.1 (+0.6%)	1,298.8 (+1.2%)	1,343.3 (+3.4%)

Analysis of Financial and Staffing Provision

Programme (1)

Provision for 2001–02 is \$34.9 million (3.6%) higher than the revised estimate for 2000–01. This is mainly due to salary increments for existing staff, transfer of 24 posts from the Information Technology Services Department and additional requirement for publicity for the Electronic Lodgement Services, partly offset by the net deletion of 47 posts under the Enhanced Productivity Programme and deletion of 21 posts upon completion of projects. In addition, 14 posts will be created in 2001–02 for employing permanent staff in place of non-civil service contract staff to handle tax assessment duties.

Programme (2)

Provision for 2001–02 is \$4.9 million (3.5%) higher than the revised estimate for 2000–01. This is mainly due to salary increments for existing staff and transfer of five posts from the Information Technology Services Department, partly offset by the net deletion of five posts under the Enhanced Productivity Programme.

Programme (3)

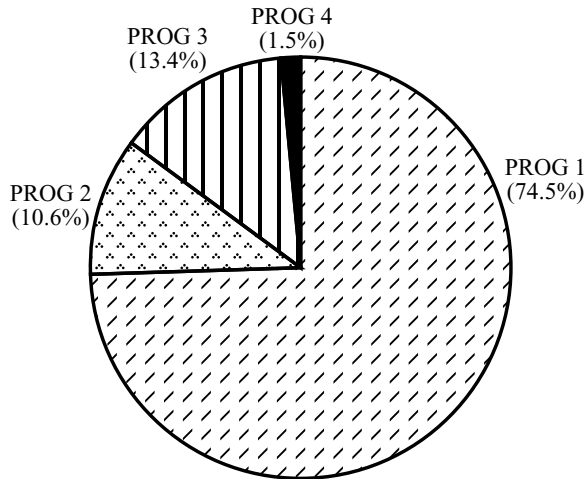
Provision for 2001–02 is \$2.8 million (1.6%) higher than the revised estimate for 2000–01. This is mainly due to salary increments for existing staff and transfer of two posts from the Information Technology Services Department.

Programme (4)

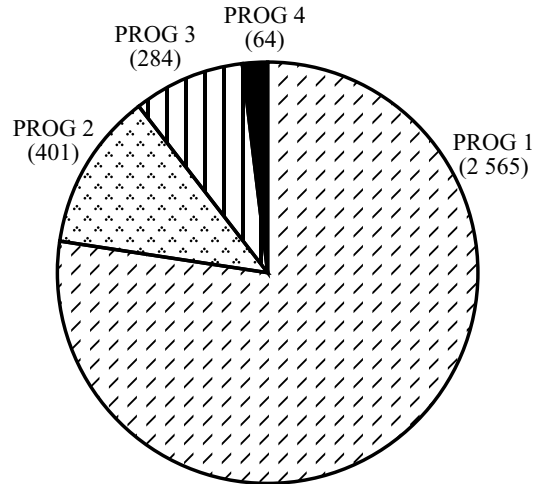
Provision for 2001–02 is \$1.9 million (10.6%) higher than the revised estimate for 2000–01. This is mainly due to salary increments for existing staff, additional requirement for enhancement of the telephone enquiry system and transfer of one post from the Information Technology Services Department.

Head 76 — INLAND REVENUE DEPARTMENT

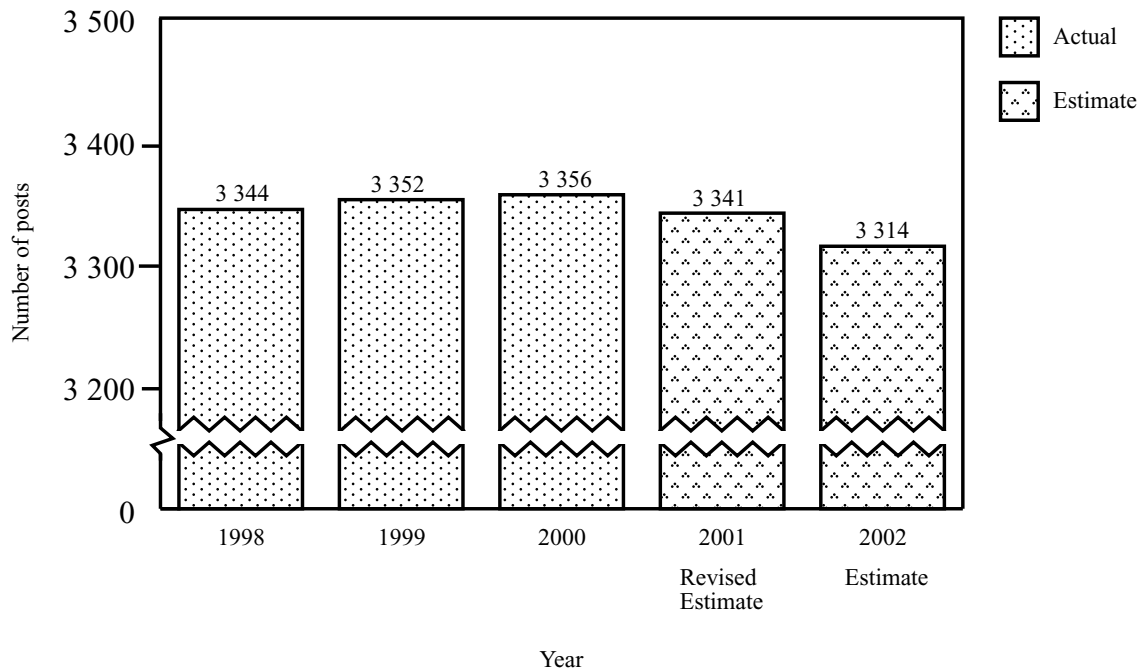
Allocation of provision
to programmes
(2001-02)



