Summary of Major Views of Stakeholders and the Inland Revenue Department's Responses

in Respect of the Trial Run Exercise Conducted from 19 December 2022 to 18 January 2023

The table below summarizes the Inland Revenue Department's (the Department) responses to the major views expressed in the written submissions from the parties that participated in the trial run exercise of using the preliminary version of the IRD Taxonomy Package and the IRD iXBRL Data Preparation Tools (the Tools) conducted from 19 December 2022 to 18 January 2023. Overall, the views received focused on five key issues: (A) tagging requirements, (B) selection of appropriate tags for tagging purpose, (C) functions and design of the Tools, (D) consequence of incorrect tagging and (E) provision of additional support. Other suggestions on the Department's electronic services are also provided.

The parties that made the written submissions are hereinafter referred to as: "HKICPA" (The Hong Kong Institute of Certified Public Accountants), "JLCT" (The Joint Liaison Committee on Taxation), "TIHK" (The Taxation Institute of Hong Kong) and anonymous participants.

Item	Summary of Views	Participants	The Department's Responses
(A)	**Tagging Requirements**		
1.	There should be a simplified tagging requirement, and minimal tagging list at the initial stage with additional clarifications on the scope of tagging requirement such as which items need to be	JLCT and anonymous participants	- The Department has put in place business-friendly facilitating measures to help corporations and businesses familiarize themselves with the IRD Taxonomy Package and the Tools at the stage of voluntary e-filing, including the minimum tagging requirement and publication of user guide, tips for tagging, full list of mandatory items and related materials.

Item	Summary of Views	Participants	The Department's Responses
	tagged and which ones do not.		- To simplify the tagging requirement at the initial stage, the Department adopts the minimum tagging requirement under which corporations and businesses do not need to tag all and every data item in their financial statements (FS) and tax computations (TC). Corporations and businesses will only need to tag the primary statements / main tax computation schedules in the respective taxonomy sections as follows: • Financial statements – Statement of comprehensive income, profit or loss; • Financial statements – Statement of financial position; • Notes to financial statements – Related party transactions; • Notes to financial statements – Property, plant and equipment; and • Main tax computation schedules in the tax computations (i.e. items with tax adjustments, Depreciation Allowance / Industrial Building Allowance / Commercial Building Allowance schedule and detailed profit and loss account). - If the FS and TC of the corporations or businesses do not contain any of the taxonomy sections listed above, such section is not required to be tagged for the e-filing purpose. For example, where corporations or businesses do not have any related party transaction disclosure in their notes to FS, they are not required to tag any elements in relation to related party transactions.

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			- Clarifications on the tagging requirements and tips for tagging can be found on the Department's website : IRD : New Era of Profits Tax Filing - iXBRL Filing and IRD : Tips for tagging respectively.
2.	There should be more clarity on the tagging requirements: (a) for companies having consolidated FS or annual reports; (b) for companies having Chinese FS and TC; and (c) for non-Hong Kong incorporated companies (e.g. BVI/ Cayman Islands, etc.) which do not adopt Hong Kong Financial Reporting Standards (HKFRS) to prepare their FS.	HKICPA, JLCT and anonymous participants	- The Department has taken note that some corporations currently submit their consolidated audited FS or full set of annual reports as supporting documents together with their Profits Tax returns in paper form. In order to achieve better performance and reduce the size of the final iXBRL data file, the corporations are recommended to trim down their source documents to the extent that at least provides their statements of financial position or balance sheets and other relevant information at an entity level for the purpose of tagging their accounting data. The relevant procedures have been set out at Part B of User Guide of the IRD iXBRL Data Preparation Tools. - The Department is currently developing a Traditional Chinese version of the IRD Taxonomy Package and the Tools to cater for taxpayers who prepare their FS and TC in Traditional Chinese. The Traditional Chinese version will be launched in April 2024.

