



**By email (ixbri\_reporting@ird.gov.hk)**

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Our Ref.: C/TXG, M133037

Commissioner of Inland Revenue  
Inland Revenue Department  
Revenue Tower  
5 Gloucester Road  
Wanchai, Hong Kong

Dear Sir,

**Consultation on Proposals for Taking Forward e-Filing Project**

Thank you for inviting the views of the Hong Kong Institute of Certified Public Accountants (“the Institute”) on the proposals for taking forward the project on electronic filing of profits tax returns (“e-filing project”) and giving a briefing on the proposals to the Institute’s members and other interested parties by way of a webinar in November 2021. The Institute’s Taxation Faculty Executive Committee has reviewed the proposals in the consultation paper (“CP”) and broadly supports the Inland Revenue Department (“IRD”)’s proposed measures in advancing the e-filing project. Our high-level and more specific comments are summarised below.

**1. General comments on the proposals**

In the past couple of years, the impact of the Covid-19 pandemic has been to accelerate digital transformation, in both the private and public sectors. The adoption of digital tax administration is also well established in many jurisdictions around the world, e.g. the United Kingdom, United States, Australia, New Zealand, Ireland and South Africa. We note also that the Global Forum on Transparency and Exchange of Information for Tax Purposes published its second *Peer Review Report on the Exchange of Information on Request of Hong Kong (China)* in March 2019 and recommended that Hong Kong should take measures to ensure that the accounting records of all relevant businesses are made available. It highlighted as a problem that quite a number of Hong Kong companies do not need to file their profits tax returns annually for various reasons, for example, newly incorporated companies, and companies that have sustained losses continuously or have been dormant for the past few years. The full adoption of e-filing of profits tax returns for businesses, which Hong Kong is expected to do as a member of the Global Forum, could help to address this issue.

Given Hong Kong’s standing as an international financial and business centre, and the level of maturity that e-filing has already attained in numerous other jurisdictions, we have for some time encouraged digitalisation of the tax return filing process here. E-filing will not only help align Hong Kong with international best practices, but also help streamline the IRD’s administrative processes and should improve the department’s operational efficiency and service performance.



Therefore, we appreciate the IRD's efforts to take forward the e-filing project, which, as explained in the CP, will be implemented by two phases: firstly, the existing eTax Portal will be enhanced by 2023, to enable more businesses to voluntarily e-file profits tax returns, together with their financial statements and tax computations in inline eXtensible Business Reporting Language ("iXBRL") format. In the second phase, a new Business Tax Portal will be rolled out to replace the eTax Portal and facilitate e-filing of profits tax returns by multinational enterprises ("MNEs") starting from 2025. We note that the IRD's ultimate goal is to implement full-scale mandatory e-filing by 2030.

In the first quarter of 2021, the IRD conducted a consultation to seek views from interested parties on the proposed IRD Taxonomy Package, aimed at facilitating the e-filing of financial statements and tax computations in iXBRL format. In June 2021, the Inland Revenue (Amendment) (Miscellaneous Provisions) Ordinance 2021 was enacted, among other things, to enhance the mechanism for furnishing tax returns.

It is encouraging to note that the IRD is taking a careful and step-by-step approach, and seeking to be transparent and open to stakeholders' views on the e-filing project. We hope that this approach will enable the IRD to learn from the advantages and disadvantages of different e-filing systems used elsewhere in the world, so that Hong Kong can enjoy some of best features of other systems. We are also pleased to see that the IRD is proposing to provide guidance, support and assistance to businesses, practitioners and taxpayers at the implementation stage.

Our general comments are set out below for your consideration:

- We hope that the IRD will ensure the development of a practical, user-friendly and efficient e-filing system that will accommodate the way that business is conducted and how businesses and their professional advisers interact. The e-filing system should, for example, have flexible features allowing users to insert comments/ notes to explain their tax filing position and nature of certain items, and allowing submission of revised documents (including financial statements, profits tax computations, etc.).
- To accommodate the needs of MNEs and small and medium enterprises ("SMEs") that are preparing financial statements and/ or filing profits tax returns and tax computations in Chinese, the IRD may consider providing a Chinese version of the IRD Taxonomy Package and iXBRL Preparation Tools.
- As many early adopters are likely to be MNEs, which may also fall within the scope of the Organisation for Economic Cooperation and Development ("OECD")'s Base Erosion and Profit Shifting ("BEPS") 2.0 initiative, they may face significant challenges on compliance with the new BEPS-related rules (as well as the existing country-by-country reporting standards, if applicable) at the same time. We would suggest that the IRD consider providing a reasonable extension of, say, two additional months, for early adopters to e-file their tax returns.

