



Inland Revenue Department

Hong Kong Special Administrative Region

Annual Report 2004-2005

**Serve with devotion
Strive for perfection**



Vision, Mission and Values

Vision

We aim to be an excellent tax administration that plays an important part in promoting Hong Kong's prosperity and stability.

Mission

We are committed to -

- collecting revenue efficiently and cost-effectively;
- providing courteous and effective service to the taxpaying public;
- promoting compliance through rigorous enforcement of law, education and publicity programmes; and
- enabling staff to acquire the necessary knowledge, skills and attitude so that they can contribute their best to the achievement of our vision.

Values

Our core values are -

- Professionalism
- Efficiency
- Responsiveness
- Fairness
- Effectiveness
- Courtesy
- Teamwork



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Commissioner's Overview

The Inland Revenue Department collected \$127.7 billion in 2004-05. This is 20% more than the collections last year and the highest collections we have ever recorded for Earnings and Profits Tax. Apart from the favourable economic performance, the figure reflected the dedicated efforts of IRD colleagues in a number of work areas.

In June 2004, we saw the enactment of the Inland Revenue (Amendment) Bill 2000 into the Inland Revenue (Amendment) Ordinance 2004 after four years' deliberation. The amendment clarified the scope of deduction for interest expenses, strengthened the arguments we consistently adopted in combating tax avoidance schemes and helped fighting against tax avoidance. For the year 2004-05, IRD recovered tax and penalty of some \$2.8 billion from field audit and investigation cases, an increase of 37% over the amount recovered in the previous year. The increase mainly came from the cracking down of large tax avoidance cases involving abuses in interest deduction claims.

Other than tightening up our enforcement measures and making sure that tax dodgers pay their share of tax and penalty, the IRD is committed to making tax compliance easier for taxpayers by the provision of quality services through vigorous use of IT.



Last year, the Department sought views from more than 20,000 e-filers. Based on their valuable comments, we have upgraded the system performance, redesigned the screen flow and introduced over 40 new functions/improvements to our e-filing function. Major improvements included the "pre-filling of data", "estimation of salaries tax payable", "saving of data" and "viewing and printing". These will effectively reduce the time required to complete the electronic tax return and help taxpayers to plan early for tax payment.

In August 2004, we launched the new "Property e-stamping service". Customers can now stamp property documents (including tenancy agreements, agreements for sales and assignments) via the Internet without approaching IRD in person. The e-stamping system also provides linkage with the Rating and Valuation Department (RVD) for the provision of one-stop service for filing certain tenancy forms with RVD for lease cases. I am pleased that the new initiative has been well received, with take-up rate rising from the initial 6% in August 2004 to 22% in March 2005. A customer survey was conducted in March 2005 with encouraging feedback. We will enhance the system further to meet customer needs.



IRD always takes customer's feedback seriously. Where circumstances warrant, we proactively seek views from our customers in order to tailor our services to meet their needs. Lately, in response to comments from taxpayers, IRD set up a working committee to review the design of salaries tax and personal assessment demand notes and the Assessor's Notes. The committee came up with a new design for the demand note and a new set of Assessor's Notes, which aims at providing taxpayers with more information and making the tax demand notes more comprehensible. The new demand notes were put to use in July 2005.

In 2004, the Department continues to trim its size, with a yet leaner organisational structure of 2,908 posts as at March 2005, which is 13% less than what we were in 2000. To achieve more with less and to excel, we need a professional team. In this regard, substantial resources have been devoted to the maintenance and enhancing our officers' professional knowledge and skill as well as to foster a customer-oriented culture amongst our staff. Not only have we organised various training workshops and seminars for the staff, we have also built information and technology systems such as the knowledge-based database and the departmental intranet to enable quick access by our staff to the up-to-date information relating to their jobs. Competitions like the annual Outstanding Customer Service Awards Competition were also held to boost the service spirit of our frontline officers.

I am very honoured and happy that our efforts in providing quality services have received public recognition. IRD was selected for the Ombudsman Award for the fourth time in 2005. Individual awards were also given to two of our officers for their excellent services in handling customers and complainants.



The Department has gone through another successful year. This could not be achieved without the dedicated efforts of all our staff, with the assistance from our working partners, in particular the professional tax representatives and, most important of all, the support from the public at large. I would like to express my hearty gratitude to them all. We shall continue to serve with devotion and strive for perfection and, as our vision statement says, we aim to be an excellent tax administration that plays an important part in promoting Hong Kong's prosperity and stability.

LAU MAK Yee-ming, Alice, J.P.
Commissioner of Inland Revenue



Revenue

Our economy recovered throughout 2004. This, coupled with the implementation of phase II tax increase measures introduced in the 2003-04 Budget, has boosted our Earnings and Profits Tax collection to a record high. There was an increase of \$16.2 billion in Earnings and Profits Tax collections, representing a growth of 20.2% as compared with the previous year (**Figure 1, Schedules 1 and 2**). The booming property and stock markets in the year also brought about a substantial increase of \$4.6 billion in stamp duty collections.

Figure 1
Revenue collected by tax type

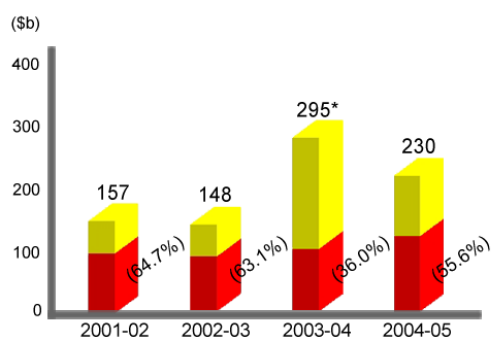
	2001-02	2002-03	2003-04	2004-05
Type of tax	(\$m)	(\$m)	(\$m)	(\$m)
Profits Tax-				
Corporations	39,272.4	33,692.9	43,666.3	52,562.2
Unincorporated Businesses	5,103.3	5,106.6	5,103.7	6,077.5
Salaries Tax	28,634.6	29,733.1	27,976.9	33,990.5
Property Tax	1,135.7	1,180.1	983.0	1,115.6
Personal Assessment	3,603.0	3,315.9	2,744.4	2,963.4
Total Earnings & Profits Tax	77,749.0	73,028.6	80,474.3	96,709.2
Estate Duty	1,927.8	1,402.7	1,455.3	1,468.4
Stamp Duty	8,636.6	7,458.2	11,245.4	15,851.4
Betting Duty	11,571.3	10,920.7	11,635.9	12,057.2
Business Registration Fees	1,240.2	127.7	1,233.3	1,348.7
Hotel Accommodation Tax	202.9	201.0	155.6	247.4
Total revenue collected	<u>101,327.8</u>	<u>93,138.9</u>	<u>106,199.8</u>	<u>127,682.3</u>
% change over previous year	0.9%	-8.1%	14.0%	20.2%

Overall, revenue collected by the Department during 2004-05 totalled \$127.7 billion (about 60% of the Government General Revenue, see **Figure 2**). This represents an increase of \$21.5 billion or 20.2%, from that collected in the previous year. The major part of the revenue collected came from Profits Tax and Salaries Tax, which together contributed 72.5% (**Figure 3**).

Figure 2
Government General Revenue

Other General Revenue
Inland Revenue Department collections

Total Government General Revenue



* including a transfer of \$120 billion from the Land Fund

Figure 3
Composition of the revenue collection

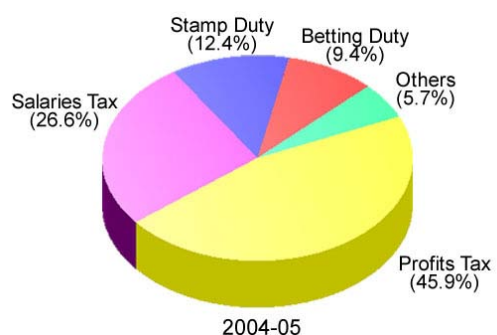
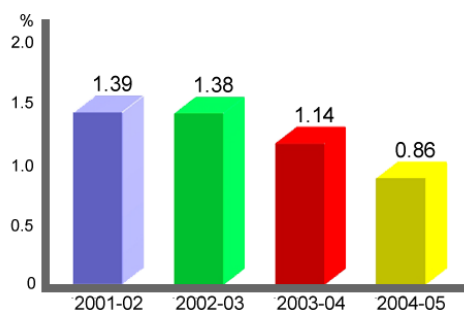


Figure 4
Cost of collection



With material productivity savings and an increase in revenue collections during the year, the cost of collection of revenue decreased from 1.14% to 0.86% (**Figure 4**) .



Assessing Functions

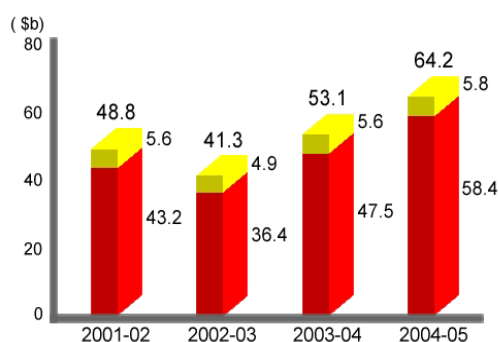
The Department raises revenue through taxes, duties and fees in accordance with the relevant legislations. While the duties and fees collected for a year are based on the actual results of the year, the Earnings and Profits Tax assessed are principally computed by reference to the incomes/profits of the taxpayers in the previous year. For 2004-05, the Earnings and Profits Tax assessed increased by \$18 billion (21%), as compared with the previous year. The total of duties and fees collected also rose by 20%.

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 2004-05, the Profits Tax rate for corporations remained unchanged at 17.5% and the rate for non-corporate persons was increased from 15.5% to 16%.

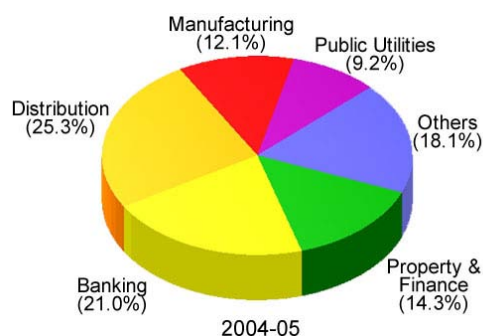
With the economic upturn, Profits Tax assessed in 2004-05 increased by \$11.1 billion (21%), as compared with the previous year. Total Profits Tax assessed during the year amounted to \$64.2 billion (**Figure 5**). Of the total tax assessed, the property and financial sectors together contributed 35.3% (**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



■ Unincorporated Businesses
■ Corporations

Figure 6
Corporate Profits Tax assessed ratios by business sectors

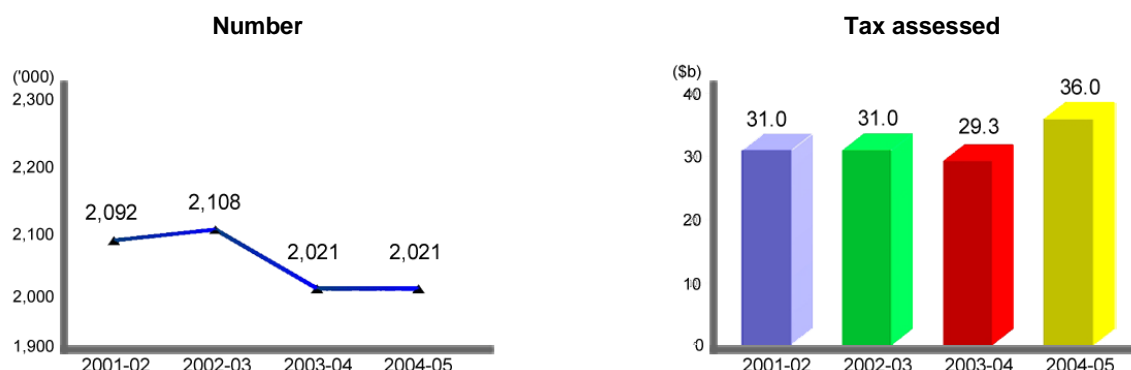


Salaries Tax

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 2004-05, the standard rate was increased from 15.5% to 16%.

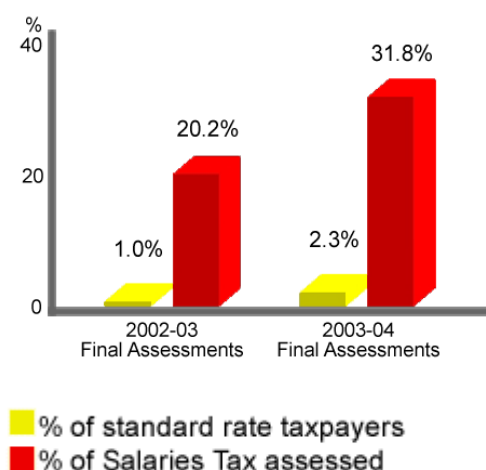
Compared to the previous year, while the number of assessments made remained very much the same, 23% more tax was assessed during 2004-05 (**Figure 7**) . Analyses of tax assessed and allowances granted in respect of taxpayers at various income levels are provided in **Schedules 5** and **6**.

Figure 7
Salaries Tax assessments



Following the implementation of phase I tax increase measures in the 2003-04 Budget, the number of standard rate taxpayers increased by 15,032, from 11,697 last year to 26,729 this year. These taxpayers together contributed 31.8% of the Salaries Tax assessed, compared to 20.2% last year (**Figure 8**) .

Figure 8
Standard rate taxpayers



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, 228,280 employers filed employer's returns with the Department.

