



By email (ixbri_reporting@ird.gov.hk)

23 February 2023

Our Ref.: C/TXG, M137374

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

Dear Sir,

Electronic filing of profits tax returns
– Trial run of iXBRL Data Preparation Tools

Thank you for inviting the Hong Kong Institute of Certified Public Accountants (“the Institute”) to participate in the trial run of inline eXtensible Business Reporting Language (“iXBRL”) Data Preparation Tools (“Tagging Tool”), as part of the project on electronic filing of profits tax returns (“e-filing project”), and the tripartite sharing session held in November 2022 on the preliminary system design of the Inland Revenue Department (“IRD”)’s new tax portals to be launched in 2025. The Institute’s Taxation Faculty Executive Committee (“TFEC”) is pleased to note the IRD’s continuing efforts to take forward the e-filing project. Our general comments on the e-filing project and more specific comments on the trial run are summarised below for your consideration.

1. General comments on the e-filing project

(a) System design

In the tripartite sharing session held on 14 November 2022, the IRD gave an introduction on the preliminary system design, including the portal structure and user interface, of the three new tax portals, namely the Business Tax Portal (“BTP”), Tax Representative Portal (“TRP”) and Individual Tax Portal (“ITP”). It is encouraging to note that the IRD is taking a careful and step-by-step approach and is open and receptive to stakeholders’ views on the development of the e-filing infrastructure.

In relation to the issues discussed during the sharing session, we have collected comments from TFEC members and set these out below for your consideration:

- Many accounting firms have been undergoing digital transformation and are moving away from paper-based processes in recent years. Therefore, our members who are tax representatives, generally, do not have a strong preference to receive tax-related communications (including notices of assessment and statements of loss) in paper form following the implementation of e-filing.

Nevertheless, due to their resource constraints, we understand that some small and medium accounting and tax practices (“SMPs”) and sole proprietors may continue to rely on paper files. Therefore, we suggest that the e-filing system should allow both taxpayers and tax representatives to be able to opt in to receive paper correspondence according to their own preference during the registration process.

- We understand that, under the preliminary design of the TRP, the system will allow users to access their clients’ information on a team basis, i.e., clients allotted to a team can be handled only by the TRP Team Leads and TRP Authorised Users of that team. The team members will be able to access all the e-services, including documents in relation to business registration and salaries tax filing, etc. In practice, it is common for clients to be served by different service teams (e.g., company secretarial team and profits tax compliance team) at the same time. For client confidentiality and risk management purposes, the services performed by different teams are supposed to be covered by different and separate engagement letters signed between the client and the service teams of the accounting firm. Therefore, we suggest that each team member’s access right should be restricted only to the services for which they are responsible for that client. That means, the profits tax compliance team members should be able to view and edit only the designated client’s profits tax filing documents, but not other unrelated documents.

(b) Penalty policy

- While taxpayers will endeavour to comply with the IRD’s tagging requirements in good faith, the tagging process will inevitably involve the exercise of judgement, especially in the initial years when taxpayers are trying to familiarise themselves with the system. There may be situations where the IRD considers that a different tag should have been selected. Therefore, we request the IRD to share its penalty policy on tagging, in particular, please clarify the following:
 - Whether selecting a tag considered by the IRD as “incorrect” would amount to the filing of an incorrect return.
 - Whether there is any difference in the treatments between an “incorrect” mandatory tag and an “incorrect” non-mandatory tag.

We hope that the IRD could take a more flexible approach in the first few years of implementation, especially with regard to non-mandatory tags, in order to encourage taxpayers to tag more items. In addition, we would suggest that, wherever possible, the IRD adopt a constructive approach in terms of educating taxpayers who make inadvertent mistakes rather than seeking to penalise them.

(c) Timeline

- To facilitate early planning by taxpayers and tax representatives, it would be helpful if the IRD could provide a clear timeline by identifying the in-scope entities for 2025 and 2026.

- Likewise, the IRD should also clearly set out its plans with respect to the mandatory tagging items for 2023, 2024 and 2025 and expand the mandatory tagging list in a gradual and orderly manner.
- As industry players have started/ will start developing their own iXBRL tools, we suggest that the IRD endorse self-developed iXBRL tools, and provide a list of the endorsed providers for taxpayers' reference.