- As noted above, the IRD is proposing to take measures to ensure that all accounting records of all relevant businesses are made available. However, even under an e-filing environment, the universal filing of tax returns may require considerable extra manpower resources. We believe that there could be a substantial number of taxpayers that do not perform an annual audit until they receive a profits tax return. In addition, the manpower structure of taxpayers and accounting firms/ service providers (“SPs”) has been designed based on the assumption that there is a large group of inactive or loss-making companies that do not need to perform annual tax filing. If e-filing is to become an enabler for the IRD to issue profits tax returns to all companies incorporated/ registered in Hong Kong, as case appears to be, then a very clear and transparent timetable for doing so, will be required. The profession will need sufficient lead time to get prepared and increase its capacity to handle a substantially increased number of profits tax returns. More staff training may also be needed.

We would also suggest that the IRD consider designing a simplified profits tax return for inactive companies, to collect basic data and audited accounts only. This could be an interim approach, during the transition period towards universal filing of tax returns, that would not drastically increase the administrative burden and compliance costs of taxpayers and the profession.

- Experience from other jurisdictions suggests that technical glitches and website traffic overload are common occurrences during the initial phase of the implementation of e-filing systems. We would suggest that the IRD bear this in mind and treat any unintentional delays due to technology issues leniently and flexibly.
- It would be appreciated by practitioners and taxpayers if the IRD could provide greater certainty and more guidance on the implementation details, e.g., a user guide and frequently asked questions (“FAQs”) that could be updated regularly based on user feedback. Certain important procedural and administrative issues should be explained clearly and explicitly; for example, how SPs can use organisational e-certificates to sign/ submit profits tax returns for their clients, and how directors of companies can perform the e-filing registration and e-sign the returns.
- At the same time, it would also be helpful if IRD could indicate whether the department would be able to accept other related documents (such as audited financial statements and tax representative/ SP appointment letters) bearing directors’/taxpayers’ e-signatures (e.g. using software such as DocuSign).
- In relation to Footnote 3 of the CP, the IRD should also provide clear guidance on the legal obligations of taxpayers and SPs and more information regarding the circumstances under which they could commit to an offence. It seems that documentary evidence of instructions and information provided by clients would be important in defending a SP’s position, and this may affect how audits are conducted.
- To ensure the most effective outcome, the IRD should continue to conduct detailed discussions and consultations with the market and the tax profession on the design, workflow and operation of the proposed system.



- The system should, as far as possible, be designed to be adaptable and able to accommodate future needs, particularly given the proposed timeline for full implementation of mandatory e-filing which is still eight years away.
- We would suggest that incentives be offered, such as extended tax filing due dates, particularly in the early phases of the implementation of the e-filing system, to encourage more taxpayers to use the system.
- As technology might feel like a hurdle to be overcome by some businesses, the IRD should consider holding more webinars and seminars to promote the benefits of e-filing and educate the public about the support and assistance available.
- To facilitate a smooth transition and implementation by taxpayers and practitioners, some more in-depth workshops should also be arranged, to help users understand the detailed functions of the e-filing system (including the free conversion tools) and tagging mechanism.
- The provision of information and transparency regarding issues of data security, both during transmission of iXBRL files and in the storage of data, will help increase taxpayers' confidence in the enhanced e-filing system.
- Ultimately, the IRD should look to make good use of the data gathered through the e-filing system. For example, it could assist in conducting an analysis of the effectiveness of tax incentives that have been introduced. This would allow the government to deliver better promotion and education around different incentives and to find new ways to assist taxpayers to make use of them.

