

Head 76 — INLAND REVENUE DEPARTMENT

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

Estimate 2010–11 **\$1,273.9m**

Establishment ceiling 2010–11 (notional annual mid-point salary value) representing an estimated 2 793 non-directorate posts as at 31 March 2010 and as at 31 March 2011 **\$809.5m**

In addition, there will be an estimated 25 directorate posts as at 31 March 2010 and as at 31 March 2011.

Controlling Officer's Report

Programmes

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

Programme (1): Assessing Functions

	2008–09 (Actual)	2009–10 (Original)	2009–10 (Revised)	2010–11 (Estimate)
Financial provision (\$m)	858.8	939.4	842.6 (–10.3%)	933.4 (+10.8%)
				(or –0.6% on 2009–10 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; and
- issuing and redeeming tax reserve certificates.

4 In 2009–10, 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. The Department continued to promote the use of electronic services. Comprehensive personalised online services are delivered through eTAX at GovHK 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 lodge requests for revision of assessment electronically. They may also select to receive notices and documents relating to tax return filing, assessment and tax payment in electronic form. To expand the scope of eTAX services, the Department has commenced the development of a computer system to allow electronic filing of profits tax returns through the Internet.

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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 disseminated to the public through GovHK.

6 The key performance measures are:

Targets

	Target	2008–09 (Actual)	2009–10 (Revised Estimate)	2010–11 (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	88.0	85.0	85.0
individuals (%).....	96.0	98.3	98.0	98.0
salaries tax (%)	96.0	98.3	98.0	98.0
property tax (%).....	96.0	98.1	98.0	98.0
personal assessment (%)	96.0	98.3	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 (%)	98.0	99.9	98.0	98.0
<i>Tax reserve certificates</i>				
purchase/redemption transactions completed				
January to June—within 12 working days (%)	99	100	99	99
July to December—within nine working days (%)	99	100	99	99
<i>Notices of objection</i>				
acknowledgements made				
May to August—within 12 working days (%)	98.0	99.7	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	2008–09 (Actual)	2009–10 (Revised Estimate)	2010–11 (Plan)
<i>Stamping of documents</i>				
stamping of assignments, sale and purchase agreements and lease agreements through GovHK issued instantly through GovHK after receipt of stamp duty payment by online mode (%)#	98	N.A.	99	99
issued within two working days through GovHK after receipt of stamp duty payment by off-line mode (%)#	98	N.A.	99	99
processing of requests for stamping of assignments and sale and purchase agreements within five working days (%)	98.0	99.9	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	97.8	90.0	90.0
<i>Business registration</i>				
new business registration certificates applications over the counter issued within 30 minutes (%)¶	99.0	99.4	99.0	99.0
applications by post or through 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 GovHK updated within five working days (%)	99	100	99	99

In April 2009, the Department introduced a new performance pledge for electronic stamping of assignments, sale and purchase agreements and lease agreements through GovHK.

¶ Not applicable to the applications and notifications submitted to the Receipt and Despatch Centre located in the Companies Registry.

Indicators

	2008–09 (Actual)	2009–10 (Revised Estimate)	2010–11 (Estimate)
<i>Profits tax</i>			
assessments made	406 000	415 000	412 500
assessments per post	755	771	765
provision per assessment (\$)	556.2	546.7	569.5
<i>Salaries tax</i>			
assessments made	2 290 000	2 330 000	2 300 000
assessments per post	2 426	2 460	2 424
provision per assessment (\$)	148.7	144.8	152.2
<i>Property tax</i>			
assessments made	528 000	533 000	533 000
assessments per post	2 885	2 913	2 835
provision per assessment (\$)	129.2	125.5	131.1