(d) Other considerations

- We suggest that the IRD obtain more detailed comments from tax practitioners and corporations on the development of the new tax portals to ensure the new tax portals' overall effectiveness. Conducting a pilot run of the new tax portals in 2024 before the full roll-out in 2025 would also be helpful.
- Under the current arrangements for the e-filing of profits tax returns, tax computations and financial statements should be submitted in iXBRL format, while the supplementary forms of the profits tax return are required to be submitted in XML format. We hope that this is only a temporary arrangement. To reduce complexity, we would expect that, in long run, all the necessary deliverables could be submitted in a same electronic format, i.e., iXBRL data files, via the new tax portals.
- We note that the current plan for the e-filing project in 2023 to 2025 will cover only profits tax cases involving profits tax returns for corporations ("BIR51") and for persons other than corporations ("BIR52"). We suggest that the IRD consider extending the e-filing project to profits tax returns in respect of non-resident persons ("BIR54"). In practice, many taxpayers and/ or their tax representatives handle the filing of BIR54 together with the BIR51 or BIR52. It would be more efficient to adopt the same mode of filing for these returns consistently, instead of adopting e-filing for the main entity but paper filing for the non-residents. Besides, comparatively, fewer details and supporting documents are required in filing a BIR54 and, therefore, the e-filing arrangements for these cases should be amenable to early adoption.
- To pave the way for the implementation of mandatory e-filing, the government should incentivise taxpayers to use the e-filing system voluntarily in the first instance. For example, the IRD should consider granting a two-month extension of the tax filing deadline and quicker tax refunds to early adopters. This is because more time is needed for taxpayers and tax representatives to familiarise themselves with the e-filing process in the initial years, to ensure that, overall, the online submission of returns will be done efficiently and effectively.

2. Specific comments on the trial run

(a) Basic information

- Users are required to choose their principal business activity from a drop-down list, but the choices are limited, for example, investment holding is

not included in the list. Instead of choosing from a drop-down list, we propose that users be allowed to input their principal business activity by themselves. Alternatively, we suggest adding an “Other” option in the drop-down list and allowing users to specify their principal business activity, if it is not included on the list.

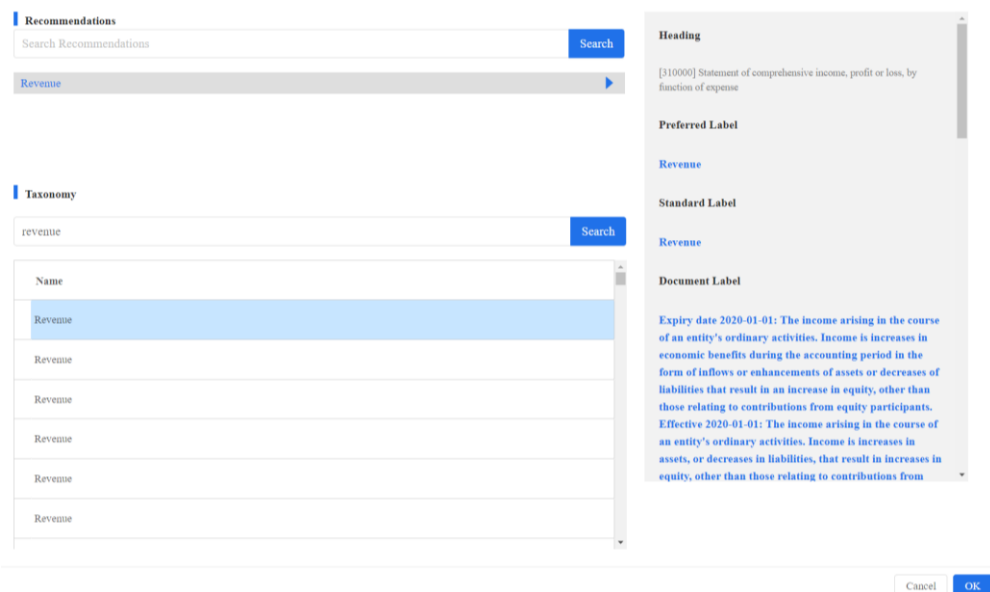
(b) Tagging Tool

- The IRD Taxonomy contains a very wide range of sub-items under each category, and it is unclear how detailed taxpayers are expected to be in tagging sub-items or a different nature.

