Proposals for Taking Forward e-Filing Project

INTRODUCTION

This paper provides an update on the progress of the project on electronic filing ("e-filing") of profits tax returns ("the e-Filing Project") and sets out the proposals for taking forward the e-Filing Project.

BACKGROUND

2. The Inland Revenue Department ("IRD") commissioned a consultancy study on the Departmental Information and Technology Plan ("DITP study") in August 2018 which was completed in June 2019. The DITP study has set out the blueprint on the IRD's information technology ("IT") strategy in the coming decade. Having taken into consideration a number of challenges and limitations including the need of compliance with the Organisation for Economic Co-operation and Development's ("OECD") standard [1] , the DITP Study recommended that the IRD should upgrade its IT infrastructure to enhance processing capacity and strengthen the provision of digital services. 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.

3. Given that digital transformation is an inevitable development in the society and commerce, regulatory authorities (including but not limited to tax authorities) in various jurisdictions have been digitalising financial and tax reporting over the past decades.

4. Against this backdrop and to keep pace with the global trend of digital transformation, the IRD has commissioned to implement the e-Filing Project by two phases. The first phase which enhances the existing eTax Portal to enable

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[1] In the Peer Report on the Exchange of Information on Request of Hong Kong published by the OECD in 2019, Hong Kong was recommended to take measures to ensure that accounting records of all relevant businesses should be 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 electronic filing (e-filing) of profits tax returns for businesses. The existing IT infrastructure of IRD cannot support this move given its very limited data uploading capacity.

more businesses to voluntarily e-file profits tax returns together with financial statements and tax computations in inline eXtensible Business Reporting Language ("iXBRL") format will be launched in April 2023, whilst the second phase with the aim of implementing mandatory e-filing of profits tax returns through the newly developed Business Tax Portal by multi-national enterprises will start from 2025. The ultimate goal of the IRD is to achieve full-scale implementation of mandatory e-filing by 2030. In the development process of the e-Filing Project, the IRD has leveraged and taken into consideration the experience in various jurisdictions[2] in the context of transition, initial adoption and continuous management of e-filing in iXBRL format.

PROGRESS TO DATE

5. The IRD has been working at full steam to take forward the e-Filing Project from both IT and legal perspectives. Since 2019, we have achieved the following major milestones in taking forward the e-Filing Project−

Funding support

(a)   The Finance Committee of the Legislative Council approved on 2 July 2020 a new commitment of about $742 million for the enhancement and relocation of IT systems and facilities of the IRD for the new Inland Revenue Centre in Kai Tak Development Area, which included the funding for the e-Filing Project.

Development of IRD Taxonomy Package

(b)   The IRD has been developing the IRD Taxonomy Package to facilitate Hong Kong businesses to tag financial statements and tax computations for generating iXBRL data files in support of e-filing of their profits tax returns through the IRD's eTAX Portal. The proposed IRD Taxonomy Package includes−

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[2]   The iXBRL adoption in corporate tax filing, financial statements submission and/or regulatory reporting in the United Kingdom ("UK"), Mainland China and Singapore can be found in the following websites: UK (https://www.gov.uk/government/publications/xbrl-guide-for-uk-businesses/xbrl-guide-for-uk-businesses), Mainland China (Shanghai Stock Exchange) (http://www.sse.com.cn/services/information/xbrl/ssexbrl/) and Singapore (https://www.acra.gov.sg/xbrl-filing-and-resources/about-xbrl).

(i)   Full Hong Kong Financial Reporting Standards ("HKFRS") Taxonomy, which applies to financial statements prepared in accordance with the full HKFRS;

(ii)   HKFRS for private entities and enterprises adopting Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard; and

(iii)   Tax Computational Taxonomy which covers the majority of tax data, financial data and supporting schedules to the tax computation.

