



By email (taxinfo@ird.gov.hk) and by hand

26 February 2021

Our Ref.: C/TXG, BH50186

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

Dear Sirs,

CONSULTATION ON THE PROPOSED IRD TAXONOMY PACKAGE

Thank you for inviting the views of the Hong Kong Institute of Certified Public Accountants (the Institute) on the proposed Inland Revenue Department (IRD) taxonomy package. The Institute's Taxation Faculty Executive Committee has reviewed the proposal and welcome the proposed enhancements to the IRD's electronic filing (e-filing) services for profits tax returns. We summarize below our comments for your reference and it is fine with us for the IRD to publish our comments.

1. General comments

Governments across the world are leveraging digital platforms to assess taxpayer data, including cross-referencing information at the source, running it through increasingly sophisticated analytics and sharing it among other agencies.

We note that in the journey to adopt digital technologies, most of the tax authorities generally begin with IT-enabled e-filing of tax returns and further extend it to submission of source data in the e-filings. The major shift happens when such data are further matched with data from other sources (such as banks) in real time, analyzed across taxpayers and jurisdictions to identify any abnormalities, and generate e-audit assessments.

In fact, adoption of digital tax administration is nothing new in developed countries or even in developing countries. Digital tax administration is not confined to income tax. For instance, India and Spain implemented requirements to submit detailed transactional level data. Australia has been using analytics extensively in its tax administration and New Zealand also follows the pathway of Australia closely.

When comparing to the e-filing system of other developed countries, the IRD's current e-filing system seems to be behind the norm. Besides, more frequent

automatic exchange of tax information across the borders, e.g. country-by-country reports and financial account information reported under common reporting standard, also warrants an upgrade of the IT system of the IRD. The upgrade of the IT system would not only enhance its processing capacity, but also strengthen the provision of electronic services (e-services) to the public. Under the proposed e-filing system, taxpayers and their representatives would be allowed to upload their documents to the IRD directly such that transposition errors for inputting data from the paper-based documents to the system could be avoided. Hence, with the upgrade of the IT system, the IRD can exchange information under the international protocol more effectively. In developing the related tax portals and the free conversion tool for the users, the IRD should ensure that there will be sufficient effective measures to address potential cyber security issues.

Despite the above, while the IRD follows the international standards for exchange of information (EOI), the IRD should exercise due care in EOI on request and implement additional safeguards to protect the interests of Hong Kong taxpayers as appropriate. The IRD should make the utmost efforts to ensure that all EOI requests that it entertains are foreseeably relevant (i.e. there should not be any fishing expeditions).

Other than the international trends, the problems encountered by authorized signatories of the taxpayers residing overseas during the COVID-19 period reveal that the IRD should expand the scope of e-services as soon as possible. Courier services on major international destinations were suffering substantial delays in the first few months of 2020. Therefore, taxpayers with their authorized signatories residing overseas could hardly file their tax returns on time due to the disruptions to the international courier services. Based on our recent discussions with the IRD, the IRD could not by concession accept scanned copies of the duly signed tax returns as valid provisional tax filing as there is no provision in the Inland Revenue Ordinance (IRO) empowering the IRD to do so.

Currently, a corporation/partnership can file its profits tax return electronically only if it meets a list of conditions, such as having gross income of not more than HK\$2 million, not having certain types of assessable profits, not claiming certain types of expenses, etc., in the relevant year. Taxpayers who do not meet all of these conditions have no choice but to file their tax returns in paper form. With the enhancements of the IRD e-filing system, the authorized signatories should be able to submit the tax returns anywhere in the world.

Despite that there are benefits associated with the enhancements of the e-filing system, our members had expressed concerns on the penalty exposures as the tax return and computation preparers under the e-filing system. Tax representatives normally prepare the tax returns and computations in good faith based on the information and documents provided by their clients and do not have any obligation to verify the correctness of the information and documents. They should only face penalties if they commit offences as described under Section

80(4) of the IRO under the current paper-based filing system. We are of the view that switching to e-filing from paper-based filing just changes the means of submission and therefore should not lead to different penalty exposures. Hence, no additional penal provision should be introduced as a result of the change of mode of delivery of tax returns and computations by the tax representatives.

2. Comments on the specific questions in the consultation paper

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?

