

15 March 2021

Ms. Hui Chiu-po  
Chief Assessor  
Inland Revenue Department,  
Revenue Tower,  
5 Gloucester Road,  
Wanchai, Hong Kong

By Email: [cp\\_hui@ird.gov.hk](mailto:cp_hui@ird.gov.hk)

Dear Ms. Hui,

### **CPA Australia's submission to the consultation on the proposed IRD Taxonomy Package**

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of over 168,000 members working in 100 jurisdictions and regions around the world. This includes over 14,000 members in Hong Kong. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports enhancements to the electronic filing (e-filing) of profits tax returns. The digitalisation of the Inland Revenue Department's (IRD) systems and processes should lead to greater efficiencies for all parties including taxpayers, accountants and the IRD. These improvements in tax administration should build on Hong Kong's reputation for having one of the world's simplest and most competitive tax regimes.

e-filing should make the preparation and filing of tax returns easier for taxpayers and preparers, and improve tax administration. From our understanding of the proposal, the possibility of requiring preparers to manually tag information may, however, add significant time to tax return preparation. In our view, the tagging of information should be automated to avoid unnecessary cost and minimise human error. We suggest consideration should be given at the outset to developing a framework that incorporates this feature before this proposal is fully implemented.

This submission is based on input provided by members of our Hong Kong Taxation Committee and member experts in iXBRL / XBRL and e-filing practices from around the world. We are available to continue to share our global experiences as the IRD further develops this proposal.

We provide the following comments and suggestions in response to the consultation:

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**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?**

In principle, CPA Australia supports the use of the IFRS Taxonomy Package as a base for the full HKFRS Taxonomy and the HKFRS Taxonomy for SMEs. In our view, the full HKFRS Taxonomy and the HKFRS Taxonomy for SMEs should remain consistent with the IFRS Taxonomy Package. Since HKFRS have been fully converged with IFRS, this consistency is necessary to ensure digital financial reports prepared using the HKFRS taxonomy are comparable with their IFRS equivalents. Similarly, the HKFRS for SMEs standard is equivalent to the IFRS for SMEs standard and therefore the underlying taxonomies should also remain compatible.

The IRD's approach to "*basically follow the IFRS Taxonomy Package*" suggests that there could be differences between the HKFRS / HKFRS for SMEs taxonomies and the IFRS taxonomy. This could potentially lead to a loss of consistency and comparability between financial reports prepared under HKFRS and their IFRS equivalents. Accordingly, for digital financial reports prepared applying HKFRS and HKFRS for SMEs, we do not believe any extra tags should be added to the respective taxonomies.

**Question 2. Do you have any suggestions on what elements could be included in the Tax Computational Taxonomy?**

We agree that the Corporation Tax Computational Taxonomy of the United Kingdom (UK) provides a model for the type of elements that could be included in the Tax Computational Taxonomy.

**Question 3. What other supporting and educational materials would be useful for helping taxpayers understand and use the proposed IRD Taxonomy Package?**

***Experience from other markets***

According to the [OECD](#), implementing e-filing systems may present many challenges for revenue bodies, particularly those with limited information and communication technology (ICT) experience. The IRD may find it useful to refer to the experience from economies that have made significant progress with e-filing of corporate tax returns. We note that revenue bodies in Australia, Malaysia, Singapore and the UK have implemented e-filing systems. The experiences and approaches adopted from those economies may offer insights for the IRD to consider when progressing with this e-filing project (See Appendix for further details).

Our members' experience in e-filing and iXBRL / XBRL in other jurisdictions suggests the need to consider the following:

- Clarity and certainty of the scope, taxonomy and iXBRL schema, as well as implementation timelines / milestones.
- Ongoing consultation and collaboration with subject matter experts and key stakeholders in the tax compliance ecosystem. Reference can be made to the Australian Taxation Office's (ATO) [Tax Profession Digital Implementation Group](#). This group is focused on digital implementation issues and brings together the ATO, professional accounting bodies, digital software providers, and small and large accounting firms.
- Availability of test sites / sandboxes for public / professional stakeholders to gain early familiarity and perform testing on the system.
- Availability of both end-user and technical assistance / helpdesk from tax authorities to address enquiries and technical issues as they arise.
- Continued post-launch dialogue with key stakeholders for continuous improvements.

***Use artificial intelligence (AI) tools***

We understand that the purpose of e-filing is to help improve efficiency for taxpayers, accountants and the IRD. However, at this stage we are unsure whether the e-filing project will translate to greater efficiency. For example, manual tagging (if required) is an ongoing cost in time and training.