Consultation on the Proposed IRD Taxonomy Package

(c)   From January to March 2021, the IRD conducted a consultation with various interested parties including but not limited to businesses, professional bodies and practitioners in the profession to seek their views on the proposed IRD Taxonomy Package for the purposes of iXBRL tax filing requirement.   Overall, views received focused on five key issues: (i) transition matter, (ii) penal provisions, (iii) availability of conversion tools for generating iXBRL data files, (iv) obligations and interest of taxpayers and tax representatives and (v) tagging issues.   Views gathered in relation to three specific questions raised in the consultation paper together with the IRD's responses have been summarised at **Annex**.

Legislative amendments

(d)   The Inland Revenue (Amendment) (Miscellaneous Provisions) Ordinance 2021 ("Amendment Ordinance") was enacted in June 2021 to enhance the statutory framework for e-filing of tax returns in Hong Kong.   Amongst other matters, the Amendment Ordinance provides legislative backing to the IRD's plan on e-filing of profits tax returns.   The Amendment Ordinance also includes the following provisions relating to furnishing returns−

(i)   to lay down the legal framework for enhancing the mechanism for furnishing returns, which provides for alternative way of mixed filing, enables the Commissioner of Inland Revenue to require any

class or description of persons to furnish a return in the form of an electronic record, subject to negative vetting by the Legislative Council, and allows service providers[3] to furnish returns on behalf of taxpayers; and

(ii)   to set out the legal obligations and liabilities of a taxpayer and a service provider when the latter is engaged in furnishing a return for the taxpayer.

IRD's PROPOSALS

6.   The IRD has reckoned that the proposed use of iXBRL format for e-filing of financial statements and tax computations may drastically change the way taxpayers file their returns and may impact the design of their accounting software. Having taken into account the views received from the consultation on the proposed IRD Taxonomy Package, the IRD proposes to provide various IT supports to businesses in order to cope with the implementation, transition and get prepared of the iXBRL filing requirement.   The ensuring paragraphs set out the IRD's proposals.

Upgrading or developing computer programs

7.   The IRD encourages businesses or interested parties (e.g. software suppliers) to upgrade or develop their own computer programs which are capable of converting their existing financial statements into iXBRL format, creating iXBRL tax computations and generating the required iXBRL data files for e-filing purposes.   The IRD recognises that without knowledge of the IRD Taxonomy schemas, it would be difficult for businesses to prepare the required iXBRL data

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[3]   Taxpayers are allowed to appoint service providers to furnish tax returns for or on their behalf. The service provider must, before furnishing a tax return, obtain a written confirmation from the taxpayer stating that the information contained in the return is correct and complete to the best of the taxpayer's knowledge and belief, and retain the written confirmation for a period of not less than seven years.   The engagement of a service provider will not relieve the taxpayer from the obligation of furnishing the tax return.   In case a service provider commits an offence including: (a) failure to furnish a tax return without reasonable excuse; (b) failure to obtain or retain, without reasonable excuse, a written confirmation from the taxpayer stating that the information in the return is correct and complete to the best of the taxpayer's knowledge; and (c) furnishing, not in accordance with the information provided or instructions given by the taxpayer, a return that is incorrect in a material particular without reasonable excuse, the service provider would be liable to a penalty.

files.   As such, the IRD proposes to upload a preliminary edition of the IRD Taxonomy Package and the specifications in iXBRL schemas onto the IRD's website in early 2022 with a view to facilitating businesses or interested parties to early develop iXBRL conversion or integrated software.   In addition, the IRD proposes to offer IT support service hotline to help answer enquiries from businesses or interested parties.

Provision of free conversion tools

8.   The IRD proposes to provide conversion tools for businesses to convert their financial statements and tax computations into iXBRL data files.   The IRD has kick-started the system design and development of conversion tools, namely iXBRL Preparation Tools, which can be downloaded at the IRD's website free of charge.   The iXBRL Preparation Tools will provide a user-friendly interface for users to generate the required iXBRL data files which would conform to the specifications in the IRD Taxonomy Package and iXBRL schemas.

