

The Inland Revenue Department's eTAX Journey

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Issue 10

In brief

On November 5, 2021, the Inland Revenue Department (IRD) has issued a consultation paper¹ (Paper) to provide a progress update of the project on electronic filing (e-Filing) of profits tax returns (e-Filing Project) and set out their proposals for taking forward the e-Filing Project.

Further to the issuance of the Paper, the IRD invited various parties and stakeholders to join a virtual consultation briefing on November 17, 2021. The briefing was conducted by Mr Benjamin Chan, the Deputy Commissioner (Technical) (Acting) of the IRD, who (1) brought up the IRD's plan and timeline for implementing the e-Filing Project as well as the relevant legislative framework in Inland Revenue (Amendment) (Miscellaneous Provisions) Ordinance 2021² and (2) highlighted the major milestones achieved and support proposed by the IRD to date in taking forward the e-Filing Project.

This news flash summarises the key messages and highlights the issues that concern businesses in view of the approaching e-Filing journey. For the key features of the revised statutory framework, please refer to our other *Hong Kong Tax News Flash*³.

In detail

On November 17, 2021, the IRD hosted a virtual consultation briefing with the Hong Kong Institute of Certified Public Accountants indicating different major milestones achieved by the IRD to date in taking forward the e-Filing Project:-

1. Funding support from The Finance Committee of the Legislative Council for the enhancement and relocation of IT systems and facilities of the IRD for the new Inland Revenue Centre in Kai Tak Development Area;
2. Development of the IRD Taxonomy Package⁴ to facilitate Hong Kong businesses to tag financial statements and tax computations for generating Inline eXtensible Business Reporting Language (iXBRL) data files in support of e-Filing of their profits tax returns through the IRD's eTAX Portal;
3. Consultation⁵ from January to March 2021 with various interested parties in the industry to seek their views on the proposed IRD Taxonomy Package for the purposes of iXBRL tax filing requirement; and
4. Enactment of the Inland Revenue (Amendment) (Miscellaneous Provisions) Ordinance 2021 in June 2021 to enhance the statutory framework for e-Filing of tax returns in Hong Kong, including (i) the form and manner of furnishing tax returns, (ii) mandatory e-Filing and (iii) engagement of service providers to furnish tax returns.

In response to the feedback and general concerns gathered from interested parties during the consultation on the proposed IRD Taxonomy Package⁶ (e.g. transitional matters, penal provisions, availability of iXBRL conversion tools, obligations / interests of taxpayers and tax representatives, tagging issues, etc.), the IRD has proposed to provide various kinds of IT support in order for businesses to cope with the implementation and transition and to get prepared for the iXBRL filing requirement.

1. Upgrading or developing computer programs

A preliminary version of the IRD Taxonomy Package and the specifications for iXBRL schemas will be uploaded to the IRD's website in early 2022 to facilitate businesses or interested parties to early develop iXBRL conversion or integrated software. An IT support service hotline will also be set up by the IRD to answer enquiries from businesses or interested parties.

2. Provision of free conversion tools

iXBRL Preparation Tools will be available for download at the IRD's website free of charge by the public for businesses to convert their financial statements and tax computations into iXBRL data files which would conform to the specifications in the IRD Taxonomy Package and iXBRL schemas.

The proposed iXBRL Preparation Tools will consist of two tools: (i) a Specified iXBRL Templates Input Tool and (ii) an iXBRL Comprehensive Tagging Tool.

(i) Specified iXBRL Templates Input Tool

Businesses can input the figures and text which need to be mandatorily tagged in pre-defined templates for generating iXBRL data files without the necessity of matching the data with relevant tags. It caters a certain degree of customisation for manual tagging items in financial statements and tax computation items in the templates.

(ii) iXBRL Comprehensive Tagging Tool

Under auto-tagging / recommended tagging, taxpayers can apply automatic matching on imported financial statements and tax computations line items with simplified tagging requirement list elements to generate unique / several relevant tagging results for their confirmation. On the other hand, rollover function allows taxpayers to carry forward the tagging items in subsequent years without duplicating the efforts in tagging same items.

3. Proposed simplified tagging requirement list⁷

The simplified tagging requirement list as proposed by the IRD refers to mandatory tagging element items – they are required to be tagged before submission if appeared in taxpayers' financial statements and tax computations.

4. Provision of an online booking system for assistance

The IRD will offer one-on-one direct assistance via telephone to businesses for general enquiries in relation to the use of the iXBRL Preparation Tools. Businesses may reserve a timeslot in advance via an online booking system.

5. Invitation to trial run, test run and pilot run

Trial runs of using the iXBRL Preparation Tools will be offered to interested parties for the purpose of collecting feedback and suggestions. Feedback will be further collected in the test run in December 2022 and the pilot run in April 2023 which will last for four months to improve the iXBRL Preparation Tools.

