

## 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 2019-20, the Field Audit and Investigation Unit completed 1,716 cases (including tax avoidance cases) and assessed back tax and penalties of about \$2.5 billion (**Figure 28**). As a result of the Department's special work arrangement during the COVID-19 epidemic, investigation work was affected, resulting in fewer number of cases completed as compared to past years.

**Figure 28 Results of the Field Audit and Investigation Unit**

	2016-17	2017-18	2018-19	2019-20
Number of cases completed	1,801	1,804	1,802	<b>1,716</b>
Understated earnings and profits (\$m)	12,408.8	11,687.7	13,910.0	<b>12,893.4</b>
Average understatement per case (\$m)	6.9	6.5	7.7	<b>7.5</b>
Back tax and penalties assessed (\$m)	2,528.4	2,526.2	2,826.6	<b>2,548.5</b>
Back tax and penalties collected (\$m)	2,386.8	2,231.1	3,352.5	<b>2,799.4</b>

### Field Audit

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In 2019-20, 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 2019-20, the Field Audit and Investigation Unit completed 209 tax avoidance cases and assessed back tax and penalties of about \$1.25 billion (**Figure 29**).

**Figure 29 Results of the audit on tax avoidance cases**

	2016-17	2017-18	2018-19	2019-20
Number of cases completed	214	208	207	<b>209</b>
Understated earnings and profits (\$m)	6,201.8	4,613.4	7,891.4	<b>6,979.5</b>
Average understatement per case (\$m)	29.0	22.2	38.1	<b>33.4</b>
Back tax and penalties assessed (\$m)	1,120.2	948.5	1,426.6	<b>1,246.6</b>

## Investigation

In 2019-20, 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 three tax evasion case which involved omission of rental income and making false statements in connection with claims for additional dependent parent allowance. Among these three cases, the defendant of one case was sentenced to 4 weeks' immediate imprisonment and a fine of \$134,398 (200% of the tax evaded). The defendant of another case was sentenced to 9 weeks' immediate imprisonment and a fine of \$288,794 (200% of the tax evaded). The defendant of the last case was sentenced to a community service order of 180 hours.

## 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 2019-20, the Department completed compliance check on 266,998 property tax cases (**Figure 30**).

**Figure 30 Results of the property tax compliance checks**

	2016-17	2017-18	2018-19	2019-20
Number of cases completed	209,499	234,726	261,181	<b>266,998</b>
Understated rental income (\$m)	850.8	951.6	1,111.7	<b>990.8</b>
Back tax and penalties assessed (\$m)	102.1	114.2	133.4	<b>118.9</b>