9.   The proposed iXBRL Preparation Tools will consist of two tools: a **Specified iXBRL Templates Input Tool** and an **iXBRL Comprehensive Tagging Tool**, coupled with some useful links like Frequently Asked Questions, User Guide and basic validation functions to facilitate the use of the tools by businesses.   The basic features of Specified iXBRL Templates Input Tool and iXBRL Comprehensive Tagging Tool are as follows−

Specified iXBRL Templates Input Tool

(a)   Having taken note of relatively simple financial statements and tax computations prepared by small businesses[4] and to reduce their burdens in preparing iXBRL data files, the IRD proposes to provide the Specified iXBRL Templates Input Tool to small businesses where they can input the figures and text which need to be mandatorily tagged in pre-defined templates for generating iXBRL data files.   Each item in the templates has already matched with a default tag.   Businesses can simply fill in the generated templates based on the data shown in their own financial statements and tax computations without the necessity of matching the data with relevant tags.   The templates will also allow a certain degree of

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[4] Small businesses are those with gross income not exceeding HK$2 million and satisfying certain conditions.

customisation for manual tagging items in financial statements and tax computation items not appeared in the templates.

iXBRL Comprehensive Tagging Tool

(b)   Businesses other than small businesses or businesses not eligible to use the Specified iXBRL Templates Input Tool can use the iXBRL Comprehensive Tagging Tool. It will incorporate certain key features which can save time in inputting data. With auto-tagging / recommended tagging as well as roll-over function, taxpayers need not spend excessive effort on accurately selecting, tagging and applying XBRL tags.

     (i)   The mechanism of auto-tagging / recommended tagging involves detection of figures and labels from financial statements and tax computations and automatic matching of such line items with specific keywords in the pre-designed mapping table. This allows the iXBRL Tagging Tool to generate unique / several relevant tagging results for users' confirmation.

     (ii)   Upon importing financial statements and tax computations in Microsoft Word or Excel format, businesses may use the iXBRL Tagging Tool to perform an automatic assignment of financial information in the financial statements to the respective simplified requirement list elements according to matching rules / tables already built in the iXBRL Tagging Tool. The tagging effort is expected to be largely reduced by this auto-tagging capability.

     (iii)   Tagging is essential for initial adoption in the first year. Businesses will be able to roll over tagging items in subsequent years without duplicating the efforts in tagging same items.

Simplified tagging requirement

10.   As foreshadowed in the consultation paper issued by the IRD in January 2021, the proposed IRD Taxonomy Package will contain over 9,000 elements of accounting terminologies. 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 e-file tax returns, the IRD proposes to simplify the tagging requirement under which taxpayers will only need to tag the following−

(a)   Financial statements – Statement of comprehensive income, profit or loss
(b)   Financial statements – Statement of financial position
(c)   Notes to financial statements – Related party transactions
(d)   Notes to financial statements – Property, plant and equipment
(e)   All the elements within the Tax Computational Taxonomy

However, businesses can still choose to perform full tagging upon the launch of the IRD Taxonomy Package.

Provision of E-Concierge

11.   To provide better customer service, the IRD proposes to offer one-on-one direct assistance to businesses via an online booking system, namely E-Concierge, which is being developed.   Businesses can access E-Concierge to be hosted on the IRD's website to book-in-advance a specified timeslot for making general enquiries in relation to the use of the iXBRL Preparation Tools via phone call.

Invitation to trial run, test run and pilot run

12.   Prior to the launch of e-filing of financial statements and tax computations in iXBRL format, trial runs of using the IRD's iXBRL Preparation Tools will be offered to interested parties for the purpose of collecting feedback and suggestions.

13.   Before the system launch, businesses or interested parties can upload a test data file onto the eTAX portal to verify whether the data file produced by their self-developed computer program conforms to the specifications in iXBRL schemas.   The IRD proposes to invite businesses to participate in the test run in December 2022 and the pilot run in April 2023 which will last for four months. Feedback will be further collected during the test and pilot runs to improve the IRD's iXBRL Preparation Tools.

