

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 2010-11, the Field Audit and Investigation Unit completed 1,805 cases (including avoidance and prosecution cases) and assessed back tax and penalties of about \$3.8 billion (Figure 29).



Figure 29 Results of the Field Audit and Investigation Unit

	2007-08	2008-09	2009-10	2010-11
Number of cases completed	1,864	1,862	1,803	1,805
Understated earnings and profits (\$m)	12,133.2	9,084.7	12,192.8	19,470.1
Average understatement per case (\$m)	6.5	4.9	6.8	10.8
Back tax and penalties assessed (\$m)	2,528.5	2,181.2	2,590.4	3,827.4
Back tax and penalties collected (\$m)	2,548.3	2,566.6	2,385.1	3,881.3

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 2010-11, 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 2010-11, the Field Audit and Investigation Unit completed 234 tax avoidance cases and assessed back tax and penalties of about \$2.19 billion (Figure 30).

Figure 30 Results of the audit on tax avoidance cases

	2007-08	2008-09	2009-10	2010-11
Number of cases completed	188	218	206	234
Understated earnings and profits (\$m)	4,246.7	1,978.4	6,742.0	11,676.1
Average understatement per case (\$m)	22.6	9.1	32.7	49.9
Back tax and penalties assessed (\$m)	591.0	527.1	1,240.5	2,193.2

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 2010-11, 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 the year 2010-11, the Department instituted prosecution on 3 cases. The first case involved false claims for deduction of approved charitable donations. The defendant pleaded guilty and was imposed a community service order. The second case involved false claims for deduction of home loan interest and omission of rental income. The defendant was convicted on her own plead. She was sentenced to 4 months' imprisonment, suspended for 18 months, and a fine. The third case involved understatement of business receipts. The defendant was convicted after trial and sentenced to 7 months' imprisonment with a fine.

The trial of another prosecution case instituted last year for the understatement of employment income was completed this year. The defendant was jailed for 6 months and fined for the charges.



Property Tax Compliance Check

In addition to conducting audits on businesses, the Department also carries out verification checks on the correctness of rental income reported by property owners. Commencing from 2006-07, the Department broadened the scope of review to cover cases with lower rental income. In 2010-11, compliance check was completed on 90,681 property tax cases (Figure 31).

Figure 31 Results of the property tax compliance checks

	2007-08	2008-09	2009-10	2010-11
Number of cases completed	36,703	60,419	79,000	90,681
Understated rental income (\$m)	258.1	257.6	365.2	393.1
Back tax and penalties assessed (\$m)	33.0	33.8	43.8	46.3