Staff by programme
(as at 31 March 2002)



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



Head 76 — INLAND REVENUE DEPARTMENT

Sub-head (Code)	Actual expenditure 1999-2000	Approved estimate 2000-01	Revised estimate 2000-01	Estimate 2001-02
	\$ '000	\$ '000	\$ '000	\$'000
Recurrent Account				
000	Operational expenses	—	—	1,230,181
189	Interest on tax reserve certificates	116,292	99,700	99,700*
209	Special legal expenses	12,461	11,464	11,464*
	Salaries	1,015,347	1,020,923	—
	Allowances	29,499	33,910	—
	Job-related allowances	153	171	—
	General departmental expenses	101,842	116,891	—
	Total, Recurrent Account	1,275,594	1,283,059	1,341,345
Capital Account				
I — Plant, Equipment and Works				
661	Minor plant, vehicles and equipment (block vote)	404	—	680
	Total, Plant, Equipment and Works	404	—	680
II — Other Non-Recurrent				
700	General other non-recurrent	—	—	1,260
	Total, Other Non-Recurrent	—	—	1,260
	Total, Capital Account	404	—	1,940
	Total Expenditure	1,275,998	1,283,059	1,343,285

Head 76 — INLAND REVENUE DEPARTMENT

Details of Expenditure by Subhead

The estimate of the amount required in 2001–02 for the salaries and expenses of the Inland Revenue Department is \$1,343,285,000. This represents an increase of \$44,469,000 over the revised estimate for 2000–01 and of \$67,287,000 over actual expenditure in 1999–2000.

Recurrent Account

2 Provision of \$1,230,181,000 under *Subhead 000 Operational expenses* is for the salaries and allowances of staff of the Inland Revenue Department and its other operating expenses. Management and control of the department's operational expenses takes the form of a one-line vote. The controlling officer is given flexibility in the virement of funds within the subhead to facilitate the achievement of greater efficiency and enhanced productivity.

3 As a vote-funded department, the department is subject to establishment control. The establishment at 31 March 2001 will be 3 341 permanent posts. It is expected that a net 27 permanent posts will be deleted in 2001–02. Subject to certain conditions, the controlling officer may under delegated powers create or delete non-directorate posts during 2001–02, but the notional annual mid-point salary value of all such posts must not exceed \$860,323,000.

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

	1999–2000 (Actual) (\$' 000)	2000–01 (Original Estimate) (\$' 000)	2000–01 (Revised Estimate) (\$' 000)	2001–02 (Estimate) (\$'000)
Personal emoluments				
- Salaries	1,015,347	1,020,923	1,038,271	1,071,284
- Allowances	29,499	33,910	31,819	29,743
- Job-related allowances	153	171	171	251
Departmental expenses				
- General departmental expenses	101,842	116,891	116,891	128,903
	1,146,841	1,171,895	1,187,152	1,230,181

5 Subject to the cash-limited ceiling of \$1,230,181,000 which will not be increased in the course of the year except for increases to the personal emoluments portion in line with the civil service pay adjustment, the controlling officer may deploy funds freely to meet requirements under each of the various expenditure components. The Administration will provide to Finance Committee quarterly financial reports showing actual spending and any redeployment of funds within *Subhead 000 Operational expenses* based on the above analysis.

6 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).

7 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 \$500,000 (4.2%) against the revised estimate for 2000–01 is mainly due to an anticipated reduction in the number of writs of summons in 2001–02 in respect of default cases.

Head 76 — INLAND REVENUE DEPARTMENT

Capital Account

Commitments

Sub-head (Code)	Item (Code)	Ambit	Approved commitment	Accumulated expenditure to 31.3.2000	Revised estimated expenditure for 2000-01	Balance
			\$ 000	\$ 000	\$ 000	\$ 000
700		<i>General other non-recurrent</i>				
	502	Publicity for the Electronic Lodgement Services	1,260	—	—	1,260
		Total	1,260	—	—	1,260