

Assessing Functions

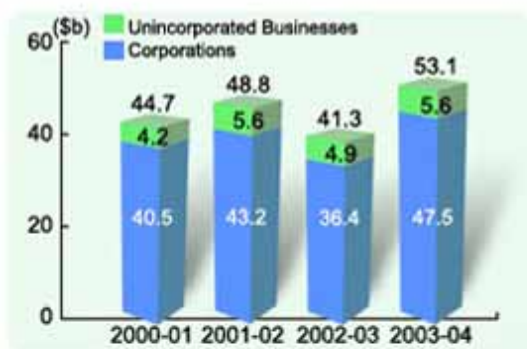


The Department raises revenue through taxes, duties and fees in accordance with the relevant legislations. While the duties and fees collected for a year are based on the actual results of the year, the Earnings and Profits Tax assessed are principally computed by reference to the incomes/profits of the taxpayers in the previous year. For 2003-04, the Earnings and Profits Tax assessed increased by \$9.5 billion (12%), as compared with the previous year. The total of duties and fees collected also rose by 28%.

Profits Tax

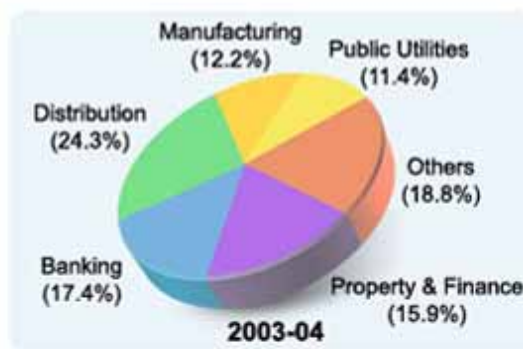
Profits Tax is levied on individuals, corporations, bodies of persons and partnerships, in respect of assessable profits arising in or derived from Hong Kong. For the year of assessment 2003-04, the Profits Tax rate for corporations was increased from 16% to 17.5% and non-corporate persons from 15% to 15.5%.

Better business operating results, along with an increase in Profits Tax rates, accounted for an increase of \$11.8 billion (29%) in Profits Tax assessed in 2003-04. Total Profits Tax assessed during the year amounted to \$53.1 billion (**Figure 5**). Of the total tax assessed, the property and financial sectors together contributed 33.3% (**Figure 6**). Further statistics relating to the tax assessed in respect of different business sectors are shown in **Schedules 3 and 4**.



◀ **Figure 5**
Profits Tax assessed

Figure 6 ▶
Corporate Profits Tax assessed ratio by business sectors



Salaries Tax

Salaries Tax is charged on all income arising in or derived from Hong Kong from any office (e.g. a directorship), employment or pension. The total tax payable is restricted to an amount not exceeding the standard rate of Salaries Tax of the net total income (without allowances) of the individual concerned. For the year of assessment 2003-04, the standard rate was increased from 15% to 15.5%.

