

Head 76 — INLAND REVENUE DEPARTMENT

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

Estimate 2017–18 **\$1,566.5m**

Establishment ceiling 2017–18 (notional annual mid-point salary value) representing an estimated 2 815 non-directorate posts as at 31 March 2017 rising by 12 posts to 2 827 posts as at 31 March 2018 **\$1,123.8m**

In addition, there will be an estimated 27 directorate posts as at 31 March 2017 and as at 31 March 2018.

Controlling Officer's Report

Programmes

<p>Programme (1) Assessing Functions</p> <p>Programme (2) Collection</p> <p>Programme (3) Investigation and Field Audit</p> <p>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

	2015–16 (Actual)	2016–17 (Original)	2016–17 (Revised)	2017–18 (Estimate)
Financial provision (\$m)	1,040.0	1,084.0	1,095.5 (+1.1%)	1,130.1 (+3.2%)
				(or +4.3% on 2016–17 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 (Cap. 112) 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 or 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 2016–17, the Department continued to enhance the quality and efficiency of its services through a wider use of information technology (IT) and streamlining procedures. Under eTAX at GovHK, individual 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 related to tax return filing, assessment and tax payment in an electronic form. Electronic filing is available to small corporations and partnerships for their profits tax returns and employers for annual returns and various notifications in respect of their employees. The Department also continued with its efforts for expanding Hong Kong's tax treaty network and keeping a close view on the evolving international standards for enhancing tax transparency and combating tax evasion.

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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 comprehensive information for employers, individuals, businesses and tax representatives. Information on a wide range of topics is also disseminated to the public through GovHK.

6 The key performance measures are:

Targets

	Target	2015–16 (Actual)	2016–17 (Revised Estimate)	2017–18 (Plan)
<i>Written enquiries</i>				
replies to simple enquiries within seven working days (%)	96.0 ^Λ	99.9	96.0	96.0
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	88.1	85.0	85.0
individuals (%).....	96.0	97.2	97.0	97.0
salaries tax (%).....	96.0	97.2	97.0	97.0
property tax (%)	96.0	97.4	97.0	97.0
personal assessment (%)	96.0	97.2	97.0	97.0
<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 (%)....	98.0	99.9	99.0	99.0
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>				
replies 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	2015–16 (Actual)	2016–17 (Revised Estimate)	2017–18 (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 (%)	99	100	99	99
issued within two working days through GovHK after receipt of stamp duty payment by offline mode (%)	99	100	99	99
processing of requests for stamping of assignments and sale and purchase agreements within five working days (%)	98.0	99.6	99.0	99.0
contract notes/lease agreements stamped on the day submitted (%)	98.0	99.6	99.0	99.0
claims for exemption in respect of intra-group transfers processed within three months (%)	85.0	99.3	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 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

^ Improvement over the previous target of 95 per cent since April 2016.

Indicators

	2015–16 (Actual)	2016–17 (Revised Estimate)	2017–18 (Estimate)
<i>Profits tax</i>			
assessments made	461 000	464 000	469 000
assessments per post	823	820	817
provision per assessment (\$)	644.3	665.7	686.6
<i>Salaries tax</i>			
assessments made	2 797 000	2 870 000	2 870 000
assessments per post	2 991	3 060	3 047
provision per assessment (\$)	155.9	157.1	162.1
<i>Property tax</i>			
assessments made	599 000	614 000	616 000
assessments per post	3 220	3 301	3 312
provision per assessment (\$)	145.6	145.9	148.9

