

Press release

LCQ1: Taxes collected

Wednesday, May 5, 2010

Following is a question by the Hon Jeffrey Lam and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (May 5):

Question:

Regarding the work of the Inland Revenue Department (IRD), will the Government inform this Council:

(a) whether it has assessed the impact of the financial tsunami on the tax revenue (including profits tax and salaries tax) of the last financial year, and whether the respective amounts of tax paid by the 10 individuals and 10 enterprises which were levied the highest amounts of salaries tax and profits tax, when compared with those of the previous year, had decreased significantly due to the financial tsunami; if an assessment has been conducted, of the outcome;

(b) of the total number of applications for holding over of tax payments the processing of which was completed by IRD and the amount of tax involved, as well as the respective numbers of cases of overdue profits tax and salaries tax, and the amounts involved, in the last financial year; and what measures the authorities have put in place to assist the enterprises and employees who are unable to make full tax payment; and

(c) of the respective amounts of back tax and penalties collected by IRD in the past five financial years; the largest amount of back profits tax collected in the last financial year and whether it is the largest in the past three years; the number of profits tax recovery cases being processed at present and the estimated total amount of tax involved; how IRD will expedite the recovery of tax in default so that it will not be barred from recovering such arrears because of the lapse of the tax recovery period?

Reply:

President,

(a) In the 2009-10 financial year, the total amount of revenue collected by IRD is \$179.1 billion (provisional), decreased by 6% as compared with 2008-09. In 2009-10, the total amount of salaries tax paid by the top 10 taxpayers is \$367 million, decreased by \$92 million as compared with the previous year. As for profits tax, the top 10 taxpayers paid \$11.07 billion, which is \$8.63 billion less than the previous year.

The above figures indicate that the financial tsunami has to a certain extent affected the total amount of revenue collected by IRD in the last financial year.

(b) In the 2009-10 financial year, IRD processed around 47,600 and 7,100 applications for holding over of provisional salaries tax and provisional profits tax respectively. Provisional salaries tax and provisional profits tax held over amount to around \$2.7 billion and \$12.1 billion respectively.

As at March 31, 2010, there were around 28 300 cases with salaries tax overdue, involving about \$1.6 billion. As for profits tax overdue, there were around 5,000 cases involving about \$5.9 billion.

If a taxpayer is entitled to an additional tax allowance in the current year of assessment, or anticipates that his/her income or profits in the current year of assessment would drop by more than 10% as compared with the previous year, or has ceased his/her employment or business, he/she can apply to the IRD 28 days before the due date for tax payment for holding over the entire amount or a corresponding amount of provisional tax. If a taxpayer is unable to pay tax on time due to financial difficulties, he/she can apply to the IRD for paying tax by instalments.

(c) IRD has only overall figures on the amount of back tax assessed and penalties. A breakdown by tax types (such as profits tax) is not available. The amounts of back tax assessed and penalties in the past five financial years are as follows -

<u>Financial Year</u>	<u>Back tax assessed and penalties</u> <u>(\$ million)</u>
2005-06	2,118
2006-07	2,196
2007-08	2,529
2008-09	2,181
2009-10 (Provisional Figures)	2,590

As back tax and penalties arising from individual profits tax cases under investigation involve sensitive private information, such details could not be disclosed to the public so as to avoid speculation.

Moreover, in making tax assessments, IRD generally adopts the "Assess First, Audit Later" mechanism. It means that IRD will in the first instance assess the amount of tax payable based on the information furnished by the taxpayers in their tax returns. Afterwards, the computer system will select profits tax cases for review by IRD officers. In 2009-10, about 7,000 cases were selected by the computer system for follow-up by IRD officers. Eventually, if it is confirmed that the income or profits earned by a taxpayer is higher than the declared amount, IRD will levy back profits tax on the relevant person or company. As it is difficult for IRD to assess back tax prior to the completion of investigations, we are not able to indicate the amount of tax involved in those cases.

IRD has dedicated teams to combat tax evasion. In order to enhance the effectiveness of countering tax evasion, it will from time to time adjust the criteria for selecting cases for audit in the light of the prevailing social circumstances as well as the development and changing business practices of individual industries.

Ends