

## Head 76 — INLAND REVENUE DEPARTMENT

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

**Estimate 2002–03** ..... **\$1,349.6m**

**Establishment ceiling 2002–03** (notional annual mid-point salary value) representing an estimated 3 269 non-directorate posts at 31 March 2002 reducing by 83 posts to 3 186 posts at 31 March 2003 .. **\$871.2m**

In addition there will be an estimated 26 directorate posts at 31 March 2002 and at 31 March 2003.

### 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 the Treasury).

#### Detail

##### Programme (1): Assessing Functions

	2000–01 (Actual)	2001–02 (Approved)	2001–02 (Revised)	2002–03 (Estimate)
Financial provision (\$m)	928.2	1,000.4 (+7.8%)	1,049.5 (+4.9%)	996.6 (–5.0%)

#### 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 2001, the department streamlined the assessing procedures by automating the selection of tax returns for assessment purposes. The Business Registration Office shortened the response time for issuing extracts of business registration records and accepted notifications on change of business registration particulars by a sole proprietor via the Internet through the Government's Electronic Service Delivery (ESD) Scheme. Feasibility studies and development work continued for various projects under the department's Information Systems Strategy Plan. To facilitate the preparation of employers' returns, a further enhanced bilingual version of computer software will be released in March 2002.

5 The department conducted outreach seminars in April 2001, and provided after-office-hours counter and telephone enquiry services in May 2001 to assist employers and individual taxpayers in fulfilling their obligations under the Inland Revenue Ordinance. It published information leaflets on common issues of concern with a view to stepping up tax education. The department's homepage was revamped to assist the public in obtaining more detailed tax information and to enhance the transparency of the department's work.

6 The key performance measures are:

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### *Targets*

	Target	2000 (Actual)	2001 (Estimate)	<b>2002 (Plan)</b>
written enquiries				
replies to simple enquiries within ten working days (%).....	99	100.0	99.0	<b>99.0</b>
replies to technical enquiries within 25 working days (%).....	98§	99.9	99.0	<b>99.0</b>
processing of returns				
assessments made within nine months				
profits tax				
business (%) .....	80	85.0	85.0	<b>85.0</b>
individuals (%) .....	96	99.2	98.0	<b>98.0</b>
salaries tax (%) .....	96	99.2	98.0	<b>98.0</b>
property tax (%).....	96	98.7	98.0	<b>98.0</b>
personal assessment (%).....	96	99.2	98.0	<b>98.0</b>
tax returns for first-time taxpayers				
profits tax				
tax returns issued for chargeable cases within three months (%).....	98	100.0	98.0	<b>98.0</b>
salaries tax				
tax returns issued for taxable cases				
April to November— within three months (%) .....	98	100.0	99.0	<b>99.0</b>
December to March— within five months (%) .....	98	100.0	99.0	<b>99.0</b>
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	<b>98.0</b>
tax reserve certificates				
purchase/redemption transactions completed				
January to June—within 14 working days (%).....	98	99.7	99.0	<b>99.0</b>
July to December—within ten working days (%).....	98	99.9	99.0	<b>99.0</b>
notices of objection				
acknowledgements made				
May to August—within 14 working days (%).....	98#	99.6	99.0	<b>99.0</b>
September to April—within 21 working days (%).....	98#	99.8	99.0	<b>99.0</b>
notices of settlement/notifications of decision issued within four months (%).....	98	100.0	99.0	<b>99.0</b>
tax holdover claims				
replies made within 14 working days (%) .....	98†	99.5	99.0	<b>99.0</b>
stamping of documents				
assignments/sale and purchase agreements stamped within six working days (%) .....	98	100.0	99.0	<b>99.0</b>
applications for deferred payment of stamp duty on agreements for sale of residential property within six working days (%).....	98	100.0	99.0	<b>99.0</b>
contract notes/lease agreements stamped on the day submitted (%)	98	99.9	99.0	<b>99.0</b>
claims for exemption in respect of intra-group transfers processed within three months (%).....	80	86.3	80.0	<b>80.0</b>

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	Target	2000 (Actual)	2001 (Estimate)	2002 (Plan)
business registration				
new business registration certificates				
applications over the counter				
issued within 30 minutes				
(%) .....	97	99.9	99.0	<b>99.0</b>
applications by post issued				
within two working days				
(%) .....	99	100.0	99.0	<b>99.0</b>
extracts of information issued within				
two working days (%) .....	99‡	100.0	99.0	<b>99.0</b>
notifications on change of business				
registration particulars processed				
within ten working days (%) .....	99	100.0	99.0	<b>99.0</b>
estate duty affidavits and statements in lieu				
of affidavits				
complicated or dutiable cases				
finalised within two years (%) .....	80	86.2	85.0	<b>85.0</b>
exemption certificates for simple				
cases issued within six weeks (%) .....	98	99.6	99.0	<b>99.0</b>

§ This is an improvement over the previous target of 96%.