For example, in a typical statement of comprehensive income (profit or loss), income from a company’s core business should be simply classified as “revenue”. However, when we used the Tagging Tool to tag the profit or loss, although it appeared that the “Revenue” had been tagged, upon further examining the details of the tagged item, there were multiple underlying sub-items of revenue, including ten sub-items all under “Revenue”, three items under “Insurance revenue”, “Revenue [abstract]”, “Circulation revenue”, “Other revenue”, “Total revenue”, “Revenue from sale of gold”, and six items of “Revenue multiple, measurement input [member]”, etc.

Although there is a brief explanation on the side of each item (e.g., “[310000] Statement of comprehensive income, profit or loss, by function of expenses”, “[320000] Statement of comprehensive income, profit or loss, by nature of expenses”, etc.), these explanations are unclear and there is no explanation of the difference between “by function of expenses” and “by nature of expenses”. The above issues tend to make the Tagging Tool not user-friendly and technically complicated to apply.

Extracted below is an example of the interface of the tagging tool for “Revenue” for reference.



The screenshot displays the Tagging Tool interface. On the left, there are two search panels: 'Recommendations' and 'Taxonomy'. The 'Recommendations' panel shows a search for 'Revenue' with a blue bar highlighting the result. The 'Taxonomy' panel shows a search for 'revenue' with a table of results where the first row, 'Revenue', is highlighted in blue. On the right, a detailed view of the selected 'Revenue' item is shown, including its heading, preferred label, standard label, document label, and a detailed description of the income arising in the course of an entity's ordinary activities.

- Similarly, the Tagging Tool provides different classifications for the statement of comprehensive income and statement of financial position. For example, for statement of comprehensive income, there are “by function of expense”, “by nature of expense”, “OCI components presented net of tax” and “OCI components presented before tax”. For the statement of financial position, there are two different categorisations for tagging, namely “Statement of financial position, current/non-current” and “Statement of financial position, order of liquidity”.

It would be helpful if the IRD could provide guidelines on the situations where taxpayers could rely on the items selected by auto-tagging directly, and the situations where they would be required to dig into the auto-tagged items and further select the sub-items. In order to assist taxpayers to tag correctly and more smoothly, additional guidelines are needed on each tagging item and the difference between different types of tagging method.

- In general, there is a problem in tagging multiple items which are within the scope of the same tag. For example, both management fee income and other services income are within “services income” for related parties, but only one option can be tagged. As one tag can be used only once, more guidance is needed on tagging multiple items of a similar nature in the breakdown of financial statements and tax computations.

In view of the complexity of the system, guidance is needed on tagging multiple new fixed asset items and how to tag the notes in relation to property, plant and equipment.

Financial statements (“FS”)

- The format of the FS changes after they have been imported into the system. We suggest improving the importing function so that the format of the FS could be followed and recognised.
- There are certain limitations of tabled tags, e.g. it is unclear how the amounts due to/ from fellow subsidiaries should be properly tagged. More guidance is needed.
- As onshore and offshore dividends are required to be tagged separately, we suggest improving the Tagging Tool in order to (i) present them separately in the statement of profit or loss, and (ii) allow them to be tagged separately.
- There was one occasion when members tagged certain items for balance sheet items (e.g. cash and bank balances, other current non-financial liabilities), and were required to choose from “disclosure of joint ventures” which is irrelevant/ inaccurate. We believe that there may be a bug in the Tagging Tool.
- It would be helpful if the IRD could provide guidelines on the tagging requirements of the FS for taxpayers that prepare consolidated financial accounts, as their tax returns and tax computations are prepared and filed on a singleton basis.

Tax computation (“TC”)

- We recommend adding “Actual lease payments” in the IRD TC Taxonomy under Section “[370000] Tax computation”, for taxpayers claiming deductions on contractual lease payments, instead of accounting depreciation and interest.
- As some expenses may be relevant to different categories (e.g., cost of sales, selling and distribution expenses, general and administrative expenses), we suggest creating tags for these expenses with different sub-headings. Taking salary as an example, this may appear in administrative expenses, as well as other categories and, therefore, we suggest that more tags be created for it, such as “Cost of sales, salary”, “Selling and Distribution, salary”, etc.
- There were situations where the system generated a message and stated that “There is/ are empty sheets.” even though the excel file did not have any empty or hidden worksheet. We suggest that this bug be fixed or any “empty sheets” should be able to be ignored when the excel files are uploaded into the system.

