

Head 76 — INLAND REVENUE DEPARTMENT

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

Estimate 2003–04	\$1,305.7m
Establishment ceiling 2003–04 (notional annual mid-point salary value) representing an estimated 3 186 non-directorate posts as at 31 March 2003 reducing by 42 posts to 3 144 posts as at 31 March 2004.....	\$831.1m
In addition there will be an estimated 25 directorate posts as at 31 March 2003 and as at 31 March 2004.	
Capital Account commitment balance	\$1.7m

Controlling Officer's Report

Programmes

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

Detail

Programme (1): Assessing Functions

	2001–02 (Actual)	2002–03 (Approved)	2002–03 (Revised)	2003–04 (Estimate)
Financial provision (\$m)	1,020.3	996.6 (–2.3%)	963.0 (–3.4%)	964.1 (+0.1%)

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 2002, the department responded to enquiries raised in connection with the amendment of the Inland Revenue Ordinance to enable the filing of tax returns over the telephone. The service for lodgement of profits tax returns via the Internet was launched in April 2002. The Business Registration Office shortened the response time for processing notifications over the counter of changes to business registration particulars. Feasibility studies and development work continued for various projects under the department's Information Systems Strategy Plan.

5 To assist employers and individual taxpayers to fulfil their obligations under the Inland Revenue Ordinance, the department conducted seminars for tax representatives and employers in April 2002 and provided after-office-hours counter and telephone enquiry services in May 2002.

6 The key performance measures are:

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Targets

	Target	2001 (Actual)	2002 (Revised Estimate)	2003 (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 (%)	98	99.9	99.0	99.0
processing of returns				
assessments made within nine months				
profits tax				
business (%).....	80	87.3	85.0	85.0
individuals (%).....	96	99.2	98.0	98.0
salaries tax (%)	96	99.2	98.0	98.0
property tax (%).....	96	98.9	98.0	98.0
personal assessment (%)	96	99.2	98.0	98.0
tax returns for first-time taxpayers				
profits tax				
tax returns issued for chargeable cases within three months (%)	98	100.0	98.0	98.0
salaries tax				
tax returns issued for taxable cases				
April to November- within three months (%)	98	99.9	99.0	99.0
December to March- within five months (%)	98	99.9	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	99.9	98.0	98.0
tax reserve certificates				
purchase/redemption transactions completed				
January to June-within 14 working days (%)	98	99.8	99.0	99.0
July to December-within ten working days (%)	98	99.6	99.0	99.0
notices of objection				
acknowledgements made				
May to August-within 14 working days (%)	98	99.7	99.0	99.0
September to April-within 21 working days (%)	98	99.9	99.0	99.0
notices of settlement/notifications of decision issued within four months (%)	98	100.0	99.0	99.0
tax holdover claims				
replies made within 14 working days (%).....	98	99.8	99.0	99.0
stamping of documents				
assignments/sale and purchase agreements stamped within six working days (%)	98	100.0	99.0	99.0
applications for deferred payment of stamp duty on agreements for sale of residential property within six working days (%)	98	100.0	99.0	99.0
contract notes/lease agreements stamped on the day submitted (%).....	98	99.9	99.0	99.0

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	Target	2001 (Actual)	2002 (Revised Estimate)	2003 (Plan)
claims for exemption in respect of intra-group transfers processed within three months (%)	80	90.8	85.0	85.0
business registration				
new business registration certificates applications over the counter issued within 30 minutes (%).....	99§	99.9	99.0	99.0
applications by post or through the Electronic Service Delivery Scheme issued within two working days (%).....	99	100.0	99.0	99.0
extracts of information issued within two working days (%)	99	100.0	99.0	99.0
change of business registration particulars				
notifications over the counter updated within 30 minutes (%).....	97Ω	100.0	99.0	99.0
notifications by post updated within six working days (%).....	99Ω	100.0	99.0	99.0
estate duty affidavits and statements in lieu of affidavits				
complicated or dutiable cases finalised within two years (%).....	80	85.9	85.0	85.0
exemption certificates for simple cases issued within six weeks (%).....	98	99.7	99.0	99.0

§ This is an improvement over the previous target of 97%.