# This is an improvement over the previous target of 95%.

† This is an improvement over the previous target of 95%.

‡ This is an improvement over the previous target of 99% within four working days.

### Indicators

	2000 (Actual)	2001 (Estimate)	2002 (Estimate)
profits tax			
no. of assessments made .....	398 000	385 000	<b>370 000</b>
no. of assessments per post .....	624	613	<b>626</b>
provision per assessment (\$) .....	581.7	645.7	<b>656.2</b>
salaries tax			
no. of assessments made .....	2 120 000	2 100 000	<b>2 100 000</b>
no. of assessments per post .....	1 858	1 852	<b>1 892</b>
provision per assessment (\$) .....	165.4	181.0	<b>184.3</b>
property tax			
no. of assessments made .....	487 000	480 000	<b>480 000</b>
no. of assessments per post .....	1 996	2 034	<b>2 069</b>
provision per assessment (\$) .....	148.0	164.6	<b>166.3</b>
personal assessment			
no. of assessments made .....	355 000	350 000	<b>350 000</b>
no. of assessments per post .....	2 139	2 160	<b>2 201</b>
provision per assessment (\$) .....	150.4	165.4	<b>167.4</b>
objections and appeals			
no. of objections and appeals processed .....	1 057	1 040	<b>1 020</b>
no. of objections and appeals per post .....	39	39	<b>38</b>
provision per objection or appeal (\$) .....	20,151	20,577	<b>21,765</b>
business registration (BR)			
BR certificates (new and renewal)			
no. of certificates issued .....	703 000	690 000	<b>680 000</b>
no. of certificates per post .....	4 595	4 631	<b>4 690</b>
provision per certificate (\$) .....	66.9	75.8	<b>77.9</b>
extracts of information			
no. of extracts issued .....	294 000#	260 000	<b>260 000</b>
no. of extracts per post .....	9 484	8 667	<b>8 966</b>
provision per extract (\$) .....	31.3	38.1	<b>38.5</b>
stamp duty			
no. of documents stamped .....	1 089 000	1 130 000	<b>1 130 000</b>
no. of stamped documents per post .....	9 308	10 273	<b>10 463</b>
provision per stamped document (\$) .....	33.3	33.9	<b>34.3</b>
estate duty			
no. of cases finalised .....	13 550	14 000	<b>14 000</b>
no. of cases per post .....	266	280	<b>280</b>
provision per case (\$) .....	1,269	1,321	<b>1,371</b>

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	2000 (Actual)	2001 (Estimate)	2002 (Estimate)
betting duty			
no. of returns processed.....	191	186	187
no. of returns per post.....	96	93	94
provision per return (\$).....	3,665	4,301	4,278
hotel accommodation tax			
no. of quarterly returns processed.....	654	625	639
no. of quarterly returns per post .....	109	104	107
provision per quarterly return (\$) .....	3,058	3,520	3,599
tax reserve certificates			
no. of purchase/redemption transactions .....	172 000	170 000	170 000
no. of transactions per post.....	13 231	13 077	13 077
provision per transaction (\$).....	23.8	27.6	27.6

# The upsurge in demand for extracts of information from the Business Register in 2000 was mainly due to the launching of the Mandatory Provident Fund Schemes.

### *Matters Requiring Special Attention in 2002–03*

7 During 2002–03, maintenance of the yield from taxes, contribution to the Enhanced Productivity Programme through organisation restructuring and streamlining of procedures, and the development of IT opportunities will be matters of high priority. The department will:

- provide an electronic lodgement service for lodging profits tax returns;
- provide an electronic lodgement service whereby taxpayers can submit tax returns by telephone, subject to amendments to the Inland Revenue Ordinance;
- introduce a new method of stamping property transaction documents, subject to amendments to the Stamp Duty Ordinance;
- continue to step up efforts to promote the use of existing and new electronic services for lodging tax returns and making tax enquiries;
- continue 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 notifications on changes of business registration particulars; and
- continue to carry out development work and conduct feasibility studies on computer projects under the Information Systems Strategy Plan.