Auto-tagging

- The auto-tagging function results in duplicated efforts in editing the results of auto-tags for the current year and previous year, as the Tagging Tool cannot identify items that are slightly different from the IRD Taxonomy. We found that, sometimes, the auto-tagging failed to tag the items that were included in the IRD Taxonomy.

(c) Specified iXBRL Templates Input Tool (“Templates Tool”)

- We understand that the Templates Tool seeks to reduce the burden of small businesses (i.e., those with gross income not exceeding HK\$2 million and satisfying certain other conditions) in preparing iXBRL data files. However, it seems to be a very manual process and requires users to input the entire TC and FS into the system. Not only is it a very time-consuming process, but small businesses may not be able to familiarise themselves with the complicated system for inputting their financial data.
- We found that the following attributes were not included in the output from the Templates Tool, even though they are mandatory tags. Please clarify if these items are required to be tagged:
 - SmallCorporationGrossIncomeLessThanHKD2Million
 - CompanyIsAPartnershipOrACorporation
 - NameOfProductionSoftware
 - VersionOfProductionSoftware

- In addition to the above, please consider the following suggestions in relation to the Templates Tool:

FS Templates Tool

- Allow different levels of rounding in the Templates Tool.
- Allow figures to be presented in a gross format (i.e., without differentiating the current and non-current portion).
- For the statement of profit or loss, unify all expenses/ losses as negative figures, as the current entries are inconsistent and it is hard to understand the relationship between cells. Alternatively, please consider indicating all relationships in a clearer format.
- For the related-party-transaction schedule, allow the adding of rows for items of a different nature.

TC Templates Tool

- Allow users to provide a breakdown of line items.
- Allow notes to be added to the items without default notes.
- Allow “Others losses” to be added to the income section and rename it as “Other income/ losses”. In the trial run, we were able to input only negative figures into the expenses section.
- Allow the sums of different items to be tagged.
- State clearly the nature of the notes requested, for example, whether the breakdown of recipients is a mandatory field for commission payment.

(d) Validation

- It appears that the validation of iXBRL data files cannot support multiple currencies. It results in an error message “The currency attribute of ‘XXXX’ must be in Hong Kong Dollars or consistent with ‘Foreign currency used’ tagged.” In scenarios where the taxpayer has paid overseas tax in more than one jurisdiction, this could involve tax credit claims in more than one currency. To accommodate this, we propose that multiple currencies should be accepted by the system.
- It was noted that there is no cross-checking of data input in the various files. For example, the system could not identify the error when the turnover in the TC and the FS were different. In order to enhance the effectiveness of the system, we propose that a cross-checking function be added to the system.
- The IRD has provided a list of mandatory items that must be tagged in order for the document to be validated for submission. However, we found that there are some items not included in the mandatory list that are required to be tagged in order to pass the validation check.

Examples include “details” of service fee received, management fee received, commission payment, legal and other professional fees, management fees, etc. Below is an extract of the error message for cases where the details have not been tagged.

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S
1	Type of D	Concept	Value	Line	Error Code	Error Mes	More Information												
2	TC	ServiceFeeReceivedDetails			TVAD-E-C	"Service fee received details" must be tagged and entered if "Service income" is not 0.													
3	TC	ManagementFeeReceivedDetail			TVAD-E-C	"Management fee received details" must be tagged and entered if "Management fee income" is not 0.													
4	TC	CommissionPaymentsDetails			TVAD-E-C	"Commission payments details" must be tagged and entered if "Administrative expenses, commission expenses" is not 0.													
5	TC	LegalAndOtherProfessionalFee			TVAD-E-C	"Legal and other professional fee payments details" must be tagged and entered if "Administrative expenses, legal and professional fee" is not 0.													
6	TC	ManagementFeePaymentsDetail			TVAD-E-C	"Management fee payments details" must be tagged and entered if "Administrative expenses, management fees" is not 0.													
7																			

We would urge the IRD to update the mandatory list and to include all items that must be tagged in order to pass the validation check, and explain what “details” are expected to be provided.

