

# **Hong Kong's tax assessment system and its reference to the mainland**

**Huang Lishuang**

**Abstract** Hong Kong has adopted a comprehensive tax assessment system, which has achieved a combination of high compliance and low-cost, with remarkable results. This study briefly introduces the tax assessment process in Hong Kong and analyzes the differences between the tax assessment system in Hong Kong and in the mainland from the perspective of the concept, institutional setting, personnel composition and tax assessment process in Hong Kong. On the basis of sorting out the development process of tax assessment in China, the study reveals the existing problems in the current tax assessment work of the grass-roots tax departments in the mainland and offers suggestions that it should optimize the personnel mechanism, improve the data application model and change the service concept.

**Keywords** Tax assessment system, Tax assessment, collection of tax payments

In Hong Kong, tax assessment is defined as the assessment of the tax payable of taxpayers by the Inland Revenue Department. A good tax assessment system and awareness of tax service are outstanding advantages in Hong Kong's tax collection and management. Hong Kong implements the "assessment before tax" approach to ensure that taxpayers pay the tax payable. Tax assessment has been widely used at home and abroad. It is a means for the tax authorities to judge and amend the situations of taxpayers' tax obligations or withholding agents' withholding obligations. Hong Kong's tax assessment system is conducive to improving tax compliance and ensuring the authenticity and accuracy of tax sources declared by taxpayers. The main work of the Hong Kong Inland Revenue Department is also around tax assessment. The tax assessment system is not new to taxpayers. According to the Global Competitiveness

Report published by the World Economic Forum in 2019, Hong Kong SAR ranks first in comprehensive terms, of which the tax competitiveness ranks second, while China ranks 28 in comprehensive terms and ranks 51 in tax competitiveness. Hong Kong's great tax assessment institutions and tax concepts are worth learning from the mainland.

## **1. Overview of Hong Kong's tax assessment procedures**

### **1.1 Automatic tax assessment**

Taxpayers need to submit the relevant profit statements and income statements to the Hong Kong Inland Revenue Department every year. The taxes include salaries tax, profits tax, property tax, etc. the Hong Kong Inland Revenue Department uses a computer system to assess the situations of taxpayers and respond to tax-related information in different situations. For tax-related information that does not require adjustment or minor adjustment, the tax assessment notice is issued directly. For the tax-related items that need to be adjusted significantly, the review group will conduct detailed evaluations and may question the taxpayers. For the taxpayer with the possibility of tax evasion, the tax authority may conduct a field investigation of the tax assessment case. Due to the large number of tax assessment cases, the Inland Revenue Department has adopted the method of "assessment before review" since April 2001. The computer system is used to screen the tax returns that meet the preset test criteria for automatic assessment, and then a certain proportion of tax returns are selected from the automatic assessment cases according to certain criteria for review and investigation.

### **1.2 The field audit and feedback of tax assessment mechanism**

For complex cases, desk review and field investigation will be conducted after tax assessment. For suspected tax-related cases, the investigation will cover the first six tax years to minimize the tax-related risks of taxpayers. When taxpayers are found to be non-compliant or in violation., the punishment mechanism can be implemented, such as fines and monitoring, etc. If the taxpayers are not satisfied with the tax assessment, they may raise an objection on paper to the director within a certain period. Most of the cases were finally settled with the taxpayers, and only a few of the opposition cases had

to be decided by the director. From 2019 to 2020, the Hong Kong Inland Revenue Department handled a total of 60737 objections cases, and 60669 cases of them reached a settlement with the taxpayer. The amount of cases that lower or heighten the tax were 130 cases and 169 cases respectively. The amount of cases that cancel or confirm the tax assessment were 16 and 353 respectively. The data suggests that most of the review cases settled in the form of reconciliation.

## **2. Comparison between Hong Kong's tax assessment system and the mainland's**

### **2.1 Difference in tax assessment concept and service concept**

The Hong Kong Inland Revenue Department is committed to providing high-quality services to taxpayers with the concept of "collecting taxes in an efficient and cost-effective manner". Most taxpayers in Hong Kong have high tax compliance and strong tax awareness. In terms of service concept, the Hong Kong Inland Revenue Department regards tax assessment as its main work, and has a complete taxpayer service system. It involves electronic inquiry service and consultancy center, adopts the procedure of "assessment before tax" and made contributions to the prosperity and stability of Hong Kong with the commitment of "tax with legality and serve with sincerity". The consultancy center has set up telephone inquiry service and counter inquiry service. In the 2019 to 2020 Annual Service Commitment Report of the Hong Kong, the proportion of staff answering the phone within 3 minutes is as high as 92.4%, and the proportion of waiting time for counter inquiry during busy hours is as high as 96.3%, while the proportion of it in non-peak hours is as high as 99.8%. The tax cost is only 0.56%. Thus, the excellent service attitude of the Hong Kong Inland Revenue Department is evident.