### **Programme (2): Collection**

	2000–01 (Actual)	2001–02 (Approved)	2001–02 (Revised)	2002–03 (Estimate)
Financial provision (\$m)	137.1	143.3 (+4.5%)	145.1 (+1.3%)	147.5 (+1.7%)

### *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 From October 2001, the public can pay tax and business registration fees, and purchase tax reserve certificates at post offices.

11 The key performance measures are:

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### *Targets*

	Target	2000 (Actual)	2001 (Estimate)	2002 (Plan)
tax payment				
receipts issued for tax payments				
made by electronic means				
July to November—within				
four working days (%) .....	98	100.0	99.0	<b>99.0</b>
December to June—within				
seven working days (%) .....	98	100.0	99.0	<b>99.0</b>
refunds of tax				
arising from overpayment of tax in				
excess of the amount demanded				
within 25 working days (%) .....	98	99.5	98.0	<b>98.0</b>
arising from revision of assessment				
within 25 working days (%) .....	98§	100.0	99.0	<b>99.0</b>

§ This is an improvement over the previous target of 100% within 30 working days.

### *Indicators*

	2000 (Actual)	2001 (Estimate)	2002 (Estimate)
collection of tax			
no. of payments processed.....	2 023 000	2 000 000	<b>2 000 000</b>
no. of payments per post.....	28 493	28 169	<b>28 986</b>
provision per payment (\$) .....	14.0	14.4	<b>14.3</b>
refund of tax			
no. of refunds made .....	398 000	370 000	<b>370 000</b>
no. of refunds per post.....	15 920	14 800	<b>15 417</b>
provision per refund (\$).....	19.6	23.0	<b>22.7</b>
recovery of tax			
no. of completed recovery cases.....	179 900	175 000	<b>170 000</b>
no. of completed recovery cases per post.....	590	574	<b>559</b>
provision per completed recovery case (\$).....	502.5	550.9	<b>586.5</b>

### *Matters Requiring Special Attention in 2002–03*

**12** During 2002–03, the department will continue to explore means to provide collection services in a more cost-effective manner.

### **Programme (3): Investigation and Field Audit**

	2000–01 (Actual)	2001–02 (Approved)	2001–02 (Revised)	2002–03 (Estimate)
Financial provision (\$m)	168.6	179.7 (+6.6%)	181.9 (+1.2%)	<b>186.1</b> (+2.3%)

### *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;
- 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 2001, the department continued its determined efforts to combat tax evasion, counter tax avoidance schemes and bring to account taxpayers who failed to meet their obligations. The smooth transition of the merger of the Field Audit Group and the Investigation Unit enabled the department to better utilise its resources to tackle tax avoidance cases and to minimise opportunities for tax avoidance.

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16 The key performance measures are:

### *Targets*

	Target	2000 (Actual)	2001 (Estimate)	2002 (Plan)
tax audit and investigation processing of field audit and tax investigation cases completed within two years (%).....	80	94.4	80.0§	80.0§

### *Indicators*

	2000 (Actual)	2001 (Estimate)	2002 (Estimate)
field audit and tax investigation			
no. of cases completed.....	1 920	1 920	1 860§
back tax and penalty assessed (\$m).....	2,155	2,100	2,050
no. of cases per post .....	6.9	6.8	6.7
provision per case (\$) .....	87,292	94,219	99,516
back tax and penalty per case (\$m) .....	1.1	1.1	1.1
back tax and penalty per post (\$m).....	7.8	7.5	7.4
back tax and penalty per dollar of provision (\$).....	12.9	11.6	11.1
property tax compliance check			
no. of cases completed.....	4 600	4 600	4 600
back tax and penalty assessed (\$m).....	24.4	23.2	23.2
no. of cases per post .....	1 150	1 533	1 533
provision per case (\$) .....	217.4	217.4	217.4
back tax and penalty per case (\$m).....	5,304	5,044	5,044
back tax and penalty per post (\$m).....	6.1	7.7	7.7
back tax and penalty per dollar of provision (\$).....	24.4	23.2	23.2

§ As a result of the economic slowdown, field audit and tax investigation cases have/will become more complicated and more time was/will be required to bring cases to settlement or finalisation.

