iXBRL Filing - Are you ready?

What does this mean for your business?

In July 2012 Revenue announced that from 23 November 2012 all companies would have the option to file iXBRL financial statements with Revenue and that the submission of iXBRL financial statements would be mandatory for all companies dealt with by the Large Cases Division ("LCD") of Revenue in respect of tax returns filed on or after 1 October 2013, relating to accounting periods ending on or after 31 December 2012.

In June 2013 Revenue announced that the submission of iXBRL financial statements will be mandatory for non-LCD companies in respect of tax returns filed on or after 1 October 2014, relating to accounting periods ending on or after 31 December 2013. This mandation date will not apply to entities who meet all three of the iXBRL exemption criteria (balance sheet value not exceeding €4.4m and turnover not exceeding €8.8m and average employee numbers not exceeding 50). These 'exempt' companies will be mandated in 2015 at a date still to be decided by Revenue.

Currently financial statements may be uploaded before, simultaneously with or after the corporation tax return. However, Revenue expects that the financial statements would be filed within 21 days of the filing of the corporation tax return or after the due date for the return, whichever is later.

What is XBRL (eXtensible Business Reporting Language and iXBRL (Inline eXtensible Business Reporting Language)?

XBRL is a computer-readable language for reporting financial information. It is similar to bar-coding financial information within a set of financial statements so that it becomes computer-readable. "Tags" are assigned to each piece of information within the financial statements and this assignment allows the information to be read by the Revenue's computer system.

iXBRL combines "human-readable" information and computer readable data with the output being a document (i.e. financial statements) that looks like a Word or Excel document but which has electronic tags embedded within it. This allows smarter data handling by the Revenue and should lead to the Revenue focussing their attention on identified risk areas.

Tax computations

Unlike the practice in the UK, the Irish Revenue has decided that there will be no obligation to file iXBRL tax computations for the foreseeable future. In time, it is likely that tagging tax computations will be mandatory but any plans for this have been placed on hold for now.

Revenue has stated that for companies subject to mandatory iXBRL, filing tagged financial statements will now form part of the tax return.

Revenue has also confirmed that the submission of the iXBRL accounts and the submission of the tax return can be done separately and at different times. In the UK, significant problems arose due to the requirement that the iXBRL computation, return and accounts all had to be filed electronically at the same time. Tagging errors in the accounts resulted in whole tax returns being rejected. This has been avoided on the Irish adoption of iXBRL so tagging errors in financial statements will not prevent tax returns from being successfully lodged with the Revenue.

Penalties for non compliance

Similar to the rollout of the electronic filing of tax returns through Revenue On-line Service (ROS), the Revenue is planning on taking a soft landing approach to this project. Revenue recognises that the move to iXBRL will be a significant change for some tax payers and has stated that it will not impose late filing surcharges or other penalties in respect of errors in the creation or filing of iXBRL tagged financial statements for a period of 2 years following mandation where a taxpayer has made **reasonable efforts to comply** with their obligations.

However, it is likely that this soft landing approach may only last for a short time after roll out.

Tagging and taxonomies

iXBRL tags are interpreted by reference to "taxonomies". A taxonomy is, in essence, a dictionary, linking each tag with the concept it identifies. Taxonomies are open-source documents published on the Internet. They represent electronic charts of accounts and are designed to mirror the standard form and layout of a typical set of statutory accounts. There are taxonomies for most accounting standards worldwide including the various GAAP and IFRS standards. Each taxonomy includes several thousand "tags" which in turn mirror a specific accountancy concept found in the statutory accounts. The process of tagging requires a user to match a tag to the appropriate item on the face of the statutory accounts (for example the debtors tag would be attached to the debtors value on the face of the accounts).

Revenue has stated that they will accept accounts prepared in accordance with the GAAP and IFRS published taxonomies supplemented by "Irish extensions".

The taxonomy list and versions accepted by Revenue may change over time e.g. year on year as concepts are added/modified. In general Revenue will support and accept versions of taxonomies which have been superseded for a period of 18 months from the date the newer version of the taxonomy has been accepted.

