

# Hong Kong Tax Alert

24 November 2021  
2021 Issue No. 9

## **Taxpayers need to get ready for e-filing of profits tax returns**

*The Inland Revenue Department (IRD) is moving full steam ahead for its project to develop a new tax portal for electronic filing (e-filing) of tax returns by businesses with accounting and financial data. The first phase of this wider adoption of e-filing will allow all taxpayers to e-file their tax returns on a voluntary basis from 2023. Commencing from 2025, large-scale taxpayers such as multinational enterprises (MNEs) will first be required to e-file their tax returns mandatorily, the aim being to achieve full-scale implementation of mandatory e-filing by 2030. Taxpayers may in future engage service providers to sign e-tax returns on their behalf and then furnish the same to the IRD.*

## **The journey of the IRD's e-Filing Project**

A consultancy study commissioned by the IRD in 2018-2019 suggested that the IRD's existing information technology (IT) infrastructure needed to be upgraded if the IRD were to move into the digital age.

Furthermore, in the Peer Report on the Exchange of Information on Request of Hong Kong published by the Organisation for Economic Co-operation and Development (OECD) in 2019, Hong Kong was recommended to take measures to ensure that accounting records of all relevant businesses should be readily available. However, as certain taxpayers are currently not required to file their tax returns annually, taking forward the OECD's recommendation will involve the annual issuance of a much larger number of profits tax returns and processing of voluminous accounting and financial data. The IRD can only efficiently handle such a move by way of a full adoption of e-filing of profits tax returns for businesses, thereby also necessitating the need to enhance the limited data uploading capacity of its existing IT infrastructure (the e-Filing Project).

The IRD has now committed to implement the e-Filing Project by two phases. The first phase 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 tax computations in inline eXtensible Business Reporting Language (iXBRL) format in April 2023.

In the second phase, a new Business Tax Portal will be rolled-out by 2025 to replace the existing eTax Portal. Currently, the IRD intends to require certain large-scale taxpayers, such as MNEs, to e-file their profits tax returns mandatorily from 2025. The goal of the IRD is to achieve full-scale implementation of mandatory e-filing by 2030. Nonetheless, the IRD has indicated that it will consider the actual situation to allow micro enterprises to continue filing profits tax returns in paper form.

In early 2021, the IRD conducted a consultation to gather views on the proposed IRD Taxonomy Package for the purposes of iXBRL tax filing requirement.

In June 2021, amendments to the Inland Revenue Ordinance were made which include provisions that: (i) empower the Commissioner of Inland Revenue to require any class or descriptions of persons to furnish a return in the form of an electronic record; and (ii) allow service providers, e.g., tax representatives to sign returns on behalf of taxpayers and then furnish the same to the IRD, i.e., without requiring taxpayers themselves to also sign the returns.

On 4 November 2021, building on the views obtained from the previous consultation conducted in early 2021, the IRD issued a further consultation paper setting out proposals for taking forward the e-Filing Project. Subsequently, the IRD also held a webinar on 17 November 2021 to further explain the proposals. Taxpayers and other stakeholders are invited to express any views they may have on the proposals to the IRD by 31 January 2022.

## Support to be provided by the IRD to businesses for the journey

Recognizing that the proposed adoption of the iXBRL format for e-filing of financial statements and tax computations may drastically change the way taxpayers file their returns and may impact the design of accounting software, the IRD has indicated that it will provide the following support services to businesses:

- ▶ upload a preliminary edition of the IRD Taxonomy Package and the specifications in iXBRL schemas onto the IRD's website in early 2022 with a view to facilitating businesses or interested parties (e.g., software suppliers) to early develop iXBRL conversion or integrated software. In addition, the IRD will also set up an IT support service hotline to help answer enquiries from businesses or interested parties.
- ▶ provide a user-friendly free conversion tools, namely iXBRL Preparation Tools, 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 iXBRL Preparation Tools will consist of two tools: a Specified iXBRL Templates Input Tool and an iXBRL Comprehensive Tagging Tool, coupled with some useful links like Frequently Asked Questions, User Guide and basic validation functions to facilitate the use of the tools by businesses.

The Specified iXBRL Templates Input Tool is designed for small businesses to allow them to input the figures and text which need to be mandatorily tagged in pre-defined templates for generating iXBRL data files. Each item in the templates has already matched with a default tag. Businesses can simply fill in the generated templates based on the data shown in their own financial statements and tax computations without the necessity of matching the data with relevant tags.

Businesses other than small businesses or businesses not eligible to use the Specified iXBRL Templates Input Tool can use the iXBRL Comprehensive Tagging Tool. It will incorporate certain key features which can save time in inputting data. With auto-tagging/recommended tagging as well as roll-over function, taxpayers need not spend excessive effort on accurately selecting, tagging and applying XBRL tags.

The IRD's plan is to roll out the IRD Taxonomy alongside with the iXBRL Preparation Tools by April 2023.

- ▶ offer one-on-one direct assistance to businesses via an online booking system, namely E-Concierge. Businesses can access E-Concierge to be hosted on the IRD's website to book-in-advance a specified timeslot for making general enquiries in relation to the use of the iXBRL Preparation Tools via phone call.
- ▶ invite businesses and interested parties to participate in trial runs, test runs and pilot runs of using the IRD's iXBRL Preparation Tools for the purposes of collecting feedback and suggestions.

## Simplified tagging requirement also to be allowed

To encourage more businesses to e-file tax returns upon the initial launch of the IRD Taxonomy Package, instead of requiring them to perform full tagging, the IRD has indicated that it will allow businesses to opt for a simplified tagging requirement. Under the simplified tagging requirement, taxpayers will 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 Tax Computational Taxonomy

## Implications

Clients can now start performing a cost-and-benefit analysis of relying on the conversion tools to be provided by the IRD (and probably also other service providers) as compared with developing their own bespoke in-house integrated accounting software or conversion tools for generating iXBRL data files for the e-filing of profit tax returns soon.