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			- If corporations or businesses do not adopt full HKFRS, Hong Kong Financial Reporting Standards for Private Entities (HKFRS for Private Entities) or Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF & SME-FRS) (i.e. using other accounting standards in preparing their FS), they are allowed to submit their FS in PDF format for e-filing purpose.
3.	Some tagging items are mandatory even though they are not required to be disclosed in FS, thus it is unclear whether they have to be tagged or not (e.g. company level "turnover" figure is not disclosed and hence cannot be tagged in situation where corporations prepared consolidated FS under local accounting standards).	HKICPA, JLCT and anonymous participants	- For those corporations submitting their consolidated audited FS as supporting documents filed together with their Profits Tax returns, "revenue" and "profit/loss before tax" are not mandatory tags provided that their source documents have been trimmed down to the extent that at least provides statements of financial position / balance sheets and other relevant information at an entity level for the purpose of tagging their accounting data. - Please refer to Part B of User Guide of the IRD iXBRL Data Preparation Tools and paragraph 1 of the List of Mandatory Items for the specific guidance on consolidated FS.

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4.	Suggest to clearly set out the scope of mandatory tagging items for 2023, 2024 and 2025 and expand the mandatory tagging list in a gradual and orderly manner.	HKICPA, JLCT and anonymous participants	- The Department understands that iXBRL filing of supporting documents is new to Hong Kong. To let taxpayers and tax practitioners have sufficient time to get familiar with the iXBRL e-filing and tagging requirements, the Department is prepared to adopt the current mandatory tagging requirement (i.e. the tags as required in the List of Mandatory Items) throughout the initial stage of voluntary e-filing. Depending on the actual situation and feasibility, the scope of mandatory items may be expanded gradually and orderly later after the launch of mandatory e-filing.
(B)	**Selection of Appropriate Tags for Tagging Purpose**		
1.	Suggest to clarify and provide more guidelines with illustrative examples on the selection of appropriate tagging items and clarify how to choose items under different sections / categories in the IRD Taxonomy / different types of tagging methods, i.e. "by function of expenses" and "by nature of expenses".	HKICPA, JLCT and anonymous participants	- It is pertinent to note that accurate tagging is essential for proper tax reporting. According to the overseas experience on adoption of iXBRL tax filing, the process of preparing the company's FS in iXBRL format requires reasonable knowledge of accounting standards and taxation law and experience. This process is in constant evolution and it will continue to be refined over the coming years.

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			- While the elements provided in the IRD Taxonomy Package may not have the same descriptions or terminologies used by corporations or businesses in their FS or TC, corporations or businesses should refer to the information provided for the tags in the IRD Taxonomy Package and select the closest available tag with the same accounting or tax concept for the accounting or tax data respectively. Reasonable judgment should be made on the application of tags. If corporations or businesses cannot find a tag with the same concept, they may leave such accounting or tax data untagged. - The IRD FS Taxonomy and IRD FS-PE Taxonomy comprise elements that are obtained, customised and localised from the IFRS Taxonomy published by the IFRS Foundation and HKFRS including the HKFRS for Private Entities and SME-FRF & SME-FRS. They are developed on a standard-by-standard basis (e.g. HKAS 1, HKAS 2… HKFRS 1, HKFRS 2, etc.). Within the IRD FS Taxonomy and IRD FS-PE Taxonomy, elements are normally grouped based on the HKFRS to which they relate. Each presentation group has a label and unique identifier. Presentation groups contain headings (abstract elements) that help preparers navigate the IRD FS Taxonomy and IRD FS-PE Taxonomy visually and provide terms that may be useful in textual searches.

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			- For example, Hong Kong Accounting Standard 1 *Presentation of Financial Statements* (HKAS 1) requires entities to either use the nature of expense method or the function of expense method when presenting the analysis of expenses included in operating profit or loss. HKAS 1 specifies that an entity is required to classify expenses according to their nature based on the type of economic expenses incurred or depending upon the purpose for which these costs are incurred. This leads to elements classified under two presentation groups within the IRD FS Taxonomy and IRD FS-PE Taxonomy. Accordingly, there are two presentation groups: "[310000] Statement of comprehensive income, profit or loss, by function of expense" and "[320000] Statement of comprehensive income, profit or loss, by nature of expense". - The absence of an element in a particular presentation group does not necessarily mean that the element is not available for tagging. For example, where there is an element, "Amount due to a director" in the statement of financial position, a taxpayer may not find the appropriate tag under the group "[210000] Statement of financial position, current/non-current" or "[220000] Statement of financial position, order of liquidity". Rather, the taxpayer may consider the tag "Current payables/loans from directors" under the group "[800100] Notes - Subclassifications of assets, liabilities and equities" more appropriate.

