

Press release

LCQ15: Combat tax evasion and tax avoidance

Wednesday, May 30, 2012

Following is a question by the Hon Chan Kin-por and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (May 30):

Question:

It has been reported that, according to the latest figures released by the Inland Revenue Department (IRD), the authorities completed field audits of about 1 804 cases in total in 2011-2012, and found that the understated earnings and profits amounted to about \$34 billion, and the assessed back tax and penalties were more than \$6 billion in total, representing a 57% surge from last year and hitting a record high over the years. The aforesaid cases included 10 "major tax avoidance cases" each involving over \$100 million. In this connection, will the Government inform this Council:

- (a) of the details of the amount of tax and penalty of each of the aforesaid 10 "major tax avoidance cases";
- (b) given that the aforesaid amount of tax recovered in 2011-2012 hit a record high over the years, whether this is due to other reasons in addition to the fact that the aforesaid "major tax avoidance cases" involved huge amounts of money;
- (c) of the respective numbers and details, including the understated tax items and the successfully recovered tax amounts and penalties, etc, of the field audit cases completed by IRD in each of the past five years, broken down by type of tax; and
- (d) whether the Government will consider increasing the resources for IRD to employ additional staff to conduct field audits, so as to step up efforts in combating tax avoidance and tax evasion, and recover more uncharged tax due to omissions in tax returns and undercharged tax?

Reply:

President,

(a) Regarding the 10 largest tax avoidance cases concluded by the Inland Revenue Department (IRD) in the 2011-12 financial year, the amounts of back tax and penalties involved in each case are as follows –

Case	Amount of Back Tax and Penalties
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	(\$ million)
1	864
2	502
3	425
4	357
5	298
6	192
7	180
8	173
9	141
10	110

	3,242

(b) The above 10 tax avoidance cases, each involving more than \$100 million back tax and penalties, were all concluded after at least five years of audit work by IRD. If those 10 tax avoidance cases are excluded, the total amount of back tax and penalties involved in the remaining tax avoidance cases is only some \$2.7 billion, which is comparable to the amounts of back tax and penalties assessed for tax avoidance cases in the last few financial years. Hence, the exceptionally large amount of back tax and penalties assessed in the 2011-12 financial year is mainly attributed to those 10 tax avoidance cases.

(c) Since IRD's statistics on completed field audit and investigation cases do not have breakdowns by tax types and amounts of back tax and penalties, we are unable to provide the relevant information. The table below sets out the number of cases completed and the amounts of back tax and penalties assessed by the Field Audit and Investigation Unit (FAIU) of IRD in the five financial years from 2007-08 to 2011-12 -

Financial years	2007-08	2008-09	2009-10	2010-11	2011-12
Number of cases completed	1 864	1 862	1 803	1 805	1 804
Amount of back tax and penalties assessed (\$ million)	2,528.5	2,181.2	2,590.4	3,827.4	6,003.0

(d) IRD reviews from time to time the effectiveness of the work to combat tax evasion and tax avoidance, and will take timely measures to enhance the efficiency and effectiveness of the FAIU as necessary. These measures include -

(i) making effective use of information technology and strengthening liaison between the FAIU and other assessing units so as to enhance the efficiency of risk management for tax evasion and tax avoidance;

(ii) adjusting the criteria for identifying cases for audit from time to time in response to the changing social circumstances and business practices, and taking more targeted measures to tackle high-risk cases; and

(iii) strengthening on-the-job training of the officers, and enhancing the officers' professional knowledge, practical experiences and investigative skills through job rotation as well as participation in local and international tax and investigation seminars and training programmes.

With optimum use and flexible deployment of the existing resources, we believe that the above measures are effective in enhancing the efficiency and effectiveness of the FAIU of IRD.

Ends