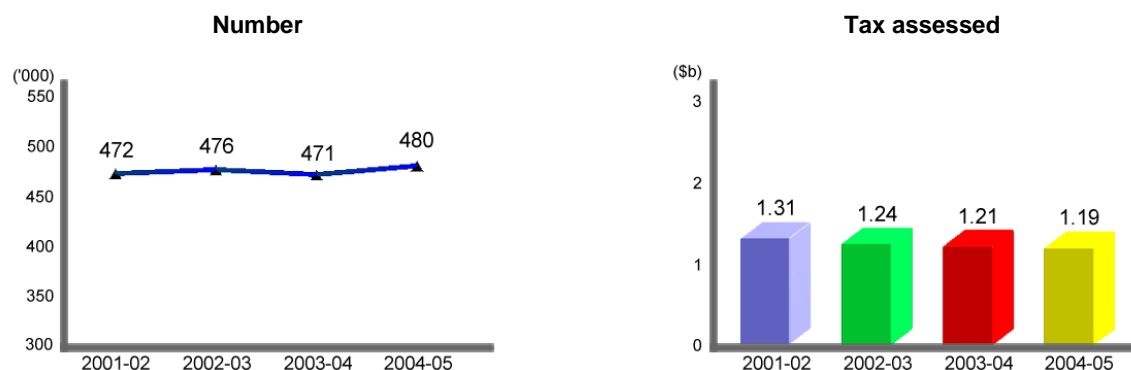
The Department provides venues for e-Seminar and disseminates tax information for employers on the IRD Homepage in order to enhance their understanding of the relevant statutory requirements. The contents include information about completion of Employer's return, employer's obligation, answers to frequently asked questions etc.. Employers can also obtain specimens of completed employer's returns and notifications 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 15.5% to 16% for the year of assessment 2004-05) 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 set-off 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**. As compared with the previous year, the number of assessments made during the year increased slightly by 1.9% while the amount of Property Tax assessed dropped by 2.3% (**Figure 9**) .

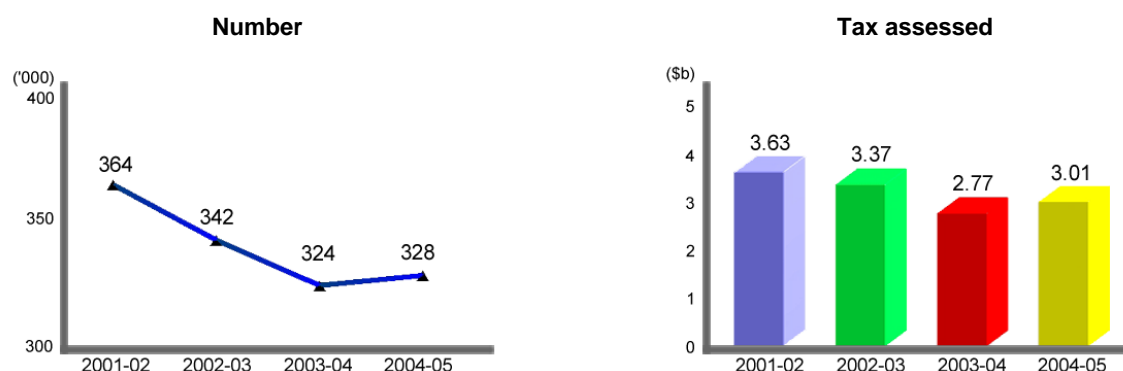
Figure 9
Property Tax assessments



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 graduated 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 an increase in the number of elections, the number of assessments made in 2004-05 was 1.3% more than the previous year. The amount of tax assessed increased by 8.7% (**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, 77 advance ruling applications were processed (**Figure 11**) . Most of the applications were for rulings on Profits Tax matters.

Figure 11
Advance Ruling

		2003-04	2004-05
		Number	Number
Awaiting decision at the beginning of the year		9	19
Add: Applications received during the year		<u>90</u>	<u>71</u>
		99	90
Less: Disposed of -			
Ruling made	70		66
Application withdrawn	4		7
Ruling declined	<u>6</u>	<u>80</u>	<u>4</u>
			77
Awaiting decision at the end of the year		<u>19</u>	<u>13</u>

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 arise from estimated assessments issued to taxpayers who have failed to lodge returns on 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. Many of the other types of objections are also settled by agreements between the taxpayers and the assessors concerned. Relatively few objections are ultimately referred to the Commissioner for determination. During the year, the Department processed over 73,000 objections (**Figure 12**) .

Figure 12
Objection statistics

		2003-04	2004-05
		Number	Number
Awaiting settlement at the beginning of the year		24,499	26,418
Add: Received during the year		<u>68,961</u>	<u>71,654</u>
		93,460	98,072
Less: Disposed of -			
Settled or withdrawn	66,094		72,838
Assessment confirmed	540		496
Assessment reduced	253		228
Assessment increased	142		128
Assessment annulled	<u>13</u>	<u>67,042</u>	<u>28</u>
			73,718
Awaiting settlement at the end of the year		<u>26,418</u>	<u>24,354</u>

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 (independently set up under the Inland Revenue Ordinance) to have the determination reviewed. As at 31 March 2005, the Board consisted of a chairman and 9 deputy chairmen, who have legal training and experience, as well as 119 other members. During the year, the Board processed 166 appeals (**Figure 13**) .

Figure 13
Appeals to the Board of Review

		Number
Awaiting hearing or decision as at 1 April 2004		101
Add:	Lodged during the year	149
		250
Less:	Disposed of -	
	Withdrawn	42
	Assessment confirmed	76
	Assessment reduced in full	5
	Assessment reduced in part	37
	Assessment increased	3
	Assessment annulled	3
Awaiting hearing or decision as at 31 March 2005		84

Appeals to the Courts

A decision of the Board of Review is final, provided that either the taxpayer or the Commissioner may, pursuant to section 69(1) of the Inland Revenue Ordinance, 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 2004-05, the Court of First Instance ruled on five cases relating to the Inland Revenue Ordinance. Decisions in favour of the Commissioner were given by the Court in respect of appeals concerning the taxability of profits from the sale of property, the source of trading profits, a refusal of the Board to grant an extension of time to allow a taxpayer to appeal against a determination of the Commissioner, and the taxability of royalties. Appeals to the Court of Appeal have been lodged in respect of the latter two decisions. In a case concerning the taxability of termination payments received by an employee, an appeal by the Commissioner against the decision of the Board was partially allowed by the Court.

During the year, the Court of Appeal handed down one decision, in favour of the Commissioner, relating to the Ordinance. The case was concerned with the issue of whether the provisions of the Ordinance concerning personal assessment in the case of a married couple were inconsistent with the Basic Law.

The Court of Final Appeal also handed down a decision relating to the Ordinance. The case involved the issue of whether fees in respect of an underwriting contract relating to the sale of property in the Mainland of China were chargeable to Profits Tax. The Court found in favour of the Commissioner.

Figure 14 sets out statistics concerning appeals to the Courts for 2004-05.

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 2004		17	1	1	19
Add: Lodged during the year		20	4	-	24
		37	5	1	43
Less: Disposed of -					
Decided	5	1	1		
Discontinued	10	15	-	1	17
Awaiting hearing or decision as at 31 March 2005		22	4	0	26

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. The registration fee and levy for the Protection of Wages on Insolvency Fund are respectively \$2,000 and \$600 if paid annually, or \$5,200 and \$1,800 if paid every three years. Up to 31 March 2005, 10,046 businesses had taken the 3-year certificates.

As the economy was picking up, the total number of new and re-opened registrations in 2004-05 was 12,704 higher than that of the previous year while the number of cancelled registrations increased slightly by 1,484 (**Schedule 8**). The total number of active registrations recorded a growth of 22,057 for the year (**Figure 15**). There was a corresponding increase in the number of certificates issued, leading to an increase of \$115 million in the business registration fees collections (**Figure 16**).



Figure 15
Active Business Registration

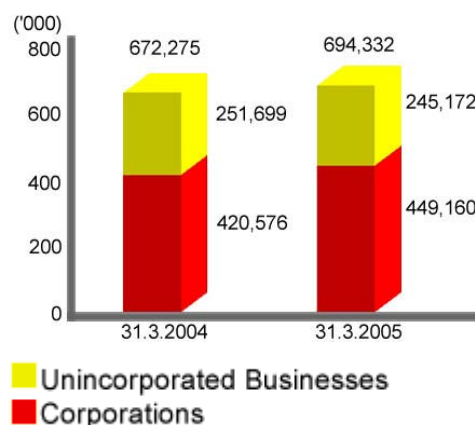


Figure 16
Certificates issued and Fees collected

	2003-04	2004-05	Increase
Number of certificates issued (Main and Branch)	712,934	733,825	2.9%
Fees (inclusive of penalties) (\$m)	1,233.3	1,348.7	9.4%

Under the Business Registration Ordinance, a small business with average monthly 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 15,924, representing an increase of 16% from the previous year.

Where an application for exemption is not allowed, the business operator may appeal to the Administrative Appeals Board. 8 appeals were received by the Board in 2004-05, of which 6 were subsequently withdrawn by the appellant (**Figure 17**) .

Figure 17
Appeals to the Administrative
Appeals Board

			Number
Awaiting hearing as at 1 April 2004			1
Add :	Lodged during the year		8
			9
Less :	Disposed of		
	Appeal dismissed	0	
	Appeal withdrawn	6	6
Awaiting hearing as at 31 March 2005			3

Stamp Duty

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

As a result of the active property market in 2004-05, especially for luxury flats, the stamp duty collections from property transactions increased sharply by 85% when compared with the previous year.

With the rebounding economy, there was also a 6% rise in stamp duty collections from share transactions.

Overall, there was a handsome increase of 41% in total stamp duty collections during the year (**Figure 19** and **Schedule 9**) . The number of documents stamped, however, dropped slightly by 1% (**Schedule 10**) .

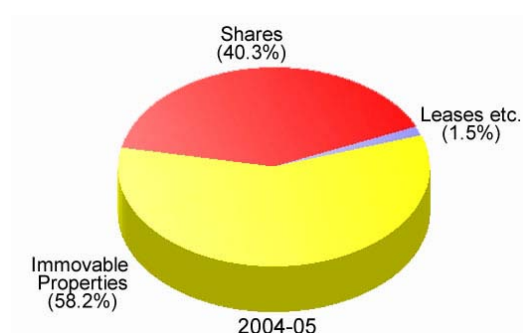


Figure 18
Composition of Stamp Duty
collections

Figure 19
Stamp Duty collections

	2003-04	2004-05	Increase
	(\$m)	(\$m)	
Immovable Properties	4,996	9,233	+85%
Shares	6,019	6,388	+6%
Leases etc.	230	230	0%
Total	11,245	15,851	+41%

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 \$7.5million 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.

- Immovable Properties
- Quoted Shares
- Unquoted Shares
- Bank Deposits
- Others

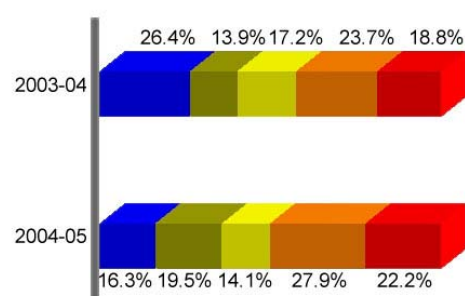


Figure 21
Estate Duty cases

Figure 20
Composition of Estates

	2003-04	2004-05
New cases	<u>15,654</u>	<u>16,064</u>
Cases finalised		
Dutiable	258	271
Exempt	<u>15,362</u>	<u>15,660</u>
	<u>15,620</u>	<u>15,931</u>

Estate Duty of \$1.468 billion was collected during the year (**Schedule 11**), an increase of \$13 million (0.9%) 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). \$1.265 billion was received during the year in advance of the issue of formal assessments (**Schedule 12**) .

Betting Duty

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

In 2004-05, the rates of duty remained unchanged (**Figure 22**) .

Figure 22
Rates of Betting Duty in
2004-05

		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: * Overseas bets are charged at 6%.
**Duty rate on the net stake receipts.

During the year, both the racing attendance and bets on horse racing were on the decline (**Schedule 13**) , resulting in a drop of 8.6% in the duty collected from horse racing. This was, however, compensated by a sharp increase of 88.3% in football betting duty collections and a 22.9% increase in lotteries duty collections. Total betting duty collections in 2004-05 was 3.6% higher than the previous year (**Figure 23**) .

Figure 23
Betting Duty collections

	2003-04	2004-05	Increase/Decrease
	(\$m)	(\$m)	
Horse Racing	9,258.7	8,466.7	-8.6%
Lotteries	1,352.9	1,662.2	+22.9%
Football Betting #	1,024.3	1,928.3	+88.3%
Total	11,635.9	12,057.2	+3.6%

Notes: # Football Betting Duty was introduced in August 2003.

Hotel Accommodation Tax

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

In 2004-05, there was an increase in the number of hotels, boarding houses and taxable rooms (**Figure 24**) . Due to the growing number of visitors, the average room occupancy rate increased by 19.9% (**Figure 25**) , and the room charges also increased (**Schedule 14**) . Total tax collected in the year was 59% more than that of the previous year (**Figure 26**) .

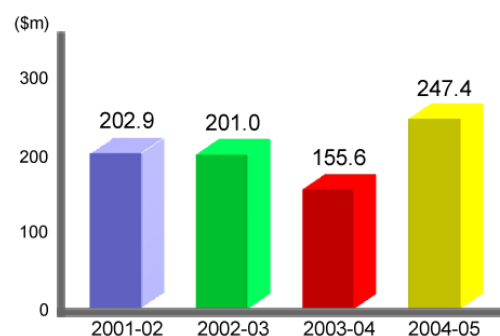
Figure 24
Hotels, boarding houses,
taxable rooms and exempted
rooms

	2003-04	2004-05	Increase
Hotels and Boarding Houses	162	183	+13.0%
Taxable Rooms	39,135	42,038	+7.4%
Exempted Rooms	5,484	5,986	+9.2%

Figure 25
Room occupancy rates

	2003-04	2004-05	Increase
Room Days	8,553,005	11,751,790	+37.4%
Occupancy Rate	67.2%	87.1%	+19.9%

Figure 26
Hotel Accommodation Tax
collections



Tax Reserve Certificates

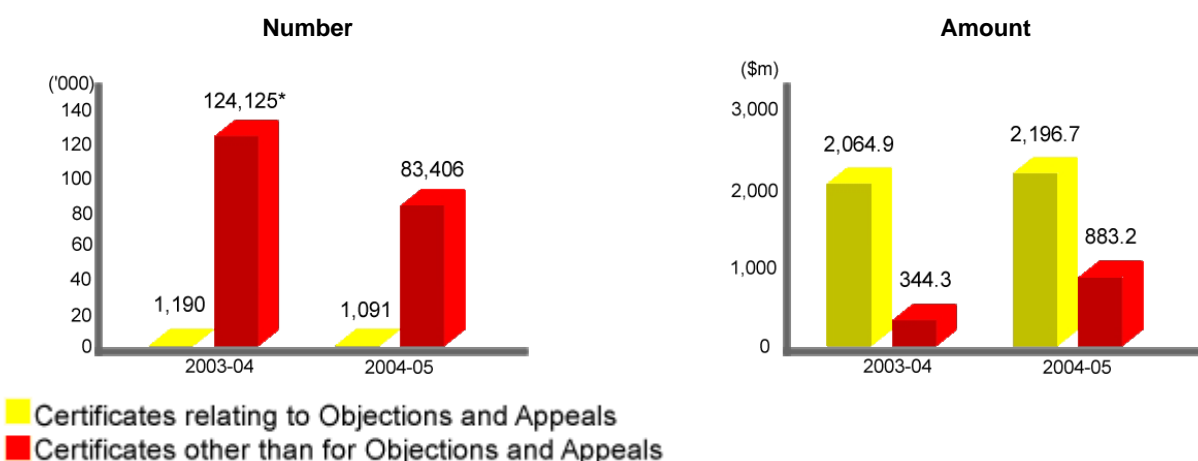
There are two sets of circumstances under which Tax Reserve Certificates are purchased.

