



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 2004-05, the Field Audit and Investigation Unit completed 1,863 cases (including avoidance and prosecution cases) and assessed back tax and penalties of about \$2.83 billion (**Figure 32**). The amount assessed exceeds that of the year 2003-04 by \$770 million. The increase mainly came from the successful crackdown of a few large tax avoidance schemes in the year.

Figure 32
Results of the Field Audit and
Investigation Unit

	2001-02	2002-03	2003-04	2004-05
Number of cases completed	1,921	1,862	1,863	1,863
Understated earnings and profits (\$m)	8,940.9	9,316.3	9,744.8	13,814.3
Average understatement per case (\$m)	4.7	5.0	5.2	7.4
Back tax and penalties assessed (\$m)	2,101.5	2,052.5	2,059.2	2,828.2
Back tax and penalties collected (\$m)	1,787.6	1,949.1	2,039.9	2,887.6

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 2004-05, there were 14 Field Audit sections.



Anti-Tax Avoidance

Two of the 14 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 2004-05, the Field Audit and Investigation Unit completed 213 tax avoidance cases and assessed back tax and penalties of about \$1.4 billion (**Figure 33**).

Figure 33
Results of the Audit on tax avoidance cases

	2001-02	2002-03	2003-04	2004-05
Number of cases completed	202	200	196	213
Understated earnings and profits (\$m)	2,783.7	3,131.0	3,769.3	7,507.6
Average understatement per case (\$m)	13.8	15.7	19.2	35.2
Back tax and penalties assessed (\$m)	510.2	565.4	636.2	1,375.7

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 2004-05, there were 8 Investigation sections.

Prosecution

One of the 8 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 2004-05, 2 prosecution cases were heard before the court. In the first case, two property owners were fined \$1 million, about 290% of the tax undercharged, for failure to inform their tax chargeability. The second case involved the understatement of business profits by concocting fictitious purchases. The defendant was finally acquitted after a 10-day trial as the Court accepted that he did not act with wilful intent to evade tax.

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. During the year 2004-05, the Unit has completed compliance check on 4,600 property tax cases (**Figure 34**) .

Figure 34
Results of the Property Tax Compliance Checks

	2001-02	2002-03	2003-04	2004-05
Number of cases completed	4,600	4,600	4,600	4,600
Understated rental income (\$m)	193.7	194.0	194.0	194.0
Back Tax and penalties assessed (\$m)	23.1	23.2	23.3	23.3