

Head 76 — INLAND REVENUE DEPARTMENT

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

Estimate 2016–17 **\$1,506.4m**

Establishment ceiling 2016–17 (notional annual mid-point salary value) representing an estimated 2 806 non-directorate posts as at 31 March 2016 rising by nine posts to 2 815 posts as at 31 March 2017 **\$1,069.6m**

In addition, there will be an estimated 27 directorate posts as at 31 March 2016 and as at 31 March 2017.

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

	2014–15 (Actual)	2015–16 (Original)	2015–16 (Revised)	2016–17 (Estimate)
Financial provision (\$m)	1,020.8	1,046.6	1,069.8 (+2.2%)	1,084.0 (+1.3%)
				(or +3.6% on 2015–16 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 2015–16, 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 to employers for annual returns and various notifications in respect of their employees. The Department also continued with its efforts to strive for the expansion of Hong Kong's tax treaty network and keep in close view 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. In April 2015, the Department launched an eTAX enhancement to allow online submission of application for exemption from payment of business registration fee and levy.

6 The key performance measures are:

Targets

	Target	2014–15 (Actual)	2015–16 (Revised Estimate)	2016–17 (Plan)
<i>Written enquiries</i>				
replies to simple enquiries within seven working days (%)	95.0	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	89.3	85.0	85.0
individuals (%)	96.0	97.7	97.0	97.0
salaries tax (%)	96.0	97.7	97.0	97.0
property tax (%)	96.0	97.7	97.0	97.0
personal assessment (%)	96.0	97.7	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	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>				
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	2014–15 (Actual)	2015–16 (Revised Estimate)	2016–17 (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	98.7	99.0	99.0
contract notes/lease agreements stamped on the day submitted (%)	98.0	99.8	99.0	99.0
claims for exemption in respect of intra-group transfers processed within three months (%)	85.0	99.6	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
<i>Indicators</i>				
		2014–15 (Actual)	2015–16 (Revised Estimate)	2016–17 (Estimate)
<i>Profits tax</i>				
assessments made		464 000	461 000	464 000
assessments per post		827	823	820
provision per assessment (\$)		611.4	649.7	657.3
<i>Salaries tax</i>				
assessments made		2 750 000	2 768 000	2 768 000
assessments per post		2 938	2 960	2 951
provision per assessment (\$)		151.0	158.3	160.6
<i>Property tax</i>				
assessments made		573 000	586 000	586 000
assessments per post		3 081	3 151	3 151
provision per assessment (\$)		144.7	149.5	150.7

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	2014–15 (Actual)	2015–16 (Revised Estimate)	2016–17 (Estimate)
<i>Personal assessment</i>			
assessments made.....	360 000	365 000	352 000
assessments per post.....	2 813	2 874	2 772
provision per assessment (\$).....	155.0	161.4	168.8
<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 (\$).....	29,136	30,741	30,988
<i>Business registration</i>			
business registration certificates (new and renewal)			
certificates issued.....	1 382 000	1 380 000	1 380 000
certificates per post.....	11 145	11 129	11 129
provision per certificate (\$).....	40.9	43.3	43.6
extracts of information			
extracts issued.....	359 000	350 000	355 000
extracts per post.....	12 379	12 069	12 241
provision per extract (\$).....	33.1	36.0	35.8
<i>Stamp duty</i>			
documents stamped.....	1 715 000	1 680 000	1 630 000
stamped documents per post.....	14 784	14 359	13 932
provision per stamped document (\$).....	31.0	33.5	34.7
<i>Estate duty</i>			
cases finalised.....	874	800	800
cases per post.....	291	267	267
provision per case (\$).....	2,059	2,375	2,375
<i>Betting duty</i>			
returns processed.....	263	267	267
returns per post.....	132	134	134
provision per return (\$).....	3,042	2,996	2,996
<i>Tax reserve certificates</i>			
purchase/redemption transactions.....	182 000	184 000	184 000
transactions per post.....	18 200	18 400	18 400
provision per transaction (\$).....	22.5	23.9	23.9

Matters Requiring Special Attention in 2016–17

7 During 2016–17, the maintenance of yield from taxes and the development of IT opportunities remain matters of high priority. The Department will continue to:

- promote taxpayers' voluntary compliance through publicity programmes and enhanced services;
- prepare for implementing the Standard for Automatic Exchange of Financial Account Information in Tax Matters promulgated by the Organisation for Economic Co-operation and Development (OECD), and analyse the recommendations under the OECD Base Erosion and Profit Shifting Project and assess their implications to Hong Kong; and
- promote the use of electronic services and encourage taxpayers to take up eTAX services.