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	2015–16 (Actual)	2016–17 (Revised Estimate)	2017–18 (Estimate)
<i>Personal assessment</i>			
assessments made.....	362 000	365 000	356 000
assessments per post.....	2 850	2 874	2 803
provision per assessment (\$).....	161.9	164.7	173.0
<i>Objections and appeals</i>			
objections and appeals processed.....	810	810	810
objections and appeals per post.....	32	32	32
provision per objection or appeal (\$).....	30,247	31,358	32,099
<i>Business registration</i>			
business registration certificates (new and renewal)			
certificates issued.....	1 403 000	1 460 000	1 410 000
certificates per post.....	11 315	11 774	11 371
provision per certificate (\$).....	42.2	41.8	44.2
extracts of information			
extracts issued.....	359 000	400 000	355 000
extracts per post.....	12 379	13 793	12 241
provision per extract (\$).....	34.5	32.3	36.9
<i>Stamp duty</i>			
documents stamped.....	1 586 000	1 600 000	1 600 000
stamped documents per post.....	13 556	13 675	13 675
provision per stamped document (\$).....	35.0	35.9	36.8
<i>Estate duty</i>			
cases finalised.....	772	600	600
cases per post.....	257	200	200
provision per case (\$).....	2,461	3,167	3,167
<i>Betting duty</i>			
returns processed.....	267	273	278
returns per post.....	134	137	139
provision per return (\$).....	2,996	2,930	2,878
<i>Tax reserve certificates</i>			
purchase/redemption transactions.....	179 000	184 000	184 000
transactions per post.....	17 900	18 400	18 400
provision per transaction (\$).....	24.0	24.5	25.5

Matters Requiring Special Attention in 2017–18

7 During 2017–18, the maintenance of yield from taxes and the development of IT opportunities remain matters of high priority. The Department will:

- continue to promote taxpayers' compliance through publicity programmes and enhanced services;
- strive to expand Hong Kong's network of automatic exchange of financial account information with tax treaty partners, and put in place a portal for collecting electronic data from financial institutions for onward exchange with the designated tax authorities abroad;
- prepare for the implementation of country-by-country reporting and other measures required by the Organisation for Economic Co-operation and Development to tackle base erosion and profit shifting of enterprises; and
- continue to promote the use of electronic services and encourage taxpayers to make greater use of eTAX services.

Programme (2): Collection

	2015–16 (Actual)	2016–17 (Original)	2016–17 (Revised)	2017–18 (Estimate)
Financial provision (\$m)	163.6	167.5	170.1 (+1.6%)	172.6 (+1.5%)
				(or +3.0% on 2016–17 Original)

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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 actions in relation to default cases.

- 10 During 2016–17, the Department continued to promote the use of electronic services for tax payment.

- 11 The key performance measures are:

Targets

	Target	2015–16 (Actual)	2016–17 (Revised Estimate)	2017–18 (Plan)
<i>Tax payment</i>				
receipts issued for tax payments made by electronic means within four working days (%)	99	100	99	99
<i>Refund of tax</i>				
arising from overpayment of tax in excess of the amount demanded within 18 working days (%)	98	100	98	98
arising from revision of assessment within ten working days (%)	98	100	99	99

Indicators

	2015–16 (Actual)	2016–17 (Revised Estimate)	2017–18 (Estimate)
<i>Collection of tax</i>			
payments processed	3 463 000	3 500 000	3 500 000
payments per post	66 596	68 627	71 429
provision per payment (\$)	8.3	8.5	8.7
<i>Refund of tax</i>			
refunds made	613 000	650 000	560 000
refunds per post	22 704	25 000	18 065
provision per refund (\$)	18.4	18.0	21.4
<i>Recovery of tax</i>			
completed recovery cases	268 000	268 000	268 000
completed recovery cases per post	905	899	908
provision per completed recovery case (\$)	456.7	474.6	480.2

Matters Requiring Special Attention in 2017–18

- 12 During 2017–18, the Department will continue to promote the use of electronic payment services including e-Cheque for tax payment.

Programme (3): Investigation and Field Audit

	2015–16 (Actual)	2016–17 (Original)	2016–17 (Revised)	2017–18 (Estimate)
Financial provision (\$m)	222.7	227.2	229.9 (+1.2%)	235.2 (+2.3%)
				(or +3.5% on 2016–17 Original)

Aim

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

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Brief Description

14 This programme involves:

- tax investigation, imposition of penalties and institution of prosecution proceedings to deter tax evasion;
- field audit, including site visits and examination of accounting records of taxpayers, and promotion of 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 2016–17, the Department continued its determined efforts in combating tax evasion and countering 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	2015–16 (Actual)	2016–17 (Revised Estimate)	2017–18 (Plan)
<i>Tax audit and investigation</i>				
field audit and tax investigation cases processed within two years (%).....	80.0	89.3	85.0	85.0