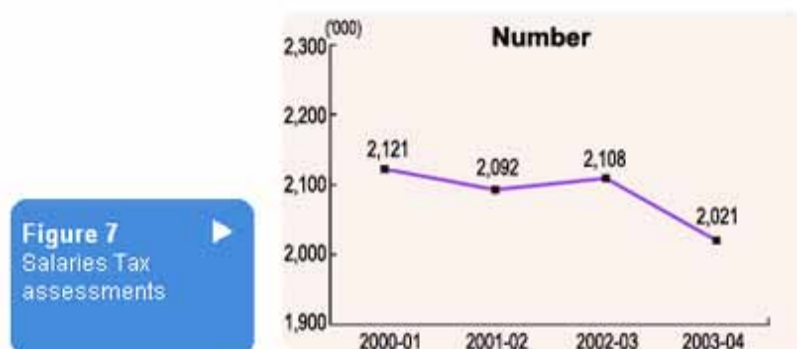


Figure 7 ▶
Salaries Tax assessments

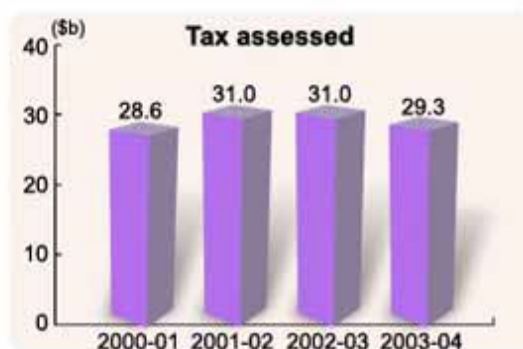
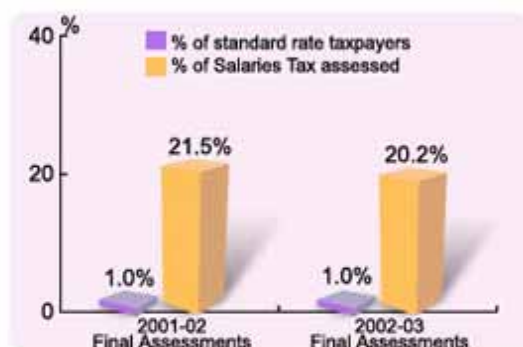


Figure 8 ▼
Standard rate taxpayers

As compared with the previous year, the number of assessments made during the year has slightly dropped and 5.5% less tax was assessed (**Figure 7**). Analyses of tax assessed and allowances granted in respect of taxpayers at various income levels are provided in **Schedules 5** and **6**.

With the drop in the level of salaries, there was a decrease of 5.1% in the number of standard rate taxpayers, from 12,328 last year to 11,697 this year. These taxpayers together contributed 20.2% of the Salaries Tax assessed, compared to 21.5% last year (**Figure 8**).



Notification Requirements of Employers

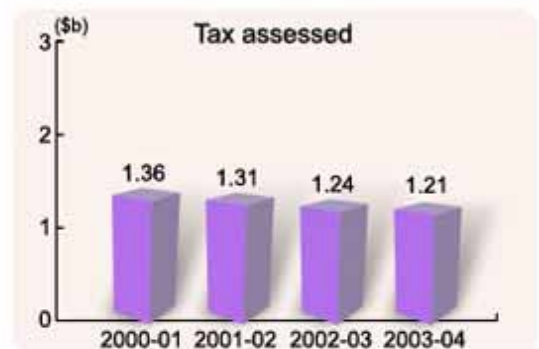
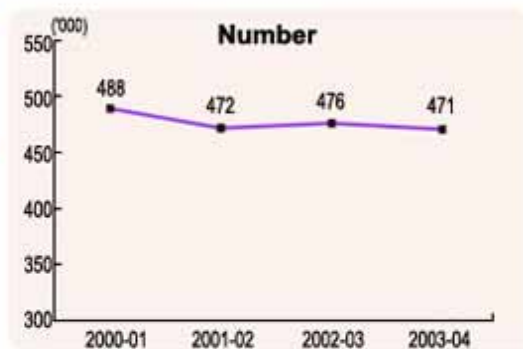
Apart from reporting commencements and cessations of employments, employers are required to prepare annual returns to report the emoluments of each of their employees. During the year, 218,582 employers filed employer's returns with the Department.

The Department firmly believes that continuous taxpayer education can help promoting voluntary compliance by employers. Apart from disseminating information on the IRD Homepage, the Department continues to hold e-Seminar for employers this year. Information on completion of employer's return, employer's obligation and answers to frequently asked questions were uploaded to the IRD website. Employers can also obtain information and specimens of employer's return through the Fax-A-Form service.