In Australia, filings of financial statements with the corporate regulator, the Australian Securities and Investments Commission (ASIC), can either be made through XBRL or other means. So far, no one has taken up the option to lodge XBRL-based financial reports with ASIC. Reasons for this include the cost involved in establishing and maintaining XBRL-compliant systems and processes, including manual tagging.

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A solution that supports automatic tagging within accounting software would significantly reduce the compliance burden associated with e-filing. This could involve the use of AI tools to link the HKFRS Taxonomy and the Tax Computational Taxonomy to avoid the need for duplicated tagging. Such tools can also identify and learn when a new element that requires manual tagging is added.

An example is the filing of Australian tax returns through Standard Business Reporting (SBR), which uses XBRL. However, unlike corporate reporting, tagging of tax return data is done automatically by the business's financial and accounting software (if it is SBR-enabled). This allows taxpayers and their advisers to submit their tax returns direct from their existing accounting software. We understand that almost all Australian company tax returns are filed through SBR-enabled software.

#### ***Introduce a transitional period***

To ensure a smooth transition to e-filing, the IRD should consider a transitional period where businesses would be allowed to either file electronically or lodge a paper filing. Incentives to encourage business to adopt e-filing should also be considered. For example, an additional grace period (say one month) should be granted to taxpayers who file tax returns electronically during the transitional period.

The introduction of a transitional period is consistent with the experience from other economies that have implemented e-filing of corporate income tax returns such as Malaysia, Singapore and the UK (see Appendix).

#### ***Accept PDF files conversion to iXBRL***

It is our understanding that the IRD will provide iXBRL Preparation Tools that can convert audited financial statements and tax computation from Word and Excel format into iXBRL format. However, as audited financial statements are usually presented in PDF file format due to data security reasons, we recommend the IRD's iXBRL Preparations Tools also have the function to convert PDF files into iXBRL format.

#### ***Remove penalty provision for tax representatives***

We understand that as part of this change that amendments may be made to the Inland Revenue Ordinance that would make tax representatives subject to penalties for furnishing an incorrect return. Currently, only taxpayers are subject to penalties for filing an incorrect tax return.

We do not support this proposal. Tax representatives should not be liable for penalties where clients have provided them inaccurate information. We suggest the removal of this penalty provision from the amendment bill.

#### ***Do not impose penalties on incorrect manual tagging***

In the event where the tagging process cannot be completely automated, manual tagging of the elements in the taxonomy is required. Manual tagging could potentially lead to unintentional errors. Provided that information on the tax return, audited financial statement and tax computation are accurate, penalties should not be imposed for inaccurate manual tagging.

#### ***Allow exemptions from filing in iXBRL format for Hong Kong branches***

A Hong Kong branch of an overseas corporation (e.g. US) could prepare financial statements in accordance with US GAAP. If Hong Kong branches would then need to re-do their financial statements under Hong Kong FRS before they could tag them under the IRD Taxonomy, this could lead to additional costs and administrative burden. The IRD should consider exempting Hong Kong branches that do not prepare financial statements under HKFRS from filing financial statements in iXBRL format.

#### ***Simplify the tagging process***

If manual tagging is required, this would involve a significant ongoing cost in terms of training and time. For small accounting practices, this will substantially increase their cost and administration burden, which clients may not be willing to pay for. Therefore, it would be best to automate the tagging process.

#### ***Allow multiple logins***

With appropriate digital identity checks, the IRD should allow multiple logins by different employees under each tax representative's account.

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### ***Sufficient training***

The IRD should provide sufficient training to tax representatives and their employees before the implementation of e-filing of profits tax return. Training should be provided face-to-face or online.

### ***Sufficient ongoing support***

A hotline / helpdesk / technical support services should be provided by the IRD to all tax representatives and their employees.

### ***Expand e-filing to property tax***

To further develop Hong Kong into a Smart City, the IRD should consider expanding the e-filing process to the filing of property tax.

### **Other suggestions to improve the tax filing process**

#### ***Consider introducing a two-tier tax filing deadline***

Under normal practice, tax return preparation is the final stage of the tax filing process. That is, clients will prepare the accounts then pass them to their auditors for the preparation of audited reports. Thereafter, tax returns and tax computations will be prepared by the tax representatives based on the audited reports. At the end of this process, all documents (i.e. audited reports, tax returns and tax computations) are filed with the IRD by the tax representatives to meet the tax filing deadline.