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	2008–09 (Actual)	2009–10 (Revised Estimate)	2010–11 (Estimate)
<i>Personal assessment</i>			
assessments made	319 000	355 000‡	320 000
assessments per post.....	2 398	2 669	2 462
provision per assessment (\$)	154.9	133.8	155.6
<i>Objections and appeals</i>			
objections and appeals processed.....	817	810	810
objections and appeals per post.....	33	32	32
provision per objection or appeal (\$)	23,378	25,309	26,049
<i>Business registration</i>			
business registration certificates (new and renewal)			
certificates issued	951 000	950 000	945 000
certificates per post.....	7 488	7 364	7 383
provision per certificate (\$)	48.2	50.8	52.4
extracts of information			
extracts issued	295 000	295 000	295 000
extracts per post.....	10 172	9 833	9 833
provision per extract (\$)	28.8	32.5	33.9
<i>Stamp duty</i>			
documents stamped	1 515 000	1 600 000§	1 600 000§
stamped documents per post.....	15 459	16 162	16 162
provision per stamped document (\$)	23.6	24.7	25.0
<i>Estate duty</i>			
cases finalised.....	2 150	1 440	1 440
cases per post.....	239	480	480
provision per case (\$)	1,907	1,250	1,181
<i>Betting duty</i>			
returns processed.....	240	252	256
returns per post.....	120	126	128
provision per return (\$)	2,500	2,381	2,734
<i>Tax reserve certificates</i>			
purchase/redemption transactions.....	152 000	152 000	152 000
transactions per post.....	15 200	15 200	15 200
provision per transaction (\$).....	17.8	23.7	25.0

‡ The one-off tax reduction applicable to the 2008–09 final salaries tax and tax under personal assessment has the effect of increasing the number of personal assessment.

§ The increase in the number of documents stamped is due to the recovery of the property and stock markets since the second half of 2009.

Matters Requiring Special Attention in 2010–11

7 During 2010–11, the maintenance of yield from taxes and the development of IT opportunities will continue to be matters of high priority. The Department will:

- continue to step up efforts to promote taxpayers' voluntary compliance through publicity programmes and enhanced services;
- promote the use of electronic services and expand the scope of eTAX services to implement electronic filing of profits tax returns; and
- develop online services jointly with the Companies Registry to facilitate application for company incorporation and business registration in a one-stop manner.

Programme (2): Collection

	2008–09 (Actual)	2009–10 (Original)	2009–10 (Revised)	2010–11 (Estimate)
Financial provision (\$m)	127.3	134.8	130.9 (–2.9%)	136.1 (+4.0%)
				(or +1.0% on 2009–10 Original)

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 2009–10, the Department continued to promote the use of electronic services for tax payment.

11 The key performance measures are:

Targets

	Target	2008–09 (Actual)	2009–10 (Revised Estimate)	2010–11 (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 12 working days (%)Ψ	98	100	99	99

Ψ From April 2009, the Department has shortened the target period from 21 working days to 12 working days.

Indicators

	2008–09 (Actual)	2009–10 (Revised Estimate)	2010–11 (Estimate)
<i>Collection of tax</i>			
payments processed.....	2 398 000	2 540 000	2 531 000
payments per post.....	45 245	47 925	49 627
provision per payment (\$)	10.1	9.6	9.9
<i>Refund of tax</i>			
refunds made	536 000	455 000@	410 000
refunds per post	23 304	19 783	17 826
provision per refund (\$).....	13.4	16.7	18.8
<i>Recovery of tax</i>			
completed recovery cases	189 000	190 000	190 000
completed recovery cases per post	636	635	638
provision per completed recovery case (\$).....	478.8	490.0	513.2

@ The reduction in the number of refunds made is because the tax concession in the year is applicable to salaries tax and tax under personal assessment, subject to a ceiling of \$8,000 per case whereas the tax concession for the preceding year covered all tax types and the ceiling was \$25,000 per case.

Matters Requiring Special Attention in 2010–11

12 During 2010–11, the Department will continue to promote the use of electronic services for tax payment.

Programme (3): Investigation and Field Audit

	2008–09 (Actual)	2009–10 (Original)	2009–10 (Revised)	2010–11 (Estimate)
Financial provision (\$m)	176.0	180.6	176.3 (–2.4%)	182.5 (+3.5%)

(or +1.1% on
2009–10 Original)

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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.

