

Consultation on the proposed IRD Taxonomy Package

PURPOSE

The Inland Revenue Department (“IRD”) is undertaking a project on electronic filing (“e-filing”) of profits tax returns (“the e-Filing Project”). This paper provides background information of the e-Filing Project and seeks views on the proposed IRD Taxonomy Package, which is currently at the development phase, with a view to facilitating electronic submission (“e-submission”) of financial statements and tax computations in inline eXtensible Business Reporting Language (“iXBRL”) format.

BACKGROUND

2. A taxpayer can submit profits tax return in paper or electronic¹ form. Currently, most profits tax returns are not submitted electronically as the existing information technology (“IT”) infrastructure of the IRD cannot support the electronic processing of voluminous accounting and financial data given its very limited data uploading capacity. Over the years, only a small number of profits tax returns were received electronically through the current eTax Portal.

3. In order to keep pace with the latest IT development and to support the changing business requirements of the department, the IRD commissioned a consultancy study on the Departmental IT Plan (“DITP Study”) in August 2018 which was completed in June 2019. The DITP Study set out the blueprint on the IRD’s IT strategy in the coming decade and recommended that the IRD should upgrade its IT infrastructure to enhance processing capacity and strengthen the provision of electronic services (“e-services”) to the public. Among others, the DITP Study recommended the IRD to develop a Business Tax Portal to facilitate e-filing of tax returns by businesses with accounting and financial data.

¹ Corporations and partnerships satisfying certain conditions (including gross income not exceeding HK\$2 million) can file their profits tax returns electronically under the eTAX Portal. Please see https://www.ird.gov.hk/eng/tax/bus_epf.htm for details of e-filing conditions.

4. Against the above background, it is our plan to take forward the e-Filing Project by two phases. The first phase which enhances the existing eTax Portal to enable more businesses to voluntarily e-file profits tax returns together with financial statements and tax computations in iXBRL format will be launched in around 2023, whilst the second phase which develops a new Business Tax Portal is expected to be completed by 2025.

Benefits

5. The objective of the e-Filing Project is to enhance the efficiency, reliability and accuracy of the collection of accounting and financial data from businesses, thereby bringing about the following benefits–

(a) *Better User Experience*

Existing e-filing services for profits tax returns will be improved, including uploading capacity for financial statements and tax computations in iXBRL format. These enhanced features will provide wider e-services with better user experience, thereby encouraging businesses to adopt e-filing. User-friendly tax filing mechanism would also enable businesses to file tax returns, financial statements and tax computations efficiently regardless of geographical location. It also helps reducing the turnaround time for signature or authorisation arrangement, especially for taxpayers with approval process carried out outside Hong Kong.

(b) *Compliance with International Standards*

The enhanced data processing capacity of the new Business Tax Portal will enable the IRD to collect and process large volume of financial and accounting data, thereby facilitating the automatic processing of tax assessments with greater work efficiency as well as taking forward the Organisation for Economic Co-operation and Development’s (“OECD”) recommendation².

² As a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes,

(c) *Better Alignment with Government Initiative*

The Government has formulated a Smart City Blueprint for Hong Kong with a vision to building Hong Kong into a world class smart city. The launch of the e-Filing Project would allow easier filing and processing of tax and financial data.

(d) *Better Use of Departmental Resources and More Environment-friendly*

With improved e-filing of tax returns by businesses as well as wider use of automatic processing of tax assessments, the IRD can streamline the administrative processes and save or redeploy staff resources in processing tax returns. Moreover, paper consumption will be significantly reduced, making the overall tax administration more environment-friendly.

Progress to Date

6. The e-Filing Project, which is a technically-complicated project involving IT and legal perspectives, is currently in active progress.

7. The proposed use of iXBRL format for e-submission of financial statements and tax computations is new in Hong Kong³. The terminology and overview of iXBRL in technical terms are highlighted at **Annex**. In addition to upgrading the existing IT infrastructure to enhance processing capacity, we have kicked start to develop the IRD Taxonomy Package

Hong Kong is committed to implementing the international standards of exchange of information (“EoI”) in different modes to enhance tax transparency and prevent tax evasion. In the peer reviews on EoI on request conducted in 2018, the OECD recommended that Hong Kong should take measures to ensure that accounting records of all relevant businesses are available. Taking forward the OECD’s recommendation will involve the issuance of a large number of profits tax returns and processing of voluminous accounting and financial data. This has necessitated the full adoption of e-filing of profits tax returns for businesses. The IRD’s existing IT infrastructure cannot support this move given its very limited data uploading capacity.

