

# The Inland Revenue Department's Taxonomy Package

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Issue 2

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## In brief

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Followed by a series of consultation with various parties and stakeholders in late 2021, on 31 March 2022, the Inland Revenue Department (IRD) announced the latest update of its project on electronic filing (e-Filing) of profits tax returns (e-Filing Project). The IRD published the IRD Taxonomies Illustrated rendered in Excel spreadsheets for content illustration which is part of the draft *IRD Taxonomy Package*. The IRD Taxonomy Package also contains an Inline Extensible Business Reporting Language (iXBRL) Schema, which will be released by the IRD in due course. This IRD Taxonomy Package provides an overview to businesses for tagging financial statements and tax computations, as well as for generating iXBRL data files to be e-filed through the IRD's eTAX Portal going forward.

This News Flash summarises the key features of latest IRD Taxonomy Package. For the details of e-Filing Project, please refer to our *Hong Kong Tax News Flash, Issue 10, November 2021*<sup>1</sup>.

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## In detail

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The IRD has been making continuous effort on their public consultation process of e-Filing Project. The IRD conducted the first round of consultation with various interested parties from January 2021 to March 2021, followed by the second round of consultation from November 2021 to January 2022 to seek their views on various computer related supports to businesses in order to cope with the implementation and transition of the iXBRL filing requirement. For the purpose of public interest, the IRD Taxonomies Illustrated rendered in Excel spreadsheets for content illustration has been released by the IRD on 31 March 2022, which is part of the draft IRD Taxonomy Package. The information contained in the draft IRD Taxonomy Package is for reference only, with the final version to be released by the IRD prior to the voluntary e-Filing period commencing from 1 April 2023. The IRD will keep updating and refining the draft IRD Taxonomy Package to reflect changes in tax legislation and the HKFRS Standards. The version to be released in April 2023 will be varied from the existing version.

To facilitate businesses' understanding, the draft IRD Taxonomy Package has been prepared, customised and localised with reference to the (i) IFRS Accounting Taxonomy published by the IFRS Foundation, (ii) Hong Kong Financial Reporting Standards (HKFRS) and accompanying materials, as well as (iii) tax reporting requirements as specified by the IRD under prevailing tax legislations.

We set out below a brief introduction to help taxpayers to have a better understanding on the functions and structures of the IRD Taxonomy Package:

### 1. IRD Taxonomies

The IRD Taxonomies is a classification system that can be used to facilitate electronic reporting of financial statements prepared in accordance with HKFRS, as well as tax computation and supporting schedules to

Profits Tax Return. The IRD Taxonomies list and define the specific codes that preparers (i.e. taxpayers) can use to identify/tag the information disclosed within HKFRS financial statements and tax computations. IRD Taxonomies do not drive or prescribe the contents and presentation of financial statements and tax computations. Instead, the IRD Taxonomies provide a means of tagging the financial and tax information or disclosures. The IRD Taxonomies include:

- the **full HKFRS Taxonomy**, which applies to financial statements prepared in accordance with the full HKFRS;
- the **HKFRS Taxonomy for Small and Medium-sized Entities**, which applies to financial statements prepared in accordance with the HKFRS for Private Entities, and Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SMEs-FRF & SME-FRS); and
- the **Tax Computation Taxonomy**, which applies to tax computations, supporting information and disclosures to Profits Tax Returns.

## 2. iXBRL Schema

Going forward, businesses are required to e-file profits tax returns, together with tax computations and financial statements in a specified internationalised format namely, iXBRL, which is new to all businesses and tax practitioners in Hong Kong. iXBRL Schema is also part of the IRD Taxonomy Package and it will be released by the IRD in due course.

iXBRL is the specification for the Extensible Business Reporting Language in standard format of both human and computer-readable tags. It allows the preparers and users to enhance the creation, exchange and comparison of business reporting information. The IRD is developing conversion tools namely iXBRL Preparation Tools which can be downloaded at the IRD's website free of charge. The iXBRL Preparation Tools provide an interface for users to generate the required iXBRL data files which would conform to the specifications in the IRD Taxonomy Package and iXBRL schemas. Under the iXBRL Preparation Tools, a Template Input Tool and a Tagging Tool are available to cater the needs of both small business or corporations with more complicated data presentation for financial and tax reporting. Although the iXBRL Schema composes of certain specific terminologies, readers who have a certain basic knowledge on computer language can easily understand with the general guidance to be published by the IRD.

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## The takeaway

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The ongoing e-Filing development will trigger changes not only on the tax filing format but also the preparation of audited financial statements. The preparers of such documents will be required to have certain basic knowledge on iXBRL and perform tagging on the financial and tax documents. To ensure smooth transition of e-Filing of profits tax return, businesses should get prepared for their in-house accounting or tax systems, as well as technical upskilling for preparers prior to the launch of e-Filing. In particular, businesses should focus on:

- a) Assess whether there are appropriate and sufficient resources to handle the necessary profits tax filing changes from paper to online. For example, tagging ability, compatibility of any tax/financial documents preparation software or internal accounting system, etc.
- b) Revamp the format of tax computation to reduce manual input or validation error during the future e-Filing process.
- c) Closely monitor on any further development on e-Filing Project such as the threshold requirement for multinational enterprise groups for mandatory e-Filing period commencing from 2025 onwards.

Although the IRD proposes a phased approach for the adoption of the e-Filing by corporate taxpayers, businesses are encouraged to study the details released by the IRD on its IRD Taxonomies and consult professional tax advisors to review their business plan to ensure a smooth transition of e-Filing process.

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## Endnotes

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1. Hong Kong Tax News Flash, Issue 10, November 2021 can be accessed via this link:  
<https://www.pwchk.com/en/hk-tax-news/2021q4/hongkongtax-news-nov2021-10.pdf>

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## Let's talk

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

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- For Android users, please scan the QR code to access to Tencent App store
- Shui Jie web portal - <https://shuijie.pwcconsultantssz.com>

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