Ω This is an improvement over the previous target of 99% within ten working days.

Indicators

	2001 (Actual)	2002 (Revised Estimate)	2003 (Estimate)
profits tax			
no. of assessments made	379 000	365 000	365 000
no. of assessments per post.....	604	619	622
provision per assessment (\$)	643.3	637.0	643.3
salaries tax			
no. of assessments made.....	2 092 000	2 100 000	2 100 000
no. of assessments per post.....	1 846	1 892	1 939
provision per assessment (\$)	176.5	178.1	177.2
property tax			
no. of assessments made.....	472 000	470 000	470 000
no. of assessments per post.....	2 000	2 026	2 070
provision per assessment (\$)	162.9	164.0	163.4
personal assessment			
no. of assessments made	363 000	360 000	360 000
no. of assessments per post.....	2 241	2 264	2 308
provision per assessment (\$)	156.5	157.5	155.0
objections and appeals			
no. of objections and appeals processed.....	1 006	1 000	1 000
no. of objections and appeals per post.....	37	37	38
provision per objection or appeal (\$)	20,974	21,000	20,700
business registration (BR)			
BR certificates (new and renewal)			
no. of certificates issued	685 000	730 000§	720 000
no. of certificates per post	4 597	5 034	5 035
provision per certificate (\$)	70.8	70.1	70.8

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	2001 (Actual)	2002 (Revised Estimate)	2003 (Estimate)
extracts of information			
no. of extracts issued	250 000	260 000	260 000
no. of extracts per post	8 333	8 966	8 966
provision per extract (\$)	36.4	36.5	36.5
stamp duty			
no. of documents stamped	1 060 000	1 130 000	1 130 000
no. of stamped documents per post	9 636	10 463	10 463
provision per stamped document (\$)	34.4	33.3	33.9
estate duty			
no. of cases finalised	14 650	15 000	15 000
no. of cases per post	293	300	306
provision per case (\$)	1,270	1,233	1,267
betting duty			
no. of returns processed.....	186	191	193
no. of returns per post.....	93	96	97
provision per return (\$)	3,763	3,665	3,627
hotel accommodation tax			
no. of quarterly returns processed	624	654	627
no. of quarterly returns per post	104	109	105
provision per quarterly return (\$)	3,365	3,364	3,509
tax reserve certificates			
no. of purchase/redemption transactions	179 600	190 000#	185 000
no. of transactions per post.....	13 815	14 615	14 231
provision per transaction (\$).....	24.5	24.2	25.4

§ The upsurge in new businesses for registration was possibly due to the waiver of business registration fee for one year in 2002.

The increase in purchase transactions was possibly due to the promotional campaigns launched by the Electronic Services Delivery Scheme and other service providers in 2002.

Matters Requiring Special Attention in 2003–04

7 During 2003–04, maintenance of the yield from taxes, achievement of efficiency savings through organisation restructuring and streamlining of procedures, and development of IT opportunities will be matters of high priority. The department will:

- implement a document management system to further automate the processes of document capturing, indexing, storage and retrieval;
- re-engineer the work of reviewing inactive property tax files to achieve savings in staff resources;
- develop a new method of stamping property transaction documents subject to amendment of the Stamp Duty Ordinance;
- provide an electronic lodgement service whereby taxpayers can submit tax returns by telephone subject to amendment of the Inland Revenue Ordinance;
- continue to step up efforts to 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 processing the issue of extracts of information on the Business Register; and
- continue to make progress in computer projects under the Information Systems Strategy Plan.

Programme (2): Collection

	2001–02 (Actual)	2002–03 (Approved)	2002–03 (Revised)	2003–04 (Estimate)
Financial provision (\$m)	142.5	147.5 (+3.5%)	138.8 (–5.9%)	142.0 (+2.3%)

Aim

- 8 The aim is to collect taxes due under the relevant Ordinances in a cost-effective manner.

