

**CONTROLLING OFFICER'S REPLY**

**FSTB(Tsy)024**

**(Question Serial No. 1140)**

Head: (76) Inland Revenue Department

Subhead (No. & title): ()

Programme: (2) Collection

Controlling Officer: Commissioner of Inland Revenue (Benjamin CHAN)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

Reasons for the Increase in the Financial Provision and Corresponding Measures: The 2024-25 revised estimate is about 8.1% more than the actual amount of the financial provision for 2023-24. What are the specific reasons for the substantial increase? Shall it be attributed to adjustment in tax policies, impacts from the economic situation, improved efficiency in tax administration, or any other reasons? In view of this situation, what measures has the Inland Revenue Department (IRD) taken to cope with the pressure caused by the change in the financial provision so as to ensure smooth collection of taxes and achievement of targets?

Optimisation of the Tax Refund Workflow and Efficiency: Regarding tax refund, there is discrepancy in the target completion time among different types of refund cases. In particular, the target completion rate for tax refund cases arising from revision of assessment vary each year. Does it imply that there are discrepancies and problems in the workflow for processing different types of refund cases? Is the IRD planning to further optimise of the workflow of tax refund in order to enhance the relevant efficiency, reduce the time required for tax refund and better meet the needs of taxpayers?

Resource Allocation and Strategic Adjustment for Tax Recovery Work: While the number of completed recovery cases has remained relatively stable, the number of completed recovery cases per post has been slightly building up year by year alongside changes in the provision per completed recovery case. Does it indicate increasing difficulty in tax recovery work or adjustment in the recovery strategies and resource allocation by the IRD? How will the IRD allocate resources reasonably and optimise tax recovery strategies in view of the actual situation of tax recovery work in order to enhance the completion rates and efficiency of tax recovery?

Asked by: Hon HO Kwan-yiu, Junius (LegCo internal reference no.: 11)

## Reply:

The revised estimated expenditures of the IRD for 2024-25 are 8.1% higher than the actual expenditures for 2023-24. This is mainly due to:

- (a) an increase in salaries and related expenses arising from the civil service pay adjustment, salary increments for staff and filling of vacancies;
- (b) an increase in departmental expenses for carrying out computer system maintenance and hosting the 5<sup>th</sup> Conference of Belt and Road Initiative Tax Administration Cooperation Forum in September 2024; and
- (c) an increase in interest payable on tax reserve certificates.

Having regard to the financial position of the Government, the IRD will control the increase in expenditure through various measures, including review of its work priorities, internal deployment of manpower, streamline of procedures and more leverage of technology to enhance work efficiency and effectiveness. In recent years, the IRD has actively utilised information technology in various tax assessment and administration, including the use of computer-assisted data analyses to identify high-risk cases for audit. The gradual digitalisation of tax reporting can also facilitate the IRD in gathering substantial accounting, financial and tax data for review purposes. The IRD will continue to explore measures to improve the efficiency of tax administration.

## Optimisation of Tax Refund Workflow and Efficiency

In general, tax refunds are due to overpayment of tax by taxpayers and downward revision of tax. It generally takes longer time to process the former cases than the latter primarily because the IRD needs to examine the relevant information and documents of taxpayers to ascertain whether they have overpaid tax and determine the exact amount of tax overpaid. As the circumstances of each case and the information and documents involved vary, the completion time differs. Upon confirmation of tax overpayment by a taxpayer and the amount involved, the IRD will refund the overpaid tax to the taxpayer as soon as practicable. The time required for making tax refund by the IRD due to various reasons remains broadly the same for each financial year from 2023-24 to 2025-26 (overpayment of tax: 18 working days; revision of assessment: 10 working days).

## Resource Allocation and Strategic Adjustment for Tax Recovery Work

The number of tax default cases fluctuates with economic conditions. In general, the tax recovery actions taken by the IRD include imposition of surcharges, issuance of warning letters and recovery notices to third parties (such as employers and banks) and initiation of court proceedings. The actions taken by the IRD in each tax default case depend on its own circumstances and do not fully correlate to the complexity of tax recovery work. Hence, the actual number of completed recovery cases each year may differ. The IRD has been flexibly deploying its internal resources to recover tax in default. Thus, the number of completed recovery cases per IRD post and the provision per completed recovery case vary slightly in the financial years of 2023-24 to 2025-26.

The Collection Enforcement Section of the IRD has all along been making good use of information technology to enhance the work efficiency, such as sending electronic messages to taxpayers to remind them to pay tax on time and of imposition of surcharges, as well as making use of the computer system to assist in instituting civil action against tax defaulters. The IRD will continue to enhance its tax administration strategies to improve the effectiveness of its tax recovery work.

- End -