Revenue has mandated the "full tagging" of financial statements including the Directors Report, Auditors Report, Profit & Loss account, Balance Sheet, Notes to the accounts, Cash Flow statements and Statement of Total Recognised Gains & Losses (this list is not exhaustive). Notes on Pensions and Financial Instruments do not have to be tagged.

With the exception of the aforementioned exclusions, all data items presented must be tagged including comparative period figures. If a data item appears more than once then it must be tagged each time. In circumstances where a financial report data item or concept does not have a matching (GAAP or IFRS) taxonomy tag, the data concerned should simply be left as plain text.

In contrast to Revenue's full tagging approach, it should be noted that UK Corporation Tax filers are only required to 'tag' a number of specific data items on the Financial Statements (as outlined on the HMRC Minimum Tag List).

Tagging accounts – options

There are broadly two options available to a company in terms of the approach to tagging financial statements.

- **Conversion tools**
  When a set of financial statements is prepared, each item can be "tagged" with an appropriate tag from the taxonomy – this involves a tag being "dragged and dropped" onto each individual item in the financial statements.

  The software then embeds XBRL into the entity financial statements (Excel and/or Word documents) and converts the output to the required iXBRL format.

Converting Microsoft Word or Excel financial statements probably offers the most commercially viable solution with the least disruption.

- **Accounts preparation software**
  However, some organisations may see the transition to iXBRL as an opportunity to make the accounts preparation process more efficient by replacing the current approach with a fully automated end-to-end accounts preparation solution. Accounts preparation software can be purchased and will produce the financial statements with iXBRL tags automatically built in.

  A downside to this approach is that it can be expensive and has internal resource requirement implications.

Automatic tagging?

Certain iXBRL vendors have stated that they can automatically tag a set of statutory accounts with their solutions. The idea behind this is that their solution can automatically locate accounting concepts on the face of the accounts and then automatically apply the correct tag to said item. This functionality should be treated with a great deal of scepticism based upon the feedback of clients who used these automatic tagging solutions.

These tools effectively use an advanced word search to locate the correct tag. As such the word "Turnover" will be searched for by the tool and then if the tool locates it, it will attach a tag to the number values adjacent to the located word. The limitations in this approach are obvious and numerous:

- Any items on the accounts (such as current assets) which may have no text identifying them, but are still mandatory tags, may well be missed
- Any items with non-standard naming conventions may be missed by the limited search parameters capable within a tool. This means that if an accounting concept on the face of the accounts has a different naming convention to the taxonomy, then it will likely be missed by the search
- This automatic tagging approach does not deal adequately with any form of alteration required to a tag. As such any changes to a tag's hyper-cubes, scale, currency, context or negation selections must be manually performed and checked for correctness
- Any automatic tag choices must also be reviewed for correctness as often users would find that significant numbers were found to be incorrectly automatically applied. As such very little assurance can be placed on the process and any reduction in time spent initially applying tags, is more than compensated for by the amount of time spent reviewing the automatic tagging

In short, automatic tagging – whilst a great idea in theory – is restricted by the fact that it takes an actual accountant and an expert technical understanding of iXBRL to ensure a satisfactory level of compliance.

Dormant company exemption

Companies that are inactive may approach their tax district to seek permission not to file returns for the relevant periods of dormancy. In such circumstances, Revenue are willing to exempt a company from the obligation to file financial statements in iXBRL format. Revenue classify a company as inactive, and hence exempt from their filing obligation, where there is no activity in the accounting period and define no activity in an accounting period as being where there is:

- No income or expenses on the Profit and Loss account (annual CRO and audit fees can be ignored); and
- A balance sheet movement of less than EUR500 (except in the first year after the company becomes inactive where an inactive company is paying off their trade creditors, and have not been previously obliged to file accounts in iXBRL format).

Revenue note that a company that does not meet the above conditions may still request an exemption from filing their accounts from their tax district if they consider their circumstances warrant such an exemption.