15 In 2009–10, the Department continued its determined effort 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	2008–09 (Actual)	2009–10 (Revised Estimate)	2010–11 (Plan)
<i>Tax audit and investigation</i>				
field audit and tax investigation cases processed within two years (%)	80.0	90.1	85.0	85.0

Indicators

	2008–09 (Actual)	2009–10 (Revised Estimate)	2010–11 (Estimate)
<i>Field audit and tax investigation</i>			
cases completed.....	1 862	1 800	1 800
back tax and penalty assessed (\$m).....	2,181.2	2,500.0 ^β	2,050.0^β
cases per post.....	6.8	6.6	6.7
provision per case (\$).....	93,985	97,333	100,667
back tax and penalty per case (\$m).....	1.2	1.4	1.1
back tax and penalty per post (\$m).....	8.0	9.2	7.6
back tax and penalty per dollar of provision (\$).....	12.5	14.3	11.3
<i>Property tax compliance check</i>			
cases completed.....	60 419	80 000 ^Ω	90 200^Ω
back tax assessed (\$m).....	33.8	43.5 ^Ω	46.0^Ω
cases per post.....	15 105	20 000	18 040
provision per case (\$).....	16.6	13.8	14.4
back tax per case (\$).....	559	544	510
back tax per post (\$m).....	8.4	10.9	9.2
back tax per dollar of provision (\$).....	33.8	39.5	35.4

^β The amounts of back tax and penalty assessed in 2009–10 are exceptionally high due to the settlement of a few large tax avoidance cases. The amounts for 2010–11 are not expected to be as high as 2009–10.

^Ω There was a year-on-year increase in the number of tenancy agreements filed which will result in more cases checked. The amount of back tax assessed is estimated to increase accordingly.

Matters Requiring Special Attention in 2010–11

17 During 2010–11, the Department will continue to exert determined effort to combat tax evasion and counter tax avoidance schemes.

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Programme (4): Taxpayer Services

	2008–09 (Actual)	2009–10 (Original)	2009–10 (Revised)	2010–11 (Estimate)
Financial provision (\$m)	20.7	21.8	21.1 (–3.2%)	21.9 (+3.8%)

(or +0.5% on
2009–10 Original)

Aim

18 The aim is to provide a high level and quality 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 enquiries services as well as personalised electronic services through the Internet, and the investigation of complaints made by members of the public.

20 In May 2009, the Department extended 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. The Department also redeployed manpower resources during the period from 4 May to 3 July 2009 to support the daytime telephone enquiry service in the peak return-filing season. A computer was set up in the central enquiry counter for taxpayers to open eTAX Accounts and to perform e-filing of tax returns.

21 The key performance measures are:

Targets

	Target	2008–09 (Actual)	2009–10 (Revised Estimate)	2010–11 (Plan)
<i>Enquiry service centre</i>				
waiting time for over-the-counter enquiry service not to exceed ten minutes				
during peak hours (%).....	95.0	97.7	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 (%)	90.0	95.8	95.0	95.0
May to June (%).....	80.0	87.2	92.4	85.0
<i>Complaints</i>				
interim reply within seven working days (%)	99.0	99.4	99.0	99.0
substantial reply within 15 working days (%)	99	100	99	99
<i>eTAX Account</i>				
access code notices issued for applications through GovHK within two working days (%)	95	100	95	95
electronic receipts issued for tax payments made by electronic means within two working days (%)λ	99	N.A.	99	99

λ New performance pledge introduced since April 2009.

Indicators

	2008–09 (Actual)	2009–10 (Revised Estimate)	2010–11 (Estimate)
<i>Over-the-counter enquiry service</i>			
enquiries	400 000	413 000	413 000
enquiries processed per post.....	13 793	14 241	14 750

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	2008–09 (Actual)	2009–10 (Revised Estimate)	2010–11 (Estimate)
<i>Telephone enquiry service</i>			
enquiries	1 307 000	1 316 000	1 316 000
enquiries processed per post.....	37 343	37 600	35 568
<i>Complaints</i>			
complaints processed.....	343	370	370
complaints processed per post.....	86	93	93

Matters Requiring Special Attention in 2010–11

22 During 2010–11, the Department will continue to deliver quality customer service, 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 holdover of tax and revision of assessment.

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ANALYSIS OF FINANCIAL PROVISION

Programme	2008-09 (Actual) (\$m)	2009-10 (Original) (\$m)	2009-10 (Revised) (\$m)	2010-11 (Estimate) (\$m)
(1) Assessing Functions.....	858.8	939.4	842.6	933.4
(2) Collection.....	127.3	134.8	130.9	136.1
(3) Investigation and Field Audit.....	176.0	180.6	176.3	182.5
(4) Taxpayer Services.....	20.7	21.8	21.1	21.9
	1,182.8	1,276.6	1,170.9 (-8.3%)	1,273.9 (+8.8%)
				(or -0.2% on 2009-10 Original)

Analysis of Financial and Staffing Provision

Programme (1)

Provision for 2010-11 is \$90.8 million (10.8%) higher than the revised estimate for 2009-10. This is mainly due to the provision for possible increase in expenditure on interest on tax reserve certificates, filling of vacancies, salary increments for staff and increased operating expenses.