There are three different sets of accounting standards in Hong Kong, namely,

- Full HKFRS (full GAAP) which is equivalent to full IFRS
- HKFRS for Private Entities which is equivalent to IFRS for SMEs
- Small and Medium-sized Entity (SME) – Financial Reporting Framework (FRF) & Financial Reporting Standard (FRS) (mini-GAAP) which is a HK-developed standard with no international equivalent. This standard essentially follows historical cost accounting with simple accounting rules (such as no requirement to recognise deferred tax, fair value accounting, and more recently for full HKFRS, capitalisation of operating leases etc.).

Companies incorporated in Hong Kong can prepare their financial statements based on one of the accounting standards stated above, subject to other regulatory requirements (e.g. the HK Listing Rules, which specifies the financial reporting frameworks that may be used by a listed issuer).

There are two sets of IFRS Taxonomies, one for full IFRS and one for IFRS for SMEs. As IFRS Taxonomies are not accounting standards, there are no HKFRS equivalents for them.

As for the mini-GAAP, since it is a totally local construct with no IFRS equivalent, there is currently no taxonomy therefor. Therefore, the IRD should ensure that taxonomies in the mini-GAAP should also be included in the e-filing system. Otherwise, taxpayers preparing their financial statements under the mini-GAAP will not have a consistent taxonomy to refer to and may need to do certain degree of manual tagging when submitting their tax reporting packages.

In addition, quite a number of taxpayers may have prepared their financial statements based on non-HKFRS GAAPs (e.g. US GAAP); Hong Kong branches of overseas companies and unincorporated business (e.g. partnerships) are typical examples. Will they be required to do manual tagging for the elements that are not covered in the IFRS taxonomies?

Question 2

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

Terminologies used in tax computations for taxpayers only having onshore profit should be quite standard. Terms used in special industries, e.g. banking, insurance, shipping and etc., could be quite unique to the industries, yet, these terms are typically used across the special industries. However, atypical terms may appear in tax computations with onshore/offshore apportionments. The IRD should review the historical tax records to come up with a list of commonly used terms in tax computations. The IRD would also make reference to established taxonomies for computation, e.g. UK's Corporation Tax Computational Taxonomy accepted by Her Majesty's Revenue & Customs.

It is likely that more frequent manual tagging would be involved when the system is first introduced. However, if artificial intelligence (AI) and analytic tools are used together with manual reviews of the additional items in the list, it is not difficult to expand the Tax Computational Taxonomy over the years to better cater for the needs of the taxpayers.

Question 3

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

- We understand that the IRD will provide a free-of-charge software to taxpayers and tax representatives to convert their files to iXBRL format for submission. However, the software would only allow conversion of files in Word and Excel formats to iXBRL format. It is important that the software has the capability to convert pdf file into iXBRL format because the final version of the audited financial statements would likely be saved in pdf format. Moreover, taxpayers and tax representatives can save scanned copies of the duly signed audited financial statements in pdf format and have the same uploaded to the IRD system. Should this be the case, the taxpayers will not be required to submit any hardcopy of the duly signed audited financial statements to the IRD after the scanned copy is uploaded to the system. In addition, as many taxpayers and tax representatives will be using the software, the IRD should ensure the user friendliness of the free-of-charge software.
- User manual, seminars, webinars, workshops and etc., should be arranged to help taxpayers and tax representatives to understand how to use the system and tagging mechanism.
- Explanation and transparency regarding data security, both during transmission of iXBRL files and storage of data, will increase user confidence in the enhanced e-filing system.



- Technical documents for IRD Taxonomy Package should be issued in advance such that software houses can develop Application Programming Interface or other software for interfacing or integration of iXBRL documents with the existing taxation, auditing and accounting software.
- Sufficient time should be allowed for the service providers/tax representatives to try out the new system and make necessary adjustments to their internal software before the official launch of the enhanced e-filing system.
- The e-filing system should allow submission of revised documents for audited financial statements, profits tax computations and etc.
- There should be a grace period, for the first 1-2 years when the enhanced system is introduced, that taxpayers and their representatives will not be penalized for mistakes made in tagging.

Should you have any questions on the above comments, please do not hesitate to contact the undersigned at ericchiang@hkicpa.org.hk or 2287 7075 for further discussions.

Yours faithfully,

Eric Chiang
Deputy Director, Advocacy & Practice Development

EKC/SC/pk

Hong Kong Institute of
Certified Public Accountants
香港會計師公會