Group accounts

Revenue requires individual sets of accounts to be submitted in iXBRL format in respect of each company within a group. However, holding companies may submit consolidated accounts to Revenue, provided the following are included:

- A holding Company only balance sheet and the related holding company only balance sheet disclosure notes; and
- A separate Profit and Loss account for the holding company containing, at a minimum, such level of information as would allow the chargeable profits of the entity to be assessed.

This individual holding company Profit and Loss account should be tagged and appended to the consolidated accounts such that one document in iXBRL format can be submitted. In addition, Revenue expects the holding company only balance sheet to be tagged. The Notes to the Accounts, Directors Report and Auditors Report should include such tagged disclosures which are relevant to the holding company only.

New GAAP

In March 2013, the Financial Reporting Council finalised the third in a suite of new standards (FRS 100, 101 and 102), which will be effective from 1 January 2015, setting out the accounting and reporting requirements that the majority of unlisted companies who currently use Irish/UK GAAP, will be using into the future. The new accounting standards require or permit companies to prepare their accounts using different conventions, involving a reduced disclosure framework, compared to those currently applying under Irish/UK GAAP or IFRS. Each will, in time, require the preparation of a new XBRL taxonomy to fully match the new standard. Organisations that tag their 2013 or 2014 Irish GAAP accounts will need to repeat the initial tagging set up process when they come to tag their accounts as prepared in accordance with the new standards.

Auditor considerations

As noted in the Auditing Practice Board (APB) Bulletin 2010/1, ISAs (UK and Ireland) do not impose a general requirement on the auditor to check XBRL tagging of the financial statements as part of the audit.

As XBRL tagging is simply a machine-readable rendering of the data within the financial statements, rather than a discrete document, it does not constitute 'other information' as defined in ISA (UK and Ireland) 720 Section A. Accordingly, the requirement of ISA (UK and Ireland) 720 Section A for the auditor to 'read' the other information for the purpose of identifying material inconsistencies or material misstatements of fact is not applicable to XBRL tags.

The APB Bulletin 2010/1 notes that, subject to compliance with the ASB's Ethical Standard (ES) 5 (and specifically the management and self review threats) and any applicable SEC restrictions, auditors can provide various non-audit XBRL-related services to audit clients. Such services include:

- Performing the tagging exercise;
- Providing a service to the directors of the company as to accuracy of the tagging performed by management;
- Providing advice on the selection of tags;
- Supplying accounts preparation software that automates the tagging; and
- Training management in XBRL tagging.

The implications for business

Although the decisions businesses face around preparing for the online filing of iXBRL financial statements may not require knowledge of XBRL, the implications of the new requirements may be far reaching. They can have an effect on:

- organisational structure,
- the timing of the audit,
- the statutory accounts production process,
- software and IT policy,
- tax compliance

There may be other areas of potential impact also. Accordingly, appropriate planning will need to be carried out in order to ensure that companies are in a position to submit iXBRL data when they need to.

KPMG can help your business manage the introduction of iXBRL in an efficient and cost-effective manner.

KPMG's dedicated iXBRL team of experts have developed a suite of iXBRL solutions and services to help businesses adapt to the changes in an easy and cost effective manner.

While many suppliers of accounts production software have products available which are XBRL and iXBRL compliant, most companies use Microsoft Word and/or Excel to produce their entity financial statements and will probably adopt the conversion approach mentioned above.

Over the past 4 years, KPMG's iXBRL Accounts Conversion team, with a local unit based in Belfast, has already tagged and converted thousands of UK company financial statements using its XBRL Mapping Engine (XME) software for submission to HMRC.

With Revenue's requirement to submit iXBRL financial statements, we have also tagged and converted thousands of financial statements for Irish (LCD) companies over the last year.

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How KPMG can help

KPMG has developed a cost-effective and efficient solution to help your business manage the potentially significant implications of the introduction of iXBRL.

To find out more about how we can help, contact one of our team above.

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