

Head 76 — INLAND REVENUE DEPARTMENT

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

Estimate 2009–10 **\$1,276.6m**

Establishment ceiling 2009–10 (notional annual mid-point salary value) representing an estimated 2 793 non-directorate posts as at 31 March 2009 and as at 31 March 2010 **\$823.1m**

In addition, there will be an estimated 25 directorate posts as at 31 March 2009 and as at 31 March 2010.

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

	2007–08 (Actual)	2008–09 (Original)	2008–09 (Revised)	2009–10 (Estimate)
Financial provision (\$m)	832.0	929.8	890.2 (–4.3%)	939.4 (+5.5%)
				(or +1.0% on 2008–09 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 prior to the waiver of hotel accommodation tax on 1 July 2008; and
- issuing and redeeming tax reserve certificates.

4 In 2008–09, the Department continued to enhance services and efficiency through wider use of information technology (IT), re-engineering of work processes and streamlining of procedures. During the year, the Department continued to develop eTAX at the GovHK and rolled out a wide range of personalised online services to facilitate taxpayers to handle their tax affairs in a convenient manner. Through their personal eTAX Accounts, taxpayers can file tax returns, obtain personal tax information, notify changes of personal particulars as well as lodging requests for revision of assessment electronically. They may also select to receive notices and documents related to tax return filing, assessment and tax payment in electronic form.

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5 To assist taxpayers in understanding their rights and fulfilling their obligations under the Inland Revenue Ordinance, the Department continued to make use of its website and a 24-hour fax system to provide a series of electronic seminars and comprehensive information for employers, individuals and tax representatives. Information on a wide range of topics is also disseminated to the public through the GovHK. In December 2008, the Business Registration Office opened a Receipt and Despatch Centre in the premises of the Companies Registry. The Centre provides a convenient point where companies may submit applications for business registration and collect their business registration certificates.

6 The key performance measures are:

Targets

	Target	2007–08 (Actual)	2008–09 (Revised Estimate)	2009–10 (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	87.6	85.0	85.0
individuals (%)	96.0	98.8	98.0	98.0
salaries tax (%)	96.0	98.8	98.0	98.0
property tax (%)	96.0	98.5	98.0	98.0
personal assessment (%)	96.0	98.8	98.0	98.0
<i>Tax returns for first-time taxpayers</i>				
profits tax				
tax returns issued for chargeable cases within three months (%)	98	100	98	98
salaries tax				
tax returns issued for taxable cases				
April to November—within three months (%)	98	100	99	99
December to March—within five months (%)	98	100	99	99
<i>Company deregistration</i>				
processing of requests for issuance of Notice of No Objection by the Commissioner of Inland Revenue within 21 working days (%)	98	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	99.9	99.0	99.0
September to April—within 18 working days (%)	98.0	99.9	99.0	99.0
notices of settlement/notifications of decision issued within four months (%)	98.0	99.9	99.0	99.0
<i>Tax holdover claims</i>				
replies made within 12 working days (%)	98.0	99.9	99.0	99.0

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	Target	2007–08 (Actual)	2008–09 (Revised Estimate)	2009–10 (Plan)
<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	99.3	99.0	99.0
contract notes/lease agreements stamped on the day submitted (%)	98.0	99.7	99.0	99.0
claims for exemption in respect of intra-group transfers processed within three months (%)	85.0	91.5	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 issued within 30 minutes (%)	97.0	99.8	99.0	99.0
notifications by post or through the GovHK updated within five working days (%)	99.0	99.6	99.0	99.0
 <i>Indicators</i>				
		2007–08 (Actual)	2008–09 (Revised Estimate)	2009–10 (Estimate)
<i>Profits tax</i>				
assessments made		401 000	399 000	399 000
assessments per post		764	742	742
provision per assessment (\$).....		524.7	570.4	583.5
<i>Salaries tax</i>				
assessments made		2 173 000	2 190 000	2 190 000
assessments per post		2 292	2 320	2 313
provision per assessment (\$).....		146.0	156.1	158.4
<i>Property tax</i>				
assessments made		513 000	512 000	510 000
assessments per post		2 803	2 798	2 787
provision per assessment (\$).....		123.6	135.0	137.6
<i>Personal assessment</i>				
assessments made		337 000	320 000	320 000
assessments per post		2 534	2 406	2 406
provision per assessment (\$).....		135.6	154.4	155.0
<i>Objections and appeals</i>				
objections and appeals processed		811	810	810
objections and appeals per post		32	32	32
provision per objection or appeal (\$).....		24,044	25,802	26,049
<i>Business registration</i>				
business registration certificates (new and renewal)				
certificates issued.....		856 000	890 000	870 000
certificates per post		6 848	7 008	6 744
provision per certificate (\$)		49.8	54.0	57.1