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Brief Description

9 This programme involves processing tax payments and refunds and taking recovery action in relation to tax in default.

10 During 2002, the department continued to promote the use of electronic payment services.

11 The key performance measures are:

Targets

	Target	2001 (Actual)	2002 (Revised Estimate)	2003 (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	99.5	98.0	98.0
arising from revision of assessment within 25 working days (%)	98	100.0	99.0	99.0

Indicators

	2001 (Actual)	2002 (Revised Estimate)	2003 (Estimate)
collection of tax			
no. of payments processed.....	2 043 000	2 040 000	2 040 000
no. of payments per post.....	28 775	29 565	29 565
provision per payment (\$)	14.4	13.4	13.5
refund of tax			
no. of refunds made.....	381 000	370 000	370 000
no. of refunds per post.....	15 240	15 417	15 417
provision per refund (\$).....	21.5	22.2	22.2
recovery of tax			
no. of completed recovery cases.....	174 700	170 000	170 000
no. of completed recovery cases per post.....	573	559	557
provision per completed recovery case (\$).....	554.1	565.9	577.6

Matters Requiring Special Attention in 2003-04

12 During 2003-04, the department will continue to explore means to shorten the processing time for refunds of tax and to step up efforts to promote the use of existing and new electronic services for payment of tax.

Programme (3): Investigation and Field Audit

	2001-02 (Actual)	2002-03 (Approved)	2002-03 (Revised)	2003-04 (Estimate)
Financial provision (\$m)	172.8	186.1 (+7.7%)	177.5 (-4.6%)	179.7 (+1.2%)

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;

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- 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 2002, the department continued its determined efforts to combat tax evasion and counter tax avoidance schemes. A customised computer-assisted case selection programme was introduced to facilitate the identification of high-risk cases for audit and investigation. An inter-unit task force was also set up to review and detect suspicious cases regularly with a view to uncovering aggressive avoidance schemes.

16 The key performance measures are:

Targets

	Target	2001 (Actual)	2002 (Revised Estimate)	2003 (Plan)
tax audit and investigation processing of field audit and tax investigation cases completed within two years (%)	80	91.9	85.0§	80.0§

Indicators

	2001 (Actual)	2002 (Revised Estimate)	2003 (Estimate)
field audit and tax investigation			
no. of cases completed.....	1 921	1 860§	1 860§
back tax and penalty assessed (\$m).....	2,102	2,050	2,050
no. of cases per post	6.8	6.7	6.7
provision per case (\$).....	89,433	94,893	96,075
back tax and penalty per case (\$m)	1.1	1.1	1.1
back tax and penalty per post (\$m).....	7.5	7.4	7.4
back tax and penalty per dollar of provision (\$).....	12.2	11.6	11.5
property tax compliance check			
no. of cases completed.....	4 600	4 600	4 600
back tax and penalty assessed (\$m).....	23.1	23.2	23.2
no. of cases per post	1 533	1 533	1 533
provision per case (\$).....	217.4	217.4	217.4
back tax and penalty per case (\$)	5,022	5,044	5,044
back tax and penalty per post (\$m).....	7.7	7.7	7.7
back tax and penalty per dollar of provision (\$).....	23.1	23.2	23.2

§ Due to the economic slowdown, an increased number of taxpayers is encountering financial hardship and liquidity problems. This contributes to an increase in the average time taken to negotiate a basis for settlement in each case.

Matters Requiring Special Attention in 2003–04

17 During 2003–04, the department will continue to combat tax evasion and implement measures to tackle tax avoidance.

Programme (4): Taxpayer Services

	2001–02 (Actual)	2002–03 (Approved)	2002–03 (Revised)	2003–04 (Estimate)
Financial provision (\$m)	20.4	19.4 (–4.9%)	20.9 (+7.7%)	19.9 (–4.8%)

Aim

18 The aim is to provide a high level and quality of service to the public by delivering timely and accurate advice thereby promoting 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 May 2002, the department extended telephone enquiry services for the taxpaying public on completion of tax returns to 7:00 p.m. from Monday to Friday and to 5:00 p.m. on Saturday. The department also launched the “TeleTax” service to enable individual taxpayers to obtain information and lodge requests for documents in relation to their own tax affairs over the telephone.