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			- For details, please refer to Part F "Navigating the IRD Taxonomy Package to use the correct element to tag" in the IRD Taxonomy Package Guide.
(C)	**Functions and Design of the Tools**		
1.	Suggest to allow duplicate tags for items with similar nature (e.g. applying the tag of "Trade and other receivables" on "Amount due from fellow subsidiaries" and "Trade receivables"); and multiple tags in one same cell / item (e.g. applying the tags of "turnover" and "dividend income" on turnover amount for investment holding companies). Final validation will fail while FS and TC are not prepared at the same amount figures in turnover / gross profit (i.e. in thousands and in absolute numbers).	HKICPA, JLCT, TIHK and anonymous participants	- The Department allows duplicate tagging for the same item with the same amount if the same item appears in different sections within FS or TC. Where the same item appears more than once in FS, each instance should be tagged. - Inconsistent duplicate tags are not allowed. A validation error occurs where the same tag has been used more than once but the values tagged are different. For example, the element 'Revenue' was reported twice with different values ($987,654,321 and $123,456,789) despite in the same currency and period. Two facts were reported with the same precision but they did not have the same value. - If there are items of same nature presented in the FS or TC, taxpayers may conduct a grouping of the items for the tagging purpose. - To avoid the validation error arising from consistent duplicate tags within the inferred intervals (e.g. the same tag with value in thousands and in absolute numbers), refinement to the Tools has been made.

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			- For details, please refer to "Duplicate Fact" section of Part I of User Guide of the IRD iXBRL Data Preparation Tools.
2.	Suggest to add more commonly used labels, sub-headings, categories, and schedules in Taxonomy (e.g. Reversal of stock provision).	HKICPA, JLCT, TIHK and anonymous participants	- The IRD will keep revisiting and refining the IRD Taxonomy Package and related materials where appropriate on an annual basis.
3.	Figures being calculated by formulas in TC source documents cannot be shown after importing and tagging.	JLCT and anonymous participants	- The Tools may not cater for all the versions or formats inside a Microsoft Word or Microsoft Excel document when performing tagging or other functions. If unsupported types of contents are included in the uploaded source documents, then they will not be included in the final iXBRL data files. This means that it will not be possible to tag or view the data they contain. - For details, please refer to Part B of User Guide of IRD iXBRL Data Preparation Tools.
4.	The following defects are found: (a) The heading of "Cancel" and "Confirm" will disappear sometimes.	HKICPA, JLCT, TIHK and anonymous participants	- The Tools have been refined to address these issues.

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	(b) Negative numbers shown in bracket are not recognized and negative figures are not allowed to be entered in Template Tool for FS (e.g. "Total Equity"). (c) Some tagged items were viewed as missing tags during validation (e.g. "Offshore profits excluded"). (d) Multiple currencies in TC file should be accepted during validation (e.g. in situation where the taxpayer has paid overseas tax which involves tax credit claims in more than one currency). (e) The submission fails while tagging files are already validated.		

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5.	Suggest to enhance the accuracy of "auto tag", "search" and "recommendations" functions as "Loss brought forward" was tagged as "Obsolete stock brought forward" instead of "Tax loss brought forward".	HKICPA, JLCT and anonymous participants	- The "auto tag" function is primarily designed to help taxpayers conduct tagging easier and more efficiently. The Tools will automatically identify the suitable elements of the IRD Taxonomy Package based on the label. By default, the most recommended element of the IRD Taxonomy Package will be selected when there exists more than one suitable element. - Taxpayers should not fully rely on the "auto tag", "search" and "recommendations" functions. They have to exercise reasonable judgment on the application of tags to ensure that the tagging choice is appropriate after "auto tag", "search" and "recommendations" functions are performed. They should review and pick the correct item for tagging if the auto tagging choice is not accurate.
6.	A detailed breakdown of income (e.g. service fee/ management fee received) is required to pass the validation process and sometimes items are hard to provide using a textbox (e.g. required to provide details of deduction claimed for expenditure on building refurbishment).	JLCT and anonymous participants	- The validation process would only involve necessary FS and TC items for tagging and input to ensure the completeness and minimize subsequent follow-up actions. The Department will review and refine the validation rules, if necessary.