VIEWS SOUGHT

14.   The IRD would like to invite your views on the proposals as mentioned in paragraphs 7 to 13 above.   Please send us your views by **31 January 2022**. 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

15.   The IRD will strive to complete the e-Filing Project by the target deadlines.   Our plan is to roll out the IRD Taxonomy Package alongside with the iXBRL Preparation Tools by April 2023.   We will consider the views received in fine-tuning the proposals for taking forward the e-Filing Project and continue to work closely with relevant stakeholders throughout the development and implementation process of the iXBRL Preparation Tools.

Inland Revenue Department
November 2021

Major Views from Previous Consultation and IRD's Responses

The ensuring paragraphs summarise the major comments received from the consultation conducted from January to March 2021 on three questions in relation to the proposed IRD Taxonomy Package and set out the IRD's responses, which will form the basis of the development and implementation of the e-Filing Project.

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?

Respondents' views
Some respondents suggested the removal of the iXBRL filing requirement for taxpayers not adopting HKFRS in preparing their financial statements and allowing them to file financial statements in PDF format.

Another concern raised was with regard to manual tagging by SMEs. A number of respondents held similar views that the IRD Taxonomy Package should include taxonomies for SMEs apart from full HKFRS and HKFRS for private entities.

A few respondents suggested including taxonomies as well as tagging requirements for other accounting standards, such as the Generally Accepted Accounting Principles from the United States and the Chinese Accounting Standards from the People's Republic of China. The aim was to allow an additional option for taxpayers in choosing between taxonomies when they prepare and submit iXBRL financial statements for tax filing purposes.

Some respondents suggested including tagging requirements and disclosures for specific industries.

The IRD's responses
Having considered the comments received, the IRD proposes that taxpayers using

other accounting standards in preparing their financial statements may submit their financial statements in PDF format or iXBRL format if available.

The IRD also proposes including the HKFRS Taxonomy for SMEs. Besides, SMEs are welcome to use the free iXBRL Preparation Tools for preparing their iXBRL data files. There are easier tagging options on both financial statements and tax computations within the iXBRL Preparation Tools which specifically cater for their convenience.

At the stage of initial adoption of the IRD Taxonomy Package, it would be more user-friendly for taxpayers to tag common items readily found in the IFRS Taxonomy which the IRD Taxonomy Package basically follows. Further consideration may be given to including additional tags for different specific industries in future, if necessary.

Question 2

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

Respondents' views
A majority of respondents raised concerns on the development of the Tax Computational Taxonomy. They considered that the list of commonly used terms in tax computations under the Tax Computational Taxonomy should be based on established reference materials.

The IRD's responses
The IRD commissioned a study to prepare the Tax Computational Taxonomy by making reference to historical tax records and well-established taxonomy packages (e.g. UK's Corporation Tax Computational Taxonomy).

The IRD Taxonomy Package (including the Tax Computational Taxonomy) will be regularly updated and published on the IRD's website for public use. Different editions of taxonomy packages will be posted on the IRD's website with their respective publication dates and applicable years of assessment. In the meantime, the IRD proposes to upload a preliminary edition of the IRD Taxonomy Package onto the IRD's website in early 2022.

Question 3

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

Respondents' views
A number of respondents suggested the IRD to provide a free conversion tool which could assist taxpayers to convert the required documents into iXBRL format. Training support and other user's support during the transition period may be of assistance to taxpayers and tax representatives in multiple forms.

The IRD's responses
The IRD would provide user guides as a foundation of support. On top of such, there will be a section addressing some frequently-asked questions about the IRD Taxonomy Package and the iXBRL Preparation Tools on the IRD's website. Additionally, the IRD has planned to set up an E-concierge for the purpose of attending to users' concerns and difficulties raised.

To enable users to familiarise themselves with the IRD Taxonomy Package and the iXBRL Preparation Tools, a two-year transition period will be provided as from 2023 during which voluntary e-filing will be rolled out for taxpayers. Several trial runs will be available for interested parties in 2022.   This would pave way for implementation of mandatory e-filing in phases starting from 2025.