- When generating the iXBRL version of the FS, the system identifies tagging errors. The error messages shown in the system are not clear and not easy to understand. Sometimes, after both the tagging of TC and FS have passed validation, an error message pops up upon finalisation, but it is unclear what the error concerns. Below are some of the major issues the members encountered during the process:

- “Duplicate tags” – This error occurs when the system auto-identified more than one item in the FS that falls within the same IRD Taxonomy item, for example, “trade receivables” and “due from related party” were both auto-identified as “total trade and other receivables”. This is regarded as a duplicate tag and hence an error.

To only way to resolve this error and pass the validation is to remove the tag from one of the tagged items, notwithstanding the fact that both items are “trade and other receivables”. We are afraid that this would defeat the original purpose of tagging, and the tagged item(s) would not be able to represent the actual total amount of “trade and other receivables”.

- “Tagging is missing for mandatory item” – This error was noted in the tagging for “total equity”. This error appeared even though “total equity” was clearly shown in the FS. In addition, the system showed such error as “handled by user”, which appeared to mean that “the taxpayer has already handled the issue” when actually nothing had been done. The error messages in this situation were quite confusing and unclear. It would be helpful if the error messages could be presented more clearly and in a more accurate manner.

(e) Uploading iXBRL files

- After submitting an iXBRL data file, the IRD issued an email informing the taxpayer that the result of the data file validation had been released. However, the validation result can only be seen by going back to the uploading page (see screenshot below) and repeating Steps 1 to 3 to arrive at the landing page of Step 4. The required steps are extracted below for reference. Instead of repeating the above steps, it would be more user-friendly and effective if an email could be sent to the user/ taxpayer informing them of detailed validation result/ errors noted in the validation process directly.



The screenshot shows the GovHK eTAX portal interface. The main heading is 'Uploading of Data Files for Supporting Documents to Profits Tax Return (Trial Run)'. Below this, there is an 'Attention' box with the text: 'Please get ready for the data file(s) for Supporting Documents to Profits Tax Return before proceeding further. If your computer remains inactive for a period of time, the service will be terminated.' Below the attention box, it states: 'It may take 5 - 15 minutes to zip and upload data file(s) using this service.' A 5-step process is listed: Step 1: Read Important Notes; Step 2: Enter File No. & RIN; Step 3: Select Action; Step 4: Zip / Upload Data File; Step 5: Acknowledgement (for Upload Action). A 'Continue' button is visible at the bottom right of the main content area.

- We understand that the IRD expects that only the finalised version of the FS will be uploaded to the system. It appears that once the FS has been uploaded, no further amendments can be made. In case an error is subsequently noted in the uploaded version, a new upload and tagging process will be required and the tagging done previously will be lost.

As the tagging process (especially where manual tagging is involved) takes considerable time, we would request that the IRD enhance the system and accommodate uploading and tagging of the draft FS, and allow amendments to be made to the uploaded FS, without the need to re-uploading and re-tagging all the items from the very beginning.

(f) Overall experience

- The trial run period ran from 19 December 2022 to 18 January 2023, which was a relatively short period for stakeholders to do testing and provide feedback, especially when the tools and system are entirely new. Although the IRD has provided a 95-page User Guide that gives an overview of the Tagging Tool, during the trial run, TFEC members and their colleagues had to seek clarifications from the IRD on various details before they could proceed. Therefore, we look forward to some more detailed guidelines being issued by the IRD.
- The complete flow of the e-filing involves a series of procedures, from setting up a workspace to tagging items and performing a validation check. It also includes the installation of the Tagging Tool and/ or Templates Tool and the generation of an iXBRL finalized package. To ensure users can get familiar with each step, we suggest that the IRD provide an online demonstration showing the whole process.
- After completing the trial run, we believe that there is room for some improvements in terms of the overall user-friendliness of the tools.
- It would be helpful if the IRD could provide a hotline to provide instant technical support when using the tax portals, Tagging Tool and Templates Tool.



- Since it is difficult to clearly describe in writing all of the issues encountered by members, we hope to have a face-to-face consultation session with the IRD in order to communicate the issues more clearly and effectively.

Should you have any questions on this submission, please do not hesitate to contact me at peter@hki CPA.org.hk or on 2287 7084.

Yours faithfully,

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Advocacy & Practice Development

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