Property Tax

Property owners (including corporations) are subject to Property Tax which is charged at the standard rate (up from 15% to 15.5% for the year of assessment 2003-04) in respect of the net assessable value of the property. Incorporated and unincorporated businesses that pay Property Tax in respect of their business premises can have such payments set off against their Profits Tax liabilities. As for corporations, income arising from properties owned by them is also subject to Profits Tax at the corporate tax rate. To obviate the need for yearly setoff of Property Tax against Profits Tax, a corporation can apply for exemption of Property Tax on the property concerned. Statistics on the classification and ownership of properties, based on the records of the Department, are provided in **Schedule 7**. The number of assessments made during the year decreased slightly by 1.1%, as compared with the previous year. Reflecting a general reduction in rental income, the amount of Property Tax assessed dropped by 2.1% (**Figure 9**).

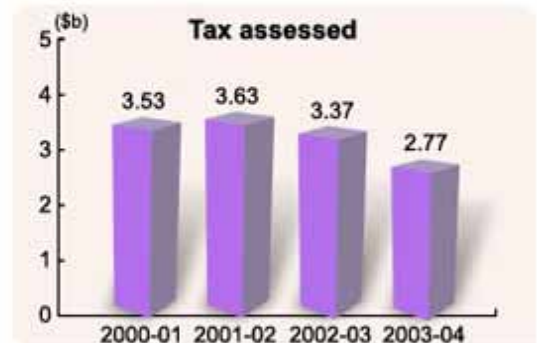
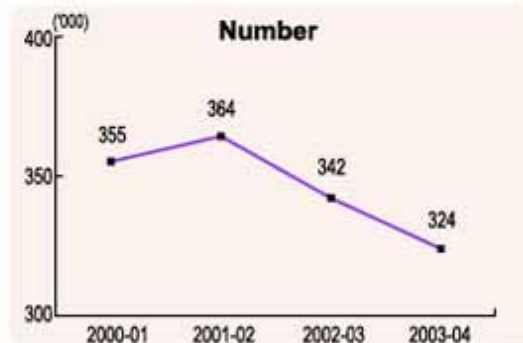
Figure 9
Property Tax
assessments



Personal Assessment

An individual may elect Personal Assessment in respect of his or her total income. Under Personal Assessment, all of the income of the taxpayer and his or her spouse is aggregated and, after the deduction of all allowances, is assessed at the marginal tax rates. In appropriate circumstances, this reduces the total tax liability of the individual (e.g. an individual who would otherwise be chargeable at the standard rate on each separate income source). As a result of a drop in the number of elections, the number of assessments made in 2003-04 was 5.4% less than the previous year. The amount of tax assessed decreased by 18.0% (**Figure 10**).

Figure 10
Assessments made
under Personal
Assessment



Advance Ruling

The advance ruling service allows a person to apply for a ruling on how a provision of the Inland Revenue Ordinance applies in relation to a particular arrangement.

A fee is charged for the service on a "cost recovery" basis. Initially, the applicant is required to pay an application fee of \$30,000 for a ruling concerning the "Territorial Source Principle", or \$10,000 for a ruling on any other matter.

The Department endeavours to provide a ruling within 6 weeks of the date of application, provided that all relevant information is furnished with the application and further consultation with the applicant is not required.

During the year, 80 advance ruling applications were processed (**Figure 11**). Most of the applications were for rulings on Profits Tax matters.

Figure 11
Advance Ruling

		2002-03		2003-04	
		Number		Number	
Awaiting decision at the beginning of the year		7		9	
Add: Applications received during the year		70		90	
		77		99	
Less: Disposed of -	Ruling made	56		70	
	Application withdrawn	6		4	
	Ruling declined	6	68	6	80
Awaiting decision at the end of the year		9		19	

Objections

A taxpayer who is aggrieved by an assessment made under the Inland Revenue Ordinance may lodge an objection to the Commissioner. A significant proportion of the objections received each year arises from estimated assessments issued to taxpayers who fail to lodge returns in time. An objection of this nature must be supported by a completed return and, where applicable, by supporting accounts. Most of these objections are settled promptly by reference to the returns subsequently submitted. Most of the other types of objections are also settled by agreement between the taxpayer and the assessor. Only a small percentage of objections are ultimately referred to the Commissioner for determination. During the year, the Department processed over 67,000 objections (**Figure 12**).