Feedback from our members indicates that it is not uncommon for tax representatives to be provided with the signed audited accounts until very close to, or on, the due date for filing – leaving little or no time for tax representative to meet the filing deadline.

To assist tax representatives manage this workflow pressure, the IRD should consider a two-tier tax filing deadline system. One deadline for filing audited reports, and a later deadline for tax returns and tax computations. This could mean that the deadline for filing tax returns is one to two months after the submission of the audited financial reports by the auditors.

We note that in Australia, there is no requirement to file audited accounts with the Australian Taxation Office.

#### ***Authority to access the filed audited reports***

If the two-tier tax filing deadline is implemented, tax representatives should be allowed to access these filed audited reports. This will help the tax return preparer ensure that the tax returns and tax computations are prepared based on the same information and sources as the audited accounts.

#### ***Allow clients to file tax returns directly to the IRD***

In addition to tax representatives, clients should be allowed to directly file their tax returns to the IRD.

#### ***Ensure filing integrity***

A strict and rigorous procedure should be provided to avoid data / information manipulation or error. For example, by allowing filing direct from approved accounting software to the IRD, instead of just Word or Excel formats.

If you would like to discuss this submission, please contact Mr. Jonathan Ng, Policy Adviser on [jonathan.ng@cpaaustralia.com.au](mailto:jonathan.ng@cpaaustralia.com.au) or +852 2202 2717.

Yours sincerely,

Deborah Leung FCPA (Aust.)  
Executive General Manger, International

Dr Gary Pflugrath CPA (Aust.)  
Executive General Manager, Policy and Advocacy

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## Appendix. Electronic tax return filing systems in other economies

### Australia

In Australia, [Standard Business Reporting](#) (SBR) was introduced in 2010 to simplify business reporting obligations. It's the primary channel for lodgements to the Australian Taxation Office (ATO).

SBR uses XBRL. For tax return filings, data from tax return preparation software is automatically converted into the SBR standard and lodged directly to the ATO from the taxpayer's or tax agent's [SBR-enabled accounting software](#).

It should be noted that tax returns in Australia are not lodged through Word, Excel or PDF format. While taxpayers may choose to generate PDFs of their financial statements from their accounting software for their own purposes, they are not lodged under e-filing.

Tax agents and clients are not required to tag financial data themselves. Rather the tagging is done automatically by the tax return preparation software in accordance with the [SBR AU Taxonomy](#) (to view the SBR Taxonomy data elements with definitions, please click [here](#).)

Further, the ATO's portal allows taxpayers and tax agents to communicate and interact with the ATO's system in real-time.

Most of the technical issues with moving to SBR were handled through collaboration between the ATO and the software companies. While there is no financial support given to tax agents who file tax returns electronically, those who lodge electronically are given filing extensions and the assessment of returns are finalised substantially quicker than other forms of filing.

In relation to lodging audited financial statements, the ATO does not require the filing of audited financial statements to the ATO.

Under Country-by-Country-reporting (CbC), CbC reporting entities must give the ATO general purpose financial statements (GPFS), unless a GPFS has already been provided to ASIC. The ATO does not require such GPFS to be audited, although the ATO recommend taxpayers retain evidence of an audit.

Australia's Corporations Act only requires a small percentage on companies to file audited financial statements with the corporate regulator – ASIC. This obligation is imposed on public companies and large proprietary companies, along with a few other regulated entities.

### Malaysia

All corporate tax returns in Malaysia are currently required to be submitted to the Inland Revenue Board Malaysia (IRBM) electronically via their [e-filing website](#). Hardcopy submissions are no longer accepted.

The current e-filing system is not in XBRL format. The formats for submission accepted by the IRBM are XML file or manual data entry into Form C (Return Form of a Company). The current e-filing of tax returns is also independent of IFRS taxonomy which applies to financial statements.

When Malaysia moved to e-filing, a grace period of one month was granted for tax returns submission via e-filing.

In September 2020, the IRBM informed the public of its intention to implement an online filing platform using XBRL format – the [Malaysian Income Tax Reporting System](#) (MITRS). Access to the MITRS will be via an e-filing digital certificate and the implementation will be done in stages. The first stage commenced from 1 September 2020 for companies under IRBM audit / investigation. These companies are encouraged to submit tax working sheets through MITRS, but it does not appear to be mandatory at this stage.