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7.	Suggest to remove the gross income threshold of HK$2 million for the use of the Template Tool for creating FS iXBRL data files.	JLCT and anonymous participants	- Given relatively simple FS and TC prepared by small corporations or small businesses and to reduce their burdens in preparing iXBRL data files, the Template Tool is specifically designed for use by small corporations or businesses to encourage them to early adopt iXBRL filing. The Template Tool is simple and easy to use. Only key tagging items are required to be inputted into the pre-defined fields in the designated templates for generating an iXBRL data file. - The Department will explore the possibility of expanding the scope of the eligible users of the Template Tool so as to facilitate taxpayers in preparing iXBRL data files and to improve user-friendliness.
8.	Suggest to give more flexibility when inputting the basic information. For examples, users are allowed to manually input their principal business activity that is not included in the drop-down menu and to amend "IRD File Number" and "Company Name" as change may occur in practice. There should be an indication of the HKD currency	HKICPA, JLCT and anonymous participants	- The required data to be inputted in the "Basic Information" section of the Tools is the same as the information required to be filled in the paper form of Profits Tax Return – Corporations (BIR 51) and Profits Tax Return – Persons other than Corporations (BIR 52). Generally, amendments to the basic information section are not allowed in order to prevent any wrong editing on the important information at the start of file preparation. - Regarding the "IRD file number" field, taxpayers are unable to change the file number after inputting it and clicking out of the box. If the saved file number has to be changed, taxpayers have to create a new workspace.

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	requirement. The title of the Hong Kong Standard Industrial Classification (HSIC) code should be shown when inputting the code.		- In the "principal business activity" field, taxpayers are required to input the 6-digit industry code of the HSIC maintained by the Census and Statistics Department. It is not necessary to input the text manually. For taxpayers who have more than one business activity during the basis period, they should select the HSIC code by reference to the principal business activity (e.g. the business activity with the largest business scale and highest revenue). Given the large number of industry codes, taxpayers are encouraged to visit the C&SD's website (www.censtatd.gov.hk) for the titles of the HSIC codes. - For details, please refer to Part F "Basic Information Section" of User Guide of IRD iXBRL Data Preparation Tools.
9.	Suggest to improve the importing function and cater for more TC and FS formats, as well as to allow amendment of data in the imported FS and TC.	HKICPA, JLCT and anonymous participants	- The participants' suggestion is noted. The Department may take into account their view for allowing more flexibility.
10.	Suggest to enhance the validation function and detect errors at an earlier stage of preparation of the iXBRL data files.	JLCT, TIHK and anonymous participants	- The participants' suggestion is noted. The Department may take into account their view for providing greater convenience to the public.

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11.	Suggest to send an email notification to users instantly regarding the detailed validation result and clearly state the type of errors to be rectified if re-submission is required.	HKICPA, JLCT, TIHK and anonymous participants	- The participants' suggestion is noted. The Department may suitably take into account their view during the system design of the new tax portals.
(D)	**Consequence of Incorrect Tagging**		
1.	Suggest to provide clear guidance on the consequences for unintentional errors made in preparing iXBRL data files, including choosing inaccurate tags during the tagging process.	HKICPA, JLCT, TIHK and anonymous participants	- For penalty or other consequences in respect of errors made in preparing iXBRL data files, the Department will consider whether the taxpayer, without reasonable excuse, commits an offence in the Inland Revenue Ordinance (e.g. late filing of a tax return, furnishing an incorrect return or making an incorrect statement), depending on the facts and circumstances of each individual case. Taxpayers should have reasonable knowledge of the taxonomies and iXBRL filing requirements as well as their own financial position before proceeding to the tagging process and preparing an iXBRL data file. A lenient approach will be taken in assessing the accuracy of tagging, especially in the early years of voluntary adoption of iXBRL filing of supporting documents.