## **2. Comments on the specific proposals in the consultation paper**

### *Provision of free conversion tools (paragraphs 8 to 9 of the CP)*

We are pleased to note that the IRD will provide free conversion tools for businesses to convert their financial statements and tax computations into iXBRL data files, i.e. the iXBRL Preparation Tools, which are currently under development. These will consist of two tools: a Specified iXBRL Templates Input Tool and an iXBRL Comprehensive Tagging Tool. We hope that these tools will be easy to use and compatible with most computers currently in use (even older computers). Our comments in relation to these tools are as follows:

#### *Specified iXBRL Templates Input Tool*

The Specified iXBRL Templates Input Tool is designed for small businesses (i.e. businesses with gross income not exceeding HK\$2 million and satisfying certain conditions), so that they can input the figures and text in pre-defined templates which are already matched with default tags, so that they do not need to do the matching themselves in generating iXBRL data files. The templates will also allow a certain degree of customisation for manual tagging items.

We agree that such a tool should help reduce small businesses' compliance burdens and thus encourage them to voluntarily e-file profits tax returns.



While it seems that the IRD intends to confine the use of this tool to small businesses, some companies that exceed the above threshold may also have simple operations (e.g. investment holding companies). The IRD may consider granting other taxpayers the option to use the Specified iXBRL Templates Input Tool, as opposed to the iXBRL Comprehensive Tagging Tool, or at least revisiting the threshold for using the Specified iXBRL Templates Input Tool, in order to minimise the compliance burden for taxpayers with simple business models.

#### *iXBRL Comprehensive Tagging Tool*

Businesses that are not eligible to use the Specified iXBRL Templates Input Tool can use the iXBRL Comprehensive Tagging Tool to import financial statements and tax computations in Microsoft Word or Excel format for file conversion. This tool will perform auto-tagging/ recommended tagging for users' confirmation. The tagging items can roll over in subsequent years to avoid duplicating efforts in tagging the same items.

We appreciate the IRD's efforts to provide these free conversion tools. However, as proposed, the iXBRL Comprehensive Tagging Tool will allow conversion of files only in Microsoft Word and Excel formats into iXBRL format. In our view, it is important that the tool also has the capability to convert pdf files into iXBRL format, because the final version of audited financial statements is likely to be saved in pdf format. Auditors may be reluctant to accept converting the signed pdf files into alterable Word or Excel files, and some may hesitate to provide the source files of the signed financial statements.

Although the IRD will allow taxpayers to use other conversion tools (either self-developed or provided by other service suppliers) to convert pdf files into iXBRL files, many SMEs may still need to rely on the IRD's free conversion tools, given their limited financial resources and manpower, and also in the event that there is limited interest to do this among private sector software companies. Therefore, we would urge the IRD to consider the needs of many SMEs and try to accommodate the conversion of pdf files when developing the free conversion tools.

Notwithstanding the above, we welcome the concession proposed by the IRD to allow taxpayers using non-HKFRS accounting standards to submit their financial statements in pdf format (or iXBRL format, if available).

#### *Upgrading/ developing computer programs for converting financial statements and tax computations into iXBRL format (paragraph 7 of the CP)*

While free conversion tools will be provided, the IRD also encourages businesses or interested parties (e.g. software suppliers) to upgrade or develop their own computer program that are capable of generating the required iXBRL files for e-filing purposes. To facilitate the program development, the IRD will upload a preliminary edition of the IRD Taxonomy Package and the specifications in iXBRL schemas onto the IRD's website in early 2022. The IRD will also set up an IT support service hotline to help answer enquiries from businesses or interested parties.

Based on our understanding, software suppliers may develop Application Programming Interface or other software for interfacing or integration of iXBRL documents with the existing taxation, auditing and accounting software. To ensure there is sufficient time for interested parties to develop or acquire the programs, we recommend that the IRD should issue the relevant technical documents as soon as possible, and, hopefully, by the end of March 2022.

Tagging requirement (paragraph 10 of the CP)

(a) IRD Taxonomy Package

We would like to seek further confirmation as to whether the IRD plans to provide a taxonomy for the Institute's Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard ("SME-FRF & SME-FRS") or "mini-GAAP". This issue was raised in our submission of 26 February 2021, responding to the *Consultation on The Proposed IRD Taxonomy Package*.