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According to the IRBM [XBRL Taxonomy Framework Architecture](#) document, the naming conventions for the IRBM XBRL Taxonomy concepts follows, in general, IFRS rules and principles. It is also reflective of the architecture of the Companies Commission of Malaysia's (SSM) XBRL Taxonomy for financial reporting requirements with future possibility of data harmonisation between the two regulators.

Nevertheless, there are departures in the IRBM XBRL Taxonomy from the rules set out in the IFRS XBRL Taxonomy and SSM XBRL Taxonomy architectures. This is due to specific tax compliance information requirements not being addressed by the IFRS taxonomy, such as extensive use of typed dimensions.

According to information provided by the IRBM, there is no transitional period for the implementation of MITRS.

Like Australia, Malaysia has no requirement to submit audited financial statements to the IRBM. However, taxpayers are required to declare whether the tax return is prepared based on audited or unaudited accounts.

Although there is no requirement for audited financial statements to be submitted to the IRBM, the Companies Commission of Malaysia has launched a phased implementation of financial statements (among other documents / returns) in XBRL format through its [Malaysian Business Reporting System portal](#).

### **Singapore**

In Singapore, the corporate income tax return is lodged to the Inland Revenue Authority of Singapore (IRAS) via the IRAS [myTax Portal](#) or through an [external value network](#) (EVN). This is a system that tax agents use to file tax returns to IRAS electronically over secured platforms. As part of the e-filing process, the IRAS has not implemented a taxonomy, instead, the IRAS has provided on its website, [tax computation templates](#) for businesses and tax agents to adopt, if necessary.

Currently, e-filing of the corporate income tax returns is compulsory for all companies. However, when e-filing first started in Singapore, only larger companies were required to file tax returns electronically. The full adoption of e-filing was adopted over three years.

The IRAS granted an additional 15 days for the filing corporate income tax returns if the filing was done electronically. This concession was given for the first three years of the implementation to encourage taxpayers and tax agents to adopt e-filing. The IRAS also came up with [e-learning guides](#) to help companies familiarise with the tax e-filing process.

For smaller companies, the Inland Revenue Authority of Singapore (IRAS) recently launched a simplified corporate income tax return form called [Form C-S Lite](#). Companies filing Form C-S (Lite) are not required to submit their financial statements and tax computations to the IRAS, although it should be prepared as IRAS may request them.

All companies filing a Corporate Income Tax Return Form C-S/ C (not the Lite form) need to prepare their audited / unaudited<sup>1</sup> financial statements and tax computation before completing the corporate income tax return (Form C-S/ C).

All companies need to file financial statements with the Accounting and Corporate Regulatory Authority (ACRA) in PDF format, except for businesses which are sole proprietorship, partnership, limited liability partnership, or limited partnership. Financial statements can be prepared in XBRL format using ACRA's free [BizFin<sup>x</sup> preparation tool](#) or by using 'approved' [accounting software](#).

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<sup>1</sup> For financial years starting on or after 1 Jul 2015, dormant companies and companies that meet the "small company" criteria are not required to audit their financial statements.

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## United Kingdom

In the UK, companies must file their company tax returns, including financial accounts and computations online using iXBRL format to HM Revenue and Customs (HMRC).

When e-filing became mandatory, there was a transitional period in which the businesses could still choose to lodge a paper filing. According to HMRC [guidances](#) on managing the transition to mandatory online filing of company tax returns, HMRC *“will be particularly sympathetic in the first two years to [appeals against penalties for late filing].”*

Taxpayers can engage third-party service providers or auditors to conduct the tagging. For small companies with simple accounts and who do not use accounting software, the HMRC provides a free corporation tax online service. This includes specially formatted accounts and computations templates which ensure data submitted to the HMRC is in iXBRL format. The HMRC also publishes a [list](#) of ‘recognised’ commercial software suppliers.

As part of the company tax return process, it is a requirement to submit the audited financial statements in iXBRL format to HMRC, with the tagging of the financial statements provided to the client for confirmation.

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- Mr. Janssen Chan FCPA (Aust.), 2021 Divisional President – Greater China & Deputy Chairperson of Taxation Committee – Greater China
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- Mr. Danny Kwan CPA (Aust.), Committee Member of Taxation Committee – Greater China
- Ms. Irene Lee CPA (Aust.), Committee Member of Taxation Committee – Greater China
- Ms. Karina Wong CPA (Aust.), Committee Member of Taxation Committee – Greater China