In recent years, the tax authority in the mainland have also changed the work style, strengthened the service awareness and took the initiative to act. It organized tax officials to combine the actual situation of their posts, and the specific tasks of optimizing the tax business environment, and to change the mentality of being

bystanders and behavior of just talking. It targeted specific measures to enhance the service spirit, improve efficiency and working methods, protect the rights and interests of enterprises, solve the pain points, blockages and difficulties of taxpayers.

## **2.2 Differences in tax assessment organization and staffing**

The Hong Kong Inland Revenue Department is headed by the director. One deputy director is responsible for the first and second sections and directorate administration section, and the other deputy director is responsible for the third and fourth sections and the general affairs section. Directorate administration section is mainly engaged in strategic and monitoring work, and the general affairs section is mainly responsible for administration, telephone inquiry center, computer system and the property tax on joint property and decentralized property. In terms of the division of labor in the business section, the first section assesses the profit tax for the limited company and partnership business; the second section assesses the tax for individual, including profit tax, salaries tax, property tax and personal income tax; the third section is responsible for collecting various taxes within the tax regulations; the four sections is responsible for field audit and tax investigation.

As of March 31, 2020, Hong Kong Inland Revenue Department had a total staff of 2,925. there are 382 professional tax assessors in the first section, 774 assessors in the second section, accounting for 39.52% of the total staff. There are 703 people in the general affairs section, accounting for 24.03% of the total staff. The staff of Inland Revenue Department share out the work, cooperate with another and check each other. In Hong Kong's tax assessment system, the assessor is the leading role and the core. In addition, Hong Kong has set up a series of positions for tax assessors, such as assistant tax assessors and senior tax assessors, and a good salary promotion system, making talented tax assessors emerge in large numbers.

In general, there are no special assessment agencies and assessors in the mainland. The work related to tax collection is mainly done by tax administrators, and the tax assessment is mainly done by tax inspectors. Due to the huge scale of the tax payment group in the mainland, the number of taxpayers managed by each tax collection

administrator is large. And the tax administrators are often busy with the desk work and have no time to carry out tax assessment. The breadth and depth of tax assessment cannot meet the requirements of tax source management.

### **2.3 Difference between tax assessment procedure and inspection**

Since April 2001, the Hong Kong Inland Revenue Department has used an information-based first assessment and then verification mechanism (AFAL). The data in the tax return will first be included in the AFAL system for automatic tax assessment. Various indicators have been preset in the system. If the taxpayer's information does not meet the requirements, it will be screened out for manual assessment, and the case will be reviewed and investigated. The Hong Kong Inland Revenue Department attaches great importance to the parameter setting of the tax assessment system. It will continuously adjust the parameters of the computer according to the degree of economic development and tax policy to adapt to the constantly updated and changing economic environment and tax cases.

At present, tax assessment in the mainland is mainly positioned as the pre-procedure of tax inspection, which is a means to combat tax evasion. The tax assessment carried out by the Hong Kong Inland Revenue Department is to warn taxpayers to ensure that the tax is paid into the national treasury in time and in full. In the current environment, the number of taxpayers need to be inspected in the mainland by tax inspection bureau is too large. It faces heavy work pressure, so it is difficult to complete the tax inspection task with quality and quantity guaranteed.

In addition, since the reform of the tax distribution system in 1994, the tax-related information of national and local taxes has been shared. Central tax, national and local shared tax are collected and managed by the central tax authorities, while local tax is collected and managed by local tax authorities. This tax collection and management system has brought about the problem that the tax authority does not fully grasp the information of taxpayers. The tax authority cannot assess the tax risk of taxpayers through a scientific computer tax assessment system. The State Council has merged the provincial and sub-provincial national and local tax institutions, which is in line with

the current practice of optimizing the tax collection and management system in China. However, after the merger of the national and local tax authorities, the workload of the tax inspection bureau is increased, and the requirements of data processing for tax assessment are higher.

### **3. Hong Kong's tax assessment system and its reference to the mainland's tax authorities**

#### **3.1 Building a trinity work structure of "organization, personnel and system"**

##### **3.1.1 Establish full-time institutions**

At present, many tax authorities in the mainland have not yet established a systematic tax assessment system. They set up simply and rely on tax collection and management. After the national and local tax merger, the data originally managed by the two tax authorities are summarized, which is convenient for the tax authorities to master the information of taxpayers. Therefore, the establishment of the tax assessment system is a good measure to improve taxpayers' information risk identification. Based on the professionalism and complexity of tax assessment, its setting needs to operate in a stable and independent working environment. To improve the system of assessment institutions in the mainland, there should be a complete set of tax assessment institutions and relevant assessment processes such as data identification, risk control and assessment feedback.