³ The iXBRL filing requirement has been widely adopted for multiple compliance reporting purposes by various jurisdictions, including Mainland China, Singapore and OECD member countries such as the United Kingdom (“UK”), the United States, Sweden, Netherlands, etc.

alongside the iXBRL Preparation Tools⁴, with a view to providing a user-friendly interface for businesses to generate iXBRL data files for their financial statements and tax computations.

8. Legislative amendments⁵ to the Inland Revenue Ordinance will be made to enhance the statutory framework for filing of tax returns electronically. The proposed legislative amendments will provide legislative backing to our plan to enable more businesses to voluntarily e-file profits tax returns together with financial statements and tax computations in 2023, with the ultimate goal of implementing e-filing of profits tax returns through the newly developed Business Tax Portal.

PROPOSED IRD TAXONOMY PACKAGE

9. The financial statements and tax computations would be required to be tagged for generating iXBRL data files. E-filing is made by way of online completion of profits tax return and uploading generated iXBRL data files, supported with digital signature on the online tax return. For tagging purposes, we are developing the IRD Taxonomy Package which includes –

- (a) the **full HKFRS Taxonomy** which applies to financial statements prepared in accordance with the full Hong Kong Financial Reporting Standards (“HKFRS”) as issued by The Hong Kong Institute of Certified Public Accountants;
- (b) the **HKFRS Taxonomy for SMEs** which applies to financial statements prepared in accordance with the HKFRS for small and medium enterprises; and

⁴ iXBRL Preparation Tools are conversion tools for businesses to convert their financial statements and tax computations with traditional format (i.e. Word or Excel) into iXBRL data files for e-filing purposes. A tender was issued by the IRD on 12 January 2021 to openly invite interested parties to design, develop, supply, deliver, install and implement iXBRL Preparation Tools and to conduct maintenance and provide other related services in relation to the tools. Following the closure of the tender and tender evaluation subsequently, the IRD plans to make an offer to the preferred tenderer by the end of March 2021.

⁵ Matters relating to the proposed amendments were discussed at the meeting of the Legislative Council (“LegCo”) Panel on Financial Affairs on 4 January 2021. The Government plans to introduce an amendment bill into the LegCo in March/April 2021. Reference can be made to: <https://www.legco.gov.hk/yr20-21/english/panels/fa/papers/fa20210104cb1-417-6-e.pdf>.

- (c) the **Tax Computational Taxonomy** which contains iXBRL elements applicable to tax computations and supporting schedules as specified by the IRD.

10. The proposed IRD Taxonomy Package lists and defines the specific codes (elements) that taxpayers can use to identify (tag) the information disclosed within financial statements prepared in accordance with the HKFRS and tax computations. The proposed IRD Taxonomy Package also includes content that describes the accounting meaning of an element or helps taxpayers find the correct element. Elements are organised into distinct groups to make it easier to navigate the proposed IRD Taxonomy Package.

11. A taxpayer can express information related to a disclosure item in a computer-readable format. For example:

- (a) the proposed IRD Taxonomy Package includes elements for tagging narrative explanations or accounting policies; and
- (b) iXBRL calculations can be used to express a disaggregation.

12. The proposed IRD Taxonomy Package does not drive or prescribe the content and presentation of financial statements and tax computations. Instead, it provides a means of tagging the financial and tax information or disclosures.

13. The proposed IRD Taxonomy Package which defines the available tags has to be comprehensive so as to cater for most items typically appeared in financial statements and tax computations, but these tags are not exhaustive. We contemplate that the proposed IRD Taxonomy Package would contain over 9,000 elements of accounting terminologies. The respective numbers of elements in full HKFRS Taxonomy, HKFRS Taxonomy for SMEs and Tax Computational Taxonomy are around 7,500, 1,500 and 600 tentatively. Although the proposed IRD Taxonomy Package is designed in such a way to make manual tagging as easy as possible, it will inevitably involve time and effort in tagging, especially in the first instance. To encourage more businesses to voluntarily e-file tax returns, our preliminary thought in the initial stage is to accept financial

statements with tagging of some essential elements. However, taxpayers can still choose to perform full tagging upon the launch of the proposed IRD Taxonomy Package.