Programme (2): Collection

	2014–15 (Actual)	2015–16 (Original)	2015–16 (Revised)	2016–17 (Estimate)
Financial provision (\$m)	156.0	160.9	165.8 (+3.0%)	167.5 (+1.0%)
				(or +4.1% on 2015–16 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 2015–16, the Department continued to promote the use of electronic services for tax payment. The Department joined the Pay e-Cheque portal launched by the Office of the Government Chief Information Officer on 7 December 2015 to enable taxpayers to settle the demand notes by e-Cheques.

11 The key performance measures are:

Targets

	Target	2014–15 (Actual)	2015–16 (Revised Estimate)	2016–17 (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 (%).....	98.0	99.9	98.0	98.0
arising from revision of assessment within ten working days (%).....	98	100	99	99

Indicators

	2014–15 (Actual)	2015–16 (Revised Estimate)	2016–17 (Estimate)
<i>Collection of tax</i>			
payments processed.....	3 545 000	3 400 000	3 400 000
payments per post.....	68 173	65 385	66 667
provision per payment (\$)	7.8	8.6	8.6
<i>Refund of tax</i>			
refunds made	532 000	630 000	530 000
refunds per post.....	22 167	23 333	20 385
provision per refund (\$)	19.2	18.1	21.7
<i>Recovery of tax</i>			
completed recovery cases.....	245 000	255 000	255 000
completed recovery cases per post.....	828	861	856
provision per completed recovery case (\$)	476.7	483.9	489.4

Matters Requiring Special Attention in 2016–17

12 During 2016–17, the Department will continue to promote the use of electronic payment services including e-Cheque for tax payment.

Programme (3): Investigation and Field Audit

	2014–15 (Actual)	2015–16 (Original)	2015–16 (Revised)	2016–17 (Estimate)
Financial provision (\$m)	213.0	217.2	225.0 (+3.6%)	227.2 (+1.0%)
				(or +4.6% on 2015–16 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 2015–16, the Department continued its determined efforts in combatting 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	2014–15 (Actual)	2015–16 (Revised Estimate)	2016–17 (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

	2014–15 (Actual)	2015–16 (Revised Estimate)	2016–17 (Estimate)
<i>Field audit and tax investigation</i>			
cases completed.....	1 803	1 800	1 800
back tax and penalty assessed (\$m)	2,533.1	2,500.0	2,500.0
cases per post	6.8	6.7	6.7
provision per case (\$).....	117,304	124,111	125,333
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 (\$).....	12.0	11.2	11.1
<i>Property tax compliance check</i>			
cases completed.....	162 000	187 000@	190 000
back tax assessed (\$m).....	76.2	90.0	93.0
cases per post	32 400	37 400	38 000
provision per case (\$).....	9.3	8.6	8.4
back tax per case (\$).....	470	481	489
back tax per post (\$m).....	15.2	18.0	18.6
back tax per dollar of provision (\$).....	50.8	56.3	58.1

@ 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 2016–17

17 During 2016–17, the Department will continue to exert determined efforts in combatting tax evasion and countering tax avoidance schemes.

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Programme (4): Taxpayer Services

	2014–15 (Actual)	2015–16 (Original)	2015–16 (Revised)	2016–17 (Estimate)
Financial provision (\$m)	25.9	26.4	27.4 (+3.8%)	27.7 (+1.1%)
				(or +4.9% on 2015–16 Original)

Aim

18 The aim is to provide a high 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 enquiry services as well as personalised electronic services through the Internet, and the investigation of complaints from members of the public.

20 To assist the taxpaying public in completing tax returns, the Department extended the service hours of telephone enquiry services in May 2015. 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	2014–15 (Actual)	2015–16 (Revised Estimate)	2016–17 (Plan)
<i>Enquiry service centre</i>				
waiting time for over-the-counter enquiry service not to exceed ten minutes				
during peak hours (%).....	95.0	99.5	98.0	98.0
outside peak hours (%).....	99	100	99	99
connected telephone calls answered within three minutes				
July to April (%)	90.0	94.7	95.0	95.0
May to June (%).....	80.0	87.2	89.5	89.0
<i>Complaints</i>				
interim reply within seven working days (%)	99	100	99	99
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

	2014–15 (Actual)	2015–16 (Revised Estimate)	2016–17 (Estimate)
<i>Over-the-counter enquiry service</i>			
enquiries.....	337 000	340 000	350 000
enquiries processed per post	12 036	12 143	12 500

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	2014–15 (Actual)	2015–16 (Revised Estimate)	2016–17 (Estimate)
<i>Telephone enquiry service</i>			
enquiries	1 431 000	1 450 000	1 450 000
enquiries processed per post	38 676	39 189	39 189
 <i>Complaints</i>			
complaints processed	297	310	310
complaints processed per post.....	99	103	103

Matters Requiring Special Attention in 2016–17

22 During 2016–17, 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 holdover of provisional tax and revision of assessment.