Indicators

	2015–16 (Actual)	2016–17 (Revised Estimate)	2017–18 (Estimate)
<i>Field audit and tax investigation</i>			
cases completed.....	1 804	1 800	1 800
back tax and penalty assessed (\$m)	2,538.3	2,500.0	2,500.0
cases per post	6.8	6.7	6.7
provision per case (\$).....	122,561	126,833	129,722
back tax and penalty per case (\$m).....	1.4	1.4	1.4
back tax and penalty per post (\$m).....	9.5	9.4	9.4
back tax and penalty per dollar of provision (\$)	11.5	11.0	10.7
<i>Property tax compliance check</i>			
cases completed.....	186 000	210 000@	220 000
back tax assessed (\$m).....	89.9	103.0	110.0
cases per post	37 200	42 000	44 000
provision per case (\$).....	8.6	7.6	7.7
back tax per case (\$).....	483	490	500
back tax per post (\$m).....	18.0	20.6	22.0
back tax per dollar of provision (\$).....	56.2	64.4	64.7

@ The increase in the number of property tax compliance check cases is due to the anticipated increase in the number of tenancy agreements.

Matters Requiring Special Attention in 2017–18

17 During 2017–18, the Department will continue to exert determined efforts in combating tax evasion and countering tax avoidance schemes.

Programme (4): Taxpayer Services

	2015–16 (Actual)	2016–17 (Original)	2016–17 (Revised)	2017–18 (Estimate)
Financial provision (\$m)	27.1	27.7	28.0 (+1.1%)	28.6 (+2.1%)
				(or +3.2% on 2016–17 Original)

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Aim

18 The aim is to provide quality service to the public through the provision of timely and accurate tax information, thereby promoting 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 investigation of complaints from members of the public.

20 To assist the public in completing tax returns, the Department extended the service hours of telephone enquiry services in May 2016. Service hours from Monday to Friday were extended by one and a half hours till 7:00 p.m. and additional service was also provided on Saturday from 9:00 a.m. till 1:00 p.m. During peak periods, the Department also redeployed manpower resources and employed part-time staff to strengthen the daytime telephone enquiry services.

21 The key performance measures are:

Targets

	Target	2015–16 (Actual)	2016–17 (Revised Estimate)	2017–18 (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	99.9	99.0	99.0
connected telephone calls answered within three minutes				
July to April (%)	90.0	94.4	95.0	95.0
May to June (%)	80.0	89.5	88.4	88.0
<i>Complaints</i>				
interim reply within seven working days (%)	99.0	99.1	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 (%)	98	100	98	98
electronic receipts issued for tax payments made by electronic means within two working days (%)	99	100	99	99

Indicators

	2015–16 (Actual)	2016–17 (Revised Estimate)	2017–18 (Estimate)
<i>Over-the-counter enquiry service</i>			
enquiries	343 000	370 000	370 000
enquiries processed per post	12 250	13 214	13 214
<i>Telephone enquiry service</i>			
enquiries	1 413 000	1 550 000	1 550 000
enquiries processed per post	38 189	41 892	41 892
<i>Complaints</i>			
complaints processed	233	300	300
complaints processed per post.....	78	100	100

Matters Requiring Special Attention in 2017–18

22 During 2017–18, the Department will continue to deliver quality customer service and promote the wider 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 provisional tax and revision of assessment.

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ANALYSIS OF FINANCIAL PROVISION

Programme	2015–16 (Actual) (\$m)	2016–17 (Original) (\$m)	2016–17 (Revised) (\$m)	2017–18 (Estimate) (\$m)
(1) Assessing Functions	1,040.0	1,084.0	1,095.5	1,130.1
(2) Collection	163.6	167.5	170.1	172.6
(3) Investigation and Field Audit.....	222.7	227.2	229.9	235.2
(4) Taxpayer Services	27.1	27.7	28.0	28.6
	1,453.4	1,506.4	1,523.5 (+1.1%)	1,566.5 (+2.8%)

(or +4.0% on
2016–17 Original)

Analysis of Financial and Staffing Provision

Programme (1)

Provision for 2017–18 is \$34.6 million (3.2%) higher than the revised estimate for 2016–17. The increase is mainly due to the salary increments for staff, filling of vacancies and net increase of 12 posts, which is partly offset by the reduced operating expenses.

