

Field Audit and Investigation



To ensure tax compliance, the Department pursues its enforcement policy to effectively detect and punish non-compliance. 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 2003-04, the Field Audit and Investigation Unit completed 1,863 cases (including avoidance and prosecution cases) and assessed back tax and penalties of about \$2.06 billion (**Figure 32**).

Figure 32 Results of the Field Audit and Investigation Unit

	2000-01	2001-02	2002-03	2003-04
Number of cases completed	1,920	1,921	1,862	1,863
Understated earnings and profits (\$m)	9,310.8	8,940.9	9,316.3	9,744.8
Average understatement per case (\$m)	4.8	4.7	5.0	5.2
Back tax and penalties assessed (\$m)	2,154.8	2,101.5	2,052.5	2,059.2
Back tax and penalties collected (\$m)	1,962.4	1,787.6	1,949.1	2,039.9

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 2003-04, there were 14 Field Audit sections.

Anti-Tax Avoidance

Two of the 14 Field Audit sections concentrate on tackling tax avoidance schemes, whereas other investigation officers and tax auditors handle avoidance cases on an operational need basis.

During 2003-04, the Field Audit and Investigation Unit completed 196 tax avoidance cases and assessed back tax and penalties of \$636 million (**Figure 33**).

Figure 33
Results of the Audit
on tax avoidance
cases

	2000-01	2001-02	2002-03	2003-04
Number of cases completed	193	202	200	196
Understated earnings and profits (\$m)	2,363.0	2,783.7	3,131.0	3,769.3
Average understatement per case (\$m)	12.2	13.8	15.7	19.2
Back tax and penalties assessed (\$m)	445.1	510.2	565.4	636.2

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 2003-04, there were 8 Investigation sections.

Prosecution

One of the 8 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 2003-04, the Unit successfully prosecuted 5 tax evasion cases. The most serious case involved the understatement of business profits of some \$50 million. The defendant was convicted and was jailed for 18 months in addition to a fine of \$11 million. It was the first case that the Secretary for Justice instituted prosecution under Common Law and the defendant was punished under Criminal Procedure Ordinance. Another businessman was imprisoned for 5 months and fined \$1.5 million for concealing his business sales. Two cases involved the understatement of rental incomes. Monetary fines plus imprisonment of 2 to 6 months were imposed on each of the defendants. The last case involved the understatement of salaries income. Fine and suspended sentence were imposed on the defendant.



Property Tax Compliance Checks

In addition to conducting audits on businesses, the Unit also carries out verification checks on the correctness of rental income reported by property owners. During the year 2003-04, the Unit has completed compliance check on 4,600 property tax cases (**Figure 34**).

Figure 34
Results of the
Property Tax
Compliance Checks

	2000-01	2001-02	2002-03	2003-04
Number of cases completed	4,600	4,600	4,600	4,600
Understated rental income (\$m)	203.4	193.7	194.0	194.0
Back Tax and penalties assessed (\$m)	24.4	23.1	23.2	23.3

Enhancing Tax Compliance

To secure proper voluntary compliance from taxpayers, the Department continues to strengthen its existing machinery on enforcement activities with improved enforcement efforts, imposition of reasonable and equitable penalties and more extensive tax education and taxpayer services.

Faced with a slight reduction in manpower, the standard and output of the Field Audit and Investigation Unit are maintained through careful risk management and more extensive staff training. In 2004-05, the Department plans to improve the sophistication of its computerized case selection system to enhance its capability of detecting fraud and evasion.