

**CONTROLLING OFFICER'S REPLY**

**(Question Serial No. 1159)**

Head: (76) Inland Revenue Department  
Subhead (No. & title): ()  
Programme: (3) Investigation and Field Audit  
Controlling Officer: Commissioner of Inland Revenue (WONG Kuen Fai)  
Director of Bureau: Secretary for Financial Services and the Treasury

Question:

- A) Regarding the tax investigation conducted by the Inland Revenue Department (IRD) over the past 3 years, please provide the number of investigation cases which were carried out on the IRD's own initiative; through random-checking, and upon receipt of complaints or informers' reports. Please set out the numbers of demand notes and the amounts of tax involved by tax types (e.g. profits tax, salaries tax, etc.).
- B) Regarding the business income of self-employed persons, freelancers and service providers such as private tutors, designers, construction workers etc., what measures were taken by the IRD to verify the information they reported on their tax returns? How many investigation cases were conducted for such purpose over the past 3 years? Did the IRD conduct research on the policy of investigation in order to better suit the diversified work models?
- C) In recent years there were increasingly more organisations and trade unions which sourced their funding by receiving donation. Did the IRD conduct self-initiated investigations into the tax status and incomes of such organisations or individuals? For example, there were organisations which in fact were not charitable institutions of a public character eligible for tax exemption under section 88 of the Inland Revenue Ordinance. How many cases of investigation were conducted by the IRD over the past 3 years? As there is a growth in the number of fund-raising activities, will the IRD carry out more self-initiated investigations?

Asked by: Hon LAM Kin-fung Jeffrey (LegCo internal reference no.: 7)

Reply:

A&B) The Inland Revenue Department (IRD) all along exerts efforts in combating tax evasion and countering tax avoidance schemes. In the financial years 2017-18 to 2019-20 (up to 29 February 2020), the number of cases completed and the amount of tax and penalties recovered by the IRD are as follows:

	2017-18	2018-19	2019-20 (Up to 29 February 2020)
Total number of cases completed	1 804	1 802	1 588
Back tax and penalties assessed (\$ million)	2,526	2,827	2,466

In addition to the routine examination and investigation carried out on its own initiative, the IRD also uses a computer-assisted risk-based case selection programme to facilitate the identification of high-risk cases for audit and investigation. In the above 3 financial years, a total of 80 cases out of a computer-selected sample of 307 cases and 346 cases out of 2 851 cases received from complaints or informers' reports have been identified respectively by the IRD for field audit and investigation.

The cases reviewed by the IRD involve all tax types, including profits tax, salaries tax and property tax. However, no statistical breakdown by tax types are kept. Moreover, the IRD does not keep statistical breakdown on the audit and investigation cases by the different nature of business involved.

- C) Persons, including corporations and bodies of persons, carrying on any trade or business in Hong Kong are chargeable to tax on all profits (excluding profits arising from the sale of capital assets) arising in or derived from Hong Kong from such trade or business. If a non-profit organisation or a trade union does not carry on any trade or business, the receipt of donations or gifts would not constitute any trading or business profits. Thus, they would not have any profits tax liabilities.

For revenue protection purposes, the IRD regularly conducts reviews on charitable institutions which have obtained tax exemption under section 88 of the Inland Revenue Ordinance in order to decide whether they have any profits tax liabilities.