21 The key performance measures are:

Targets

	Target	2001 (Actual)	2002 (Revised Estimate)	2003 (Plan)
enquiry service centre				
waiting time for over-the-counter				
enquiry service not to exceed ten				
minutes				
during peak hours (%).....	95	98.9	98.0	98.0
outside peak hours (%)	99	99.8	99.0	99.0
connected telephone calls answered				
within three minutes				
July to April (%)	90	93.9	94.0	94.0
May to June (%).....	80	83.8	82.2	82.0
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

	2001 (Actual)	2002 (Revised Estimate)	2003 (Estimate)
over-the-counter enquiry service			
no. of enquiries	399 000	380 000§	380 000§
no. of enquiries processed per post	14 778	14 074	14 074
telephone enquiry service			
no. of enquiries	1 619 000	1 500 000§	1 500 000§
no. of enquiries processed per post	50 594	46 875	46 875
complaints			
no. of complaints processed	550	550	550
no. of complaints processed per post.....	138	138	138

§ The number of enquiries is expected to be lower than that in 2001 as a result of the enhanced taxpayer education and improved accessibility to tax information through other channels.

Matters Requiring Special Attention in 2003–04

22 During 2003–04, the department will continue to improve services to customers. It will continue to promote the use of “TeleTax” service, whereby taxpayers can obtain information about the status of their returns, tax assessments, payment and refund, account and balances, and can lodge requests for documents through an automated telephone system without the need to obtain assistance from staff.

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ANALYSIS OF FINANCIAL PROVISION

Programme	2001-02 (Actual) (\$m)	2002-03 (Approved) (\$m)	2002-03 (Revised) (\$m)	2003-04 (Estimate) (\$m)
(1) Assessing Functions.....	1,020.3	996.6	963.0	964.1
(2) Collection.....	142.5	147.5	138.8	142.0
(3) Investigation and Field Audit.....	172.8	186.1	177.5	179.7
(4) Taxpayer Services.....	20.4	19.4	20.9	19.9
	1,356.0	1,349.6 (-0.5%)	1,300.2 (-3.7%)	1,305.7 (+0.4%)

Analysis of Financial and Staffing Provision

Programme (1)

Provision for 2003-04 is \$1.1 million (0.1%) higher than the revised estimate for 2002-03. This is mainly due to salary increments for staff and filling of vacancies in 2003-04, partly offset by deletion of 31 posts upon the completion of computer projects, net deletion of 11 posts as a result of re-organisation and re-engineering of work and the full-year effect of the civil service pay cut in 2002.

Programme (2)

Provision for 2003-04 is \$3.2 million (2.3%) higher than the revised estimate for 2002-03. This is mainly due to salary increments for staff and the expected rise in special legal expenses in 2003-04, partly offset by the full-year effect of the civil service pay cut in 2002.

Programme (3)

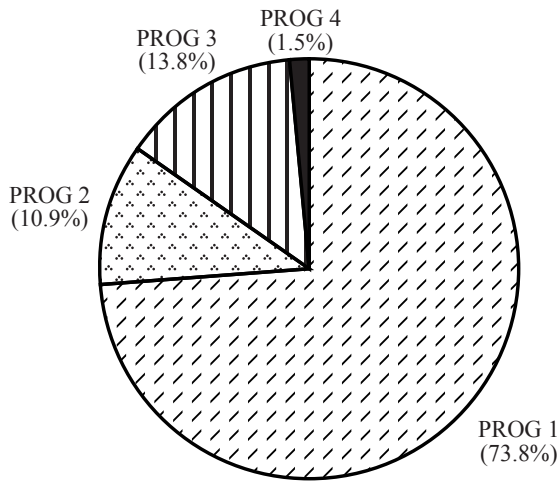
Provision for 2003-04 is \$2.2 million (1.2%) higher than the revised estimate for 2002-03. This is mainly due to salary increments for staff, partly offset by the full-year effect of the civil service pay cut in 2002.