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 2004-05, the number and amount of certificates sold under the SAYE Scheme decreased by 10% and 12% respectively (**Schedule 15**). While there was a decrease of 51% in the number of certificates sold under the Electronic Tax Reserve Certificates Scheme, a single sizeable sale boosted the amount under the Scheme by 240% as compared with the previous year. The total amount of certificates sold increased by 157% (**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 finalisation 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.

Figure 27
Certificates sold



* A promotion campaign lodged by a payment service provider in 2003-04 has led to a substantial jump in the number of certificates sold under the Electronic Tax Reserve Certificates Scheme during the year.



Collection

Revenue collected by the Department includes tax, additional tax, surcharge and fines. **Schedules 16** and **17** provide details of additional tax, surcharge and fines imposed by the Department in respect of Earnings and Profits Tax during 2004-05.

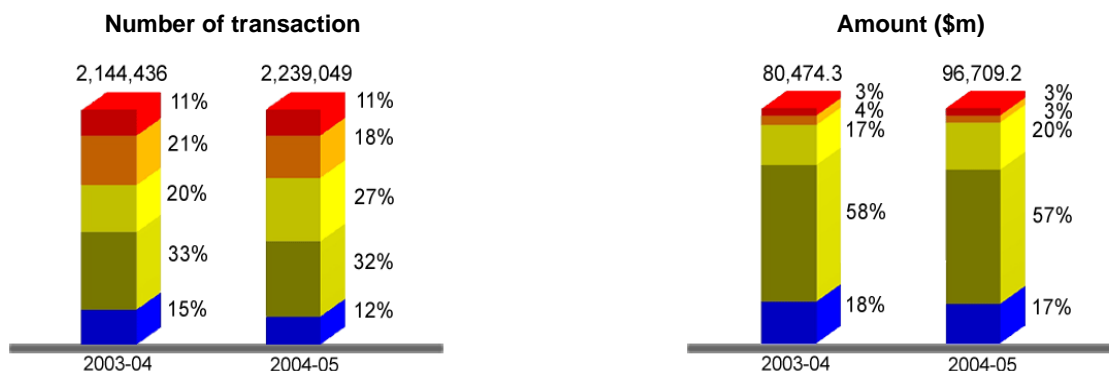
Collection of tax

There are various payment methods by which a taxpayer can choose to settle a tax liability. **Figure 28** shows the payment methods used by taxpayers in 2004-05. Electronic payments (by phone, bank ATM or the Internet) are gaining popularity. For Earnings and Profits Tax, 56% of the payment transactions made during the year were through electronic means.

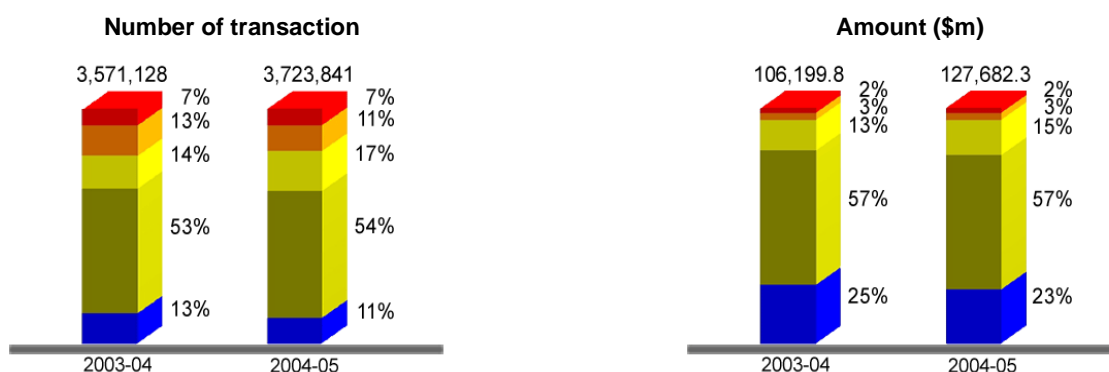
Figure 28
Payment methods

■ By ATM ■ By Phone ■ Via Internet ■ In Person ■ By Post

Earnings & Profits Tax



Total Revenue (including other duties)



Refund of tax

Refunds were made to taxpayers for various reasons, such as overpayment of tax or refund arising from a revision of an assessment. They were issued as expeditiously as possible. During 2004-05, tax refunds totalling \$5.2 billion were made (**Figure 29**).

Figure 29
Tax refunds

Type of Tax	2003-04*		2004-05	
	Number	Amount (\$m)	Number	Amount (\$m)
Profits Tax	24,633	2,785.1	24,760	2,313.3
Salaries Tax	1,452,148	3,382.7	297,797	1,476.9
Property Tax	13,568	102.5	14,541	95.9
Personal Assessment	132,817	325.8	23,215	193.0
Others	14,092	2,285.1	13,915	1,133.0
Total	1,637,258	8,881.2	374,228	5,212.1

* Including 1.25 million refund cases processed under the tax rebate exercise in July 2003

Recovery of tax in default

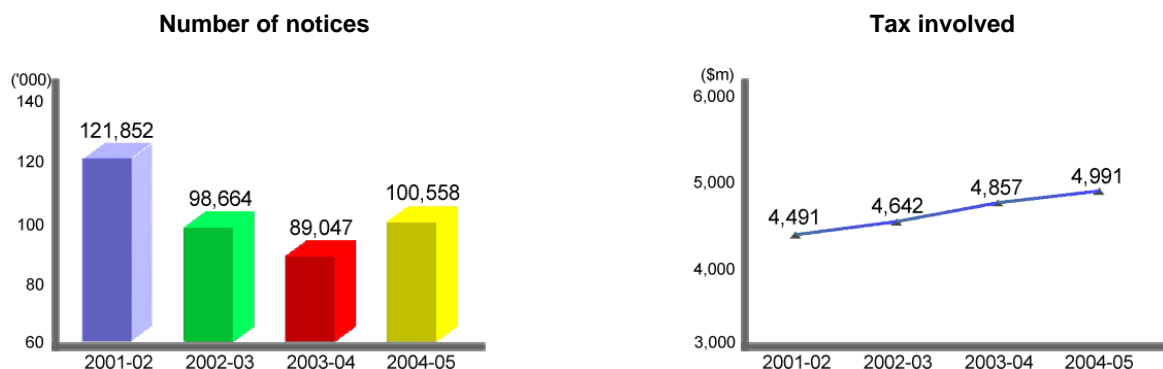
Taxpayers should pay tax on or before the due date shown on the demand notes issued to them. The vast majority of taxpayers settle their tax liabilities in a timely manner.

A late payment surcharge of 5% will generally be imposed where tax is in default. If tax debts remain outstanding for more than six months after the due date, the Department may impose a further surcharge of 10% on the total unpaid amount.

Any tax in default is immediately recoverable. Recovery notices can be issued to third parties (including employers, bankers and other parties owing money to or holding money on behalf of the defaulting taxpayers) to effect collection. Actions may also be commenced in the District Court. **Figure 30** summarises the recovery actions taken by the Department. Upon entry of judgment, a defaulting taxpayer becomes liable to legal costs and interest on judgment debt for the period from the date of commencement of proceedings to the date of full settlement in addition to the outstanding tax. **Figure 31** shows the legal costs and judgment interest collected during 2004-05.

Figure 30
Recovery action

Recovery notices



Recovery action in the District Court

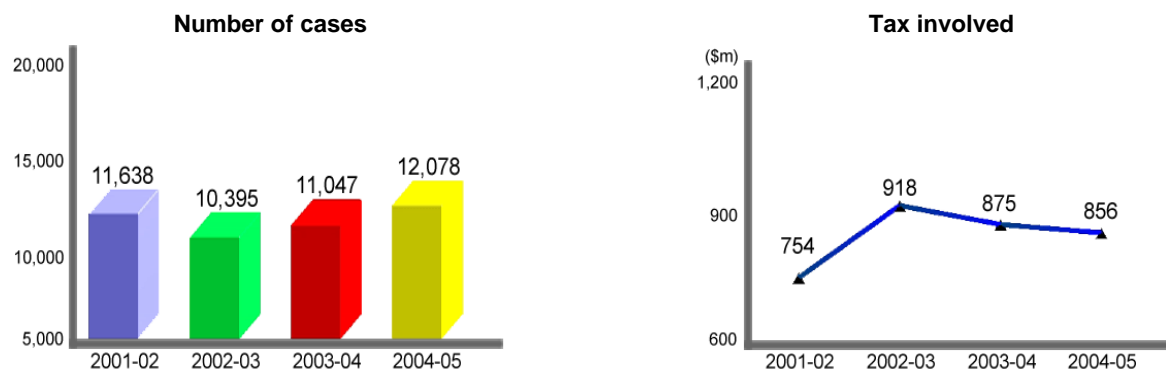


Figure 31
Legal Costs and Judgment
Interest collected in 2004-05

		\$	\$
Court Cost	Court Fees	2,781,854	
	Execution Fees	82,552	2,864,406
Fixed Cost			1,159,007
Judgment Interest	Pre-judgment Interest	5,785,484	
	Post-judgment Interest	16,522,762	22,308,246
Total costs and interest collected			26,331,659

A person with tax in default may be prevented from leaving Hong Kong. This, however, requires the Commissioner to satisfy a District Judge that there are reasonable grounds for believing that the person intends to depart, or has departed, from Hong Kong to reside elsewhere without paying his tax or furnishing adequate security for payment of such tax. The relevant legislation also provides that the person concerned may appeal to the Court of First Instance against a District Judge's decision.



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.

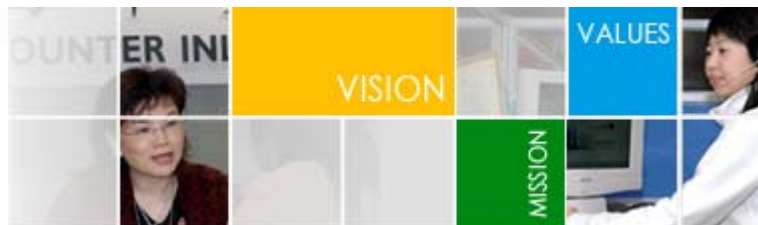
In 2004-05, 2 prosecution cases were heard before the court. In the first case, two property owners were fined \$1 million, about 290% of the tax undercharged, for failure to inform their tax chargeability. The second case involved the understatement of business profits by concocting fictitious purchases. 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



Taxpayer Services

The Department aims to provide high quality customer-oriented services. Particular emphasis is placed on making relevant information readily available to taxpayers. Various means are used, such as the Internet, electronic enquiry services and an interactive telephone answering system.

IRD Homepage

www.ird.gov.hk

Through its homepage, the Department continues to expand the scope of tax information and provide a wider range of electronic service, so that any person interested to know more about taxes in Hong Kong may access our e-service anytime, anywhere.

More and more taxpayers rely on the homepage to

- get information on how to complete tax returns, fulfil tax obligations and find solutions to common tax issues;
- download IRD software and tax forms; and
- use the interactive application software to compute their salaries tax liability.

Four IRD Internet Booths, one on the ground floor and three on the first floor of the Revenue Tower, have been installed for public browsing.

Electronic Enquiry Services

Electronic enquiry services are not only available on the Internet to holders of digital certificates, they are also available on the telephone to the registered users of TeleTax. By using his Taxpayer Identification Number (TIN) and a e-Tax password, a registered TeleTax user can use a touch-tone phone to check his personal tax information, including tax return lodgement status, assessment status, charge payment status and tax reserve certificate account balances. He can also request duplicate returns or assessment notices, payment confirmations or tax reserve certificate account statements anytime, anywhere via the telephone.

With the same TIN and password, a taxpayer can also enquire about his personal tax information on the Internet through the Interactive Tax Enquiry service under the Electronic Service Delivery Scheme.

Telephone and Counter Enquiry Services

The Department's Enquiry Service Centre handles telephone and counter enquiries. The Centre, equipped with computer network, provides an immediate "one-stop" service as far as possible.

The Centre makes use of an Interactive Telephone Enquiry System with 120 telephone lines. Callers can, on a 24-hour basis, gain access to a wide range of tax information by listening to recorded messages or obtaining facsimile copies of the information and forms. Callers are able to speak to enquiry officers during office hours. A leave-and-call-back facility is also available.

Over 1.34 million telephone calls were answered by the Centre during the year. The number of calls answered by staff was over 0.68 million (**Figure 35** and **Figure 36**).

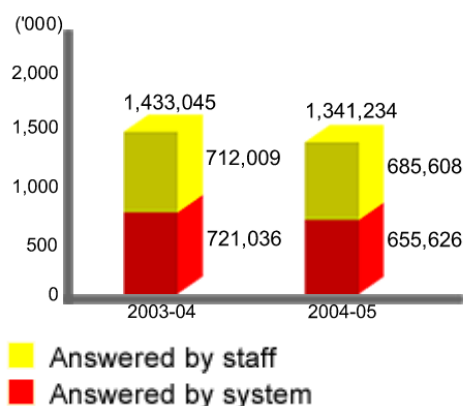


Figure 36
Telephone Enquiries ▼

Figure 35
Number of telephone calls answered ▲

	2003-04	2004-05	Increase/Decrease
No. of calls answered by staff	712,009	685,608	-3.7%
No. of enquiries answered by staff	831,093	845,728	+1.8%
No. of calls answered by system	721,036	655,626	-9.1%
No. of leave-and-call-back messages	71,993	62,552	-13.1%
No. of fax supplied by the system	16,613	12,905	-22.3%

Counter staff of the Centre are generally able to handle enquiries, collect mail and issue forms without the need to refer to other officers in the Department.

