

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 2007–08, the Field Audit and Investigation Unit completed 1,864 cases (including avoidance and prosecution cases) and assessed back tax and penalties of about \$2.5 billion (**Figure 32**).



Figure 32 Results of the Field Audit and Investigation Unit

	2004–05	2005–06	2006–07	2007–08
Number of cases completed	1,863	1,873	1,875	1,864
Understated earnings and profits (\$m)	13,814.3	10,934.9	10,474.8	12,133.2
Average understatement per case (\$m)	7.4	5.8	5.6	6.5
Back tax and penalties assessed (\$m)	2,828.2	2,118.3	2,196.2	2,528.5
Back tax and penalties collected (\$m)	2,887.6	2,189.2	2,444.6	2,548.3

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 2007–08, there were 17 Field Audit sections.

Anti-tax Avoidance

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

During 2007–08, the Field Audit and Investigation Unit completed 188 tax avoidance cases and assessed back tax and penalties of about \$590 million (**Figure 33**).

Figure 33 Results of the audit on tax avoidance cases

	2004–05	2005–06	2006–07	2007–08
Number of cases completed	213	209	195	188
Understated earnings and profits (\$m)	7,507.6	4,542.3	4,608.9	4,246.7
Average understatement per case (\$m)	35.2	21.7	23.6	22.6
Back tax and penalties assessed (\$m)	1,375.7	624.2	778.6	591.0

Investigation

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

In 2007–08, there were 5 Investigation sections.

Prosecution

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

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

In 2007–08, the Department successfully prosecuted 8 tax evasion cases. They mainly involved taxpayers omitting or understating sales/profits or rental income. In the 8 cases, the defendants were each sentenced to 2 to 24 months' imprisonment, with immediate custodial sentences given in 4 cases and suspended sentences for the remaining 4 cases. The maximum case was fined \$1.3 million whereas in another case the fine represented 270% of the tax evaded.



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. Commencing from 2006–07, the Department broadened the scope of review to cover cases with lower rental income. In 2007–08, compliance check was completed on 36,703 property tax cases (**Figure 34**).

Figure 34 Results of the property tax compliance checks

	2004–05	2005–06	2006–07	2007–08
Number of cases completed	4,600	10,294	18,162	36,703
Understated rental income (\$m)	194.0	330.1	201.9	258.1
Back tax and penalties assessed (\$m)	23.3	40.9	25.6	33.0