Programme (4)

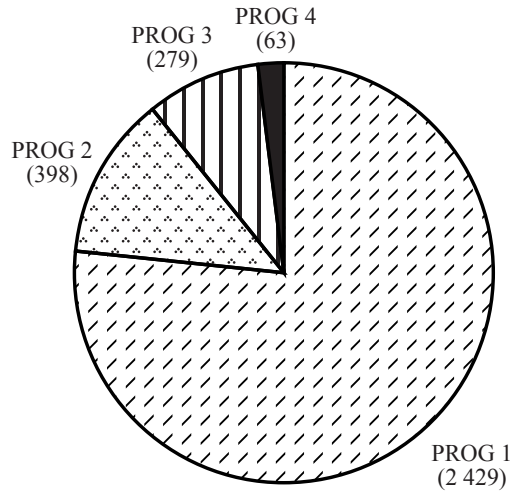
Provision for 2003-04 is \$1.0 million (4.8%) lower than the revised estimate for 2002-03. This is mainly due to the completion of three capital projects and the full-year effect of the civil service pay cut in 2002, partly offset by salary increments for staff.

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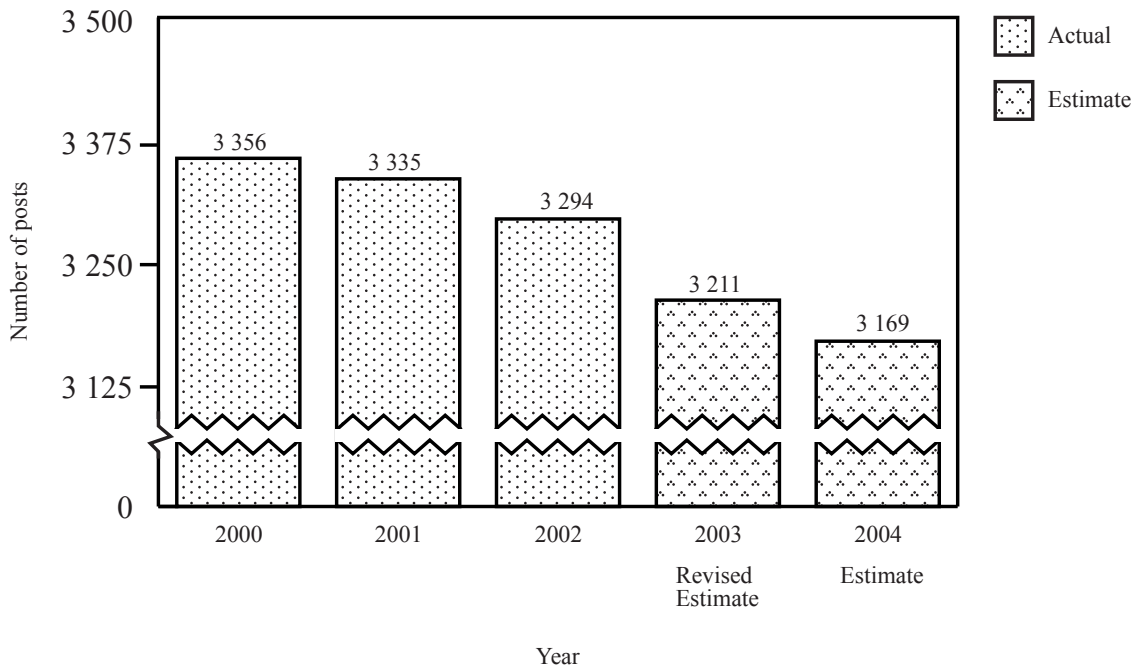
*Allocation of provision
to programmes
(2003-04)*