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	2007–08 (Actual)	2008–09 (Revised Estimate)	2009–10 (Estimate)
extracts of information			
extracts issued.....	291 000	290 000	290 000
extracts per post.....	10 034	10 000	9 667
provision per extract (\$).....	27.1	31.4	33.4
<i>Stamp duty</i>			
documents stamped.....	1 957 000	1 500 000@	1 350 000@
stamped documents per post.....	19 768	15 306	13 636
provision per stamped document (\$).....	19.2	26.9	30.4
<i>Estate duty</i>			
cases finalised.....	3 034	1 800	1 440
cases per post.....	160	200	480
provision per case (\$).....	2,703	2,556	1,389
<i>Betting duty</i>			
returns processed.....	245	241	247
returns per post.....	123	121	124
provision per return (\$).....	2,449	2,490	2,834
<i>Hotel accommodation tax</i>			
quarterly returns processed.....	913	236Ω	N.A.
quarterly returns per post.....	152	79	N.A.
provision per quarterly return (\$).....	1,972	4,237	N.A.
<i>Tax reserve certificates</i>			
purchase/redemption transactions.....	156 000	158 000	158 000
transactions per post.....	15 600	15 800	15 800
provision per transaction (\$).....	21.8	22.8	23.4

@ The reduction in the number of documents stamped is due to the slowdown of the property market and the stock market since the second half of 2008–09. This trend is expected to continue in 2009–10.

Ω The decrease in the number of quarterly returns processed is due to the waiver of hotel accommodation tax with effect from 1 July 2008. No returns will therefore be processed in 2009–10.

Matters Requiring Special Attention in 2009–10

7 During 2009–10, the maintenance of 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;
- explore the feasibility of expanding the scope of eTAX, such as providing more online services to owners of jointly owned properties and allowing the electronic filing of profits tax returns; and
- develop online services jointly with the Companies Registry to facilitate companies' application for incorporation and business registration in a one-stop manner.

Programme (2): Collection

	2007–08 (Actual)	2008–09 (Original)	2008–09 (Revised)	2009–10 (Estimate)
Financial provision (\$m)	121.2	128.0	130.4 (+1.9%)	134.8 (+3.4%)
				(or +5.3% on 2008–09 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 2008–09, 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	2007–08 (Actual)	2008–09 (Revised Estimate)	2009–10 (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

	2007–08 (Actual)	2008–09 (Revised Estimate)	2009–10 (Estimate)
<i>Collection of tax</i>			
payments processed	2 516 000	2 410 000§	2 540 000
payments per post	47 472	45 472	47 925
provision per payment (\$).....	9.0	10.1	9.7
<i>Refund of tax</i>			
refunds made	432 000	540 000‡	410 000
refunds per post	18 783	23 478	17 826
provision per refund (\$).....	16.9	14.3	19.3
<i>Recovery of tax</i>			
completed recovery cases	193 000	190 000	190 000
completed recovery cases per post	654	640	635
provision per completed recovery case (\$).....	441.5	484.2	504.2

§ The reduction in the number of payments processed is due to the tax concessions in the year, coupled with an increase in the number of claims for holdover of provisional tax amidst the economic downturn.

‡ The increase in the number of refund cases is due to the one-off tax reduction of 75 per cent for the 2007–08 final tax, subject to a ceiling of \$25,000 per case.

Matters Requiring Special Attention in 2009–10

12 During 2009–10, the Department will continue to promote the use of electronic services for tax payment.

Programme (3): Investigation and Field Audit

	2007–08 (Actual)	2008–09 (Original)	2008–09 (Revised)	2009–10 (Estimate)
Financial provision (\$m)	167.4	172.5	176.7 (+2.4%)	180.6 (+2.2%)

(or +4.7% on
2008–09 Original)

Aim

13 The aim is to counter tax evasion, minimise opportunities for tax avoidance and promote voluntary compliance by taxpayers.

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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.