To facilitate the provision of quality counter enquiry service, the Centre has installed an electronic queuing system to enable taxpayers to be served according to tag numbers in sequence. The number of counter enquiries handled during the year was over 0.62 million (**Figure 37**).

A taxpayer service team with professionally qualified staff is also stationed in the Centre. The members of this team handle more complex cases.

To make it easier for taxpayers to obtain tax information and forms, two form stands are installed; one on the ground floor and the other on the first floor of the Revenue Tower.

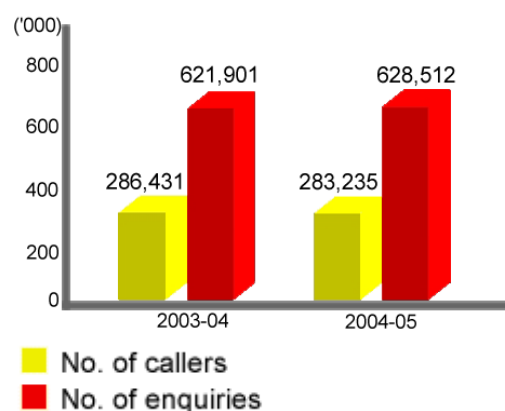


Figure 37
Counter Enquiries ▲

Tax-help Services for Completion of Tax Returns

On the web we arranged e-Seminars for tax representatives, employers, property owners and individual taxpayers. Information on how to complete tax returns, fulfil tax obligations and overcome difficulties in compliance are uploaded onto the IRD homepage to facilitate unlimited access by interested parties via computer terminals installed at home, office, Home Affairs Department, community halls or public libraries. Enquiries can be raised electronically at the "Q&A Column" on the homepage and replies will be made on a regular basis.

To further facilitate taxpayers' enquiries, the Department extended hours during which the telephone enquiry service was manned in May, until 7 p.m. from Mondays to Fridays and 5 p.m. on Saturdays.

Complaints

If a taxpayer is dissatisfied with the services provided by the Department or cannot solve his or her problem satisfactorily through normal channels, the Complaints Officer may be approached for assistance. The complaint channel provides taxpayers with the means of having individual grievances dealt with independently at a senior level. This ensures that such cases are properly handled in a fair and unbiased manner. During 2004-05, 404 complaints cases were received (**Figure 38**). This represents a decrease of 12%, as compared with the previous year.

If a taxpayer is dissatisfied with any administrative action taken by the Department, the person concerned may refer the matter to the Ombudsman. During the year, the Ombudsman sought written comments from the Department in respect of 19 cases. In the light of these cases, the Department has reviewed relevant operations with a view to improving them.

There were 163 Letters of Compliments received during the year. In the Ombudsman Award 2005, the Department was selected for award for public organisations while two officers won individual awards.

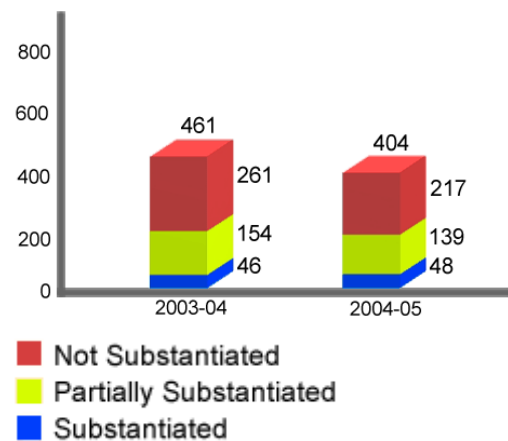


Figure 38
Complaint cases



Performance Pledges

The service standards a taxpayer can expect from the Department are set out in the Performance Pledges. Through the performance pledge programme, a customer-oriented culture has taken a strong hold within the Department.





Information Technology

Information Systems Strategy

The following 2 projects under the Department's second Information Systems Strategy (ISS) plan were completed during the year:

1. Property Stamping System Project - to provide an electronic and one-stop service for stamping of property instruments; and
2. Assess First Audit Later System Phase II Project - to provide more efficient and sophisticated selection methods for audit, investigation and tax compliance measurement.

Thus far, out of the 12 projects under the ISS Plan, 9 have been fully completed. Development work for the Document Management System Phase II Project and the Workflow Management System Project has already commenced in March 2005. These projects aim to extend the Document Management System to cover other paper and electronic documents in addition to tax returns, and to automate the distribution of work tasks to provide efficient means of case processing, tracking, monitoring and control.

Computerised and Paperless Office

The Department's workstation network continued to play an important role in the day-to-day business operations during the year. There were over 2,340 workstations as at 31 March 2005. During the year, on-line enquiries and updating transactions totalled 28 million and 5.8 million respectively. Through the workstations, staff could also have convenient access to the Document Management System to view the images of tax returns, or to the General Enquiry Knowledge Database for easy and quick access to answers for frequently asked questions. Efficiency of the day-to-day operations of the Department and handling of general enquiries were therefore improved.

E-mail facilities were provided to more than 1,660 officers with over 850 of them having access to the Internet. The plan to extend e-mail facilities and Internet access to all officers has also commenced. All these facilities seek to reduce paper consumption and enhance operational efficiency.

Submission of Employer's Return

The provision of free software developed by the Department to employers for preparation and submission of annual returns in respect of employee's emoluments continued to attract more employers to use electronic means for return filing. During the year, some 42,400 employers furnished electronic returns for about 2,220,000 employees. 32,300 of these employers used the software provided by the Department.

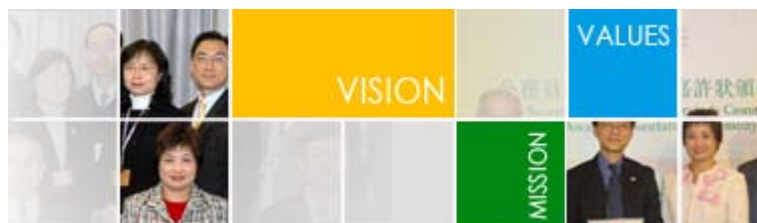
Electronic Lodgement of Returns

In the drive for continuous improvement, the IRD has, based on customers' feedback and comments, enhanced the system for e-filing of individual tax return and added new functions like "Pre-filing of data" and "Estimation of salaries tax payable". The "Pre-filing of data" function makes the filing process easier and simpler, while the "Estimation of salaries tax payable" function will compute the taxpayer's estimated Salaries Tax payable immediately upon submission of the return to help him plan early for tax payment.

Online Application of e-Tax Password

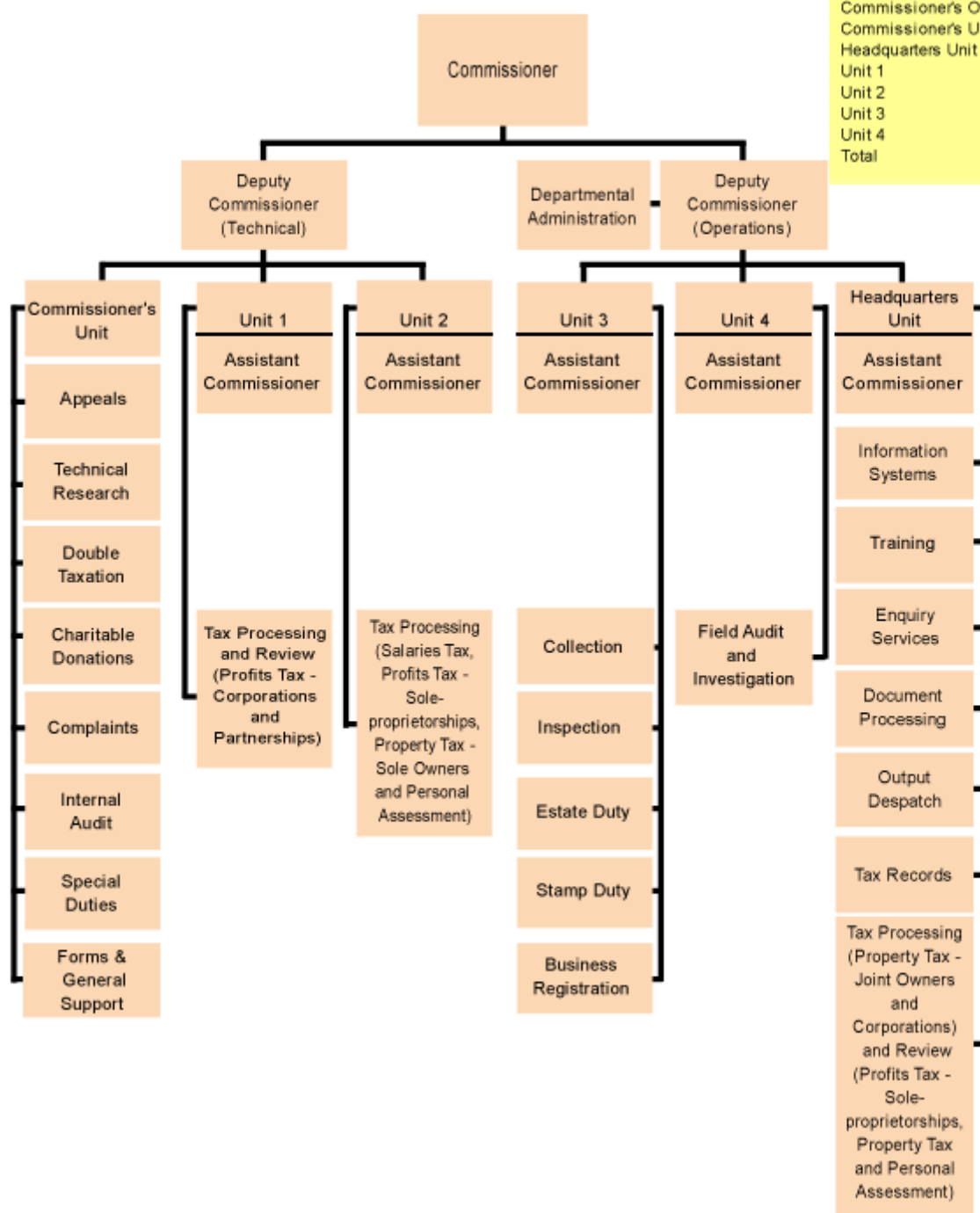
To facilitate taxpayers to use our e-services, in addition to the 24 hours Automated Telephone Registration Hotline service launched in April 2004, a new online function for taxpayer to apply e-Tax Password via the Internet has also been introduced in April 2005 to allow online registration and application for e-Tax password. The password together with the Taxpayer Identification Number (TIN) can be used for e-services, including filing returns, notifying change of address and making enquiries on personal tax information via the Internet or telephone any time.





Human Resources

Organisation Chart of Inland Revenue Department
as at 31.3.2005



Overall Establishment	
	No. of Staff
Commissioner's Office	83
Commissioner's Unit	61
Headquarters Unit	704
Unit 1	325
Unit 2	827
Unit 3	663
Unit 4	245
Total	2,908



Establishment

The Commissioner, the two Deputy Commissioners and the five Assistant Commissioners form the top management of the Department.

As at 31 March 2005, the Department had an establishment of 2,908 permanent posts (including 24 posts for directorate officers) in the Commissioner's Office and 6 Units. Of the total, 1,837 posts were for departmental grades officers (namely Assessors, Taxation Officers and Tax Inspectors), who were required to perform duties directly concerned with taxation. The remaining 1,071 posts were for common/general grades officers, who provided supporting administrative, information technology and clerical services (**Figure 39**).

Most of the professional officers serving in the Department were below the age of 45 (**Figure 40**). The ratio of male to female professional officers was 1:1.24.

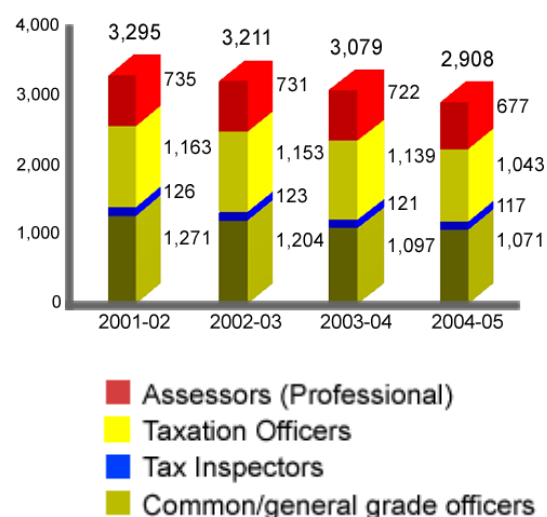


Figure 39
Staff Establishment

Figure 40
Age Profile of Professionals (on
Strength Basis)

Age Group	Male		Female		Total	
Below 25	0	(0%)	0	(0%)	0	(0%)
25 to below 35	54	(18%)	101	(28%)	155	(24%)
35 to below 45	116	(40%)	159	(44%)	275	(42%)
45 to below 55	104	(36%)	100	(27%)	204	(31%)
55 and over	18	(6%)	3	(1%)	21	(3%)
Total	292	(100%)	363	(100%)	655	(100%)

Staff Promotions and Turnover

In 2004-05, 29 departmental grades officers were promoted. 12 officers were transferred to the Department and 191 officers (including 127 officers retired under the Second Voluntary Retirement Scheme) left the Department.

Training and Development

The Department attaches great importance to training and development to enable staff to acquire the professional knowledge and skill and to foster a customer-oriented culture in serving the community. In 2004-05, a total of 8,401 training days were undertaken by staff which is equivalent to about 3 training days per staff. Highlights of the training programmes are:

- Induction courses for all grades of staff upon their joining the Department
- Induction course and on-the-job training provided by respective units to new officers and transferees
- Briefing sessions held upon implementation of legislative amendments or launch of new services
- Workshop on "Achieving Service Excellence" for frontline staff
- Workshop on "Business Writing for Professionals" for assessing officers
- Cross-units Experience Sharing Sessions on Technical Matters for assessing officers
- Computer applications studies available for all staff

In addition to classroom training, the Department also encourages staff to embrace the new mode of learning through Internet/Intranet. The management, aiming to provide a better service and learning solution to the changing needs of the staff, supports the initiative to promote the culture of continuous self-learning among our colleagues and provide effective facilities to enable them to do so by means of e-learning. Training materials and information were uploaded onto our Intranet for officers to study at their own time and pace. This provides an effective way for the staff to acquire new knowledge and review what they have learnt.

