

Head 76 — INLAND REVENUE DEPARTMENT

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

Estimate 2008–09..... **\$1,251.7m**

Establishment ceiling 2008–09 (notional annual mid-point salary value) representing an estimated 2 793 non-directorate posts as at 31 March 2008 and as at 31 March 2009 **\$778.3m**

In addition, there will be an estimated 25 directorate posts as at 31 March 2008 and as at 31 March 2009.

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 Financial Services and the Treasury).

Detail

Programme (1): Assessing Functions

	2006–07 (Actual)	2007–08 (Original)	2007–08 (Revised)	2008–09 (Estimate)
Financial provision (\$m)	761.0	875.3	897.7 (+2.6%)	929.8 (+3.6%)
				(or +6.2% on 2007–08 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 which involve complicated issues of fact or law, or disputed assessments that cannot be settled by agreement;
- maintaining an accurate and efficient system for business registration;
- assessing stamp duty chargeable on assignments, agreements for sale and purchase, leases of immovable property and transfers of shares;
- examining estate duty affidavits/accounts, and issuing assessments for dutiable cases and certificates of exemption for exempt cases in respect of persons who passed away before 11 February 2006, following the enactment of the Revenue (Abolition of Estate Duty) Ordinance 2005;
- administering betting duty in respect of horse races, football matches and lotteries;
- collecting tax imposed on accommodation charges of hotels and guest houses; and
- issuing and redeeming tax reserve certificates.

4 In 2007–08, the Department continued to enhance the quality and efficiency of its services through wider use of information technology (IT), re-engineering of work processes and streamlining of procedures.

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 a series of electronic seminars and a wide range of information for employers, individuals and tax representatives. In 2007–08, the Department continued to develop a taxpayer portal, known as eTAX, at the GovHK to enable taxpayers to access a wide range of personalised online services via the Internet. In January 2008, the migration of all existing electronic services previously provided under the Electronic Service Delivery Scheme to the GovHK was completed and the first phase of eTAX services was successfully rolled out.

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6 The key performance measures are:

Targets

	Target	2006–07 (Actual)	2007–08 (Revised Estimate)	2008–09 (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	86.5	85.0	85.0
individuals (%).....	96	99	98	98
salaries tax (%).....	96	99	98	98
property tax (%).....	96	98	98	98
personal assessment (%).....	96	99	98	98
<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	100	98	98
<i>Tax reserve certificates</i>				
purchase/redemption transactions completed				
January to June—within 12 working days (%).....	98	100	99	99
July to December—within nine working days (%).....	98	100	99	99
<i>Notices of objection</i>				
acknowledgements made				
May to August—within 12 working days (%).....	98.0	99.5	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	99.8	99.0	99.0
<i>Tax holdover claims</i>				
replies made within 12 working days (%).....	98.0	99.9	99.0	99.0
<i>Stamping of documents</i>				
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	99.6	99.0	99.0

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	Target	2006–07 (Actual)	2007–08 (Revised Estimate)	2008–09 (Plan)
contract notes/lease agreements stamped on the day submitted (%)	98.0	99.9	99.0	99.0
claims for exemption in respect of intra-group transfers processed within three months (%).....	85.0	91.7	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 the 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 the GovHK updated within five working days (%)§.....	99	100	99	99

§ Electronic services previously provided through the Electronic Service Delivery Scheme were migrated to the GovHK in January 2008.

Indicators

	2006–07 (Actual)	2007–08 (Revised Estimate)	2008–09 (Estimate)
<i>Profits tax</i>			
assessments made.....	408 000	391 000	399 000
assessments per post	782	745	742
provision per assessment (\$).....	491.7	538.1	555.6
<i>Salaries tax</i>			
assessments made.....	2 127 000	2 130 000	2 130 000
assessments per post	2 239	2 247	2 256
provision per assessment (\$).....	142.9	151.1	155.5
<i>Property tax</i>			
assessments made.....	506 000	498 000	500 000
assessments per post	2 765	2 721	2 732
provision per assessment (\$).....	121.3	129.1	135.0
<i>Personal assessment</i>			
assessments made.....	328 000	330 000	315 000
assessments per post	2 466	2 481	2 368
provision per assessment (\$).....	139.9	147.6	156.2
<i>Objections and appeals</i>			
objections and appeals processed	812	810	810
objections and appeals per post	32	32	32
provision per objection or appeal (\$).....	22,660	24,074	25,432
<i>Business registration</i>			
business registration certificates (new and renewal)			
certificates issued.....	806 000	835 000	870 000
certificates per post.....	6 448	6 680	6 850
provision per certificate (\$)	48.1	51.0	53.3
extracts of information			
extracts issued.....	267 000	280 000	280 000
extracts per post.....	9 207	9 655	9 655
provision per extract (\$).....	27.7	29.3	30.7