15 In 2008–09, 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 high risk cases for audit and investigation.

16 The key performance measures are:

Target

	Target	2007–08 (Actual)	2008–09 (Revised Estimate)	2009–10 (Plan)
<i>Tax audit and investigation</i>				
field audit and tax				
investigation cases processed				
within two years (%)	80.0	91.7	85.0	85.0

Indicators

	2007–08 (Actual)	2008–09 (Revised Estimate)	2009–10 (Estimate)
<i>Field audit and tax investigation</i>			
cases completed	1 864	1 860	1 800 ^β
back tax and penalty assessed (\$m)	2,528.5	2,100.0 ^φ	2,050.0 ^φ
cases per post	6.9	6.8	6.6
provision per case (\$)	89,270	94,409	99,722
back tax and penalty per case (\$m)	1.4	1.1	1.1
back tax and penalty per post (\$m)	9.3	7.7	7.5
back tax and penalty per dollar of provision (\$)	15.2	12.0	11.4
<i>Property tax compliance check</i>			
cases completed	36 703	53 000 [#]	65 000 [#]
back tax assessed (\$m)	33.0	33.0	32.0
cases per post	9 176	13 250	16 250
provision per case (\$)	27.2	20.8	16.9
back tax per case (\$)	899	623	492
back tax per post (\$m)	8.3	8.3	8.0
back tax per dollar of provision (\$)	33.0	30.0	29.1

β It is anticipated that greater efforts and longer time would be required to complete cases due to drop in earnings/profits and increased financial hardship encountered by taxpayers as a result of the economic downturn.

φ The amounts of back tax and penalty assessed are expected to be lower than that in 2007–08, which was exceptionally high due to the settlement of a few large tax avoidance cases.

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 2009–10

17 During 2009–10, the Department will continue to combat tax evasion and tackle tax avoidance.

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Programme (4): Taxpayer Services

	2007–08 (Actual)	2008–09 (Original)	2008–09 (Revised)	2009–10 (Estimate)
Financial provision (\$m)	20.0	21.4	21.3 (–0.5%)	21.8 (+2.3%)
				(or +1.9% on 2008–09 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 2008, 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. During 29 May to 4 July 2008, computers were set up in the central enquiry counter of the Department for taxpayers to open eTAX Accounts and to perform e-filing of tax returns.

21 The key performance measures are:

Targets

	Target	2007–08 (Actual)	2008–09 (Revised Estimate)	2009–10 (Plan)
<i>Enquiry service centre</i>				
waiting time for over-the-counter enquiry service not to exceed ten minutes				
during peak hours (%).....	95.0	98.8	98.0	98.0
outside peak hours (%).....	99.0	99.9	99.0	99.0
connected telephone calls answered within three minutes				
July to April (%).....	90	95	95	95
May to June (%).....	80.0	92.5	87.2	84.0
<i>Complaints</i>				
interim reply within seven working days (%).....	99.0	99.7	99.0	99.0
substantial reply within 15 working days (%).....	99.0	99.7	99.0	99.0
<i>eTAX</i>				
access code notices issued for applications through the GovHK within two working days (%)¶.....	95	N.A.	95	95

¶ New performance pledge introduced as from April 2008.

Indicators

	2007–08 (Actual)	2008–09 (Revised Estimate)	2009–10 (Estimate)
<i>Over-the-counter enquiry service</i>			
enquiries	381 000	390 000	390 000
enquiries processed per post.....	12 290	13 448	13 448
<i>Telephone enquiry service</i>			
enquiries	1 167 000	1 311 000 ^Ψ	1 277 000^Ψ
enquiries processed per post.....	36 469	37 457	36 486
<i>Complaints</i>			
complaints processed.....	355	400	400
complaints processed per post.....	89	100	100

^Ψ The increase in the number of telephone enquiries is attributable to the increased volume of enquiries on the completion of tax return during peak periods and on eTAX services introduced in January 2008.

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Matters Requiring Special Attention in 2009–10

22 During 2009–10, the Department will continue to deliver quality customer service and promote the use of electronic services, through which taxpayers can file tax returns, obtain their personal tax information and documents, notify changes of personal particulars and lodge requests for revision of assessment.

