

5 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 2016-17, the Field Audit and Investigation Unit completed 1,801 cases (including tax avoidance cases) and assessed back tax and penalties of about \$2.5 billion (**Figure 28**).

Figure 28 Results of the Field Audit and Investigation Unit

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|--|----------|----------|----------|-----------------|
| Number of cases completed | 1,802 | 1,803 | 1,804 | 1,801 |
| Understated earnings and profits (\$m) | 12,936.4 | 12,857.9 | 13,888.8 | 12,408.8 |
| Average understatement per case (\$m) | 7.2 | 7.1 | 7.7 | 6.9 |
| Back tax and penalties assessed (\$m) | 2,540.0 | 2,533.1 | 2,538.3 | 2,528.4 |
| Back tax and penalties collected (\$m) | 2,158.7 | 2,861.4 | 1,824.2 | 2,386.8 |

Field Audit

In 2016-17, there were 17 Field Audit sections. 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.

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 2016-17, the Field Audit and Investigation Unit completed 214 tax avoidance cases and assessed back tax and penalties of about \$1.12 billion (**Figure 29**).

Figure 29 Results of the audit on tax avoidance cases

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|--|---------|---------|---------|----------------|
| Number of cases completed | 219 | 217 | 215 | 214 |
| Understated earnings and profits (\$m) | 5,124.9 | 6,027.7 | 6,826.2 | 6,201.8 |
| Average understatement per case (\$m) | 23.4 | 27.8 | 31.7 | 29.0 |
| Back tax and penalties assessed (\$m) | 909.3 | 1,155.6 | 1,000.4 | 1,120.2 |



Investigation

In 2016-17, there were 5 Investigation sections. Investigation officers are responsible for conducting in-depth investigations into suspected tax evasion, and taking penal action (including prosecution proceedings in appropriate cases) as a deterrent.

Prosecution

One of the 5 Investigation sections is the prosecution section focusing on criminal investigation of tax evasion. Tax evasion is a serious crime. A person convicted of tax evasion could be sentenced to imprisonment for up to 3 years and fined.

During the year, the Department successfully prosecuted 5 tax evasion cases. Two of them involved making false statements in connection with claims for deduction of expenses of self-education and claims for deduction of approved charitable donations. Two of them involved making false statements in connection with claims for deduction of home loan interest and expenses of self-education. Another case involved making false statements in connection with claims for deduction of approved charitable donations. Among these 5 cases, the defendant of 1 case was sentenced to 8 weeks' imprisonment. The defendants of 2 cases were sentenced to immediate imprisonment of 10 weeks and 3 weeks respectively. The defendant of 1 case, after having been remanded in custody for 14 days, was sentenced to 6 weeks' imprisonment and was fined \$157,474 (equivalent to 200% of the tax evaded). The defendant of the remaining case, after having been remanded in custody for 21 days, was sentenced to 6 months' imprisonment, suspended for 2 years and fined \$60,000 (\$5,000 for each charge). The Secretary for Justice applied for a review of sentence. In July 2016, the Magistrates' Courts sentenced the defendant to 21 days' imprisonment and a fine of \$60,000 (\$5,000 for each charge) plus a further fine of \$132,852 (equivalent to 200% of the tax evaded).

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. In 2016-17, the Department completed compliance check on 209,499 property tax cases (**Figure 30**).

Figure 30 Results of the property tax compliance checks

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---------------------------------------|---------|---------|---------|----------------|
| Number of cases completed | 140,705 | 161,860 | 186,229 | 209,499 |
| Understated rental income (\$m) | 553.3 | 635.0 | 749.2 | 850.8 |
| Back tax and penalties assessed (\$m) | 66.4 | 76.2 | 89.9 | 102.1 |