

# 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 2009-10, the Field Audit and Investigation Unit completed 1,803 cases (including avoidance and prosecution cases) and assessed back tax and penalties of about \$2.6 billion (**Figure 29**).



**Figure 29 Results of the Field Audit and Investigation Unit**

	2006-07	2007-08	2008-09	<b>2009-10</b>
Number of cases completed	1,875	1,864	1,862	<b>1,803</b>
Understated earnings and profits (\$m)	10,474.8	12,133.2	9,084.7	<b>12,192.8</b>
Average understatement per case (\$m)	5.6	6.5	4.9	<b>6.8</b>
Back tax and penalties assessed (\$m)	2,196.2	2,528.5	2,181.2	<b>2,590.4</b>
Back tax and penalties collected (\$m)	2,444.6	2,548.3	2,566.6	<b>2,385.1</b>

## 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 2009-10, there were 17 Field Audit sections.

### 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 2009-10, the Field Audit and Investigation Unit completed 206 tax avoidance cases and assessed back tax and penalties of about \$1.24 billion (**Figure 30**).



**Figure 30 Results of the audit on tax avoidance cases**

	2006-07	2007-08	2008-09	<b>2009-10</b>
Number of cases completed	195	188	218	<b>206</b>
Understated earnings and profits (\$m)	4,608.9	4,246.7	1,978.4	<b>6,742.0</b>
Average understatement per case (\$m)	23.6	22.6	9.1	<b>32.7</b>
Back tax and penalties assessed (\$m)	778.6	591.0	527.1	<b>1,240.5</b>

## 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 2009-10, there were 5 Investigation sections.

### Prosecution

One of the 5 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 2009-10, the Department had completed prosecution on 3 cases involving the making of false

or incorrect statements in connection with claims for dependent parent allowances. The 3 taxpayers in the cases were convicted and were sentenced to imprisonment for 6 weeks to 2 months. Prosecution was also instituted on 1 case involving omission of salaries income. The trial has been scheduled for September 2010 at the District Court. There was in the year another case of suspicion of profits tax evasion, which the Court gave verdict of not guilty upon completion of trial in November 2009.

## Property Tax Compliance Check

In addition to conducting audits on businesses, the Unit also carries out verification checks on the correctness of rental income reported by property owners. Commencing from 2006-07, the Department broadened the scope of review to cover cases with lower rental income. In 2009-10, compliance check was completed on 79,000 property tax cases (**Figure 31**).

**Figure 31 Results of the property tax compliance checks**

	2006-07	2007-08	2008-09	<b>2009-10</b>
Number of cases completed	18,162	36,703	60,419	<b>79,000</b>
Understated rental income (\$m)	201.9	258.1	257.6	<b>365.2</b>
Back tax and penalties assessed (\$m)	25.6	33.0	33.8	<b>43.8</b>