*Staff by programme
(as at 31 March 2004)*



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



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Sub-head (Code)	Actual expenditure 2001-02	Approved estimate 2002-03	Revised estimate 2002-03	Estimate 2003-04	
	\$'000	\$'000	\$'000	\$'000	
Recurrent Account					
000	Operational expenses.....	1,213,703	1,260,943	1,209,118	1,217,875
189	Interest on tax reserve certificates	132,646	77,290	77,290	78,450*
209	Special legal expenses	8,031	10,873	6,950	8,126*
	Total, Recurrent Account	<u>1,354,380</u>	<u>1,349,106</u>	<u>1,293,358</u>	<u>1,304,451</u>
Capital Account					
I — Plant, Equipment and Works					
661	Minor plant, vehicles and equipment (block vote).....	608	529	529	259
	Total, Plant, Equipment and Works	<u>608</u>	<u>529</u>	<u>529</u>	<u>259</u>
II — Other Non-Recurrent					
700	General other non-recurrent	981	—	6,340	1,000
	Total, Other Non-Recurrent	<u>981</u>	<u>—</u>	<u>6,340</u>	<u>1,000</u>
	Total, Capital Account	<u>1,589</u>	<u>529</u>	<u>6,869</u>	<u>1,259</u>
	Total Expenditure.....	<u><u>1,355,969</u></u>	<u><u>1,349,635</u></u>	<u><u>1,300,227</u></u>	<u><u>1,305,710</u></u>

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Details of Expenditure by Subhead

The estimate of the amount required in 2003–04 for the salaries and expenses of the Inland Revenue Department is \$1,305,710,000. This represents an increase of \$5,483,000 over the revised estimate for 2002–03 and a decrease of \$50,259,000 against the actual expenditure in 2001–02.

Recurrent Account

2 Provision of \$1,217,875,000 under *Subhead 000 Operational expenses* is for the salaries and allowances of staff of the Inland Revenue Department and its other operating expenses.

3 The establishment as at 31 March 2003 will be 3 211 permanent posts. There will be a net deletion of 42 permanent posts in 2003–04. Subject to certain conditions, the controlling officer may under delegated powers create or delete non-directorate posts during 2003–04, but the notional annual mid-point salary value of all such posts must not exceed \$831,100,000.

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

	2001–02 (Actual) (\$'000)	2002–03 (Original Estimate) (\$'000)	2002–03 (Revised Estimate) (\$'000)	2003–04 (Estimate) (\$'000)
Personal Emoluments				
- Salaries.....	1,078,523	1,107,970	1,065,335	1,062,211
- Allowances.....	22,500	19,677	15,132	16,303
- Job-related allowances	233	254	240	182
Personnel Related Expenses				
- Mandatory Provident Fund contribution.....	—	—	—	769
Departmental Expenses				
- General departmental expenses.....	112,447	133,042	128,411	138,410
	1,213,703	1,260,943	1,209,118	1,217,875

5 Provision of \$78,450,000 under *Subhead 189 Interest on tax reserve certificates* is for the payment of interest on tax reserve certificates by the Commissioner of Inland Revenue under the Tax Reserve Certificates Ordinance.

6 Provision of \$8,126,000 under *Subhead 209 Special legal expenses* is for expenditure on court fees in connection with the registration of writs. The increase of \$1,176,000 (16.9%) over the revised estimate for 2002–03 is mainly due to an expected rise in number of cases requiring the initiation of legal actions.

Capital Account

Plant, Equipment and Works

7 Provision of \$259,000 under *Subhead 661 Minor plant, vehicles and equipment (block vote)* represents a decrease of \$270,000 (51.0%) against the revised estimate for 2002–03. This is mainly due to the reduced requirement for minor equipment in 2003–04.

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Capital Account

Commitments

Sub-head (Code)	Item (Code)	Ambit	Approved commitment	Accumulated expenditure to 31.3.2002	Revised estimated expenditure for 2002-03	Balance
			\$'000	\$'000	\$'000	\$'000
700		<i>General other non-recurrent</i>				
	503	Procurement and installation of mobile racking systems.....	5,500	—	3,759	1,741
		Total.....	<u>5,500</u>	<u>—</u>	<u>3,759</u>	<u>1,741</u>