Programme (2)

Provision for 2017–18 is \$2.5 million (1.5%) higher than the revised estimate for 2016–17. The increase is mainly due to the salary increments for staff and filling of vacancies, which is partly offset by the reduced operating expenses.

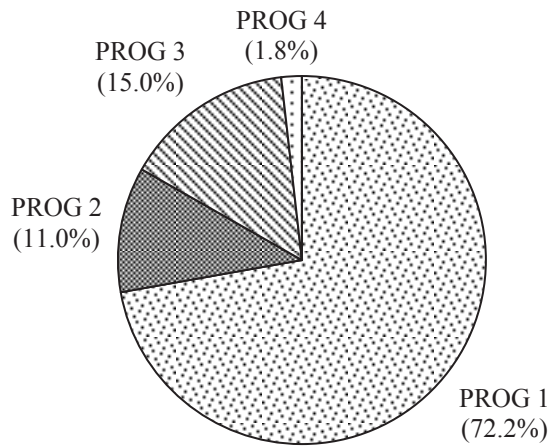
Programme (3)

Provision for 2017–18 is \$5.3 million (2.3%) higher than the revised estimate for 2016–17. The increase is mainly due to the salary increments for staff and filling of vacancies, which is partly offset by the reduced operating expenses.

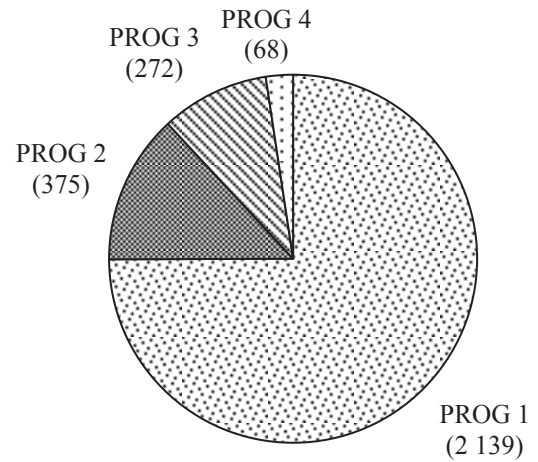
Programme (4)

Provision for 2017–18 is \$0.6 million (2.1%) higher than the revised estimate for 2016–17. The increase is mainly due to the salary increments for staff and filling of vacancies, which is partly offset by the reduced operating expenses.

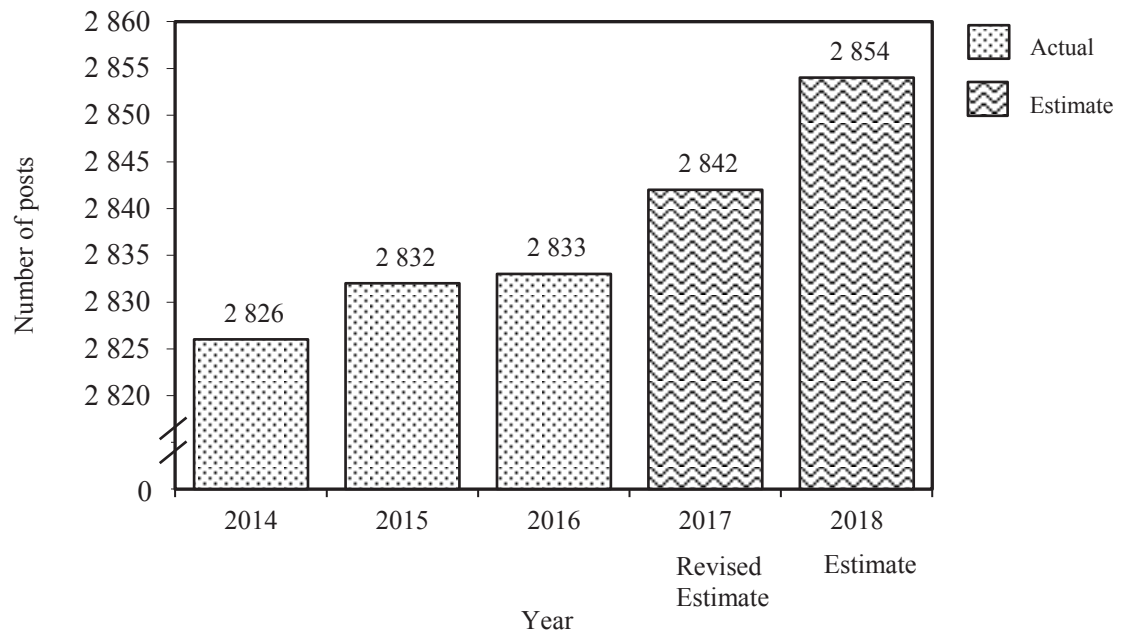
*Allocation of provision
to programmes
(2017-18)*