##### **3.1.2 Establishing a full-time team of tax assessors**

Tax assessment is a comprehensive work, which has high requirements for the comprehensive quality of staff. Tax assessment staff should master the skills of audit, assessment, calculation, evidence collection, inquiry and other skills. At present, the mainland can learn from the talent cultivating mechanism with cascading promotion of the Hong Kong Inland Revenue Department., it should set up the promotion paths of the positions according to the actual work experience, the qualifications of certified tax accountant and certified public accountant, and set a differentiated salary level. It is conducive to improving the work enthusiasm of tax assessors and retaining talents with

professional ability.

## **3.2 Building a trinity data application model of "collection, analysis and utilization"**

### **3.2.1 Establishing data sharing system**

The collection of relevant information is the basis of tax assessment. The current development of platform economy and sharing economy makes it more difficult to control the taxpayers' identity, production operators' income and cost. At present, the tax authorities still have a blind area of information about the financial and business conditions of taxpayers, and the channels to obtain the information of third-party are also limited. The tax authorities in different regions have not reached the information sharing mechanism, which brings challenges to the tax assessment work. The mainland tax authorities should take measures to improve the quality of information. First, improving the collection of taxpayers' production and operation information. Second, realizing the contribution of data cooperation between tax authorities in different regions, and strengthening cross-regional tax collection and management cooperation. Third, strengthening the establishment of information sharing mechanisms with third parties, such as industrial and commercial administrations, banks, civil affairs, power and other departments, and improving the sharing of tax-related information.

### **3.2.2 Using big data to build evaluation model**

Science and technology area primary productive force. In the modern society where information technology has made great progress, digitalization and intellectualization have become the new era labels. In information society, the big data thinking mode will promote the transformation of tax management mode. For example, developing the application of artificial neural network model in tax assessment and applying machine learning language to tax assessment case selection system are effective means to improve the quality and efficiency of tax assessment case selection. Building a model through big data, setting different indicators, such as income, asset, expenses assessment and analysis indicators. In this way, if inputting the financial situation of the enterprises in the tax authority, the risk coefficient of the enterprises can

be automatically generated. Through intelligent evaluation of a large amount of enterprise information, the efficiency of tax assessment can be improved.

### **3.3 Changing the concept from a management type to a service type tax authority**

Deepening the reform of the fiscal and tax system and building a modern tax collection and management system that matches the modernization of the national governance system and governance capacity will attribute to reduce the cost of tax collection and management, improve the efficiency of tax collection and management, enhance the compliance of tax laws and the satisfaction of taxpayers. And it can also ensure the effective play of the tax function, and promote the healthy development of the economy and social equity and justice. The mainland should learn from the idea of the Hong Kong Inland Revenue Department to serve taxpayers wholeheartedly, promote the tax industry to become an industry with good image, high quality and higher social reputation, and enhance the sense of gain, satisfaction and compliance of taxpayers. In Hong Kong, if taxpayers have any objection to the tax assessment results, they can raise objections to the Commissioner of Inland Revenue Department. In the mainland, in order to comply with the overall situation of deepening the reform of the fiscal and tax system, the tax authorities need to change not only from a management type to a service type, but also from a passive service type to an active service type. The tax authorities should constantly improve the level of tax handling and service optimization, the satisfaction of taxpayers, the efficiency of supply and reduce the cost of tax payment, so as to adapt to the new normal of China's economic development.

## **4. Conclusion**

Hong Kong's tax assessment system has gradually developed the characteristics of mutual supervision and clear division of labor. Although the tax system adopted by Hong Kong is different from that adopted by the mainland, there are still something worth learning from it. The tax system in the mainland has a wide range of tax sources and higher requirements for the technical level of tax collection and management. The

mainland tax system can learn the advantages from the Hong Kong's tax assessment system to improve tax collection and management procedures and methods, then gradually transition the service concept and improve the tax assessment system.

## References

Huang Quanhui. Simplify tax compliance and digitize tax collection and management. *International Taxation*, 2019.

Wang Wenbo. Inspiration of Hong Kong's tax assessment system on mainland tax compliance management. *Economics of Taxation Research*, 2015.

Wang Haiyong, Jin Jing. International comparison and reference of tax assessment system. *Local Finance Research*, 2008.

Wang Li, Hao Zhaocheng, Yang Zhiqiang, Wang Chunlei, Yuan Xinli. Joint Research Group of Beijing Local Taxation Bureau, China International Taxation Research Association International comparison and reference of tax assessment. *International Taxation*, 2017.

Shao Lingyun. Comparison of tax assessment at home and abroad. *Foreign Taxation*, 2011.

Guan Yunfeng. Cui Xiaozong Measures to improve the management of tax assessment. *Research of Taxation*, 2011.

Su Qiang. Comparison and enlightenment of foreign tax assessment systems. *Research of Taxation*, 2007.

Wang Xueqian. International comparison and reference of tax assessment. *Tax and Economy (Journal of Changchun University of Taxation)*, 2005.

Yang Bin, Chen Youjie. Correctly handle the relationship between tax assessment and tax inspection. *Research of Taxation*, 2011.