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RSM Tax Advisory (Hong Kong) Limited

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Welcome to Tax Flash – RSM Tax Advisory (Hong Kong) Limited’s Newsletter Covering Technical Development in Taxation

UPCOMING HONG KONG PROFITS TAX ELECTRONIC FILING SYSTEM

To enhance the efficiency, reliability and accuracy of the collection of accounting and financial data from businesses, Hong Kong Inland Revenue Department (“the IRD”) is taking serious steps to take forward the project on electronic filing (“e-filing”) of Profits Tax Returns (“e-Filing Project”). Voluntary e-filing of Profits Tax Returns (together with tax computations and financial statements) in inline eXtensible Business Reporting Language (“iXBRL”) format¹ will be launched in April 2023, whilst mandatory e-filing by certain large-scale taxpayers will be rolled out by 2025. The IRD’s goal is to implement full-scale e-filing of Profits Tax Returns by 2030.

The e-Filing Project

Currently, most Hong Kong taxpayers, especially corporates and businesses, file their tax returns in paper form. To keep pace with technology and facilitate the usage of e-platform, the IRD is aware that its existing information technology infrastructure needed to be upgraded. Over the years, the IRD has been actively developing and upgrading its e-filing system. After two rounds of public consultation, the IRD has committed to implementing the e-Filing Project in two phases. The first phase (by April 2023) will involve enhancing the IRD’s existing eTax Portal to enable more businesses to voluntarily e-file profits tax returns together with their financial statements and

¹ iXBRL is a worldwide standard for tagging business data with human- and computer-readable codes drawn from a taxonomy. This is achieved by presenting the data (e.g. financial statements) in a document format but with “tags” embedded in the soft copy document. It is simply a language for transmitting information that accurately reflects data reported in the hard copy documents and will not change the financial information or data or the presentation of such.

tax computations in iXBRL format. For the second phase (by 2025), a new Business Tax Portal will be rolled out to replace the existing eTax Portal, and mandatory e-filing by certain large-scale taxpayers (e.g. multinational enterprises) will be introduced. The IRD's ultimate goal is to implement full-scale e-filing of Profits Tax Returns by 2030.

The timeline of the e-Filing Project is summarised as below:-

<u>Period</u>	<u>Event / Goal</u>
31 March 2022	<p>A preliminary edition of the IRD Taxonomy Package (“the Package”) has been released. It includes:-</p> <ul style="list-style-type: none"> - <i>IRD FS Taxonomy</i> for financial statements prepared in accordance with full Hong Kong Financial Reporting Standards (“HKFRS Standards”); - <i>IRD FS-PE Taxonomy</i> for financial statements prepared in accordance with the HKFRS Standards for Private Entities and enterprises adopting Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard; and - <i>IRD TC Taxonomy</i> which is tax computational taxonomy covering major tax data, financial data and schedules to tax computations.
April 2023 (1 st phase)	<p>The IRD will release the latest version of the Package and related materials to reflect changes in tax legislation and the HKFRS Standards, which may be different from the version currently released.</p> <p>The existing eTax Portal will be upgraded to enable more taxpayers to voluntarily submit their Profits Tax Returns together with financial statements and tax computations electronically.</p>
By 2025 (2 nd phase)	<p>A new Business Tax Portal will be rolled out to replace the existing eTax Portal. Mandatory e-filing of Profits Tax Returns by certain large-scale taxpayers (e.g. multinational enterprises) will be introduced.</p>
By 2030	<p>Full-scale implementation of e-filing of Profits Tax.</p>



The IRD Taxonomy Package (“the Package”)

To facilitate businesses or interested parties (e.g., software suppliers) to early develop iXBRL conversion or integrated software, a preliminary edition of the Taxonomy Package has been released by the IRD on 31 March 2022.

The Package lists and defines specific codes (elements) which allow information to be tagged and exchanged in a structured electronic format. Preparers can use them to tag the information disclosed within the following supporting documents (collectively as “Supporting Documents”):

- Financial statements prepared in accordance with HKFRS standards; and
- Tax computations, together with supporting schedules and disclosures to Profits Tax returns as specified by the IRD.

The Package describes elements from both tax and financial reporting and provides the standards and rules for tagging financial statements and tax computations in iXBRL format in support of the e-filing of Profits Tax returns. It does not dictate the content and presentation of the Supporting Documents but provides a means of tagging the financial and tax information or disclosures.

Provision of Free Conversion Tools

The IRD will also provide two free conversion tools to assist taxpayers to convert the financial statements and tax computations in Word or Excel to iXBRL format:

Specified iXBRL Templates Input Tool

This is designed for small businesses satisfying certain conditions. Since each item in the templates has already matched with a default tag, taxpayers can simply input the figures and text based on the data shown in their financial statements and tax computations for generating iXBRL data files without the necessity of matching the data with relevant tags.

iXBRL Comprehensive Tagging Tool

This is for businesses not eligible to use the Specified iXBRL Templates Input Tool. After importing financial statements and tax computations, auto-tagging/recommended tagging will be performed. Taxpayers need not spend excessive effort on accurately selecting, tagging and applying XBRL tags. Tagging items can roll over in subsequent years.



Simplified Tagging Requirement

To encourage more businesses to e-file tax returns upon the initial launch of the e-Filing Project, the IRD proposes to allow certain small businesses to choose simplified tagging of financial statements and tax computations. Qualified taxpayers 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 *IRD TC Taxonomy*, such as tax data and other financial information.

Other Supports from the IRD

To help businesses to use the presentation tools and upgrade their own computer programs, one-on-one e-concierge consultation and IT support service hotline etc. will be provided by the IRD.

Points to Note

We are pleased that the IRD has taken revolutionary steps to keep up with the latest IT development and enhance the efficiency of the tax filing process. However, as the e-filing requires tagging of financial data, it may require modification in the taxpayers' financial reporting systems. Even if the tagging process could be automotively generated by the free filing tools provided by the IRD, extra procedures are required while performing the tax filing. Taxpayers shall keep updating on the e-filing development and consult your tax advisors to facilitate the e-filing of profits tax returns.

RSM Tax Advisory (Hong Kong) Limited

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- Advise on tax efficient holding and operational structures for new cross-border investment, including the formation of Hong Kong and Chinese business entities
- Review existing cross-border investment structures, advise on identified deficiencies, quantify any potential exposure from such deficiencies, and further advise on restructuring approach and procedures
- Assist clients to discuss and clarify matters with tax officials, including transfer pricing and advance rulings
- Act as client representative in tax audits and tax investigations
- Provide transaction support services on mergers and acquisitions, including tax due diligence, deal structure advice, tax health checks, related human resources arrangements and other tax compliance and consultation services
- Provide tax expert witness services at Courts
- Act as tax advisor on transfer pricing and tax compliance reviews for IPO applications
- Advise on human resources and structuring employment arrangements in a tax-efficient manner
- Advise on tax equalisation schemes
- Provide tax compliance services for individual and corporate clients in Hong Kong and China

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