In October 2004, 2 self-learning booths were installed to provide a means for colleagues, in particular for those who do not have computer or Internet facilities, to take the web courses during and outside core office hours.

Continuing Professional Education

11 in-house Continuing Professional Education (CPE) seminars were held during the year which were attended by 1,664 participants.

The topics of the seminars included:

- Practical Hints in Handling Sources of Profits Cases
- Trade Financing
- Taxable Profits vs. Accounting Profits
- Money Laundering
- Implementation of CEPA
- E-learning - A Channel of Self-development
- Investment-linked Long Term Insurance Policies
- Locality of Employment
- EQ-Handling in Workplace
- Video Seminar on "Identifying Tax-avoidance Schemes and Handling of Tax-avoidance Cases Involving Cross Border Issues"
- The Tax Practitioners' Concern

Video sessions were arranged for those who could not attend the seminars.

The Department also encourages and sponsors officers to attend seminars organised by academic and professional institutes. During 2004-05, 114 officers were sponsored by the Department to attend such seminars.

Overseas and China Training

The Department continues to put emphasis on the international dimension of our tax administration to enable our professional officers to have necessary knowledge to deal with the increasing number of new global issues.

During 2004-05, 17 professional officers attended overseas courses in Korea, Malaysia, Singapore and the United States of America. In addition, 1 professional officer and 1 Official Languages Officer attended a course at Tsinghua University in Beijing and Beijing Normal University respectively, and 1 officer went on familiarisation visit to Shenyang and Dalian.

In October 2004, 2 professional officers attended a 2-week training programme in Yangzhou. This was a joint training programme organised by the Study Group on Asian Tax Administration and Research (SGATAR) and the main theme was "Computer Audit". The Department also sent 2 professional officers to the programme to act as the resource persons.



Other Training

In May 2004, the Financial Services and the Treasury Bureau and the Department together with the Organisation for Economic Cooperation and Development (OECD) jointly organised a 5-day training course on Goods and Services Tax in Hong Kong. Three expert instructors led the course which was participated by 65 local government officials including officers from this Department, the Census and Statistics Department, the Customs and Excise Department, the Department of Justice and the Financial Services and the Treasury Bureau.



Staff Relations and Welfare

Effective communication with staff at all levels is highly valued with the ultimate goal to enhance the efficiency in providing quality service to the public.

The Departmental Consultative Committee (DCC)

The Committee is chaired by the Deputy Commissioner (Operations) and comprises representatives from all staff unions/associations and staff groups in the Department. In addition to making contacts and distributing correspondence for sharing of views on ad hoc issues, the Committee holds its meetings regularly where staff and management exchange their views on a wide range of topics of mutual concern. Staff representatives are free to raise their subjects for discussion and management is open and ready to share its views on different major issues including recruitment, promotion, career posting, training, working environment, staff welfare and service-wide matters. The Committee is a formal effective forum to enhance the mutual communication and thus better understanding and co-operation between the staff and management.

The General Grades Consultative Committee (GGCC)

The Departmental Secretary, as the Chairperson of the Committee, is tasked with the mission to enhance the mutual communication and sharing of views between the management and the clerical and secretarial grades staff, who form a significant part of the Department's establishment. Since its formation in 1999, the Committee holds regular meetings to discuss a variety of issues and helps strengthen the co-operation between management and the clerical and secretarial grades staff and facilitates effective implementation of management initiatives.

The "Meet-the-Staff Programme"

The Programme was launched in 1996-97 to further enhance the communication between the staff and management and to supplement the formal consultative channel. The senior management of each Unit meets with the staff of different groups in a less formal atmosphere and shares views with them on subjects which are either related to the daily operation and working environment, or related to service-wide issues.

The IRD Staff Suggestion Scheme

During 2004-05, 11 suggestions were received with 3 of the proponents concerned granted different levels of cash awards and certificates of commendation in recognition of their contributions and efforts. The successful suggestions helped to bring about financial savings and improvement in work efficiency in the Department and were all implemented with rewarding results.

The Inland Revenue Department Newsletter

The departmental newsletter is published quarterly to serve as another communication channel between the staff and management. It disseminates both service-related matters and recreational activities through articles and contributions offered by staff and unit managements. It also serves as a quarterly round-up of the recreational activities organised by the Department's Sports Association.

The Inland Revenue General Staff Welfare Fund (IRGSWF)

The Inland Revenue General Staff Welfare Fund was established voluntarily by a group of staff in 1972. It operates on funds donated by staff on a voluntary basis. With the endorsement of the Claims Sub-committee, which is formed to consider applications for financial assistance, small amounts of interest-free loans and grants can be provided as a quick source of relief to help staff with unexpected financial difficulties. It also subsidises the purchase of consolation gifts to hospitalised staff.

Commendation Letter Scheme

In 2004-05, 53 officers who had provided outstanding service for a reasonably long period of time were awarded the Commissioner's Commendation Letter in recognition of their exemplary performance in the Civil Service. The presentation ceremony was held in March 2005.

SCS's Commendation Award 2004



In 2004, two officers were awarded the SCS's Commendation for having provided outstanding service for 5 consecutive years, in appreciation and recognition of their exemplary performance in the Civil Service. The presentation ceremony was held in September 2004.

The Long and Meritorious Service Travel Award Scheme

In 2004-05, 36 officers with long and meritorious service were granted awards of overseas travel, together with their spouses outside Hong Kong, under the Long and Meritorious Service Travel Award Scheme.

The IRD Sports Association

The IRD Sports Association continued to play an important role in developing the human resources of the Department. The Association strived to promote the intellectual, social and athletic interests of our colleagues. Through active participation in activities organised by the Association, our staff members strengthened their cohesiveness and sense of belonging.

The membership number of the Association kept on increasing. As at 31 March 2005, a total of 2,089 colleagues, i.e. more than 70% of IRD staff, have joined the Association as members. Starting from last year, retired staff may join the Association as ordinary members so that they can continue to support, participate and assist in organising the Association's activities.

Throughout the year, the Association organised many sports, social and recreational activities for colleagues and their families. These included Fun Fair, Annual Dinner, outings, interest classes, workshops as well as sporting events. The Association arranged "value-added luncheon talks" on a wide range of topics that were delivered by professional speakers from different fields. The Association also organised "lunchtime leisure series" including Fun with Djembe, Workshop on play therapy, Desk Stretches exercises, Pilates and Fat-burn aerobics. Members can acquire knowledge and regain energy from heavy workloads through joining these activities. Besides, the Association participated in sports competitions held by other organisations, including the HKICPA Football Competition and Fok Ying-tung Cup Tennis Tournament. We are most pleased to have won several top awards.

In parallel to expanding our Association's services, we are also mindful of charitable works and have contributed to the community through helping the needy. Last year, the Association organised a number of fund raising activities. In December 2004, the Association launched a donation drive to raise funds for the victims of massive earthquake and tsunami in the South Asia. A total sum of \$412,000 was raised. Furthermore, the IRD Volunteer Team spared no efforts in organising various charitable activities, including fund raising, donation of candy and food to the needy families, as well as child training programmes and elderly services jointly with other voluntary organisations. In the year 2004-05, over 170 colleagues and their families rendered services in volunteer work with around 2,490 hours. Indeed, the Team helps to demonstrate our compassion and care to the less fortunate in the society.





Legislative Amendments

The following Ordinances enacted during the year were concerned with matters administered by the Department.

Revenue Ordinance 2004 (No. 9 of 2004)

This Ordinance gave effect to the following proposals in the 2004-05 Budget:

1. to extend the entitlement period for home loan interest deduction from 5 years to 7 years with effect from the year of assessment 2003-04;
2. to extend the profits tax deduction for research and development expenses to cover expenses on design-related activities with effect from the year of assessment 2004-05.

Inland Revenue (Amendment) Ordinance 2004 (No. 12 of 2004)

Following are the major provisions:

1. to strengthen the anti-avoidance provisions for interest deduction to prevent abuse by disallowing interest deduction involving indirect interest flow-back;
2. to revise the provisions relating to royalty income to ensure that all sums payable for the use of intellectual property (whether in or outside Hong Kong) by a person carrying on a trade, profession or business in Hong Kong and deductible in ascertaining the assessable profits of that person are deemed to be receipts arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong;
3. to enable all the depreciation allowances previously granted to a building, which has been used both as an industrial building and as a commercial building, to be accounted for in the calculation of balancing charge and allowance of the building upon its disposal;
4. to widen the scope of courses recognised for deduction of self-education expenses and to extend the scope of deduction to cover examination fees for courses provided by eligible education providers or professional, trade or business associations;
5. to permit the deduction on interest paid for the acquisition of owner-occupied car parking space acquired with the dwelling in respect of which home loan interest is claimed;
6. to revise provisions relating to the Board of Review. The Secretary for Financial Services and the Treasury is empowered to vary the costs and fees involved. The Board is empowered to extend the time for lodging notice of appeal.

Electronic Transactions (Amendment) Ordinance 2004 (No. 14 of 2004)

This ordinance provided for greater certainty and clarity to members of the public as to the form of electronic signature to be used for transactions with the Government and introduced consequential amendments to the Inland Revenue Ordinance.

Professional Accountants (Amendment) Ordinance 2004 (No. 23 of 2004)

The Ordinance made consequential amendment to the Inland Revenue Ordinance to change the name of the Hong Kong Society of Accountants to Hong Kong Institute of Certified Public Accountants.

Land Titles Ordinance (No. 26 of 2004)

The Ordinance provided for a system of registering the title to land and made consequential amendments to the Estate Duty Ordinance, Inland Revenue Ordinance and Stamp Duty Ordinance.

Companies (Amendment) Ordinance 2004 (No. 30 of 2004)

The Ordinance removed the upper limit on the number of partners in a partnership and made consequential amendment to the Inland Revenue Ordinance.

Stamp Duty (Specification of Instruments) Notice (Legal Notice No. 81 of 2004)

This Notice specified the instruments in respect of which a person may apply to the Collector of Stamp Revenue for stamping without presenting the instruments under section 18F of the Stamp Duty Ordinance. This Notice came into operation on 2 August 2004.

Specification of Arrangements (Double Taxation) Orders under section 49 of the Inland Revenue Ordinance

Country/Region	Date of Order	Nature
Macao	12.10.2004	Aircraft Operation Income
Germany	16.11.2004	Shipping Income
Norway	16.11.2004	Shipping Operation Income
Singapore	16.11.2004	Shipping or Aircraft Operations Income
Sri Lanka	16.11.2004	Shipping and Air Transport Income

Legal Notices to fix the rate of interest payable on Tax Reserve Certificates

Legal Notice No.	Periods in force	Annual rate of interest
69 of 2004	3 May 2004 to 6 June 2004	0.0171%
106 of 2004	7 June 2004 to 5 September 2004	0.0500%
146 of 2004	6 September 2004 to 3 October 2004	0.1500%
153 of 2004	4 October 2004 to 5 December 2004	0.2500%
194 of 2004	6 December 2004 to 6 March 2005	0.1250%
25 of 2005	7 March 2005 to 3 April 2005	0.2000%



Environmental Report

Green Management Policy

The Department's green targets are mainly related to the consumption of paper and energy in the office as its operations are mainly office-based. To ensure its services to the public as well as its internal operations are conducted in an environmentally responsible manner, the Department has adopted the following principles:

- (a) All the Department's operations should be in compliance with the relevant environmental protection ordinances.
- (b) The Department should avoid, reduce or control environmental pollution arising from its day-to-day work practice. In particular, it should exercise the principle of "Reduce, Reuse and Recycle" in the consumption of materials.
- (c) The Department will require its contractors to adopt and implement sound environmental management systems and pollution control measures in support of an environmental responsibility for its services.
- (d) The Department will ensure that all staff are aware of its Green Management Policy and will provide information about its Policy and initiatives to those who are interested.
- (e) The Department will provide training for staff to increase awareness and promote continual improvement in protecting the environment and preventing pollution.

Green Management and Promotion of Green Awareness

Green Management

The Environment and Records Management Committee, composed of green executives from Units and Sections and chaired by the Departmental Secretary, the Department's Green Manager, continued to seek staff suggestions, set directions in our green policies and issued green office guidelines. During the year, floor green ambassadors were appointed for promoting green awareness and implementing environmental programmes on a floor basis.



Green Education

In addition to regularly updating the promotional materials concerning environmental protection displayed on notice boards, and affixing stickers reminding good environmental practice next to the relevant facilities, updated information relating to environmental protection can also be obtained from the "Green Corner" of the department's Intranet. Furthermore, "Green Tips" were disseminated regularly to staff via electronic mail to advise staff of constructive and effective measures easy for them to make green achievements in their daily living. All these measures are targeted to encourage staff to develop a healthy working environment.

The Department also participated in various recycle programmes and activities such as "Donation of e-Park Card" and "Green Day" which were held by the Community Chest in order to arouse our staff's awareness on environmental protection.

The IRD Sports Association assisted in promoting green awareness and healthy living among staff by organising a variety of activities in the year, including thematic talks on wildlife and habitats in Hong Kong, herbal bliss for skin care, nutrition for busy people and holistic health talk, a green trail walk in support of the World Environment Day 2004's "Walking for a Green and Healthy Hong Kong", and outings and hiking activities in the countryside.

Environmental Protection Performance

To balance operational needs with environmental care and social responsibility, the Department focused its efforts on maintaining a healthy working environment with satisfactory air quality, and on attaining energy saving, reduction of paper consumption and waste minimisation and recovery.

Working Environment

The smoke-free workplace policy was strictly implemented and monitored. All the Department's indoor areas were smoke-free. Non-smoking signs were displayed at conspicuous locations to invite the co-operation of staff and visitors. Departmental circulars were re-circulated regularly to staff reminding them of the importance of maintaining a smoke-free working environment as well as providing green healthy public areas to taxpayers making visits to the Department. Noisy equipment were relocated to centralised processing centres where they would not disturb staff at work.

