

Report No. 68 of the Director of Audit

Chapter 1: Government's Support and Monitoring of Charities

Public Hearing of the Public Accounts Committee

(6 May 2017)

Speaking Notes of

the Secretary for Financial Services and the Treasury

(English translation)

Chairman,

First of all, let me thank the Audit Commission for its recommendations in relation to the Inland Revenue Department (IRD)'s recognition of the tax exemption for charities and the processing of tax-deductible donations.

2. The IRD will endeavour to implement the recommendations made in the Audit Report. On this, I would like to brief the Committee on the follow-up actions already taken and to be taken by the IRD.

3. As regards the processing of applications for recognition of tax exemption status of charities, the IRD has set a performance pledge for such applications in accordance with the Audit Commission's recommendation. The IRD published on its website on 1 April 2017 that it would endeavour to give a reply to the applicants within four months, provided that all necessary information and documents have been

supplied.

4. To enhance the monitoring of review cases, the Charitable Donations Section of the IRD has included the number of uncompleted review cases with their age profile and their position at the end of each month in its monthly work report for management review since February this year, so as to facilitate the management to monitor the progress of processing these cases in a holistic manner.

5. As for the timely updating of the list of tax-exempt charities recognised under section 88 of the Inland Revenue Ordinance (IRO), the IRD has put in place an enhanced notification arrangement with the Companies Registry and the Police Force, both of which will relay the information of deregistered companies or societies to the IRD respectively on a regular basis.

6. Regarding the Audit Commission's comments on individual charitable donation claims, the IRD has all along been attaching great importance to tax assessment and desk audits, and from time to time reminded its staff to stay vigilant. In this regard, the Commissioner of Inland Revenue has requested the responsible officers to check the validity of donation receipts more carefully and follow up with the taxpayers concerned when necessary.

7. I understand that the Audit Commission and Members expect the Government to strengthen the regulation on charities, including setting up a centralised registration system for charities and exercising

greater control on their governance, operational transparency, accounts, fund-raising activities and use of the funds raised. The Audit Commission thus recommended a review of the provisions of the IRO to enable the IRD to perform more effectively its role in administering the tax exemption status of charities.

8. I appeal to Members' understanding that the key responsibility of the IRD is to make tax assessment and collect taxes so as to protect government revenue. For example, in 2016-17, tax revenue collected by the IRD from various sources amounted to \$290 billion, accounting for more than half of total government revenue. As regards the recognition of tax exemption status of charities, the IRD has all along been adhering to the principle of protecting government revenue in processing new applications and review cases.

9. The Law Reform Commission's earlier recommendations on improving the transparency and accountability of charities involve a range of policy considerations, including the definition of a charity, regulatory scope and approach, punitive mechanism, legislative amendments, etc. In view of this and the large number of stakeholders who have diverse views on some of the recommendations, the Government needs to carefully assess how these recommendations may be implemented and forge a consensus among the community and the Legislative Council for carrying out the regulatory work. The IRD will take part in and support the exercise.

10. Chairman and Members, may I once again thank the Audit

Commission for putting forward recommendations on how the IRD's work on recognition of the tax exemption for charities and the processing of tax-deductible donations may be improved. I, together with the Commissioner of Inland Revenue and our colleagues, would be happy to respond to questions the Committee may have.

11. Thank you, Chairman.

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