During the Q&A session, the IRD provided further clarifications in relation to the implementation of e-Filing of tax returns in Hong Kong, which are summarised in the table in the next page.

Issues	Responses
What is the procedure for engaging service providers to furnish tax returns?	Before furnishing a tax return, service provider has to obtain a written confirmation (Form IR1476 ⁸) from the taxpayer stating that the information contained in the return is correct and complete to the best of the taxpayer's knowledge and belief.
Is a taxpayer required to keep business records after e-Filing its profits tax return and financial statement?	After electronic submission in the Business Tax Portal, a taxpayer is still required to retain the relevant business records (such as the original signed financial statements) for a period of not less than 7 years.
What is the authentication means for e-Filing by taxpayers / service providers?	The IRD accepts organisational e-certificate for authentication in submission of tax return and financial statement files.
Is there any extension of time to the e-Filing due date of profits tax return?	The IRD will seek feedback from the public and different stakeholders in setting the e-Filing extended due date.
What is the next phase after the commencement of mandatory e-Filing by multinational enterprises in 2025?	The initial thought of the IRD is to gradually extend the mandatory e-Filing scope to small businesses meeting certain thresholds and taxpayers enjoying preferential tax regimes after 2025.

Going forward, the IRD plans to roll out the IRD Taxonomy Package alongside with the iXBRL Preparation Tools by April 2023. They welcome the public as well as businesses, professional bodies and practitioners to express their views on the e-Filing Project by January 31, 2022. It is also worth noting that the IRD will undertake ongoing consultation to gather feedback so as to fine tune and improve the iXBRL Preparation Tools and provide various kinds of support and assistance to businesses and software vendors during the transition period.

The takeaway

We can see the IRD has been working at full steam to take forward the e-Filing Project. Business or interested parties shall step up their pace to evaluate the necessity to self-develop their computer program or integrated software along with their internal accounting system to conform to the specifications in iXBRL schemas.

We also encourage businesses to actively express their views on the IRD's proposals for the e-Filing Project and consider whether the IRD can provide adequate support and assistance to and sufficient time for taxpayers for transition of e-Filing of profits tax returns.

Endnotes

1. The Paper can be accessed via this link:
https://www.hkicpa.org.hk/-/media/Document/MC/APD/EWEB21111701_ConsultationPaper.pdf
2. The Ordinance can be accessed via this link:
<https://www.gld.gov.hk/egazette/pdf/20212523/es12021252318.pdf>
3. The Hong Kong Tax News Flash on revising the statutory framework for tax filing to pave way for e-filing of tax returns can be accessed via this link:
<https://www.pwchk.com/en/hk-tax-news/2021q2/hongkongtax-news-apr2021-3.pdf>

4. A taxonomy package developed by the IRD as classification systems which consists of different elements under (i) Full Hong Kong Financial Reporting Standards ("HKFRS"); (ii) HKFRS for private entities and enterprises adopting Small and Medium-sized Entity Financial Reporting Framework; and (iii) Tax Computation. It is used to identify and structure information in financial statements and tax computations so that the information can be tagged and exchanged in a structured electronic format.
5. The Consultation can be accessed via this link:
https://www.hkicpa.org.hk/-/media/Document/APD/TF/submission/IRD-Consultation_Taxonomy_Jan-2021.pdf
6. The major views collected and IRD's responses can be accessed in the Annex to the November 5, 2021 Consultation Paper.
7. As proposed by the IRD to encourage more businesses to voluntarily e-file profits tax returns and minimise the time and effort spent by taxpayers in tagging, only the following items would need to be tagged for "Small Business":-
 - (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
8. A confirmation form specified by the Commissioner from the taxpayer stating that the information contained in the return is correct and complete to the best of the taxpayer's knowledge and belief.

Let's talk

For a deeper discussion of how this impacts your business, please contact:

PwC's Corporate Tax Leaders based in Hong Kong

Charles Lee
+852 2289 8899
charles.lee@cn.pwc.com

Jeremy Ngai
+852 2289 5616
jeremy.cm.ngai@hk.pwc.com

Jeremy Choi
+852 2289 3608
jeremy.choi@hk.pwc.com

Rex Ho
+852 2289 3026
rex.ho@hk.pwc.com

Cecilia Lee
+852 2289 5690
cecilia.sk.lee@hk.pwc.com

Jenny Tsao
+852 2289 3617
jenny.np.tsao@hk.pwc.com

Kenneth Wong
+852 2289 3822
kenneth.wong@hk.pwc.com



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For more information, please contact:

Long Ma
+86 (10) 6533 3103
long.ma@cn.pwc.com

Gwenda Ho
+852 2289 3857
gwenda.kw.ho@hk.pwc.com

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