Air Quality

The Department had appointed the Electrical and Mechanical Services Department to conduct an "Indoor Air Quality Management" in its offices located in the Revenue Tower. The results indicated that the Department had complied with the requirements of four key elements indicating the quality of indoor air as recommended by the Environmental Protection Department, namely the intensity of Carbon Dioxide, Air-borne Dust Particulate, Radon and Total Viable Count. The quality of the air in the Department's offices was graded as "Good Class".



Energy Saving

Various measures to conserve energy were taken during the year, including arranging the last-man-out after office hours to switch off electric facilities, identifying and replacing defective equipment, and turning off lights in storage areas and other electric appliances after use. Timers were installed to switch off the lighting of lobbies after office hours in order to lower the electricity consumption. According to the instruction of the Environment, Transport and Works Bureau, the air-conditioned room temperature had been set at 25.5°C in pursuance of achieving continuous improvement in efficient use of energy and in pollution prevention. The electricity consumption of the year had dropped by some 357,503 kWh as compared with the previous year.



Waste Minimisation and Recovery

The Department continued to collect waste collectively and effectively. Bags and boxes were placed at various conspicuous locations to facilitate the collection of recyclable paper, aluminium cans and plastic bottles. Used printer cartridges were also collected for recycling. The Department collected some 221,500 kg of waste paper, 218 kg of aluminium cans, 38 kg of plastic bottles and 5,632 used printer cartridges in the year.



Reduction of Paper Consumption

The Department continued to adopt the following measures in the year to reduce its paper and envelope consumption:

- Encourage staff to minimise photocopying and use both sides of paper.
- Reduce submission of paper forms with the launching of e-Leave System in July 2004. This led to savings of some 66,000 sheets of paper per year.
- Encourage both internal and external communication by e-mail and floppy diskettes.
- Make optimum use of the Department's Intranet to enable more environmental friendly, updated and speedy internal information transmission. Administrative Instructions, Staff Handbooks, training materials, reference materials, guidelines, monthly reports etc were uploaded onto the Intranet to facilitate updating and retrieval on-line and dispense with the practice of keeping personal hard copies.
- Circulate and re-circulate Departmental and Unit Circulars / Circular Memoranda / Posting Notices by e-mail.
- Replace the pre-printed forms with templates or use overlay printing. The templates of the forms are uploaded onto the Intranet so that the forms can be printed as and when required.
- Promote the use of multiple screen method in printing on-line enquiries.
- Encourage the public to file tax returns electronically or through other media like diskettes and use the Department's electronic services under the Electronic Service Delivery Scheme.
- Develop the Computer Output On-line Retrieval System to facilitate on-line report viewing, thus obviating the need for printing computer reports in hard copy. The consumption of computer plain stationery for printing computer reports in the year had dropped by some 2,081,810 folds as compared with the previous year.
- Review the need for the preparation of periodical reports, the distribution lists of outgoing correspondence and hard copies required for circulation.
- Launch the e-Seminars for employers and tax representatives to reduce paper consumption by obviating the need to print invitation letters, tickets and handouts.

New Initiatives and Targets

The Department will strive to enhance its green performance through formulating and working towards new initiatives and targets of environmental protection. The Intranet and the Departmental Portal will be widely utilised by the Department as a convenient platform for the enhancement of e-office facilities. Continuous efforts will be made to economise on the consumption of electricity and paper.



Miscellaneous

Charitable Institutions

Charitable institutions are exempt from tax under the Inland Revenue Ordinance. As at 31 March 2005, the number of charities exempt from tax was 4,162, of which 266 charities were granted exemption during the year. The list of charities exempt from tax is available on IRD Homepage.

Donations to charities exempt from tax may be tax deductible. For the year of assessment 2003-04, the amounts of approved charitable donations allowed under Profits Tax and Salaries Tax were \$1.28 billion and \$2.89 billion respectively.

General Inspection

Tax inspectors carry out on-site inspections of businesses and call on individuals to check their compliance with the various Ordinances administered by the Department. A total of 78,674 visits were made during the year.

Internal Audit

Internal auditors perform an important role within the Department. Their activities are directed at ensuring that work carried out within the Department complies with relevant legislation and departmental procedures. They also examine internal control systems and work methods with a view to identifying areas where changes can be made to improve output and efficiency.



Accommodation

In 2004-05, the Department carried out a large-scale project for the replacement of the PABX system in Revenue Tower. The new PABX system provided more updated functions and features in the telephone system and enhanced both external and internal communication. This has facilitated the provision of a better quality service to the public as well as to the officers of other user departments in Revenue Tower.

To provide a more comfortable environment to the taxpayers, the Department had improved the ventilation of the counters and interview rooms on Individual Tax floors in Revenue Tower. In addition, the counters were equipped with on-line facilities to provide more effective and efficient front-line service.

Schedules

1	Tax Assessed and Collections for the year ended 31 March 2005
2	Demand Notes Issued, Tax Assessed and Collections (2001 - 02 to 2004 - 05)
3	Profits Tax Contributions from Various Business Sectors (Corporations) for years of assessment 2001 - 02 to 2003 - 04
4	Profits Tax Contributions from Various Business Sectors (Unincorporated Businesses) for years of assessment 2001 - 02 to 2003 - 04
5	Analysis of Salaries Tax Assessments for the year of assessment 2003 - 04
6	Analysis of Allowances for the year of assessment 2003 - 04
7	Property Statistics (as at 31 March 2005)
8	Business Registration Statistics (2001 - 02 to 2004 - 05)
9	Stamp Duty Collections (2001 - 02 to 2004 - 05)
10	Stamp Office Activities and Collections (2001 - 02 to 2004 - 05)
11	Estate Duty Assessed and Collections for the year ended 31 March 2005
12	Estate Duty Statistics (2001 - 02 to 2004 - 05)
13	Betting Duty Statistics (2002 - 03 to 2004 - 05)
14	Hotel Accommodation Tax Statistics (2001 - 02 to 2004 - 05)
15	Tax Reserve Certificates Statistics (2001 - 02 to 2004 - 05)
16	Offences Committed and Court Fines Imposed
17	Surcharges Added, Offences Compounded, Additional Tax Imposed and Costs Awarded by the Board of Review

SCHEDULE 1 EARNINGS & PROFITS TAX — TAX ASSESSED AND COLLECTIONS FOR THE YEAR ENDED 31 MARCH 2005

	Property Tax	Salaries Tax	Profits Tax (Corporations)	Profits Tax (Unincorporated Businesses)	Personal Assessment	Total
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Tax assessed during the year -						
2002 - 03 and earlier years	81,140,324	342,523,923	6,414,804,119	(149,379,341)	497,985,143	7,187,074,168
2003 - 04 Final Tax only	96,280,503	227,341,463	(907,132,254)	328,674,560	2,510,121,064	2,255,285,336
2004 - 05 Provisional Payments and Final Tax	1,007,909,736	35,460,214,257	52,921,466,396	5,584,701,848	945,248	94,975,237,485
Total Tax Assessed	1,185,330,563	36,030,079,643	58,429,138,261	5,763,997,067	3,009,051,455	104,417,596,989
Add: Collectables -						
Tax outstanding as at 31 March 2004 b/f	370,615,642	6,733,041,651	28,475,149,371	2,647,909,576	663,461,755	38,890,177,995
Surcharge, Compound Penalty and	12,979,438	237,547,783	612,142,039	209,281,016	11,772,685	1,083,722,961
Additional Tax imposed and Costs						
awarded by the Board of Review						
Interest on Tax Heldover	9,794	4,015,290	27,162,693	2,398,032	1,353,048	34,938,857
Write-off re-opened	2,273,987	48,763,833	5,715,325	12,983,912	2,436,809	72,173,866
Total of Tax Assessed and Collectables (a)	1,571,209,424	43,053,448,200	87,549,307,689	8,636,569,603	3,688,075,752	144,498,610,668
Collections during the year -						
Net Tax collected	1,102,588,136	33,772,313,098	51,975,620,011	5,879,274,974	2,953,755,390	95,683,551,609
(After allowing for refunds of tax)	68,162,530	1,306,533,731	2,140,244,994	112,738,929	184,582,183	3,812,262,367
Surcharge, Compound Penalty, Additional Tax	13,015,181	214,885,653	564,901,268	196,254,612	8,455,704	997,512,418
and Costs awarded by the Board of Review						
Interest on Tax Heldover	1,507	3,344,464	21,631,939	1,970,089	1,197,666	28,145,665
Total Net Collections (b)	1,115,604,824	33,990,543,215	52,562,153,218	6,077,499,675	2,963,408,760	96,709,209,692
Balance of Tax, Surcharge, etc. payable (a) - (b)	455,604,600	9,062,904,985	34,987,154,471	2,559,069,928	724,666,992	47,789,400,976
Less: Not collected by virtue of set-off	94,886,380	1,510,306,510	—	195,884,304	—	1,801,077,194
Written-off as irrecoverable	14,642,432	153,226,608	481,989,653	118,705,015	29,453,694	798,017,402
Tax, Surcharge, etc. outstanding as at	346,075,788	7,399,371,867	34,505,164,818	2,244,480,609	695,213,298	45,190,306,380
31 March 2005 carried forward						
Less: Under objection or appeal	15,963,695	1,243,128,635	22,658,618,384	832,621,475	229,598,293	24,979,930,482
Listed for write-off but awaiting approval	994,830	4,664,985	128,349,245	3,110,896	598,660	137,718,616
Assessed but not yet due	168,197,494	4,269,368,591	9,697,378,977	517,627,789	181,332,526	14,833,905,377
Net Tax, Surcharge, etc. in arrears as at 31 March 2005	160,919,769	1,882,209,656	2,020,818,212	891,120,449	283,683,819	5,238,751,905

SCHEDULE 2 EARNINGS & PROFITS TAX — DEMAND NOTES ISSUED, TAX ASSESSED AND COLLECTIONS

	2001 - 02		2002 - 03		2003 - 04		2004 - 05	
	No. of Demand Notes	Tax Assessed	No. of Demand Notes	Tax Assessed	No. of Demand Notes	Tax Assessed	No. of Demand Notes	Tax Assessed
		(\$'000)		(\$'000)		(\$'000)		(\$'000)
Profits Tax -								
Corporations	63,187	43,264,220	63,073	36,432,974	69,412	47,512,511	72,100	58,429,138
Unincorporated Businesses	27,421	5,573,698	25,195	4,864,831	24,170	5,621,824	26,995	5,763,997
Salaries Tax	1,153,081	31,026,152	1,153,149	30,965,312	1,132,251	29,258,733	1,134,282	36,030,080
Property Tax	81,896	1,305,399	83,340	1,238,541	83,596	1,213,078	86,308	1,185,331
Personal Assessment	164,670	3,630,562	160,245	3,374,746	156,621	2,767,391	148,515	3,009,051
Total	1,490,255	84,800,031	1,485,002	76,876,404	1,466,050	86,373,537	1,468,200	104,417,597

	2001 - 02		2002 - 03		2003 - 04		2004 - 05	
	Collections		Collections		Collections		Collections	
		(\$'000)		(\$'000)		(\$'000)		(\$'000)
Profits Tax -								
Corporations		39,272,448		33,692,842		43,666,300		52,562,153
Unincorporated Businesses		5,103,265		5,106,623		5,103,643		6,077,500
Salaries Tax		28,634,653		29,733,104		27,976,858		33,990,543
Property Tax		1,135,655		1,180,055		983,039		1,115,605
Personal Assessment		3,602,999		3,315,946		2,744,420		2,963,409
Total		77,749,020		73,028,570		80,474,260		96,709,210

SCHEDULE 3 CORPORATIONS — PROFITS TAX CONTRIBUTIONS FROM VARIOUS BUSINESS SECTORS

Business Sectors	Final Tax Assessed for Year of Assessment					
	2001 - 02		2002 - 03		2003 - 04	
	(\$'000)	(%)	(\$'000)	(%)	(\$'000)	(%)
Distribution -						
Retail	587,388	1.7	724,094	1.9	983,304	2.1
Wholesale, Import and Export	7,306,992	20.9	8,411,208	22.1	10,618,007	22.9
Foreign Corporations carrying on Import and Export	81,500	0.2	113,782	0.3	137,020	0.3
Public Utilities	4,102,819	11.7	4,346,594	11.4	4,270,022	9.2
Estate Development, Investment and Finance (other than Banking)	5,735,850	16.4	6,048,222	15.9	6,619,692	14.3
Banking	6,964,379	19.9	6,639,456	17.4	9,749,419	21.0
Manufacturing -						
Clothing and Textiles	732,256	2.1	988,896	2.6	1,034,441	2.2
Food and Beverage Products	154,936	0.5	196,670	0.5	229,599	0.5
Steel and Other Metals	242,137	0.7	312,985	0.8	338,611	0.7
Printing and Publishing	344,336	1.0	405,869	1.1	530,500	1.1
Others	2,182,398	6.2	2,735,791	7.2	3,521,057	7.6
Shipping (including Shipping Agents, Shipbuilding, Docking, Travel Agents, Air Forwarding Agents and Airline Booking Agents)	630,469	1.8	749,000	2.0	788,099	1.7
Hotels, Restaurants and Amusement Centres	644,373	1.8	628,157	1.7	594,699	1.3
Stevedoring, Wharfing and Godowns	905,377	2.6	1,031,334	2.7	1,178,643	2.5
Clubs and Associations	403,885	1.2	332,184	0.9	315,538	0.7
Insurance Companies	214,773	0.6	329,594	0.9	554,604	1.2
Non-resident Corporations Trading through Agents (including Consignment Tax)	211,709	0.6	265,117	0.7	716,047	1.5
Building Contractors and Engineering Works	1,049,766	3.0	962,072	2.5	898,178	1.9
Aircraft Owners and Operators	48,743	0.1	247,191	0.6	121,103	0.3
Taxis, Hire Cars, Public Light Buses and Motor Boats	49,008	0.1	56,566	0.1	74,702	0.2
Miscellaneous	2,400,546	6.9	2,564,537	6.7	3,178,217	6.8
Total	34,993,640	100.0	38,089,319	100.0	46,451,502	100.0