From paragraph 5(b)(ii) of the CP, it would seem that this is indeed the intention. It is stated:

*The proposed IRD Taxonomy Package includes–*

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

However, the IRD's response to Question 1 in the Annex to the CP states:

*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. [underlining added]*

From the wording of Question 1 itself it appears that *HKFRS Taxonomy for SMEs* refers to the IFRS-based accounting standard for SMEs rather than the mini-GAAP. As explained in our 26 February 2021 submission, the mini-GAAP is an entirely local construct with no IFRS equivalent.

In other words, there seem to be certain statements made in the CP that are ambiguous, or not entirely consistent with one another, and, therefore, we would ask for further clarity on this point. Certainly, if a taxonomy for SME-FRF & SME-FRS is not included in the e-filing system and it is expected that taxpayers using the mini-GAAP will submit their financial statements in pdf rather than iXBRL format, prima facie, this would slow down the process of full implementation of e-filing on a common platform.

(b) Simplified tagging requirement

To encourage more businesses to e-file tax returns, the IRD proposes to allow businesses to choose full tagging or simplified tagging of financial statements and tax computations. Under the simplified tagging requirement, taxpayers will need to tag only five specified items<sup>1</sup>. Since tax professionals in Hong Kong may not have experience of tagging, and full tagging could be a very labour-intensive process, we agree with the proposal to provide for a simplified tagging requirement in the initial stage. However, we recommend that the IRD review the tagging requirement every year to ensure the simplified tagging remains sufficient from the IRD's perspective.

We also suggest that the IRD allow a grace period, for the first one to two years after taxpayers start participating in e-filing, so that taxpayers and their representatives will not be penalised for any unintentional mistakes made in the tagging process.

Under the Companies Ordinance (Cap. 622), certain taxpayers are required to prepare consolidated financial statements. Although they prepare their tax returns and computations based on the entity level financial statements, currently they are required to submit the audited consolidated financial statements along with the tax returns. It would be helpful for the IRD to clarify how these taxpayers should perform the tagging of their financial statements, i.e. whether they are required to tag the consolidated financial statements (which may not be directly relevant to the tax return), the unaudited entity level financial statements (which are usually provided along with, or as part of, the tax computation), or both.

Provision of E-Concierge (paragraph 11 of the CP)

The IRD's proposal to offer one-on-one direct assistance to businesses via an online booking system, namely E-Concierge, is welcomed. However, there is likely to be a very high demand from taxpayers for this service and, therefore, taxpayers in need of this support may not be able to book the service on a timely basis, due to full schedules. Given the likely demand, the IRD may want to consider introducing other online communication tools that could allow for the sharing of screens or screenshots, in addition to providing assistance via the telephone, to enhance the effectiveness of the one-on-one consultation. We would also be interested to know how long the IRD envisages scheduling for each E-Concierge call.

As mentioned under General Comments above, we suggest providing comprehensive training (both face-to-face workshops and (pre-recorded) seminars) for taxpayers and SPs to learn about the tagging and e-filing processes in greater detail. Detailed FAQs, which could be updated regularly based on actual experience, should also be published for reference.

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<sup>1</sup> 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.



*Trial run, test run and pilot run (paragraphs 12 to 13 of the CP)*

A trial run using the IRD's iXBRL Preparation Tools will be offered to collect feedback and suggestions from interested parties. Feedback will be collected in a test run in December 2022 and a pilot run in April 2023, which will last for four months, to improve the iXBRL Preparation Tools.

We agree with this step-by-step approach and hope that sufficient time will be allowed for a wide range of stakeholders to try out the iXBRL Preparation Tools, as well as the new e-filing system. This would allow SPs to make necessary adjustments to their internal software before the official launch of the enhanced e-filing system. We would recommend that the IRD collect feedback from, among others, SMEs and small and medium accounting and tax practices and, as far as reasonable and practicable, try to accommodate their needs.

Should you have any questions on this submission, please do not hesitate to contact me at [peter@hkipa.org.hk](mailto:peter@hkipa.org.hk) or on 2287 7084.

Yours faithfully,

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