Figure 12
Objection statistics

		2002-03		2003-04	
		Number		Number	
Awaiting settlement at the beginning of the year		22,598		24,499	
Add: Received during the year		79,548		68,961	
		102,146		93,460	
Less: Disposed of -	Settled or withdrawn	76,723		66,094	
	Assessment confirmed	482		540	
	Assessment reduced	265		253	
	Assessment increased	164		142	
	Assessment annulled	13		13	
		77,647		67,042	
Awaiting settlement at the end of the year		24,499		26,418	

Appeals to the Board of Review

A taxpayer who is dissatisfied with the Commissioner's determination of his objection may appeal to the Board of Review (Inland Revenue Ordinance) to have the determination reviewed. As at 31 March 2004, the Board consisted of a chairman and 10 deputy chairmen, who have legal training and experience, as well as 131 other members. During the year, the Board processed 189 appeals (**Figure 13**).

Figure 13
Appeals to the Board of Review

		Number	
Awaiting hearing or decision as at 1 April 2003		98	
Add: Lodged during the year		192	
		290	
Less: Disposed of -	Withdrawn	55	
	Assessment confirmed	80	
	Assessment reduced in full	9	
	Assessment reduced in part	31	
	Assessment increased	10	
	Assessment annulled	2	
	Others	2	
		189	
Awaiting hearing or decision as at 31 March 2004		101	

Appeals to the Courts

A decision of the Board of Review is final, provided that either the taxpayer or the Commissioner may make an application requiring the Board to state a case on a question of law for the opinion of the Court of First Instance.

During 2003-04, the Court of First Instance ruled on three appeal cases. The issues considered by the Court included the taxability of profits from the sale of properties; the deductibility of amounts claimed by a practising accountant as office facilities charges and entertainment and equipment rental expenses; and whether the provisions of the Inland Revenue Ordinance concerning personal assessment in the case of a married couple are inconsistent with the Basic Law. The Court found in favour of the taxpayer in the case concerning profits from property sales, and for the Commissioner in the other two cases. One of the taxpayers involved in the personal assessment case has appealed to the Court of Appeal.

During the year, the Court of Appeal handed down one decision relating to the Inland Revenue Ordinance, which was in favour of the Commissioner. The case was concerned with the issue of whether fees in respect of an underwriting contract relating to the sales of properties in the PRC were taxable. The taxpayer has appealed to the Court of Final Appeal.

Figure 14 sets out statistics concerning appeals to the Courts for 2003-04.

Figure 14
Appeals to the
Courts

	Court of First Instance	Court of Appeal	Court of Final Appeal	Total
Awaiting hearing or decision as at 1 April 2003	7	1	-	8
Add: Lodged during the year	19	1	1	21
	26	2	1	29
Less: Disposed of -				
Decided	3	1		
Discontinued	6	9	1	10
Awaiting hearing or decision as at 31 March 2004	17	1	1	19

Business Registration

The Department aims to maintain an efficient business registration system. Every person carrying on business in Hong Kong must register the business and pay the required fee. Registered businesses may renew their registration certificates either annually or once every 3 years. Up to 31 March 2004, 9,200 businesses had taken the 3-year certificates.

As a budgetary measure for 2002-03, the business registration fee was waived for a year with effect from 1 April 2002. Following the expiration of the waiver period on 31 March 2003, collection of business registration fee was resumed on 1 April 2003 at the original fee scale i.e. \$2,000 for a certificate that is valid for one year and \$5,200 for one that is valid for 3 years. As before, registered businesses and branches are also required to pay the levy for the Protection of Wages on Insolvency Fund at \$600 for a 1-year certificate and \$1,800 for a 3-year certificate.

The special refund exercise for businesses which had already paid registration fees for 2002-03 but were not required to renew their registration certificates during the year was completed on 30 September 2003 as scheduled. For the whole exercise, the Department issued 53,942 application forms to eligible businesses, of which 13,925 had been returned. 12,186 successful applicants were issued refunds totalling \$14.48 million.