SCHEDULE 4 UNINCORPORATED BUSINESSES — PROFITS TAX CONTRIBUTIONS FROM VARIOUS BUSINESS SECTORS

Business Sectors	Final Tax Assessed for Year of Assessment					
	2001 - 02		2002 - 03		2003 - 04	
	(\$'000)	(%)	(\$'000)	(%)	(\$'000)	(%)
Estate Developers, Property Dealers, Estate Agents and Subletting Businesses	10,443	0.6	12,840	0.7	20,065	1.1
Finance and Securities including Brokers, Dealers and Insurance Agents	124,898	6.8	115,895	6.6	138,152	7.7
Builders, Decorators and Civil Engineering Works	40,939	2.2	35,959	2.0	32,550	1.8
Distribution -						
Import and Export	99,102	5.4	93,430	5.3	99,147	5.5
Wholesale	38,174	2.1	35,785	2.0	37,061	2.1
Retail	82,818	4.5	83,030	4.7	105,686	5.9
Manufacturing -						
Agricultural Trades and Food & Beverage Products Manufacturers	2,568	0.1	2,260	0.1	2,445	0.1
Cloth and Clothing	17,155	0.9	19,799	1.1	21,364	1.2
Chemical Products and Mechanical Engineering	25,719	1.4	26,873	1.5	36,448	2.0
Printing and Publishing	11,759	0.6	10,970	0.6	10,647	0.6
Others	40,656	2.2	37,707	2.1	38,714	2.2
Hotels, Restaurants and Amusement Centres	45,124	2.5	34,648	2.0	30,837	1.7
Transport (including Wharfing and Godowns)	27,243	1.5	26,869	1.5	32,213	1.8
Professions -						
Accountants	227,893	12.5	241,743	13.7	190,824	10.6
Architects, Engineers, Surveyors etc.	12,824	0.7	7,983	0.5	10,137	0.6
Doctors and Dentists	493,222	27.0	487,002	27.5	494,157	27.5
Solicitors and Barristers	450,570	24.7	415,912	23.5	412,455	23.0
Other Professions	67,438	3.7	73,418	4.2	74,826	4.2
Miscellaneous	10,940	0.6	7,154	0.4	7,330	0.4
Non-resident Businesses (Note)	36	—	36	—	32	—
Total	1,829,521	100.0	1,769,313	100.0	1,795,090	100.0

Note : Consignment Tax under Section 20A(3) of the Ordinance

SCHEDULE 5 ANALYSIS OF SALARIES TAX ASSESSMENTS FOR THE YEAR OF ASSESSMENT 2003 - 04 BY INCOME GROUP

Annual Income	No. of Taxpayers	Percentage of Taxpayers	No. of Elections for Joint Assessment	Total Income (After Deductions other than Self Education Expenses and Concessional Deductions)	Total Allowances (See analysis per Schedule 6)	Self Education Expenses	Concessional Deductions				Total Net Chargeable Income	Final Tax	Percentage of Total Final Tax	Average Tax per Taxpayer
							Total Donations to Charities	Home Loan Interest	Elderly Residential Care Expenses	Contributions to Recognized Retirement Scheme				
(\$)		(%)		(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(%)	(\$)
104,001— 110,000	21,637	1.86	0	2,322,659	2,250,352	469	536	151	0	6,920	64,231	1,279	0.00	59
110,001— 120,000	53,897	4.64	0	6,220,590	5,605,288	11,390	7,802	6,885	31	130,397	458,797	9,155	0.03	170
120,001— 130,000	48,989	4.22	0	6,124,816	5,094,895	26,634	15,586	25,218	145	141,011	821,327	16,406	0.05	335
130,001— 140,000	45,099	3.89	0	6,079,962	4,722,516	38,566	18,913	46,600	383	140,748	1,112,236	22,762	0.07	505
140,001— 150,000	44,320	3.82	0	6,419,093	4,721,634	53,590	23,461	69,193	469	158,330	1,392,416	36,589	0.11	826
150,001— 180,000	115,852	9.98	0	19,093,338	12,854,919	207,200	81,966	306,915	2,552	501,675	5,138,111	204,159	0.63	1,762
180,001— 210,000	101,529	8.75	261	19,712,612	12,273,955	214,555	104,845	394,517	3,724	521,315	6,199,701	352,801	1.10	3,475
210,001— 240,000	101,463	8.74	5,905	22,886,423	14,200,601	253,502	135,042	460,021	7,486	554,162	7,275,609	532,302	1.65	5,246
240,001— 270,000	90,216	7.77	9,885	22,944,169	14,253,899	192,924	138,920	478,986	10,397	491,669	7,377,374	627,803	1.95	6,959
270,001— 300,000	80,141	6.91	11,965	22,767,521	14,100,333	203,889	145,813	474,476	9,980	457,534	7,375,496	694,282	2.15	8,663
300,001— 400,000	179,142	15.43	28,400	61,833,339	34,047,976	488,639	443,236	1,601,135	37,410	1,176,455	24,038,488	2,745,263	8.52	15,325
400,001— 500,000	92,930	8.01	12,308	41,402,217	18,534,806	289,639	338,063	1,239,576	31,719	633,320	20,335,094	2,793,932	8.67	30,065
500,001— 600,000	52,560	4.53	5,556	28,727,215	10,564,891	157,292	245,641	776,867	21,851	363,092	16,597,581	2,509,573	7.79	47,747
600,001— 700,000	31,036	2.67	2,714	20,099,444	6,237,503	86,308	168,583	496,654	11,138	186,764	12,912,494	2,056,202	6.38	66,252
700,001— 800,000	22,415	1.93	1,687	16,670,650	4,468,745	52,652	137,198	371,296	8,334	151,527	11,480,898	1,883,640	5.85	84,035
800,001— 900,000	14,329	1.24	1,009	12,130,534	2,857,257	32,429	85,030	249,114	5,668	85,478	8,815,558	1,477,233	4.58	103,094
900,001— 1,000,000	11,690	1.01	778	11,069,538	2,324,741	24,180	80,320	222,743	4,520	62,882	8,350,152	1,419,126	4.40	121,397
1,000,001— 1,500,000	31,820	2.74	2,009	38,151,370	5,169,277	63,446	277,241	649,080	10,209	166,898	31,815,219	5,295,185	16.43	166,411
1,500,001— 2,000,000	10,229	0.88	421	17,500,224	1,123,586	14,455	118,384	204,712	2,439	57,727	15,978,921	2,601,895	8.07	254,365
2,000,001— 3,000,000	6,642	0.57	44	15,936,618	142,430	4,749	95,097	104,000	1,770	37,733	15,550,839	2,429,218	7.54	365,736
3,000,001— 5,000,000	2,992	0.26	6	11,203,184	1,042	1,041	73,640	29,392	347	17,289	11,080,433	1,717,445	5.33	574,012
5,000,001— 7,500,000	962	0.08	3	5,776,586	0	251	34,570	8,600	60	5,565	5,727,540	887,768	2.75	922,836
7,500,001— 10,000,000	348	0.03	0	2,987,851	0	136	20,745	1,822	0	2,031	2,963,117	459,283	1.43	1,319,779
10,000,001 & over	455	0.04	0	9,502,135	0	29	99,136	2,801	60	2,500	9,397,609	1,455,006	4.52	3,197,816
Total	1,160,693	100.00	82,951	427,562,088	175,550,646	2,417,965	2,889,768	8,220,754	170,692	6,053,022	232,259,241	32,228,307	100.00	27,766

SCHEDULE 6 ANALYSIS OF ALLOWANCES FOR THE YEAR OF ASSESSMENT 2003 - 04 BY INCOME GROUP

Annual Income	Basic Allowance	Married Person's Allowance	Child Allowance	Dependent Brother/Sister Allowance	Single Parent Allowance	Dependent Parent Allowance	Additional Dependent Parent Allowance	Dependent Grandparent Allowance	Additional Dependent Grandparent Allowance	Disabled Spouse Allowance	Disabled Parent Allowance	Disabled Grandparent Allowance	Disabled Child Allowance	Disabled Brother/Sister Allowance	Total Allowances
(\$)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
104,001 — 110,000	2,250,352	0	0	0	0	0	0	0	0	0	0	0	0	0	2,250,352
110,001 — 120,000	5,605,288	0	0	0	0	0	0	0	0	0	0	0	0	0	5,605,288
120,001 — 130,000	5,094,860	0	35	0	0	0	0	0	0	0	0	0	0	0	5,094,895
130,001 — 140,000	4,690,296	0	15,930	5,850	0	9,210	0	1,230	0	0	0	0	0	0	4,722,516
140,001 — 150,000	4,609,284	0	48,210	23,040	0	35,640	0	5,460	0	0	0	0	0	0	4,721,634
150,001 — 180,000	12,048,612	0	254,427	86,400	0	300,180	125,760	31,800	7,320	0	420	0	0	0	12,854,919
180,001 — 210,000	10,491,732	134,576	391,875	91,110	182	671,520	404,430	55,470	22,920	0	5,100	960	780	3,300	12,273,955
210,001 — 240,000	9,029,180	3,045,952	509,349	104,250	8,840	842,040	516,510	67,230	27,750	0	32,280	4,080	1,680	11,460	14,200,601
240,001 — 270,000	7,159,464	4,446,000	788,699	78,870	67,116	941,010	592,470	66,690	29,340	60	60,240	5,820	3,780	14,340	14,253,899
270,001 — 300,000	5,580,224	5,508,880	1,154,674	69,780	100,745	949,710	554,850	63,900	26,610	1,560	61,680	6,840	4,080	16,800	14,100,333
300,001 — 400,000	11,904,568	13,452,400	3,228,874	145,560	255,064	2,933,460	1,580,550	145,770	58,110	11,340	220,500	21,360	34,200	56,220	34,047,976
400,001 — 500,000	6,315,192	6,699,088	1,834,720	75,750	134,856	2,003,910	1,069,200	86,400	34,530	7,080	188,160	14,700	26,100	45,120	18,534,806
500,001 — 600,000	3,599,964	3,732,560	1,125,971	36,180	75,816	1,176,240	590,280	41,490	16,350	3,900	116,760	8,400	15,540	25,440	10,564,891
600,001 — 700,000	2,109,432	2,236,624	716,705	19,800	43,472	674,370	315,870	22,830	8,400	1,860	58,020	4,860	9,600	15,660	6,237,503
700,001 — 800,000	1,506,960	1,648,400	540,109	10,770	30,056	455,250	198,840	12,450	3,930	1,860	40,680	2,400	8,040	9,000	4,468,745
800,001 — 900,000	923,416	1,133,600	347,547	6,240	20,904	269,310	111,990	8,040	2,550	1,080	21,660	1,980	3,840	5,100	2,857,257
900,001 — 1,000,000	739,128	950,144	288,615	4,440	16,224	211,050	80,640	5,250	1,470	300	19,260	1,080	3,360	3,780	2,324,741
1,000,001 — 1,500,000	934,544	2,733,952	754,754	10,710	42,047	448,050	165,330	13,170	4,140	1,560	39,540	3,120	8,760	9,600	5,169,277
1,500,001 — 2,000,000	44,200	775,008	194,730	1,110	11,128	64,230	21,870	1,260	270	180	6,000	360	1,800	1,440	1,123,586
2,000,001 — 3,000,000	1,144	91,104	30,480	150	832	12,180	4,170	150	60	60	1,320	0	540	240	142,430
3,000,001 — 5,000,000	0	832	210	0	0	0	0	0	0	0	0	0	0	0	1,042
5,000,001 — 7,500,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7,500,001 — 10,000,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10,000,001 & over	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	94,637,840	46,589,120	12,225,914	770,010	807,282	11,997,360	6,332,760	628,590	243,750	30,840	871,620	75,960	122,100	217,500	175,550,646

SCHEDULE 7 PROPERTY STATISTICS (as at 31 March 2005)

Classification of Properties	No. of Properties	%
(i) Solely owned by individuals (with rental income, if any, reported in Composite Tax Returns)	706,102	33.41
(ii) Jointly owned, owned by tenants-in-common, and solely owned other than by individuals -		
Letting	101,690	
Other usage or vacant	<u>565,008</u>	31.55
(iii) Owned by corporations and exempted from property tax under the Inland Revenue Ordinance	336,366	15.91
(iv) Home Ownership Scheme or Private Sector Participation Scheme [excluding those reported under items (i) or (ii)]	259,742	12.29
(v) New Ownership - awaiting classification	144,526	6.84
Total	<u>2,113,434</u>	<u>100.00</u>

Classification of Ownership	No. of Properties	%
Properties owned by : 1 owner	1,245,294	58.92
2 owners	815,912	38.61
3 owners	35,724	1.69
4 owners	8,887	0.42
5 owners	3,279	0.15
6 - 10 owners	3,633	0.17
11 - 20 owners	544	0.03
Over 20 owners	161	0.01
Total	<u>2,113,434</u>	<u>100.00</u>

SCHEDULE 8 BUSINESS REGISTRATION STATISTICS

Fiscal Year	2001 - 02	2002 - 03	2003 - 04	2004 - 05
New registrations	78,593	104,517	90,607	104,323
Re-opened registrations	6,645	6,327	5,988	4,976
Cancelled registrations	84,229	75,402	85,758	87,242
Current registrations as at 31 March	625,996	661,438	672,275	694,332
Certificates issued (fee payable cases)	685,140	743,880	712,934	733,825
Businesses exempted from payment of fees	10,622	8,381	13,743	15,924
Extracts of information issued	250,640	246,457	257,093	249,818
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Fees and penalties collected (excluding levy)	1,240,160	127,685	1,233,327	1,348,702
Court fines	8,656	4,813	5,361	8,597
Fees and penalties in arrears as at 31 March (excluding levy)	34,818	10,664	54,701	52,229

SCHEDULE 9 STAMP DUTY COLLECTIONS

Fiscal Year	2001 - 02	2002 - 03	2003 - 04	2004 - 05
	(\$m)	(\$m)	(\$m)	(\$m)
Duties on -				
• Assignments and Chargeable Agreements	4,409.9	4,151.3	4,996.2	9,233.1
• Contract notes	3,988.8	3,088.2	6,018.9	6,388.0
• Leases	206.7	197.5	205.3	210.5
• Transfer deeds	4.7	6.8	5.0	2.6
• Other documents	2.6	3.7	6.5	7.5
Penalties	23.1	10.3	12.8	9.1
Additional duties for delays in payment	0.8	0.4	0.7	0.6
Total duty collections	8,636.6	7,458.2	11,245.4	15,851.4