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ANALYSIS OF FINANCIAL PROVISION

	2014-15 (Actual) (\$m)	2015-16 (Original) (\$m)	2015-16 (Revised) (\$m)	2016-17 (Estimate) (\$m)
Programme				
(1) Assessing Functions	1,020.8	1,046.6	1,069.8	1,084.0
(2) Collection	156.0	160.9	165.8	167.5
(3) Investigation and Field Audit.....	213.0	217.2	225.0	227.2
(4) Taxpayer Services	25.9	26.4	27.4	27.7
	1,415.7	1,451.1	1,488.0 (+2.5%)	1,506.4 (+1.2%)
				(or +3.8% on 2015-16 Original)

Analysis of Financial and Staffing Provision

Programme (1)

Provision for 2016-17 is \$14.2 million (1.3%) higher than the revised estimate for 2015-16. The increase is mainly due to the salary increments for staff, filling of vacancies and net increase of nine posts, which is partly offset by the reduced operating expenses.

Programme (2)

Provision for 2016-17 is \$1.7 million (1.0%) higher than the revised estimate for 2015-16. 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)

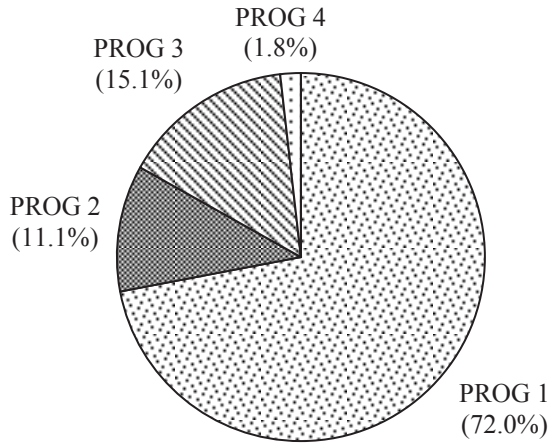
Provision for 2016-17 is \$2.2 million (1.0%) higher than the revised estimate for 2015-16. The increase is mainly due to the salary increments for staff and filling of vacancies, which is partly offset by the reduced operating expenses.

Programme (4)

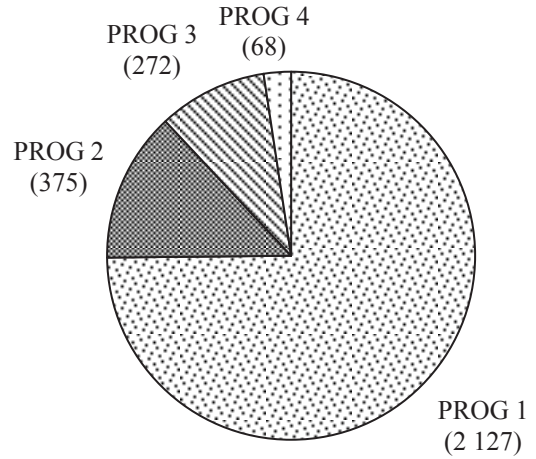
Provision for 2016-17 is \$0.3 million (1.1%) higher than the revised estimate for 2015-16. The increase is mainly due to the salary increments for staff and filling of vacancies, which is partly offset by the reduced operating expenses.