If clients have any views on the IRD's above proposals, please contact their tax executives and we will convey their thoughts to the IRD in an appropriate manner.

## Hong Kong office

Agnes Chan, Managing Partner, Hong Kong & Macau  
27/F One Taikoo Place, 970 King's Road, Quarry Bay, Hong Kong  
Tel: +852 2846 9888 / Fax: +852 2868 4432

Non-financial Services			Financial Services		
<b>David Chan</b> Tax Leader for Hong Kong and Macau +852 2629 3228 david.chan@hk.ey.com			<b>Paul Ho</b> Tax Leader for Hong Kong +852 2849 9564 paul.ho@hk.ey.com		
<b>Business Tax Services / Global Compliance and Reporting</b>			<b>Business Tax Services / Global Compliance and Reporting</b>		
<b>Hong Kong Tax Services</b>			<b>Hong Kong Tax Services</b>		
<b>Wilson Cheng</b> +852 2846 9066 wilson.cheng@hk.ey.com	<b>Tracy Ho</b> +852 2846 9065 tracy.ho@hk.ey.com	<b>May Leung</b> +852 2629 3089 may.leung@hk.ey.com	<b>Paul Ho</b> +852 2849 9564 paul.ho@hk.ey.com	<b>Sunny Liu</b> +852 2846 9883 sunny.liu@hk.ey.com	
<b>Ada Ma</b> +852 2849 9391 ada.ma@hk.ey.com	<b>Grace Tang</b> +852 2846 9889 grace.tang@hk.ey.com	<b>Karina Wong</b> +852 2849 9175 karina.wong@hk.ey.com	<b>Customer Tax Operations and Reporting Services</b>		
<b>China Tax Services</b>			<b>Anish Benara</b> +852 2629 3293 anish.benara@hk.ey.com		
<b>Ivan Chan</b> +852 2629 3828 ivan.chan@hk.ey.com	<b>Lorraine Cheung</b> +852 2849 9356 lorraine.cheung@hk.ey.com	<b>Sam Fan</b> +852 2849 9278 sam.fan@hk.ey.com	<b>China Tax Services</b>		<b>US Tax Services</b>
<b>Becky Lai</b> +852 2629 3188 becky.lai@hk.ey.com	<b>Carol Liu</b> +852 2629 3788 carol.liu@hk.ey.com		<b>Cindy Li</b> +852 2629 3608 cindy.jy.li@hk.ey.com	<b>Michael Stenske</b> +852 2629 3058 michael.stenske@hk.ey.com	
<b>International Tax and Transaction Services</b>			<b>International Tax and Transaction Services</b>		
<b>International Tax Services</b>		<b>Transfer Pricing Services</b>			
<b>Jo An Yee</b> +852 2846 9710 jo-an.yee@hk.ey.com	<b>Sangeeth Aiyappa</b> +852 26293989 sangeeth.aiyappa@hk.ey.com	<b>Martin Richter</b> +852 2629 3938 martin.richter@hk.ey.com			
	<b>Kenny Wei</b> +852 2629 3941 kenny.wei@hk.ey.com				
<b>Transaction Tax Services</b>			<b>Transaction Tax Services</b>		
<b>David Chan</b> +852 2629 3228 david.chan@hk.ey.com	<b>Jane Hui</b> +852 2629 3836 jane.hui@hk.ey.com	<b>Eric Lam</b> +852 2846 9946 eric-yh.lam@hk.ey.com	<b>Qiannan Lu</b> +852 2675 2922 qiannan.lu@hk.ey.com		
<b>People Advisory Services</b>			<b>People Advisory Services</b>		
<b>Ami Cheung</b> +852 2629 3286 ami-km.cheung@hk.ey.com	<b>Robin Choi</b> +852 2629 3813 robin.choi@hk.ey.com	<b>Jeff Tang</b> +852 2515 4168 jeff.tk.tang@hk.ey.com	<b>Paul Wen</b> +852 2629 3876 paul.wen@hk.ey.com		
<b>Asia-Pacific Tax Centre</b>					
<b>Tax Technology and Transformation Services</b>		<b>International Tax and Transaction Services</b>		<b>Indirect tax</b>	
<b>Albert Lee</b> +852 2629 3318 albert.lee@hk.ey.com		<b>US Tax Desk</b>  <b>Jeremy Litton</b> +852 3471 2783 jeremy.litton@hk.ey.com		<b>Tracey Kuuskoski</b> +852 26752842 tracey.kuuskoski@hk.ey.com	
<b>Robert Hardesty</b> +852 2629 3291 robert.hardesty@hk.ey.com		<b>Operating Model Effectiveness</b>			
		<b>Edvard Rinck</b> +852 2675 2834 edvard.rinck@hk.ey.com			

## EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients, nor does it own or control any member firm or act as the headquarters of any member firm. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](http://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](http://ey.com).

## About EY's Tax services

Your business will only succeed if you build it on a strong foundation and grow it in a sustainable way. At EY, we believe that managing your tax obligations responsibly and proactively can make a critical difference. Our 50,000 talented tax professionals, in more than 150 countries, give you technical knowledge, business experience, consistency and an unwavering commitment to quality service – wherever you are and whatever tax services you need.

© 2021 Ernst & Young Tax Services Limited. All Rights Reserved.  
APAC no. 03013615 ED None.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

[ey.com/china](http://ey.com/china)



Follow us on WeChat  
Scan the QR code and stay up-to-date with the latest EY news.