SCHEDULE 10 STAMP OFFICE ACTIVITIES AND COLLECTIONS

Fiscal Year	2001 - 02	2002 - 03	2003 - 04	2004 - 05
Average number of callers per day				
• Stamp Office	1,429	1,362	1,588	1,863
• Kowloon Sub-Office #	201	204	212	—
• Tsuen Wan Sub-Office #	92	92	102	—
Number of documents stamped				
• Stamp Office	905,189	957,224	1,142,557	1,186,949
• Kowloon Sub-Office #	105,981	109,842	37,772	—
• Tsuen Wan Sub-Office #	49,093	50,626	18,123	—
Total	<u>1,060,263</u>	<u>1,117,692</u>	<u>1,198,452</u>	<u>1,186,949</u>
Contract note duty	(\$m)	(\$m)	(\$m)	(\$m)
• Collected through Stock Exchange of Hong Kong Limited	3,646.8	2,750.5	5,631.6	5,790.3
• Collected by Stamp Office & Sub-Offices	342.0	337.7	387.3	597.7
Total	<u>3,988.8</u>	<u>3,088.2</u>	<u>6,018.9</u>	<u>6,388.0</u>
Duty collections	(\$m)	(\$m)	(\$m)	(\$m)
• Stamp Office*	8,532.5	7,354.7	11,217.9	15,851.4
• Kowloon Sub-Office #	92.7	92.7	23.9	—
• Tsuen Wan Sub-Office #	11.4	10.8	3.6	—
Total	<u>8,636.6</u>	<u>7,458.2</u>	<u>11,245.4</u>	<u>15,851.4</u>

* Including contract note duty collected through Stock Exchange of Hong Kong Limited

The Kowloon and Tsuen Wan Sub-Offices ceased operation from 1.8.2003

SCHEDULE 11 ESTATE DUTY — DUTY ASSESSED AND COLLECTIONS FOR THE YEAR ENDED 31 MARCH 2005

	Assessments issued before 1 April 2004	Assessments issued in 2004 - 05						Total
		Original Assessments					Additional Assessment	
		Estates valued under \$2m	Estates valued \$2m to \$4m	Estates valued \$4m to \$10m	Estates valued \$10m to \$20m	Estates valued over \$20m		
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Outstanding charges brought forward from 2003 - 04	335,509	—	—	—	—	—	—	335,509
Less: Amount discharged	62,776	—	—	—	—	—	—	62,776
Net outstanding charges brought forward from 2003 - 04	272,733	—	—	—	—	—	—	272,733
Net duty assessed	—	74	314	41,785	213,808	592,852	48,004	896,837
Penalties charged	—	41	—	857	3,756	7,538	6,507	18,699
Interest charged	8,042	157	441	5,630	26,313	54,117	13,770	108,470
Total amount payable	280,775	272	755	48,272	243,877	654,507	68,281	1,296,739
Less: Amount paid on account before 1 April 2004	—	238	561	28,839	191,542	554,946	49,189	825,315
Net duty, penalties and interest payable in 2004 - 05	280,775	34	194	19,433	52,335	99,561	19,092	471,424
Less: Outstanding charges carried forward to 2005 - 06	193,053	—	—	6,640	22,375	46,078	79	268,225
Net duty, penalties and interest paid in 2004 - 05	87,722	34	194	12,793	29,960	53,483	19,013	203,199
Add: Duty and interest paid on account in respect of assessments to be issued in subsequent years	—	4,190	—	9,698	42,130	1,209,156	—	1,265,174
Total collections in 2004 - 05	87,722	4,224	194	22,491	72,090	1,262,639	19,013	1,468,373

SCHEDULE 12 ESTATE DUTY STATISTICS

Fiscal Year	2001 - 02	2002 - 03	2003 - 04	2004 - 05
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Assessment				
Duty assessed	1,250,222	1,896,433	1,149,169	896,837
Penalties and interest	162,604	186,973	223,610	119,127
Total	<u>1,412,826</u>	<u>2,083,406</u>	<u>1,372,779</u>	<u>1,015,964</u>

	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Collection				
Payment before assessment	1,676,606	1,146,986	1,208,875	1,265,174
Payment after assessment	251,238	255,716	246,380	203,199
Total	<u>1,927,844</u>	<u>1,402,702</u>	<u>1,455,255</u>	<u>1,468,373</u>

	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Arrears				
Arrears as at 31 March	249,938	263,397	335,509	268,225

SCHEDULE 13 RACING ATTENDANCE, BETS AND BETTING DUTY COLLECTED

Fiscal Year		2002 - 03		2003 - 04		2004 - 05	
		Day Meeting	Night Meeting	Day Meeting	Night Meeting	Day Meeting	Night Meeting
Racing Attendances							
Number of race meetings		38	39	44	35	44	34
Attendances -							
Public		872,062	542,048	865,988	407,473	819,374	379,289
Members' Stand		43,151	37,803	30,556	17,093	34,876	14,673
Infield Enclosure		0	0	0	0	0	0
Total		915,213	579,851	896,544	424,566	854,250	393,962
Average per meeting		24,085	14,868	20,376	12,130	19,415	11,587
Bets							
Average on-course bets							
per meeting (\$'000)		133,640	84,465	114,691	71,955	104,907	62,845
per race-goer per meeting (\$)		5,549	5,681	5,629	5,932	5,403	5,424
Pari-mutuel bets		(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Win, Place, Double, Quinella, Quinella Place:	on-course	3,815,664	2,397,064	3,747,331	1,837,331	3,514,310	1,571,094
	off-course	27,941,277	24,214,718	29,869,657	20,153,334	28,545,846	18,070,036
	overseas #	—	—	—	—	113,707	84,513
Six-up:	on-course	37,102	37,606	38,942	23,017	33,791	29,371
	off-course	324,495	397,792	356,995	283,568	312,185	317,247
Treble:	on-course	20,025	14,641	19,843	10,898	17,980	8,862
	off-course	179,388	177,172	192,704	145,177	179,526	126,735
Tierce:	on-course	668,825	407,326	657,068	315,357	586,576	262,075
	off-course	2,769,244	2,216,422	2,783,228	1,784,112	2,460,145	1,447,112
Trio:	on-course	274,527	169,034	273,978	131,703	245,318	105,283
	off-course	1,875,307	1,674,013	1,988,530	1,398,128	1,824,183	1,183,736
Double Trio:	on-course	98,062	100,646	91,188	66,246	73,016	46,016
	off-course	360,534	430,702	397,443	353,611	321,311	273,715
Triple Trio:	on-course	164,122	167,815	218,041	133,883	144,908	114,025
	off-course	741,781	1,016,942	853,110	654,692	600,378	539,669
Total Bets		39,270,353	33,421,893	41,488,058	27,291,057	38,973,180	24,179,489
Duty collected from Horse Racing		5,238,381	4,487,335	5,583,303	3,675,363	5,213,904	3,252,776
Lotteries			(\$'000)		(\$'000)		(\$'000)
Lottery ticket sales			4,780,115		5,411,606		6,648,989
Duty collected from Lotteries			1,195,029		1,352,902		1,662,247
Football Betting (Provisional) ##			—		(\$'000)		(\$'000)
Net stake receipts			—		2,048,636		3,856,518
Duty collected from Football Betting (Provisional)			—		1,024,318		1,928,259
Total duty collected			(\$'000)		(\$'000)		(\$'000)
			10,920,745		11,635,886		12,057,186
Duty collected on -					(\$'000/Rate)		2004 - 05
Win, Place, Double, Quinella, Quinella Place:					(51,701,286 @ 12%)		(\$'000)
					# (198,220 @ 6%)		6,204,154
Six-up, Treble, Tierce, Trio, Double Trio, Triple Trio:					(11,253,163 @ 20%)		11,893
All bets							2,250,633
Lotteries:					(6,648,989 @ 25%)		8,466,680
Football Betting (Provisional):					(3,856,518 @ 50%)		1,662,247
Total duty collected							1,928,259
							12,057,186

Note: * Duty on overseas bets from Macau was charged with effect from 30 January 2005.

Football Betting duty was charged with effect from August 2003.

SCHEDULE 14 HOTEL ACCOMMODATION TAX

Fiscal Year	2001 - 02	2002 - 03	2003 - 04	2004 - 05
Hotels				
Room occupancy (No. of room-days)	10,113,511	10,428,367	7,986,907	11,096,083
Room occupancy rate (%)	78.2	82.4	65.4	85.8
Average room charge (\$)	654	627	615	727
Tax assessed (\$m)	198.7	196.4	150.5	243.0
Boarding Houses				
Room occupancy (No. of room-days)	568,214	629,302	566,098	655,707
Room occupancy rate (%)	115.5	120.7	112.0	118.2
Average room charge (\$)	239	228	217	233
Tax assessed (\$m)	4.3	4.5	3.8	4.9
	(\$m)	(\$m)	(\$m)	(\$m)
Total tax assessed	203.0	200.9	154.3	247.9
Total tax collected	202.9	201.0	155.6	247.4

SCHEDULE 15 TAX RESERVE CERTIFICATES

Fiscal Year	Sales		Redemption		
	Number of Certificates	Value	Number of Certificates	Value	Interest
2001 - 02		(\$'000)		(\$'000)	(\$'000)
Normal (to save for tax)					
• Paper certificate	509	73,133	3,193	489,368	94,762
• Save-As-You-Earn Scheme	59,904	127,774	56,251	123,338	2,880
• Electronic Tax Reserve Certificates Scheme	30,876	209,439	27,278	203,202	2,758
Objections/Appeals	794	2,531,702	805	1,162,695	32,246
Total	92,083	2,942,048	87,527	1,978,603	132,646
2002 - 03		(\$'000)		(\$'000)	(\$'000)
Normal (to save for tax)					
• Paper certificate	150	3,572	1,981	29,632	5,023
• Save-As-You-Earn Scheme	57,923	121,935	61,426	126,252	1,408
• Electronic Tax Reserve Certificates Scheme	38,618	236,318	36,179	233,510	888
Objections/Appeals	868	2,093,133	814	995,947	42,264
Total	97,559	2,454,958	100,400	1,385,341	49,583
2003 - 04		(\$'000)		(\$'000)	(\$'000)
Normal (to save for tax)					
• Paper certificate	39	1,476	435	9,198	1,805
• Save-As-You-Earn Scheme	55,821	113,343	58,651	119,227	598
• Electronic Tax Reserve Certificates Scheme	68,265	229,460	63,031	229,117	314
Objections/Appeals	1,190	2,064,900	728	1,217,202	32,268
Total	125,315	2,409,179	122,845	1,574,744	34,985
2004 - 05		(\$'000)		(\$'000)	(\$'000)
Normal (to save for tax)					
• Paper certificate	35	1,956	497	3,343	226
• Save-As-You-Earn Scheme	50,222	100,153	44,794	85,634	247
• Electronic Tax Reserve Certificates Scheme	33,149	781,105	31,489	750,361	144
Objections/Appeals	1,091	2,196,714	934	1,989,131	4,379
Total	84,497	3,079,928	77,714	2,828,469	4,996

SCHEDULE 16 EARNINGS & PROFITS TAX — OFFENCES COMMITTED AND COURT FINES IMPOSED
2004 - 05

	Inland Revenue Ordinance								Total	
	Failure to submit return and other offences		Failure to comply with Court Order		Failure to comply with the requirements of section 52(4), (5) & (6)		Failure to comply with the requirement of section 51(2) to notify the chargeability			
	[section 80(1)&(2)(d)]		[section 80(2B)]		[section 80(1)(c)]		[section 80(2)(e)]			
	No. of Convictions	Amount of Fines	No. of Convictions	Amount of Fines	No. of Convictions	Amount of Fines	No. of Convictions	Amount of Fines	No. of Convictions	Amount of Fines
		(\$)		(\$)		(\$)		(\$)		(\$)
Profits Tax										
• Corporations	5,888	13,008,200	772	3,631,400	—	—	0	0	6,660	16,639,600
• Unincorporated Businesses	492	799,680	21	83,600	—	—	0	0	513	883,280
Salaries Tax										
• Employees	1,480	2,569,961	198	806,500	—	—	0	0	1,678	3,376,461
• Employers	529	1,205,300	105	493,100	1	5,000	—	—	635	1,703,400
Property Tax										
• Individuals	19	39,400	4	17,000	—	—	8	1,000,000	31	1,056,400
Total	8,408	17,622,541	1,100	5,031,600	1	5,000	8	1,000,000	9,517	23,659,141

Note 1: Fines do not form part of the revenue collected by the Inland Revenue Department

Note 2: The number of summonses pending hearing as at 31 March 2005 is 7,458

SCHEDULE 17 EARNINGS & PROFITS TAX — SURCHARGES ADDED, OFFENCES COMPOUNDED, ADDITIONAL TAX IMPOSED AND COSTS AWARDED BY THE BOARD OF REVIEW

2004 - 05

	Property Tax		Salaries Tax		Profits Tax (Corporations)		Profits Tax (Unincorporated Businesses)		Personal Assessment		Total	
	No. of Impositions	Amount	No. of Impositions	Amount	No. of Impositions	Amount	No. of Impositions	Amount	No. of Impositions	Amount	No. of Impositions	Amount
		(\$)		(\$)		(\$)		(\$)		(\$)		(\$)
Surcharge for late payment of tax	13,347	6,136,114	127,939	93,230,958	7,846	75,488,682	5,103	17,715,711	12,834	11,535,885	167,069	204,107,350
Compound Penalties for offences under the Inland Revenue Ordinance												
• section 51(4B)*	—	—	8	9,200	10	109,000	1	3,000	—	—	19	121,200
• section 80(1)	—	—	639	2,059,220	7	208,000	67	4,956,600	—	—	713	7,223,820
• section 80(2)	404	6,345,605	4,372	90,377,899	5,349	482,786,139	1,265	113,057,491	48	57,000	11,438	692,624,134
• section 82(1)	5	122,700	49	16,173,520	25	11,470,200	76	38,886,340	—	—	155	66,652,760
Additional Tax imposed under section 82A of the Inland Revenue Ordinance	84	375,019	768	35,684,486	473	42,080,018	252	34,661,874	9	179,800	1,586	112,981,197
Costs awarded by the Board of Review	—	—	3	12,500	—	—	—	—	—	—	3	12,500
Total	13,840	12,979,438	133,778	237,547,783	13,710	612,142,039	6,764	209,281,016	12,891	11,772,685	180,983	1,083,722,961

* Including penalties imposed by the Court

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