The resumption of business registration fee collection had brought the number of new registrations in 2003-04 down by 13,910, whereas the number of cancelled registrations was 10,356 more than last year (**Schedule 8**). Although the total number of active registrations still managed to record a growth of 10,837 for the year (**Figure 15**), there was a decrease of 4.2% in the number of certificates issued. Total business registration fees collected in the year was \$1,233 million (**Figure 16**).

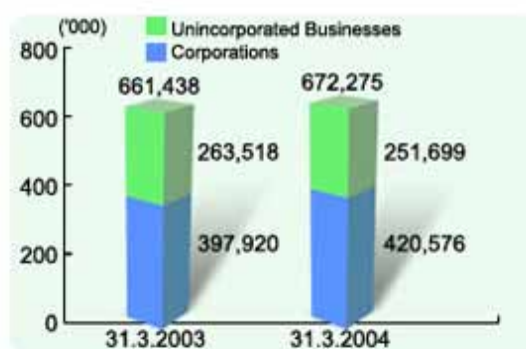


Figure 15
Active Business
Registration

Figure 16
Certificates issued
and Fees collected

	2002-03	2003-04	Increase/Decrease
Number of certificates issued (Main and Branch)	743,880	712,934	-4.2%
Fees (inclusive of penalties) (\$m)	127.7	1,233.3	865.8%

Under the Business Registration Ordinance, a small business with sales or receipts below a specified limit (\$10,000 for a business mainly deriving profits from the sale of services or \$30,000 for other businesses) could apply for exemption from payment of the fee and levy. The number of total exemptions granted during the year was 13,743, representing a significant increase of 64% from the previous year.

Where an application for exemption is not allowed, the business operator may appeal to the Administrative Appeals Board. 11 appeals were received by the Board in 2003-04, of which 3 were dismissed and 7 were subsequently withdrawn by the appellant (**Figure 17**).

Figure 17
Appeals to the
Administrative
Appeals Board

		Number
Awaiting hearing as at 1 April 2003		0
Add : Lodged during the year		11
		11
Less: Disposed of -	Appeal dismissed	3
	Appeal withdrawn	7
		10
Awaiting hearing as at 31 March 2004		1

Stamp Duty

Stamp Duty is charged on instruments effecting property and stock transactions and leasing of property (**Figure 18**).

Both the property and stock markets remained sluggish during the first half of 2003-04. Following the sharp economic rebound towards the second half of the year, there have been marked increase in both property and stock transactions. The stamp duty collections from property and share transactions increased by 20% and 95% respectively when compared with the previous year.

Overall, there was a handsome increase of 51% in total stamp duty collections during the year (**Figure 19** and **Schedule 9**). The number of documents stamped also increased by 7.2% (**Schedule 10**).

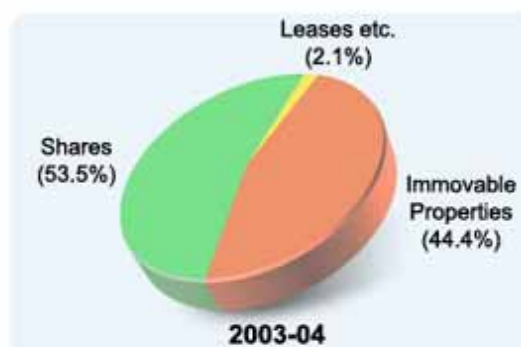


Figure 18
Composition of
Stamp Duty
collections

Figure 19
Stamp Duty
collections

	2002-03 (\$m)	2003-04 (\$m)	Increase
Immovable Properties	4,151	4,996	+20%
Shares	3,088	6,019	+95%
Leases etc.	219	230	+5%
Total	7,458	11,245	+51%

Estate Duty

Estate Duty is charged on that part of a deceased person's estate situated in Hong Kong. The threshold for levying duty is \$7.5 million and the duty rates range from 5% to 15%, depending on the value of the estate.

