

S-L.M.P.

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\$millions still slip through tax net

The Commissioner of Inland Revenue, Mr R. V. Giddy, yesterday called for a rapid build-up of his department's investigative staff to stem scandalous tax evasion in Hongkong.

Describing just how serious the problem is, he said that in 77 evasion cases last year profits had been understated by \$42 million.

Mr Giddy said the first two phases of the department's offensive against tax evasion, which included last year's legislation increasing maximum fines and other penalties, were not enough.

"All this, I am afraid, has not met with much success and will not meet with much success until we launch Phase 3 which consists of stepping up the activities of the anti-evasion sections of the department," Mr Giddy told members of the Rotary Club of Kowloon East.

"The total authorised strength of the Investigation Section is at the moment 35 and even then it has not been up to full strength. It is quite clearly hopelessly inadequate to deal with the task in hand."

Mr Giddy pointed out that the Operations branch of the Independent Commission Against Corruption has an authorised complement of 524.

"While I am not looking for anything like this number of staff," he continued, "I hope that this year will see the start of a gradual and phased build-up in the size of the Investigation Section and the back-up staff in our outdoor Inspection Section."

Mr Giddy said this expansion would enable anti-



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evasion work to be stepped up. But he expressed concern that the imposition of administrative penalties would not in itself deter would-be tax evaders.

To demonstrate the department's determination to crack down on evaders, Mr Giddy suggested that criminal court action be taken in some cases.

"I firmly believe that prosecution should in suitable cases be instituted through the criminal courts because of the deterrent effect on would-be evaders," he said.

"Not only is the attendant publicity in itself a punishment, but the courts have powers which I, of course, do not have. This includes the right to sentence the evader to a term of

imprisonment."

Mr Giddy described tax evasion as stealing from the community because deserving projects had to be shelved because finance was lacking.

He said his department's Investigation Section found that of the 77 evasion cases finalised last year, the average understatement of profits per case came to \$600,000 - "or 74 per cent of the profits which should have been returned.

"Now that, gentlemen, is, in my language at any rate, 'big money' and represents a quite scandalous state of affairs," he said.

Mr Giddy explained that tax evasion takes two forms. One is when the taxpayer files false returns and the other is when he "lies low" and files returns designed to avoid paying any tax at all.

"We have uncovered cases in recent years where profits running into millions of dollars have been made by persons who are not even on our books," Mr Giddy said.

He said tax evaders in Hongkong cover a broad spectrum of life with almost every profession and almost every section of the business community represented so that it would be misleading to single out any one class.

However, he said, illegal businesses had never had their profits taxed.

"We have encountered instances of massive evasion by gambling dens, brothels, drug merchants, illegal money lenders and illegal medical clinics. In total, the revenue leak in this direction must be very substantial," Mr Giddy added.