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	2006–07 (Actual)	2007–08 (Revised Estimate)	2008–09 (Estimate)
<i>Stamp duty</i>			
documents stamped.....	1 561 000	1 850 000 ^β	1 850 000^β
stamped documents per post.....	15 610	18 687	18 878
provision per stamped document (\$).....	21.7	21.6	21.6
<i>Estate duty</i>			
cases finalised.....	7 200	3 500 [¶]	1 800[¶]
cases per post.....	144	184	200
provision per case (\$).....	2,361	2,343	2,333
<i>Betting duty</i>			
returns processed.....	239	246	246
returns per post.....	120	123	123
provision per return (\$).....	2,092	2,439	2,439
<i>Hotel accommodation tax</i>			
quarterly returns processed.....	880	916	984
quarterly returns per post.....	147	153	164
provision per quarterly return (\$).....	1,818	1,965	2,033
<i>Tax reserve certificates</i>			
purchase/redemption transactions.....	177 000	174 000	174 000
transactions per post.....	17 700	17 400	17 400
provision per transaction (\$).....	18.1	19.5	20.7

^β The upsurge in documents stamped is due to the soaring stock market in 2007–08. This trend is expected to continue in 2008–09.

[¶] The decrease in the number of estate duty cases finalised is attributable to the fact that no estate duty affidavits or statements need to be filed with the Department in respect of persons who passed away on or after 11 February 2006 following the enactment of the Revenue (Abolition of Estate Duty) Ordinance 2005.

Matters Requiring Special Attention in 2008–09

7 During 2008–09, maintenance of the yield from taxes and the development of IT opportunities will be matters of high priority. The Department will continue to:

- step up efforts to promote taxpayers' voluntary compliance through publicity programmes and enhanced services; and
- promote the use of electronic services and expand the scope of services under eTAX. Apart from filing tax returns, obtaining personal tax information and notifying changes of personal particulars electronically, taxpayers will be given the option to receive notices and documents related to tax return filing, assessment and tax payment in electronic form.

Programme (2): Collection

	2006–07 (Actual)	2007–08 (Original)	2007–08 (Revised)	2008–09 (Estimate)
Financial provision (\$m)	114.6	121.1	121.2 (+0.1%)	128.0 (+5.6%)

(or +5.7% on
2007–08 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 2007–08, 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	2006–07 (Actual)	2007–08 (Revised Estimate)	2008–09 (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 21 working days (%)	98.0	99.9	98.0	98.0
arising from revision of assessment				
within 21 working days (%)	98	100	99	99

Indicators

	2006–07 (Actual)	2007–08 (Revised Estimate)	2008–09 (Estimate)
<i>Collection of tax</i>			
payments processed	2 454 000	2 520 000	2 620 000
payments per post	46 302	47 547	49 434
provision per payment (\$)	8.4	8.9	9.4
<i>Refund of tax</i>			
refunds made	377 000	390 000	380 000
refunds per post	16 391	16 957	16 522
provision per refund (\$)	18.3	18.7	19.7
<i>Recovery of tax</i>			
completed recovery cases	190 000	190 000	190 000
completed recovery cases per post	642	644	646
provision per completed recovery case (\$)	424.2	444.7	467.9

Matters Requiring Special Attention in 2008–09

12 During 2008–09, the Department will continue to promote the use of electronic services for tax payment.

Programme (3): Investigation and Field Audit

	2006–07 (Actual)	2007–08 (Original)	2007–08 (Revised)	2008–09 (Estimate)
Financial provision (\$m)	158.8	163.2	166.8 (+2.2%)	172.5 (+3.4%)
				(or +5.7% on 2007–08 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 2007–08, the Department continued its determined efforts to combat tax evasion and counter tax avoidance schemes. The computer-assisted risk-based case selection programme was used to facilitate the identification of suspected evasion and avoidance cases.