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ANALYSIS OF FINANCIAL PROVISION

Programme	2007-08 (Actual) (\$m)	2008-09 (Original) (\$m)	2008-09 (Revised) (\$m)	2009-10 (Estimate) (\$m)
(1) Assessing Functions.....	832.0	929.8	890.2	939.4
(2) Collection.....	121.2	128.0	130.4	134.8
(3) Investigation and Field Audit.....	167.4	172.5	176.7	180.6
(4) Taxpayer Services.....	20.0	21.4	21.3	21.8
	1,140.6	1,251.7	1,218.6 (-2.6%)	1,276.6 (+4.8%)
				(or +2.0% on 2008-09 Original)

Analysis of Financial and Staffing Provision

Programme (1)

Provision for 2009-10 is \$49.2 million (5.5%) higher than the revised estimate for 2008-09. This is mainly due to the provision for possible increase in expenditure on interest on tax reserve certificates, filling of vacant posts and salary increments for staff, partly offset by the completion of a capital project in 2008-09.

Programme (2)

Provision for 2009-10 is \$4.4 million (3.4%) higher than the revised estimate for 2008-09. This is mainly due to filling of vacant posts and salary increments for staff.

Programme (3)

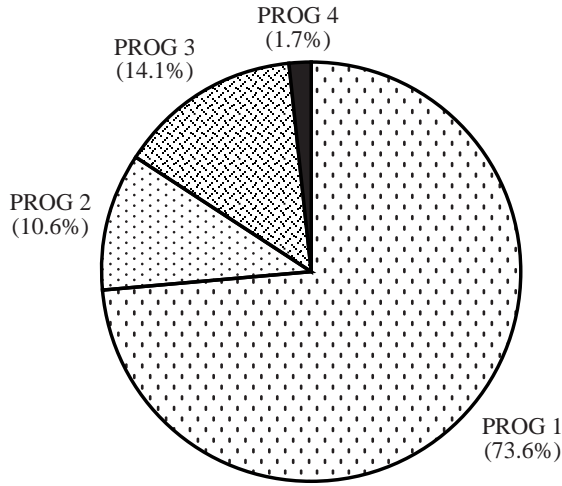
Provision for 2009-10 is \$3.9 million (2.2%) higher than the revised estimate for 2008-09. This is mainly due to filling of vacant posts and salary increments for staff.

Programme (4)

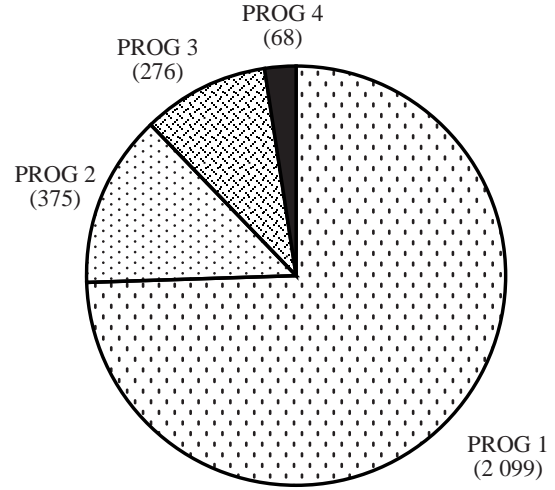
Provision for 2009-10 is \$0.5 million (2.3%) higher than the revised estimate for 2008-09. This is mainly due to salary increments for staff.

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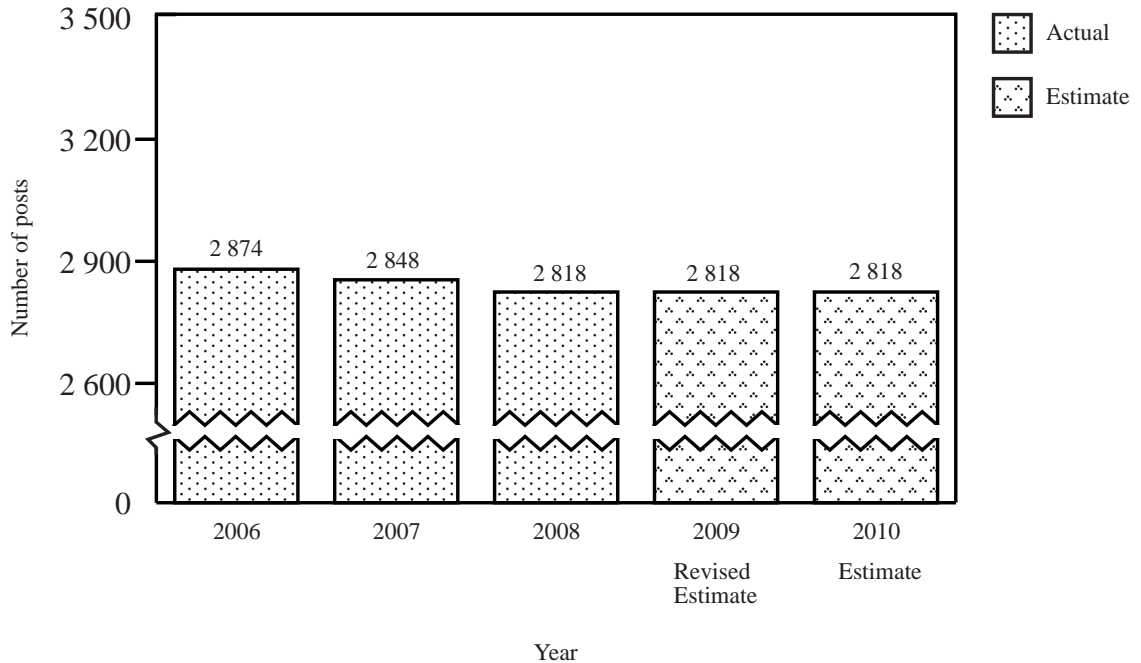
Allocation of provision to programmes (2009-10)