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2.	Suggest to provide more guidelines on when the Department may impose or remit penalties on tax representatives, including late filing.	HKICPA, JLCT, and anonymous participants	- Please refer to FAQ 16 under the "IRD : New Era of Profits Tax Filing - iXBRL Filing" section on the Department's website.
(E) Provision of Additional Support			
1.	Trainings and support should be provided to taxpayers, tax representatives and their employees for learning and promoting the process of e-filing.	HKICPA and JLCT	- Since the launch of voluntary e-filing of Profits Tax returns on 1 April 2023, different forms of support (i.e. online demo videos, user guide, training sessions, e-Appointment service) have been provided by the Department.
2.	Suggest to set up a hotline for providing instant technical support for the use of tax portals, Tagging Tool and Template Tool.	HKICPA, TIHK and anonymous participants	- Taxpayers can access the online booking system, namely e-Appointment, to book-in-advance a specific timeslot for making enquiries in relation to the use of the Tools via phone call. The Department's officers will call the taxpayer via the provided phone number at the specific time he/she has booked the service.
3.	Suggest to extend the time for e-filing of Profits Tax returns (at least one month or more) and quicker tax refunds to early adopters.	HKICPA, TIHK and anonymous participants	- A further one-month extension of filing deadline has been granted to encourage taxpayers or their service providers to participate in voluntary e-filing of Profits Tax returns.

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4.	Suggest to give a step-by-step guide for resolving common types of errors and offering solutions (e.g. some items are shown as "handled by user" during validation without further details and users do not know what to do to clear each validation error).	HKICPA, JLCT, TIHK and anonymous participants	- The Department has published a <u>List of Validations and Error Messages</u> on its website to elaborate the error messages generated in the process of uploading FS and TC in iXBRL format and provide the corresponding recommendations to rectify the errors.
(F)	**Other Suggestions**		
1.	Other suggestions include: (a) to e-file supplementary forms in the same electronic format, i.e. iXBRL data files, via the new tax portals; (b) to extend the e-filing project to cover Profits Tax returns in respect of non-resident persons (i.e. BIR54);	HKICPA, JLCT, TIHK and anonymous participants	- The participants' suggestions are noted and will be taken into consideration where appropriate.

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	(c) to allow both taxpayers and tax representatives to opt in to receive paper correspondence according to their own preference; and (d) to show the layout of the electronic tax return and allow users to print out the final version of the documents submitted.		
2.	Suggest to endorse self-developed iXBRL tools and provide a list of endorsed providers for taxpayers' reference.	HKICPA, TIHK and anonymous participants	- The Department encourages corporations and businesses to upgrade or develop their own computer programs which are capable of converting their supporting documents into iXBRL format and generating the required iXBRL data files for e-filing purposes. - The participants' recommendation of providing a list of endorsed service providers is noted. While the Department welcomes commercial software and service providers to submit their iXBRL data files generated by their self-developed tools for validation check, we are unable to recommend or endorse any one product or service over another. Depending on the market development and the stakeholders' feedback during the voluntary e-filing stage, the Department may consider this recommendation later.

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3.	Suggest to obtain more detailed comments from tax practitioners and corporations on the development of the new tax portals and conduct a pilot run in 2024 before the full roll-out in 2025.	HKICPA, TIHK and anonymous participants	- The system development of the new tax portals is in active progress. A sharing session was held in November 2022 to gather accounting and tax professionals' views on the preliminary design of the new tax portals. Pilot run on the new tax portals will be arranged before the production roll-out in 2025.
4.	Suggest to provide detailed guidance notes and explain the workflow of the whole e-filing process.	JLCT and anonymous participants	- The flow of the whole e-filing process in respect of Profits Tax returns has been provided on the Department's website (IRD : New Era of Profits Tax Filing - Electronic Filing of Profits Tax Return). Online demonstration videos about the uploading service, completion service and submission service are also available for viewing.