Figures 20 and **21** show the composition of estates and cases processed for the past two years.

Estate Duty of \$1.455 billion was collected during the year (**Schedule 11**), an increase of \$53 million (3.8%) compared with that of the previous year.

Estate Duty is payable on delivery of an estate duty affidavit or account (or within 6 months from the date of the deceased's death, whichever is the earlier). \$1.208 billion was received during the year in advance of the issue of formal assessments (**Schedule 12**).

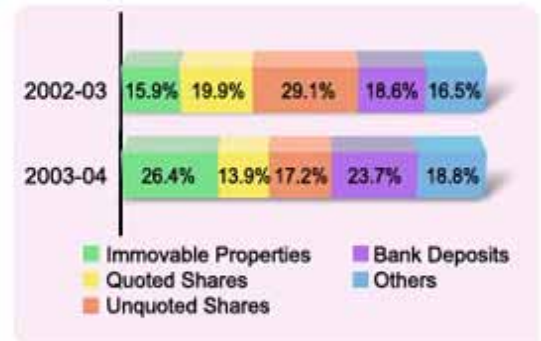


Figure 20
Composition of
Estates

Figure 21
Estate Duty cases

		2002-03	2003-04
New cases		15,227	15,654
Cases finalized	Dutiable	298	258
	Exempt	15,047	15,362
		15,345	15,620

Betting Duty

Betting Duty is charged on bets made on totalisators at race meetings conducted by the Hong Kong Jockey Club and on the proceeds of lotteries conducted by the HKJC Lotteries Limited. Effective from August 2003, betting duty is also payable on the net stake receipts from the conduct of authorized betting on football matches by the HKJC Football Betting Limited.

In 2003-04, the duty rate on Exotic Bets on horse racing was increased from 19% to 20% (with effect from 1 August 2003). The other rates of duty remained unchanged (**Figure 22**).

		Rate
Standard Bets	win, place, double, quinella and quinella place	12%
Exotic Bets	six up, treble, tierce, trio, double trio and triple trio	20% *
Lotteries		25%
Football Betting		50% **

Note: * Rate increased from 19% to 20% with effect from 1 August 2003.
 ** Duty rate on the net stake receipts.

Figure 22 ▲
Rates of Betting Duty in 2003-04

During the year, both the racing attendance and bets on horse racing were on the decline (**Schedule 13**), resulting in a drop of 4.8% in the duty collected from horse racing. However, lotteries duty collection increased by 13.2%, which, together with the duty from football betting newly introduced in August 2003, accounted for an increase of 6.5% in total betting duty collection in 2003-04 over that of the previous year (**Figure 23**).

Figure 23 ▼
Betting Duty collections

	2002-03 (\$m)	2003-04 (\$m)	Increase/Decrease
Horse Racing	9,725.7	9,258.7	-4.8%
Lotteries	1,195.0	1,352.9	+13.2%
Football Betting	-	1,024.3	-
Total	10,920.7	11,635.9	+6.5%

Hotel Accommodation Tax

Hotel Accommodation Tax is imposed on hotel and guest house accommodation at the rate of 3% of the accommodation charges paid by guests and is collected quarterly in arrears.

In 2003-04, the number of hotels, boarding houses and taxable rooms remained almost unchanged (**Figure 24**). However, average room occupancy rate dropped by 16.7% (**Figure 25**) due to the outbreak of SARS in early 2003. A decrease in room charges (**Schedule 14**) was recorded. Total tax collected in the year was 22.6% less than that of the previous year (**Figure 26**).