Programme (2)

Provision for 2010-11 is \$5.2 million (4.0%) higher than the revised estimate for 2009-10. This is mainly due to filling of vacancies, salary increments for staff and increased operating expenses.

Programme (3)

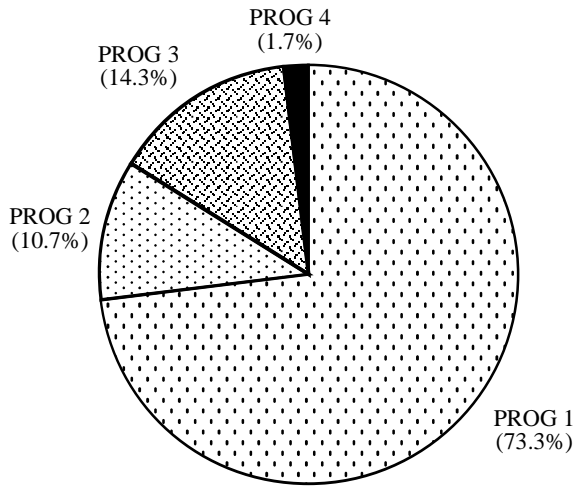
Provision for 2010-11 is \$6.2 million (3.5%) higher than the revised estimate for 2009-10. This is mainly due to filling of vacancies, salary increments for staff and increased operating expenses.

Programme (4)

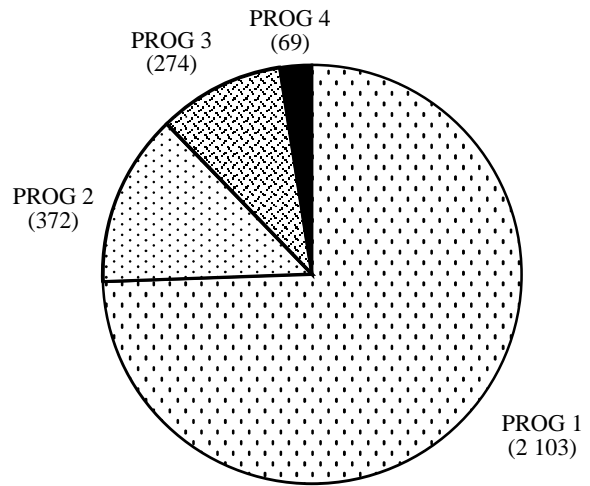
Provision for 2010-11 is \$0.8 million (3.8%) higher than the revised estimate for 2009-10. This is mainly due to filling of vacancies and salary increments for staff.

