

Field Audit and Investigation

The Field Audit and Investigation Unit is responsible for conducting field audits and investigations on businesses and individuals with a view to combating tax evasion and avoidance.



Back tax is assessed and penalties are generally imposed where discrepancies are detected. During 2006-07, the Field Audit and Investigation Unit completed 1,875 cases (including avoidance and prosecution cases) and assessed back tax and penalties of about \$2.2 billion (**Figure 32**).

Figure 32 Results of the Field Audit and Investigation Unit

	2003-04	2004-05	2005-06	2006-07
Number of cases completed	1,863	1,863	1,873	1,875
Understated earnings and profits (\$m)	9,744.8	13,814.3	10,934.9	10,474.8
Average understatement per case (\$m)	5.2	7.4	5.8	5.6
Back tax and penalties assessed (\$m)	2,059.2	2,828.2	2,118.3	2,196.2
Back tax and penalties collected (\$m)	2,039.9	2,887.6	2,189.2	2,444.6

Field Audit

Field audit is conducted on both corporations and unincorporated businesses. The work of field auditors entails site visits to business premises and examination of accounting records of taxpayers in order to ascertain whether correct returns of profits have been made.



In 2006-07, there were 17 Field Audit sections.

Anti-Tax Avoidance

Two of the 17 Field Audit sections concentrate on tackling tax avoidance schemes, whereas other investigation officers and field auditors handle avoidance cases on an operational need basis.

During 2006-07, the Field Audit and Investigation Unit completed 195 tax avoidance cases and assessed back tax and penalties of about \$778 million (**Figure 33**).

Figure 33 Results of the Audit on tax avoidance cases

	2003-04	2004-05	2005-06	2006-07
Number of cases completed	196	213	209	195
Understated earnings and profits (\$m)	3,769.3	7,507.6	4,542.3	4,608.9
Average understatement per case (\$m)	19.2	35.2	21.7	23.6
Back tax and penalties assessed (\$m)	636.2	1,375.7	624.2	778.6

Investigation

Investigation officers are responsible for conducting in-depth investigations where tax evasion is suspected, and taking penal action (including prosecution proceedings in appropriate cases) to create a deterrent to tax evasion.

In 2006-07, there were 5 Investigation sections.

Prosecution

One of the 5 Investigation sections focuses on criminal investigation of tax evasion.

Tax evasion is a serious crime. If a person is convicted of tax evasion, the Inland Revenue Ordinance provides for a maximum custodial sentence of three years.

In 2006-07, 3 prosecution cases were heard before the court. In the first case, a taxpayer was jailed for two months for false claims of dependent parent allowances and additional dependent parent allowances. In the second case, a businessman was sentenced to four months' imprisonment, suspended for 12 months, and fined \$700,000, representing 147% of the tax evaded, for understating his business profits by inflating the amounts of purchases. In the third case, a taxpayer was sentenced to three months' imprisonment, suspended for two years, and fined a total of \$30,000 for false claims of deduction for home loan interest and omissions of rental income.



Property Tax Compliance Checks

In addition to conducting audits on businesses, the Unit also carries out verification checks on the correctness of rental income reported by property owners. In 2006-07, the Department broadened the scope of review to cover cases with lower rental income. Compliance check was completed on 18,162 property tax cases (**Figure 34**).



Figure 34 Results of the Property Tax Compliance Checks

	2003-04	2004-05	2005-06	2006-07
Number of cases completed	4,600	4,600	10,294	18,162
Understated rental income (\$m)	194.0	194.0	330.1	201.9
Back tax and penalties assessed (\$m)	23.3	23.3	40.9	25.6