



## Hong Kong Tax Newsflash

### Prepare for electronic filing of profits tax returns



The Inland Revenue Department (IRD) is taking forward the project on electronic filing (e-filing) of profits tax returns. Further to the enactment of the *Inland Revenue (Amendment) (Miscellaneous Provisions) Ordinance 2021*<sup>1</sup> which provides the statutory framework for e-filing of tax returns, the IRD has recently released a [consultation paper](#) and conducted a briefing session on its e-filing proposal. This article highlights the key features of the IRD's proposed e-filing project.

#### Proposed timeline

The IRD plans to implement the e-filing project by two phases. The first phase involves enhancement of the existing eTax Portal to enable more businesses to voluntarily e-file profits tax returns in April 2023. The second phase aims at implementing mandatory e-filing of profits tax returns through a newly developed Business Tax Portal by multi-national corporations in 2025. The ultimate goal is to achieve full-scale implementation of mandatory e-filing by 2030.

#### E-filing format

The IRD proposes that financial statements and tax computations which support the profits tax returns will be filed in *inline eXtensible Business Reporting Language* (iXBRL) format. iXBRL is a worldwide standard for

tagging business data with human- and computer-readable codes drawn from a taxonomy<sup>2</sup>. The IRD Taxonomy Package will contain over 9,000 elements of accounting terminologies.

### Provision of free conversion tools

In order to assist taxpayers to convert the financial statements and tax computations into iXBRL format, the IRD will provide two free conversion tools:

**Specified iXBRL Templates Input Tool** – This is designed for small businesses with gross income not exceeding HK\$2 million and satisfying certain conditions. Small businesses can input the figures and text in pre-defined templates which have already matched with default tags so that they do not need to do the matching themselves.

**iXBRL Comprehensive Tagging Tool** – This is for businesses not eligible to use the Specified iXBRL Templates Input Tool. Upon importing financial statements and tax computations in Microsoft Word or Excel format, this tool will perform auto- / recommended tagging for users' confirmation. The tagging items can roll over in subsequent years.

During the implementation stage, businesses can access the IRD's E-Concierge to make general enquiries in relation to the use of the above iXBRL preparation tools.

### Simplified tagging requirement

The IRD proposes to allow businesses to choose full tagging or simplified tagging of financial statements and tax computations. Under the simplified tagging requirement, businesses will only need to tag the following:

1. Financial statements – Statement of comprehensive income, profit or loss
2. Financial statements – Statement of financial position
3. Notes to financial statements – Related party transactions
4. Notes to financial statements – Property, plant and equipment
5. All the elements within the Tax Computational Taxonomy

### Upgrade or development of own computer programs

While free conversion tools will be provided, the IRD also encourages business or interested parties (e.g. software suppliers) to upgrade or develop their own computer programs which are capable of generating the required iXBRL files for e-filing purposes. To facilitate the development of such programs, the IRD proposes to upload a preliminary edition of the IRD Taxonomy Package and the specifications in iXBRL schemas onto its website in early 2022.

### Extended deadline for e-filing of tax returns

The IRD indicated that extension would be granted for e-filing of tax returns and would take into consideration the views obtained from the consultation in deciding the length of extension.

## Our comments

The e-filing project will change the way taxpayers prepare and file their profits tax returns and computations and may require modifications in their financial reporting systems. Although the tagging process can be automated through the use of technology, judgment is still required to ensure the completeness and correctness in particular for some complicated businesses such as financial institutions. It is expected more time and effort will be required from both the businesses and tax service providers.

At this stage, the IRD is collecting views from different stakeholders on its proposed e-filing project. We encourage businesses to express their views on the IRD's plan either directly to the IRD or through us no later than 31 January 2022.

We welcome the IRD's effort in modernising the profits tax compliance system. We are also pleased to see that the IRD is transparent and open to views on this project, as well as its willingness to provide support, guidance and assistance to businesses and practitioners at the implementation stage. Businesses should watch out the development and get prepared for e-filing which will be implemented in the next few years.

<sup>1</sup> Please refer to our [Hong Kong Tax Newsflash \(Issue 138\)](#) and [Hong Kong Tax Newsflash \(Issue 141\)](#) for the key features of the Amendment Ordinance.

<sup>2</sup> The IRD Taxonomy Package involves full HKFRS Taxonomy, HKFRS Taxonomy for SMEs and Tax Computational Taxonomy. Taxpayers using other accounting standards in preparing their financial statements may submit their financial statements in PDF format or iXBRL format if available.

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If you have any questions, please contact our professionals:

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