### *Matters Requiring Special Attention in 2002–03*

17 During 2002–03, the department will continue to combat tax evasion and to step up anti-avoidance measures.

### **Programme (4): Taxpayer Services**

	2000–01 (Actual)	2001–02 (Approved)	2001–02 (Revised)	2002–03 (Estimate)
Financial provision (\$m)	17.7	19.9 (+12.4%)	20.1 (+1.0%)	19.4 (–3.5%)

### *Aim*

18 The aim is to provide a high level and quality of service to the public by delivering timely and accurate advice and thereby promote voluntary taxation compliance.

### *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 2001, the department extended telephone enquiry services to 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 will continue to provide similar services during the peak season in 2002.

21 The key performance measures are:

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### *Targets*

	Target	2000 (Actual)	2001 (Estimate)	<b>2002 (Plan)</b>
enquiry service centre				
waiting time for over-the-counter				
enquiry service not to exceed ten				
minutes				
during peak hours (%) .....	95	99.4	98.0	<b>98.0</b>
outside peak hours (%) .....	99	99.9	99.0	<b>99.0</b>
connected telephone calls answered				
within three minutes				
July to April (%) .....	90	96.1	94.0	<b>94.0</b>
May to June (%) .....	80§	88.2	83.8	<b>80.0</b>
complaints				
interim reply within ten working				
days (%) .....	99	100.0	99.0	<b>99.0</b>
substantial reply within 18 working				
days (%) .....	99	100.0	99.0	<b>99.0</b>

§ This is an improvement over the previous target of 70%.

### *Indicators*

	2000 (Actual)	2001 (Estimate)	<b>2002 (Estimate)</b>
over-the-counter enquiry service			
no. of enquiries .....	392 000	390 000	<b>380 000</b>
no. of enquiries processed per post.....	14 519	14 444	<b>14 074</b>
telephone enquiry service			
no. of enquiries .....	1 675 000	1 680 000	<b>1 680 000</b>
no. of enquiries processed per post.....	52 344	52 500	<b>52 500</b>
complaints			
no. of complaints processed .....	566	600	<b>600</b>
no. of complaints processed per post.....	142	150	<b>150</b>

### *Matters Requiring Special Attention in 2002–03*

**22** During 2002–03, the department will continue to improve services to customers. From April 2002, it will provide a secure access to information service whereby taxpayers can enquire by telephone about the status of their returns, tax assessment, payment and refund, account and balance, and the position of their Electronic Tax Reserve Certificates.

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### ANALYSIS OF FINANCIAL PROVISION

Programme	2000-01 (Actual) (\$m)	2001-02 (Approved) (\$m)	2001-02 (Revised) (\$m)	2002-03 (Estimate) (\$m)
(1) Assessing Functions .....	928.2	1,000.4	1,049.5	<b>996.6</b>
(2) Collection .....	137.1	143.3	145.1	<b>147.5</b>
(3) Investigation and Field Audit .....	168.6	179.7	181.9	<b>186.1</b>
(4) Taxpayer Services .....	17.7	19.9	20.1	<b>19.4</b>
	1,251.6	1,343.3 (+7.3%)	1,396.6 (+4.0%)	<b>1,349.6</b> (-3.4%)

#### Analysis of Financial and Staffing Provision

##### Programme (1)

Provision for 2002-03 is \$52.9 million (5.0%) lower than the revised estimate for 2001-02. This is mainly due to the net deletion of 29 posts under the Enhanced Productivity Programme, the deletion of 46 posts upon the completion of computer and time-limited projects, and the anticipated reduction in the expenditure on payment of interest on tax reserve certificates in 2002-03, partly offset by salary increments for staff.

##### Programme (2)

Provision for 2002-03 is \$2.4 million (1.7%) higher than the revised estimate for 2001-02. This is mainly due to salary increments for staff, partly offset by the deletion of four posts under the Enhanced Productivity Programme and the anticipated reduction in the expenditure on special legal expenses in 2002-03.