*Staff by programme
(as at 31 March 2018)*



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



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Sub-head (Code)		Actual expenditure 2015-16	Approved estimate 2016-17	Revised estimate 2016-17	Estimate 2017-18
		\$'000	\$'000	\$'000	\$'000
Operating Account					
Recurrent					
000	Operational expenses	1,449,928	1,479,535	1,500,053	1,539,928
189	Interest on tax reserve certificates.....	2,465	25,000	22,000	22,000
209	Special legal expenses.....	1,018	1,850	1,400	1,400
	Total, Recurrent.....	1,453,411	1,506,385	1,523,453	1,563,328
	Total, Operating Account	1,453,411	1,506,385	1,523,453	1,563,328
<hr/>					
Capital Account					
Plant, Equipment and Works					
661	Minor plant, vehicles and equipment (block vote).....	—	—	—	3,220
	Total, Plant, Equipment and Works.....	—	—	—	3,220
	Total, Capital Account.....	—	—	—	3,220
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	Total Expenditure	1,453,411	1,506,385	1,523,453	1,566,548

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Details of Expenditure by Subhead

The estimate of the amount required in 2017–18 for the salaries and expenses of the Inland Revenue Department is \$1,566,548,000. This represents an increase of \$43,095,000 over the revised estimate for 2016–17 and \$113,137,000 over the actual expenditure in 2015–16.

Operating Account

Recurrent

2 Provision of \$1,539,928,000 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 2017 will be 2 842 posts including one supernumerary post. It is expected that there will be a net increase of 12 posts in 2017–18. Subject to certain conditions, the controlling officer may under delegated power create or delete non-directorate posts during 2017–18, but the notional annual mid-point salary value of all such posts must not exceed \$1,123,777,000.

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

	2015–16 (Actual) (\$'000)	2016–17 (Original) (\$'000)	2016–17 (Revised) (\$'000)	2017–18 (Estimate) (\$'000)
Personal Emoluments				
- Salaries.....	1,204,854	1,229,588	1,250,249	1,285,044
- Allowances.....	20,287	22,764	22,262	22,523
- Job-related allowances.....	8	50	39	49
Personnel Related Expenses				
- Mandatory Provident Fund contribution.....	3,657	4,593	4,453	5,149
- Civil Service Provident Fund contribution.....	24,234	32,528	30,094	40,474
Departmental Expenses				
- General departmental expenses	196,888	190,012	192,956	186,689
	<u>1,449,928</u>	<u>1,479,535</u>	<u>1,500,053</u>	<u>1,539,928</u>

5 Provision of \$22 million 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 (Cap. 289).

6 Provision of \$1,400,000 under *Subhead 209 Special legal expenses* is for expenditure on court fees in connection with the registration of writs for tax recovery.

Capital Account

Plant, Equipment and Works

7 Provision of \$3,220,000 under *Subhead 661 Minor plant, vehicles and equipment (block vote)* in 2017–18 is the cash flow requirement for procurement of equipment.