16 The key performance measures are:

Target

	Target	2006–07 (Actual)	2007–08 (Revised Estimate)	2008–09 (Plan)
<i>Tax audit and investigation</i>				
field audit and tax investigation cases processed within two years (%).....	80.0	89.8	85.0	85.0

Indicators

	2006–07 (Actual)	2007–08 (Revised Estimate)	2008–09 (Estimate)
<i>Field audit and tax investigation</i>			
cases completed	1 875	1 860	1 860
back tax and penalty assessed (\$m)	2,196.2	2,100.0	2,100.0
cases per post	6.9	6.8	6.8
provision per case (\$)	84,267	89,140	92,151
back tax and penalty per case (\$m).....	1.2	1.1	1.1
back tax and penalty per post (\$m).....	8.1	7.7	7.7
back tax and penalty per dollar of provision (\$).....	13.9	12.7	12.3
<i>Property tax compliance check</i>			
cases completed	18 162	35 000 ϕ	44 800ϕ
back tax assessed (\$m).....	25.6	33.0	33.0
cases per post.....	4 541	8 750	11 200
provision per case (\$)	44.0	28.6	24.6
back tax per case (\$).....	1,410	943	737
back tax per post (\$m)	6.4	8.3	8.3
back tax per dollar of provision (\$).....	32	33	30

ϕ The increase in the number of cases completed is due to the automation of the checking process and the expansion of coverage of the compliance check.

Matters Requiring Special Attention in 2008–09

17 During 2008–09, the Department will continue to combat tax evasion and step up various initiatives in tackling tax avoidance.

Programme (4): Taxpayer Services

	2006–07 (Actual)	2007–08 (Original)	2007–08 (Revised)	2008–09 (Estimate)
Financial provision (\$m)	19.1	19.4	20.0 (+3.1%)	21.4 (+7.0%)

(or +10.3% on
2007–08 Original)

Aim

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

Brief Description

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

20 In May 2007, the Department extended the telephone enquiry service 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.

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21 The key performance measures are:

Targets

	Target	2006–07 (Actual)	2007–08 (Revised Estimate)	2008–09 (Plan)
<i>Enquiry service centre</i>				
waiting time for over-the-counter enquiry service not to exceed ten minutes				
during peak hours (%).....	95.0	98.4	98.0	98.0
outside peak hours (%).....	99.0	99.8	99.0	99.0
connected telephone calls answered within three minutes				
July to April (%).....	90.0	96.1	95.0	95.0
May to June (%).....	80.0	86.8	84.0	84.0
<i>Complaints</i>				
interim reply within seven working days (%).....	99.0	99.5	99.0	99.0
substantial reply within 15 working days (%).....	99.0	99.5	99.0	99.0

Indicators

	2006–07 (Actual)	2007–08 (Revised Estimate)	2008–09 (Estimate)
<i>Over-the-counter enquiry service</i>			
enquiries.....	394 000	378 000	378 000
enquiries processed per post.....	12 710	12 194	13 034
<i>Telephone enquiry service</i>			
enquiries.....	1 313 000	1 104 000 ^α	1 157 000^α
enquiries processed per post.....	41 031	34 500 ^α	33 057^α
<i>Complaints</i>			
complaints processed.....	431	420	420
complaints processed per post.....	108	105	105

^α The drop in the numbers of telephone enquiries and enquiries processed per post is due to a reduction in the number of enquiries through the Interactive Voice Response System as a result of enhanced taxpayer education and improved accessibility to tax information through other channels.

Matters Requiring Special Attention in 2008–09

22 During 2008–09, the Department will continue to deliver quality customer service and promote the use of electronic services, through which taxpayers can file tax returns, notify the changes of postal address, lodge requests for documents and obtain their personal tax information.