Staff by programme (as at 31 March 2010)



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



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Sub-head (Code)	Actual expenditure 2007-08	Approved estimate 2008-09	Revised estimate 2008-09	Estimate 2009-10	
	\$'000	\$'000	\$'000	\$'000	
Operating Account					
Recurrent					
000	Operational expenses	1,060,913	1,108,513	1,136,661	1,158,092
189	Interest on tax reserve certificates.....	73,601	134,230	74,000	112,100
209	Special legal expenses	6,065	6,903	6,400	6,403
	Total, Recurrent.....	<u>1,140,579</u>	<u>1,249,646</u>	<u>1,217,061</u>	<u>1,276,595</u>
	Total, Operating Account	<u>1,140,579</u>	<u>1,249,646</u>	<u>1,217,061</u>	<u>1,276,595</u>
Capital Account					
Plant, Equipment and Works					
	Minor plant, vehicles and equipment (block vote).....	—	2,042	1,534	—
	Total, Plant, Equipment and Works.....	<u>—</u>	<u>2,042</u>	<u>1,534</u>	<u>—</u>
	Total, Capital Account.....	<u>—</u>	<u>2,042</u>	<u>1,534</u>	<u>—</u>
	Total Expenditure	<u><u>1,140,579</u></u>	<u><u>1,251,688</u></u>	<u><u>1,218,595</u></u>	<u><u>1,276,595</u></u>

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Details of Expenditure by Subhead

The estimate of the amount required in 2009–10 for the salaries and expenses of the Inland Revenue Department is \$1,276,595,000. This represents an increase of \$58,000,000 over the revised estimate for 2008–09 and of \$136,016,000 over actual expenditure in 2007–08.

Operating Account

Recurrent

2 Provision of \$1,158,092,000 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 2009 will be 2 818 permanent posts. No net change in establishment is expected in 2009–10. Subject to certain conditions, the controlling officer may under delegated power create or delete non-directorate posts during 2009–10, but the notional annual mid-point salary value of all such posts must not exceed \$823,119,000.

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

	2007–08 (Actual) (\$'000)	2008–09 (Original) (\$'000)	2008–09 (Revised) (\$'000)	2009–10 (Estimate) (\$'000)
Personal Emoluments				
- Salaries	922,371	956,308	984,748	1,006,602
- Allowances	6,740	8,828	10,334	10,519
- Job-related allowances	9	27	91	27
Personnel Related Expenses				
- Mandatory Provident Fund contribution	869	1,140	1,573	1,696
- Civil Service Provident Fund contribution	818	1,608	1,682	1,784
Departmental Expenses				
- General departmental expenses	130,106	140,602	138,233	137,464
	1,060,913	1,108,513	1,136,661	1,158,092

5 Provision of \$112,100,000 under *Subhead 189 Interest on tax reserve certificates* is for the payment of interest on tax reserve certificates (TRCs) by the Commissioner of Inland Revenue under the Tax Reserve Certificates Ordinance. The increase of \$38,100,000 (51.5%) over the revised estimate for 2008–09 is mainly due to the provision for possible increase in the amount of interest payable in respect of conditional standover order TRCs, having regard to the value of this particular type of TRCs in hand and the possibility of the finalisation of a number of tax objection/appeal cases entailing redemption of these TRCs with payment of substantial amount of interest in 2009–10.

6 Provision of \$6,403,000 under *Subhead 209 Special legal expenses* is for expenditure on court fees in connection with the registration of writs.