##### Programme (3)

Provision for 2002-03 is \$4.2 million (2.3%) higher than the revised estimate for 2001-02. This is mainly due to salary increments for staff, partly offset by the deletion of four posts under the Enhanced Productivity Programme.

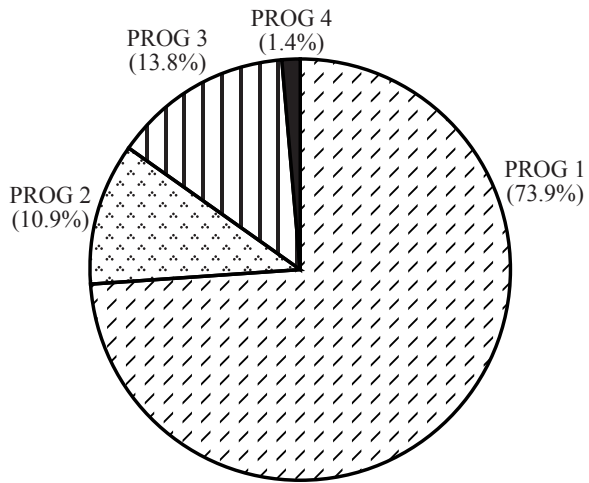
##### Programme (4)

Provision for 2002-03 is \$0.7 million (3.5%) lower than the revised estimate for 2001-02. This is mainly due to completion of a capital project, partly offset by salary increments for staff.

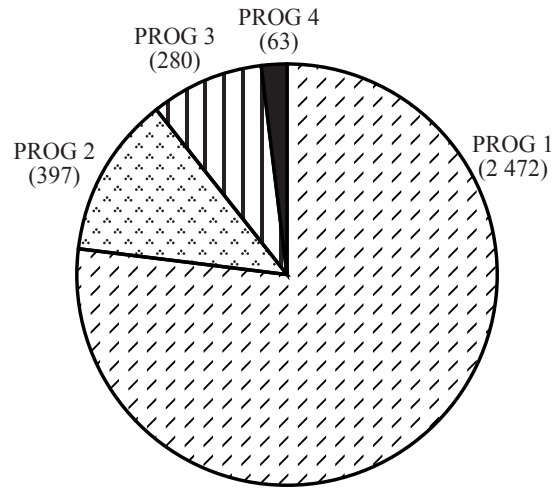


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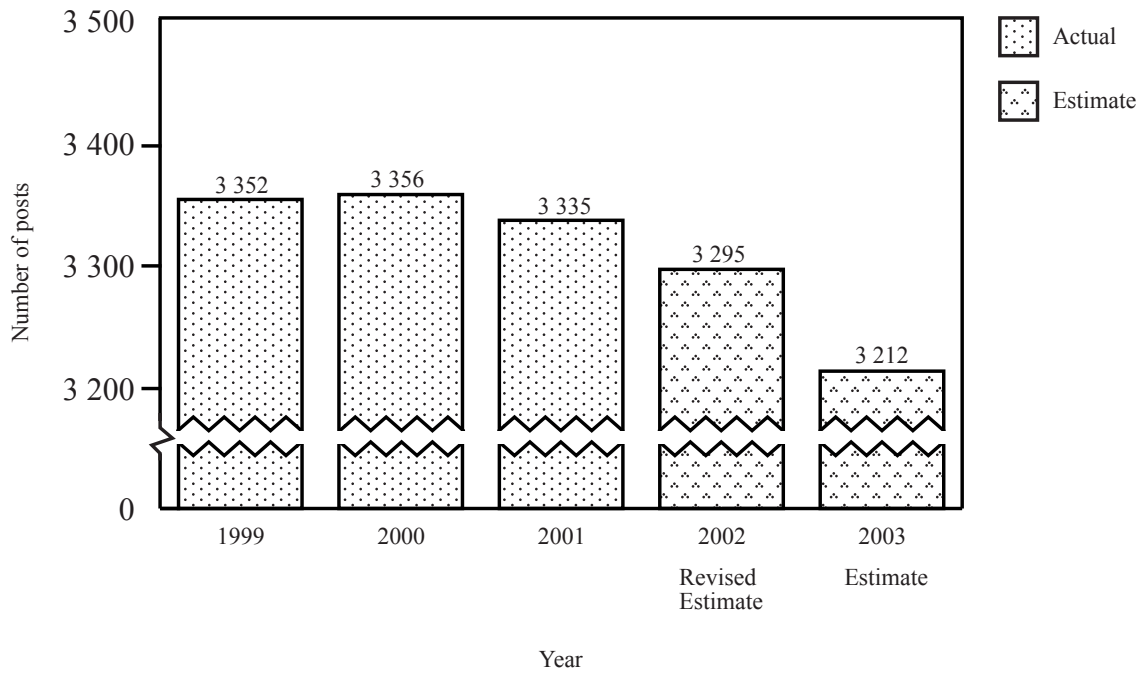
*Allocation of provision to programmes (2002-03)*