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ANALYSIS OF FINANCIAL PROVISION

Programme	2006-07 (Actual) (\$m)	2007-08 (Original) (\$m)	2007-08 (Revised) (\$m)	2008-09 (Estimate) (\$m)
(1) Assessing Functions	761.0	875.3	897.7	929.8
(2) Collection	114.6	121.1	121.2	128.0
(3) Investigation and Field Audit	158.8	163.2	166.8	172.5
(4) Taxpayer Services	19.1	19.4	20.0	21.4
	1,053.5	1,179.0	1,205.7 (+2.3%)	1,251.7 (+3.8%)
				(or +6.2% on 2007-08 Original)

Analysis of Financial and Staffing Provision

Programme (1)

Provision for 2008-09 is \$32.1 million (3.6%) higher than the revised estimate for 2007-08. This is mainly due to the provision for possible increase in expenditure on interest on tax reserve certificates, filling of vacant posts, salary increments for staff and replacement of obsolete systems and equipment.

Programme (2)

Provision for 2008-09 is \$6.8 million (5.6%) higher than the revised estimate for 2007-08. This is mainly due to filling of vacant posts, salary increments for staff and increased requirement for general departmental expenses, partly offset by the deletion of one post in 2008-09.

Programme (3)

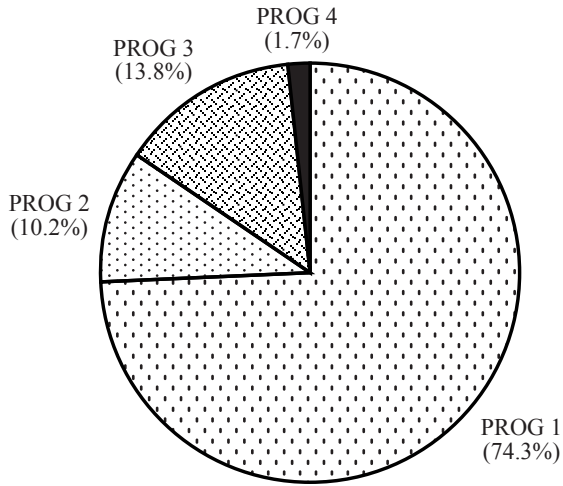
Provision for 2008-09 is \$5.7 million (3.4%) higher than the revised estimate for 2007-08. This is mainly due to filling of vacant posts, salary increments for staff and increased requirement for general departmental expenses.

Programme (4)

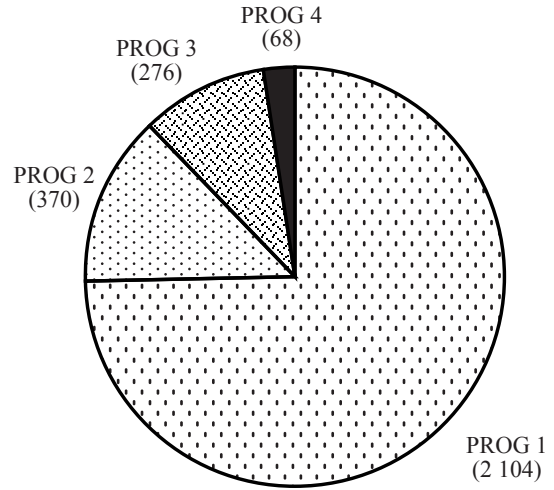
Provision for 2008-09 is \$1.4 million (7.0%) higher than the revised estimate for 2007-08. This is mainly due to filling of vacant posts, salary increments for staff, creation of one post in 2008-09 and replacement of obsolete systems and equipment.