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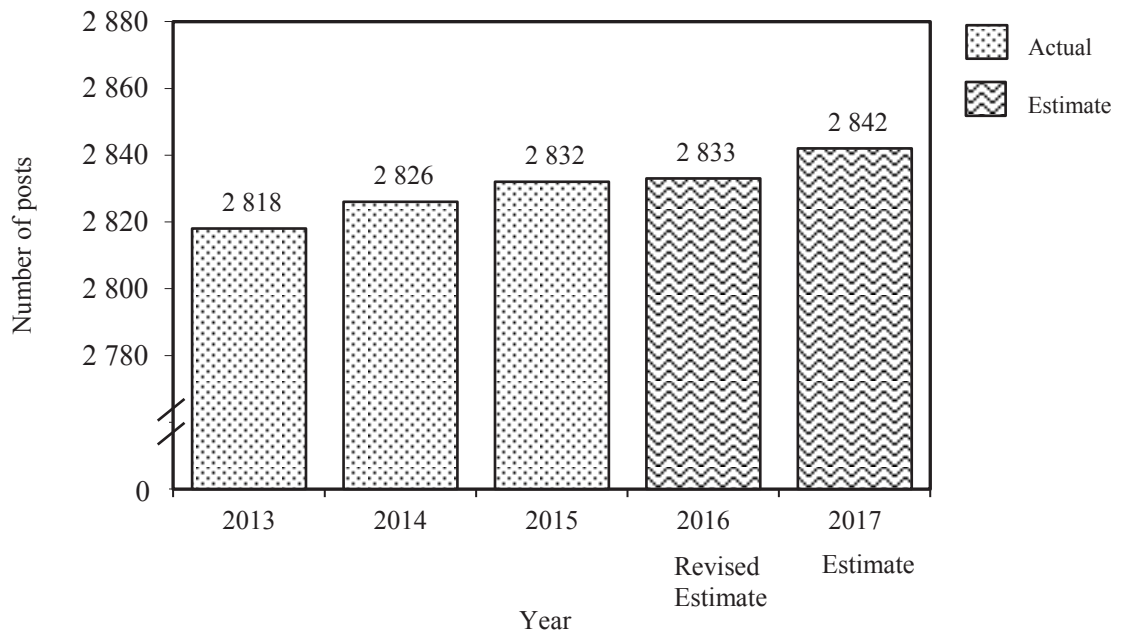
*Allocation of provision
to programmes
(2016-17)*



*Staff by programme
(as at 31 March 2017)*



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



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Sub-head (Code)	Actual expenditure 2014-15	Approved estimate 2015-16	Revised estimate 2015-16	Estimate 2016-17	
	\$'000	\$'000	\$'000	\$'000	
Operating Account					
Recurrent					
000	Operational expenses	1,382,930	1,410,562	1,461,106	1,479,535
189	Interest on tax reserve certificates.....	31,316	38,000	25,000	25,000
209	Special legal expenses.....	1,502	2,500	1,850	1,850
	Total, Recurrent.....	<u>1,415,748</u>	<u>1,451,062</u>	<u>1,487,956</u>	<u>1,506,385</u>
	Total, Operating Account	<u>1,415,748</u>	<u>1,451,062</u>	<u>1,487,956</u>	<u>1,506,385</u>
<hr/>					
	Total Expenditure	<u><u>1,415,748</u></u>	<u><u>1,451,062</u></u>	<u><u>1,487,956</u></u>	<u><u>1,506,385</u></u>

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Details of Expenditure by Subhead

The estimate of the amount required in 2016–17 for the salaries and expenses of the Inland Revenue Department is \$1,506,385,000. This represents an increase of \$18,429,000 over the revised estimate for 2015–16 and \$90,637,000 over the actual expenditure in 2014–15.

Operating Account

Recurrent

2 Provision of \$1,479,535,000 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 2016 will be 2 833 posts including one supernumerary post. It is expected that there will be a net increase of nine posts in 2016–17. Subject to certain conditions, the controlling officer may under delegated power create or delete non-directorate posts during 2016–17, but the notional annual mid-point salary value of all such posts must not exceed \$1,069,619,000.

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

	2014–15 (Actual) (\$'000)	2015–16 (Original) (\$'000)	2015–16 (Revised) (\$'000)	2016–17 (Estimate) (\$'000)
Personal Emoluments				
- Salaries.....	1,156,956	1,165,655	1,210,092	1,229,588
- Allowances.....	20,315	22,061	21,795	22,764
- Job-related allowances.....	20	50	24	50
Personnel Related Expenses				
- Mandatory Provident Fund contribution.....	3,525	3,599	3,833	4,593
- Civil Service Provident Fund contribution.....	18,646	24,004	25,173	32,528
Departmental Expenses				
- General departmental expenses	183,468	195,193	200,189	190,012
	1,382,930	1,410,562	1,461,106	1,479,535

5 Provision of \$25,000,000 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 (Cap. 289).

6 Provision of \$1,850,000 under *Subhead 209 Special legal expenses* is for expenditure on court fees in connection with the registration of writs for tax recovery.