*Staff by programme (as at 31 March 2003)*



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



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Sub-head (Code)	Actual expenditure 2000-01	Approved estimate 2001-02	Revised estimate 2001-02	<b>Estimate 2002-03</b>
	\$'000	\$'000	\$'000	<b>\$'000</b>
<b>Recurrent Account</b>				
000	Operational expenses .....	—	1,230,181	1,242,966
189	Interest on tax reserve certificates .....	82,713	99,700	135,700
209	Special legal expenses.....	10,558	11,464	11,464
	Salaries .....	1,032,923	—	—
	Allowances.....	22,252	—	—
	Job-related allowances .....	153	—	—
	General departmental expenses.....	102,998	—	—
	Total, Recurrent Account.....	<u>1,251,597</u>	<u>1,341,345</u>	<u>1,390,130</u>
<b>Capital Account</b>				
I — Plant, Equipment and Works				
661	Minor plant, vehicles and equipment (block vote).....	—	680	680
	Total, Plant, Equipment and Works .....	<u>—</u>	<u>680</u>	<u>680</u>
II — Other Non-Recurrent				
	General other non-recurrent .....	—	1,260	5,760
	Total, Other Non-Recurrent .....	<u>—</u>	<u>1,260</u>	<u>5,760</u>
	Total, Capital Account .....	<u>—</u>	<u>1,940</u>	<u>6,440</u>
	Total Expenditure.....	<u><u>1,251,597</u></u>	<u><u>1,343,285</u></u>	<u><u>1,396,570</u></u>
				<u><b>1,349,635</b></u>

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### Details of Expenditure by Subhead

The estimate of the amount required in 2002–03 for the salaries and expenses of the Inland Revenue Department is \$1,349,635,000. This represents a decrease of \$46,935,000 against the revised estimate for 2001–02 and an increase of \$98,038,000 over actual expenditure in 2000–01.

#### *Recurrent Account*

**2** Provision of \$1,260,943,000 under *Subhead 000 Operational expenses* is for the salaries and allowances of staff of the Inland Revenue Department and its other operating expenses. Management and control of the department's operational expenses take the form of a one-line vote.

**3** As a vote-funded department, the department is subject to establishment control. The establishment at 31 March 2002 will be 3 295 permanent posts. It is expected that a net 83 permanent posts will be deleted in 2002–03. Subject to certain conditions, the controlling officer may under delegated powers create or delete non-directorate posts during 2002–03, but the notional annual mid-point salary value of all such posts must not exceed \$871,245,000.

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

	2000–01 (Actual) (\$'000)	2001–02 (Original Estimate) (\$'000)	2001–02 (Revised Estimate) (\$'000)	<b>2002–03 (Estimate) (\$'000)</b>
Personal Emoluments				
- Salaries .....	1,032,923	1,071,284	1,087,668	<b>1,107,970</b>
- Allowances .....	22,252	29,743	25,408	<b>19,677</b>
- Job-related allowances .....	153	251	242	<b>254</b>
Departmental Expenses				
- General departmental expenses .....	102,998	128,903	129,648	<b>133,042</b>
	1,158,326	1,230,181	1,242,966	<b>1,260,943</b>

**5** Provision of \$77,290,000 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. It represents a decrease of \$58,410,000 (43.0%) against the revised estimate for 2001–02. This is mainly due to an anticipated significant reduction in the number and value of redemption cases in 2002–03.

**6** Provision of \$10,873,000 under *Subhead 209 Special legal expenses* is for expenditure on court fees in connection with the registration of writs. The decrease of \$591,000 (5.2%) against the revised estimate for 2001–02 is mainly due to an anticipated reduction in the number of writs of summons in 2002–03 in respect of default cases.