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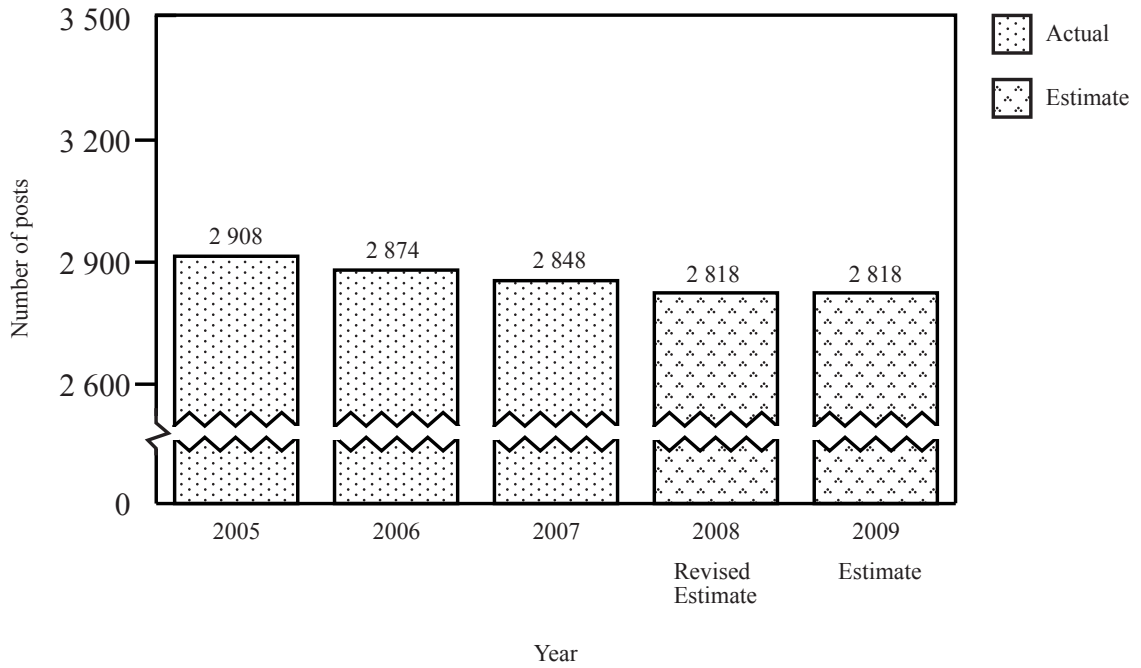
*Allocation of provision
to programmes
(2008-09)*



*Staff by programme
(as at 31 March 2009)*



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



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Sub-head (Code)		Actual expenditure 2006-07	Approved estimate 2007-08	Revised estimate 2007-08	Estimate 2008-09
		\$'000	\$'000	\$'000	\$'000
Operating Account					
Recurrent					
000	Operational expenses	1,017,510	1,043,558	1,070,500	1,108,513
189	Interest on tax reserve certificates.....	28,526	128,270	128,270	134,230
209	Special legal expenses	6,480	7,203	6,903	6,903
	Total, Recurrent.....	<u>1,052,516</u>	<u>1,179,031</u>	<u>1,205,673</u>	<u>1,249,646</u>
	Total, Operating Account	<u>1,052,516</u>	<u>1,179,031</u>	<u>1,205,673</u>	<u>1,249,646</u>
Capital Account					
Plant, Equipment and Works					
661	Minor plant, vehicles and equipment (block vote)	1,020	—	—	2,042
	Total, Plant, Equipment and Works.....	<u>1,020</u>	<u>—</u>	<u>—</u>	<u>2,042</u>
	Total, Capital Account.....	<u>1,020</u>	<u>—</u>	<u>—</u>	<u>2,042</u>
	Total Expenditure	<u><u>1,053,536</u></u>	<u><u>1,179,031</u></u>	<u><u>1,205,673</u></u>	<u><u>1,251,688</u></u>

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Details of Expenditure by Subhead

The estimate of the amount required in 2008–09 for the salaries and expenses of the Inland Revenue Department is \$1,251,688,000. This represents an increase of \$46,015,000 over the revised estimate for 2007–08 and of \$198,152,000 over actual expenditure in 2006–07.

Operating Account

Recurrent

2 Provision of \$1,108,513,000 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 2008 will be 2 818 permanent posts. No net change in establishment is expected in 2008–09. Subject to certain conditions, the controlling officer may under delegated power create or delete non-directorate posts during 2008–09, but the notional annual mid-point salary value of all such posts must not exceed \$778,349,000.

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

	2006–07 (Actual) (\$'000)	2007–08 (Original) (\$'000)	2007–08 (Revised) (\$'000)	2008–09 (Estimate) (\$'000)
Personal Emoluments				
- Salaries	880,333	895,366	921,870	956,308
- Allowances	6,238	7,675	8,107	8,828
- Job-related allowances	1	27	9	27
Personnel Related Expenses				
- Mandatory Provident Fund contribution	498	807	700	1,140
- Civil Service Provident Fund contribution	150	713	844	1,608
Departmental Expenses				
- General departmental expenses	130,290	138,970	138,970	140,602
	1,017,510	1,043,558	1,070,500	1,108,513

5 Provision of \$134,230,000 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 \$6,903,000 under *Subhead 209 Special legal expenses* is for expenditure on court fees in connection with the registration of writs.