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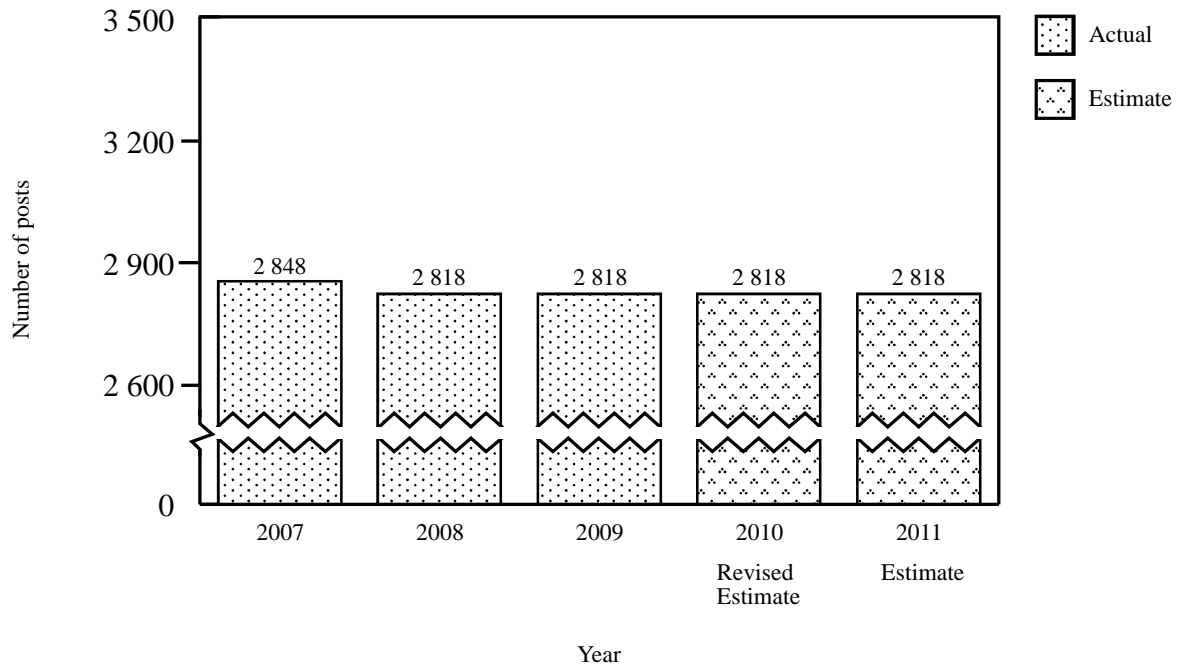
*Allocation of provision
to programmes
(2010-11)*



*Staff by programme
(as at 31 March 2011)*



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



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Sub-head (Code)	Actual expenditure 2008-09	Approved estimate 2009-10	Revised estimate 2009-10	Estimate 2010-11	
	\$'000	\$'000	\$'000	\$'000	
Operating Account					
Recurrent					
000	Operational expenses	1,118,658	1,158,092	1,124,982	1,165,990
189	Interest on tax reserve certificates.....	57,215	112,100	40,000	102,000
209	Special legal expenses	5,395	6,403	5,900	5,903
	Total, Recurrent.....	<u>1,181,268</u>	<u>1,276,595</u>	<u>1,170,882</u>	<u>1,273,893</u>
	Total, Operating Account	<u>1,181,268</u>	<u>1,276,595</u>	<u>1,170,882</u>	<u>1,273,893</u>
Capital Account					
Plant, Equipment and Works					
	Minor plant, vehicles and equipment (block vote)	1,534	—	—	—
	Total, Plant, Equipment and Works.....	<u>1,534</u>	<u>—</u>	<u>—</u>	<u>—</u>
	Total, Capital Account	<u>1,534</u>	<u>—</u>	<u>—</u>	<u>—</u>
	Total Expenditure	<u><u>1,182,802</u></u>	<u><u>1,276,595</u></u>	<u><u>1,170,882</u></u>	<u><u>1,273,893</u></u>

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Details of Expenditure by Subhead

The estimate of the amount required in 2010–11 for the salaries and expenses of the Inland Revenue Department is \$1,273,893,000. This represents an increase of \$103,011,000 over the revised estimate for 2009–10 and of \$91,091,000 over actual expenditure in 2008–09.

Operating Account

Recurrent

2 Provision of \$1,165,990,000 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 2010 will be 2 818 permanent posts. No net change in establishment is expected in 2010–11. Subject to certain conditions, the controlling officer may under delegated power create or delete non-directorate posts during 2010–11, but the notional annual mid-point salary value of all such posts must not exceed \$809,484,000.

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

	2008–09 (Actual) (\$'000)	2009–10 (Original) (\$'000)	2009–10 (Revised) (\$'000)	2010–11 (Estimate) (\$'000)
Personal Emoluments				
- Salaries	982,016	1,006,602	980,569	990,909
- Allowances	8,948	10,519	8,456	8,752
- Job-related allowances	83	27	43	45
Personnel Related Expenses				
- Mandatory Provident Fund contribution	1,643	1,696	2,111	2,094
- Civil Service Provident Fund contribution	1,657	1,784	1,784	1,889
Departmental Expenses				
- General departmental expenses	124,311	137,464	132,019	162,301
	1,118,658	1,158,092	1,124,982	1,165,990

5 Provision of \$102,000,000 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 \$62,000,000 (155.0%) over the revised estimate for 2009–10 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 2010–11.

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