



HONG KONG TAX ALERT

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The Inland Revenue Department's update on e-filing of profits tax returns

Summary



On 17 November 2021, the Inland Revenue Department (“IRD”) provided an update on the latest status of its e-filing project at a webinar organised by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Specifically, the IRD spoke on the progress made to date and what can be expected going forward for e-filing of profits tax returns in Hong Kong.

Given the IRD's proposed timeline for the e-filing project and its ultimate goal of rolling out e-filing of profits tax return to all taxpayers, businesses should evaluate whether it is more beneficial to outsource the e-filing to a service provider or to handle the e-filing in-house and assess whether any accounting system upgrades will be necessary.

On 17 November 2021, the IRD provided an update on the latest status of its e-filing project at a webinar organised by the HKICPA.

During the webinar, the Acting Deputy Commissioner of Inland Revenue (Technical) spoke on the background, objectives, benefits, legislative framework and other basic information about the e-filing project. More importantly, the IRD provided an update on the progress made to date and revealed what can be expected in the way forward, the key points of which are summarised below.

1. Status of the proposed IRD taxonomy package

The IRD conducted a consultation on the proposed IRD Taxonomy Package (“IRD Taxonomy”) from January to March 2021¹. The IRD is now enhancing the IRD Taxonomy based on the comments received during the consultation.

The IRD Taxonomy includes: (1) the full HKFRS taxonomy, (2) the HKFRS taxonomy for private entities and small and medium sized enterprises and (3) the tax computational taxonomy. Taxpayers using non-HKFRS standards in preparing their financial statements may submit their financial statements in PDF or iXBRL format if available.

¹The consultation paper can be accessed on the HKICPA's website: https://www.hkicpa.org.hk/-/media/Document/APD/TF/submission/IRD-Consultation_Taxonomy_Jan-2021.pdf

2. The new Form IR1476

Under the existing legislative framework for e-filing of tax returns, before furnishing a profits tax return, the service provider must obtain a confirmation 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. The confirmation will need to be obtained through a new Form IR1476 to be uploaded by the IRD on its website. Taxpayers will be required to make a declaration, date and physically sign the form.

3. Free iXBRL conversion tools from the IRD

The IRD will provide free iXBRL (i.e. Inline eXtensible Business Reporting Language) preparation tools to assist taxpayers in converting the financial statements and tax computations in Word or Excel files to iXBRL data files.

To encourage "small businesses" (which is currently defined as businesses with gross income not exceeding HK\$2 million and satisfying certain conditions) to voluntarily e-file profits tax returns, only the following items will need to be tagged for small businesses:

- Financial statements - Statement of Comprehensive Income, Statement of Financial Position, related-party transactions, and property, plant and equipment
- Tax computations - profits tax computation and detailed profit and loss account

In addition, the IRD will provide specified iXBRL templates to small businesses for them to input data to the pre-defined templates for generating iXBRL format files.

4. Other supports from the IRD

The IRD will also provide other supports to taxpayers such as one-on-one e-concierge consultation on the use of the preparation tools, IT support service hotline to help businesses to upgrade their own computer programs, online walkthrough demo, user guide and frequently asked questions.

5. Implementation timelines

The proposed implementation timelines of the e-filing project are as follows:

- uploading of the IRD Taxonomy onto the IRD's website in early 2022;
- rollout of the iXBRL Preparation Tools by the end of 2022 or early 2023;
- launch of trail / pilot run in the fourth quarter of 2022;
- voluntary and mandatory e-filing of profits tax returns by April 2023 and 2025 respectively for large multinational enterprises; and
- mandatory e-filing of profits tax returns in general by 2030 tentatively.

6. Other points mentioned by the IRD during the Q&A session

- Submission of electronic copy of the tagged financial statements for tax filing purposes will not dispense with the requirement of preparing and keeping the original signed audited financial statements for Hong Kong incorporated companies.
- Taxpayers must physically sign on the Form IR1476 although submission of a scanned signed copy of the form will be accepted by the IRD.
- For service providers, an organisationale-certificate can be used to sign/submit the profits tax returns online for their clients. The organisationale-certificate is not linked to any individual employees of the service provider.
- Directors of companies with e-filing registration and a taxpayer identification number ("TIN") can e-sign and e-file the profits tax returns of their companies.

7. Consultation on the IRD's proposed information technology ("IT") support

The IRD is currently conducting another round of consultation on the e-filing project². Views are being sought on the following proposed IT support from the IRD: (1) upgrading or developing computer programs for converting financial statements and tax computations into iXBRL format, (2) provision of free conversion tools by the IRD, (3) simplified tagging requirements, (4) provision of E-Concierge to businesses and (5) invitation to trial / pilot run for all businesses and interested parties. The consultation period will end on 31 January 2022.

KPMG observations

It is encouraging to see that the IRD is taking a pragmatic approach and engaging the stakeholders for consultation during the process of implementing the e-filing of profits tax returns. Given the IRD's ultimate goal of implementing e-filing for all profits taxpayers in general, businesses should plan ahead and evaluate whether it is more beneficial for them to do the e-filing in-house or outsource it to a service provider based on their specific circumstances. If they would like to handle the e-filing themselves, they should assess what accounting system changes/upgrade will be required and how to leverage the IRD's free conversion tools.

²The consultation paper issued on 4 November 2021 can be accessed on the HKICPA's website: https://www.hkicpa.org.hk/-/media/Document/MC/APD/EWEB21111701_ConsultationPaper.pdf

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