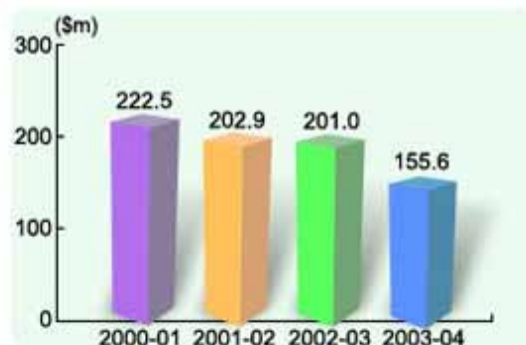
Figure 24
Hotels, boarding houses, taxable rooms and exempted rooms

	2002-03	2003-04	Increase
Hotels and Boarding Houses	161	162	+0.6%
Taxable Rooms	39,101	39,135	+0.1%
Exempted Rooms	5,315	5,484	+3.2%

Figure 25
Room occupancy rates

	2002-03	2003-04	Decrease
Room Days	11,057,669	8,553,005	-22.7%
Occupancy Rate	83.9%	67.2%	-16.7%

Figure 26
Hotel Accommodation Tax collections

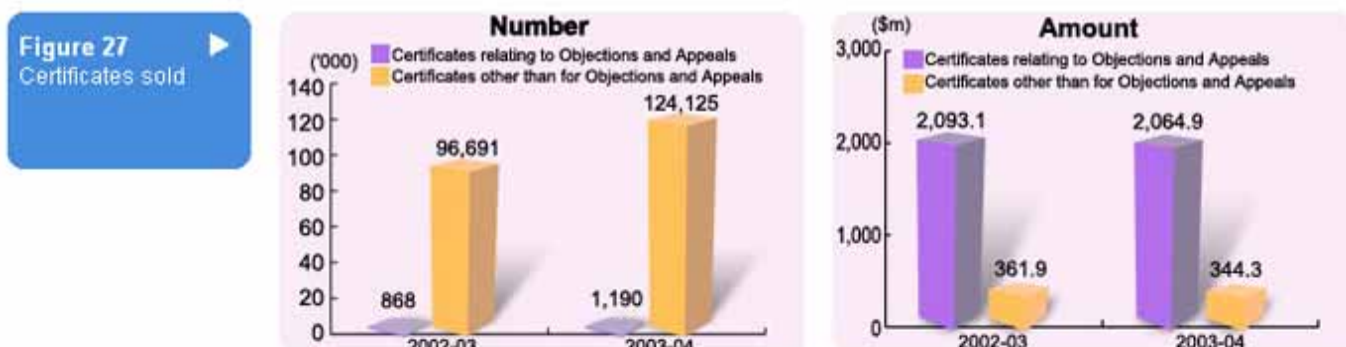


Tax Reserve Certificates

There are two sets of circumstances under which Tax Reserve Certificates are purchased.

The first applies to taxpayers who wish to save for the payment of their future tax liabilities. Two service schemes are offered to these taxpayers: the "Electronic Tax Reserve Certificates Scheme" for all taxpayers and the "Save-As-You-Earn" (SAYE) Scheme for civil servants and civil service pensioners. Under the Electronic Tax Reserve Certificates Scheme, certificates can be purchased using various electronic means, i.e. by bank autopay, telephone, the Internet, public information kiosk and bank ATM. Under the SAYE Scheme, certificates are purchased by civil servants and civil service pensioners through monthly deductions from their salaries/pensions. Interest is payable on the certificates when they are redeemed for settlement of tax liabilities, based on the interest rate prevailing at the time of purchase, for a maximum period of 36 months from the date of purchase.

In 2003-04, a promotion campaign launched by a payment service provider was well received by the public, resulting in a substantial jump in the number of certificates sold under the Electronic Tax Reserve Certificates Scheme. While there was an increase of 76.8% in the number of certificates sold under the Electronic Tax Reserve Certificates Scheme, there was a slight drop of 3.6% in the sale of certificate under the SAYE Scheme (**Schedule 15**). The total amount involved decreased by 4.9% (**Figure 27**).



The second situation applies to taxpayers who object to tax assessments and are required to purchase Tax Reserve Certificates in respect of the tax in dispute. Such certificates are used to settle any tax found payable upon the finalization of the objection or appeal. Interest is only payable on the amount, if any, subsequently required to be repaid to the taxpayer, and is computed at floating rates ruling over the tenure of the certificate.