14. We would update the proposed IRD Taxonomy Package regularly to reflect changes in tax legislation and the HKFRS. We would also publish guidance notes on e-filing with illustrative tagging examples, and provide IT support service hotline to help users.

15. The presentation and disclosure requirements of the full HKFRS Taxonomy and the HKFRS Taxonomy for SMEs under the proposed IRD Taxonomy Package would basically follow those of the taxonomy package for International Financial Reporting Standards (“IFRS Taxonomy Package”)⁶. IFRS Taxonomy Package and relevant publications are available for viewing and can be downloaded from the website of the International Financial Reporting Standards Foundation (“IFRS Foundation”)⁷. The design and format of the Tax Computational Taxonomy would be modelled on UK’s Corporation Tax Computational Taxonomy which is provided on the website of Her Majesty’s Revenue & Customs⁸.

VIEWS SOUGHT

16. We invite your views on the introduction of iXBRL tax filing requirement based on the proposed IRD Taxonomy Package, particularly on the questions set out below.

Question 1

The full HKFRS Taxonomy and the HKFRS Taxonomy for SMEs basically follow the IFRS Taxonomy Package. In addition to the tags under the IFRS Taxonomy Package, are there any extra tags that should be added onto the full HKFRS Taxonomy and the HKFRS Taxonomy for SMEs?

⁶ The IFRS Taxonomy Package is developed and maintained by the IFRS Foundation, the oversight body of the International Accounting Standards Board.

⁷ <https://www.ifrs.org/issued-standards/ifrs-taxonomy/#annual-taxonomies/>

⁸ <https://www.gov.uk/government/publications/taxonomies-accepted-by-hm-revenue-and-customs/taxonomies-accepted-by-hmrc>

Question 2

Do you have any suggestions on what elements could be included in the Tax Computational Taxonomy?

Question 3

What other supporting and educational materials would be useful for helping taxpayers understand and use the proposed IRD Taxonomy Package?

17. Please send us your views, if any, on the questions as set out in paragraph 16 above by **1 March 2021**. Please also indicate whether you would prefer your views to be published or whether you would wish to remain anonymous when your views are published. Unless otherwise specified, all responses will be treated as public information and may be published in future.

WAY FORWARD

18. We are working at full steam to take forward the e-Filing Project. We will consider the views received in finalising the proposed IRD Taxonomy Package and continue to work closely with relevant stakeholders throughout the development and implementation process of the e-Filing Project.

**Inland Revenue Department
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Terminology and Overview of iXBRL

1. Terminology

XBRL — eXtensible Business Reporting Language is a worldwide standard developed by an international, non-profit making consortium, XBRL International Inc., for tagging business data for computers to process intelligently, which has automated the handling of vast amounts of financial data by businesses across the globe.

iXBRL — Inline eXtensible Business Reporting Language introduces both human and computer-readable tags as the standard format for all businesses' financial statements tagged in XBRL.

Taxonomy — Taxonomy is a classification system that can be used to identify and structure information. It defines the specific tags that are used for individual items of data (such as “Revenue”), their attributes and their interrelationships. Information can be tagged and exchanged in a structured electronic format so that it can be accessed quickly and processed cost-effectively by the intended recipient of that information.

2. Overview of iXBRL

- (a) XBRL works through tagging individual items of information with machine-readable codes (e.g. for individual figures in a set of financial statements). The codes are drawn from a taxonomy. Public taxonomies have been developed by market constituents and are freely available.
- (b) The benefit of XBRL tagging is that it allows data to become more easily accessible, manipulable and reviewable. XBRL allows users to customise their analysis and presentation of tagged information using computer software tools.

- (c) The tagging process may be automated but, in the case of financial statements, users may need to exercise judgment over the tag to be applied to a particular piece of information. Judgment will also be required if the taxonomy does not cover all items of information disclosed in the financial statements.

- (d) iXBRL embeds XBRL tags within a document that can still be read by the human eye. When looked at on a computer screen, the document looks like a normal document but the data will have underlying tags that can be revealed, for example, by positioning the mouse cursor over the data.