

5 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 2015-16, the Field Audit and Investigation Unit completed 1,804 cases (including tax avoidance cases) and assessed back tax and penalties of about \$2.5 billion (**Figure 28**).

Figure 28 Results of the Field Audit and Investigation Unit

	2012-13	2013-14	2014-15	2015-16
Number of cases completed	1,802	1,802	1,803	1,804
Understated earnings and profits (\$m)	16,348.0	12,936.4	12,857.9	13,888.8
Average understatement per case (\$m)	9.1	7.2	7.1	7.7
Back tax and penalties assessed (\$m)	3,447.7	2,540.0	2,533.1	2,538.3
Back tax and penalties collected (\$m)	3,438.3	2,158.7	2,861.4	1,824.2

Field Audit

In 2015-16, there were 17 Field Audit sections. 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.

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 2015-16, the Field Audit and Investigation Unit completed 215 tax avoidance cases and assessed back tax and penalties of about \$1 billion (**Figure 29**).

Figure 29 Results of the audit on tax avoidance cases

	2012-13	2013-14	2014-15	2015-16
Number of cases completed	207	219	217	215
Understated earnings and profits (\$m)	7,576.4	5,124.9	6,027.7	6,826.2
Average understatement per case (\$m)	36.6	23.4	27.8	31.7
Back tax and penalties assessed (\$m)	1,523.8	909.3	1,155.6	1,000.4

Investigation

In 2015-16, there were 5 Investigation sections. Investigation officers are responsible for conducting in-depth investigations into suspected tax evasion, and taking penal action (including prosecution proceedings in appropriate cases) as a deterrent.

Prosecution

One of the 5 Investigation sections is the prosecution section focusing on criminal investigation of tax evasion. Tax evasion is a serious crime. A person convicted of tax evasion could be sentenced to imprisonment for up to 3 years and fined.

During the year, the Department successfully prosecuted 3 tax evasion cases, all of which involved making false statements in connection with claims for deduction of expenses of self-education. One of them also involved making false statements in connection with claims for deduction of approved charitable donations. Among these three cases, the defendant of one case was sentenced to 4 months' imprisonment, suspended for 3 years, and a fine of \$70,000 (\$10,000 for each charge) plus a further fine of \$49,256 (equivalent to about 116% of the tax evaded). The defendant of another case was sentenced to 2 months' imprisonment, a fine of \$90,000 (\$10,000 per charge) and a further fine of \$78,407 (100% of the tax evaded). The defendant lodged an appeal against the sentence and the appeal was dismissed by the High Court in April 2016. Jail sentence was upheld. The defendant of the last case was sentenced to a community service order of 200 hours and was fined \$278,800 (equivalent to 200% of the tax evaded) after being remanded for 14 days.

Property Tax Compliance Check

In addition to conducting audits on businesses, the Department also carries out verification checks on the correctness of rental income reported by property owners. In 2015-16, the Department completed compliance check on 186,229 property tax cases (**Figure 30**).

Figure 30 Results of the property tax compliance checks

	2012-13	2013-14	2014-15	2015-16
Number of cases completed	117,923	140,705	161,860	186,229
Understated rental income (\$m)	461.7	553.3	635.0	749.2
Back tax and penalties assessed (\$m)	55.4	66.4	76.2	89.9