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Inland Revenue (Amendment) (No.2) Bill 2001

Objective :

To provide a legal basis for:

- The use of password for authentication and fulfillment of signature requirement for tax returns filed under the Electronic Service Delivery (ESD) Scheme; and
- The filing of tax returns through telephones.

IRD's Electronic Services currently provided under the Electronic Service Delivery (ESD) Scheme

Services requiring the use of Digital Certificates for authentication

- Filing of Individuals and Property Tax Returns
- Application for Business or Branch Registration
- Change of Business Registration Particulars
- Change of Address
- Interactive Taxpayer Enquiry

Services NOT requiring the use of Digital Certificates for authentication

- BR Number Enquiry and Application for Supply of Information on the Business Register
- Purchase of Tax Reserve Certificate
- Payment of Tax

New IRD services planned to be launched in April 2002

Services using password for authentication

Delivered through the ESD Scheme

- Filing of Individuals and Property Tax Returns
- Interactive Taxpayer Enquiry

Delivered through the telephone channel

- Filing of Individuals and Property Tax Returns
- Interactive Taxpayer Enquiry (Individual tax information)

Services using Digital Certificates for authentication

- Filing of Profits Tax Return via the e-Form Project

Justifications for accepting the use for password for authentication

- Provide an alternative means for authentication and fulfillment of signature requirement under the ESD Scheme
- Use telephone as a convenient delivery channel for providing electronic services
- Encourage more taxpayers to conduct electronic transactions
- Implemented successfully in commercial sector and other tax jurisdictions for a number of years

Taxpayers may choose to use Digital Certificates for authentication and signing under the ESD Scheme

Objectives of introducing Telefiling

- Provide an additional convenient delivery channel
- Address the concern of those who do not have access to Internet facilities
- Complement our ESD services to provide a total customer solution
- Narrow the 'Digital Divide'; promote e-Government
- Consistent with developments in commercial sector and other tax jurisdictions

Tax jurisdictions which accept password for authentication and signing tax returns

	Year of implementation	
	Telefiling	Internet Filing
U.S.	1992	1996
Singapore	1995	1998
Canada	1998	2000

Digital certificates are not required for authentication and signing in these countries

Reasons for 'Self-contained' provisions in IRO for electronic filing of tax returns

- ETO provides a generic legal framework for electronic transactions
- Section 14 of the ETO provides scope for specific situation to be dealt with in a 'self-contained' manner in other ordinance
- More comprehensible to the public and user-friendly
- Other examples:
 - Dutiable Commodities (Amendment) Ordinance 2001
 - Import and Export (Electronic Transactions) Bill 2001

Measures to ensure data security

Technical measures (1)

Transmission of return through ESD platform

- Strong encryption technology for end-to-end encryption
- Password stored in encrypted format
- Hash function to ensure data integrity
- Achieving same security level as using digital certificate
- Password authentication is widely adopted in other tax jurisdictions & Internet banking

Technical measures (2)

Transmission of return through telephone

- Password stored in encrypted format
- Use strong encryption algorithm with 128-bit key
- Encryption key specified by a Deputy Commissioner
- Reference to other tax administrations & private sector for best practices

Administrative measures (1)

- Authorization and Authentication Control**
- Registration mechanism
 - Allotment of Taxpayer Identification Number (TIN) and Access Code, issued by separate notices
 - Self-selected password to ensure only the taxpayer himself knows the password
 - Guard against unauthorized access

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Administrative measures (2)

- System Security Control**
- Access control features to restrict the use of system to authorized users
 - All access are logged for security control and audit trail

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Administrative measures (3)

Terms and conditions for use of password

- Clearly highlight matters requiring user's attention
- Users have to accept the terms and conditions before using the service
- Users are reminded to keep strict confidentiality of their passwords

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Administrative measures (4)

Review of transactions log

- All transactions are logged by the system
- Transactions logged are reviewed on a daily basis to ensure that they are properly authorized

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Conclusion

- Sophisticated system design and tight control measures will ensure that electronic filing of tax returns by using password will be conducted in a secure manner
- As regards in filing of tax returns, the abovementioned measures should be commensurate with the risk involved
- Supported by successful experience in other tax jurisdictions
- Use of password is a key element in IRD's overall strategy of promoting electronic services for providing more convenient services to the public
- The present proposal seeks to provide a legal basis for introducing the relevant services

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Advice Sought

- Members are requested to
- Comment on the adequacy of the security measures
 - Support the Amendment Bill

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