

**Business Facilitation Advisory Committee
Task Force on Business Liaison Groups**

Electronic Filing of Profits Tax Returns

Purpose

This paper briefs members on the electronic filing (e-filing) initiative which is being actively taken forward by the Inland Revenue Department (IRD).

Need for Implementing e-Filing of Profits Tax Returns

2. To keep pace with the global trend of digital transformation of tax administration, align with the Government's Smart City initiatives and take forward the Organisation for Economic Co-operation and Development's (OECD) standard recommendation to Hong Kong regarding the exchange of information on request (EoI)¹, the Inland Revenue (Amendment) (Miscellaneous Provisions) Ordinance 2021 was enacted on 11 June 2021 to, among others, enhance the statutory framework for e-filing of profits tax returns. When the relevant amendment bill was deliberated by the Legislative Council (LegCo), the Government indicated that it would first allow businesses to voluntarily e-file profits tax returns including financial statements in 2023, and then to implement mandatory e-filing of the returns by phases. Large businesses with turnover above a certain threshold would likely be the first batch of taxpayers to be required to e-file their profits tax returns in the first phase of mandatory e-filing.

3. In April 2023, the IRD launched the voluntary e-filing of profits tax returns where taxpayers can e-file the returns together with financial statements

¹ As a member of the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes, Hong Kong is committed to implementing the international standards of EoI in different modes to enhance tax transparency and prevent tax evasion. In the peer reviews on Hong Kong with respect to EoI on request, the OECD recommended that Hong Kong should take measures to ensure that accounting records of all relevant businesses are available. To implement this recommendation would call for the issue of profits tax returns to all entities carrying on business in Hong Kong and processing of voluminous accounting and financial data which necessitate adoption of mandatory e-filing of profits tax returns and financial statements for businesses.

and tax computations in inline eXtensible Business Reporting Language (iXBRL) format on a voluntary basis. Our plan is to implement mandatory e-filing of profits tax returns by phases, starting with large multinational enterprises (MNE) first and then progressing to small and medium-sized entities, with a view to achieving full-scale implementation of mandatory e-filing by 2030.

Benefits of e-Filing

4. The enhanced e-filing services, alongside the voluntary e-filing of profits tax returns, were launched in April 2023. They provide better user experience and enhance the efficiency, reliability and accuracy of the collection of accounting and financial data from corporations and businesses, thereby bringing about the benefits to taxpayers and tax practitioners, such as, minimizing possible manual errors in tax filing, achieving efficient filing of documents regardless of geographical location, and reducing the turnaround time for signature or authorization arrangement, especially for taxpayers with approval process carried outside Hong Kong.

IRD's Support to Taxpayers

5. To enable taxpayers to familiarise themselves with the new iXBRL filing requirements, we have been putting in place various support measures for taxpayers and their tax representatives in the transition to the iXBRL filing requirements. The support measures include:

(a) Provision of Free Conversion Tools

The IRD provides conversion tools, namely the IRD iXBRL Data Preparation Tools (the Tools), which can be downloaded from the IRD's website free of charge. The Tools, comprising the Tagging Tool and the Template Tool, are user-friendly interfaces for users to generate the required iXBRL files which conform to the XBRL specifications and the IRD Taxonomy schema. The Tagging Tool, equipped with an auto-tagging feature, performs an automatic detection of figures and labels from financial statements and tax computations and matches them with the elements in the IRD Taxonomy Package based on certain built-in rules. The

Template Tool, which is simple and easy to use, is specifically designed for small businesses (with gross income not exceeding \$5,000,000) to input figures and text in pre-defined templates for generating iXBRL data files without the necessity of manually tagging the data with appropriate tags.

(b) Provision of Online Materials

Detailed guidance, training videos on the use of the Tools, online demonstration of the e-filing process and frequently asked questions on common issues have been uploaded onto the IRD's website for public users' reference.

(c) Helpdesk

To provide better customer service, the IRD has offered one-on-one direct assistance to taxpayers via an online booking system, namely e-Appointment. Taxpayers can access e-Appointment which is hosted on the IRD's website (<http://bkapp.ird.gov.hk/ixbrl/>) to book in advance a specific timeslot for making general enquiries in relation to the use of the Tools via phone call. In addition, taxpayers may send their enquiries regarding the iXBRL filing requirements to the dedicated email account (ixbrl_reporting@ird.gov.hk).

(d) Outreaching Team

We provide online webinars and outreaching training sessions in hybrid mode for different professional bodies, companies or businesses.

(e) Ongoing consultative stakeholder engagement sessions

Rounds of consultation and briefings have been conducted to solicit stakeholders' feedback on the proposals for taking forward the project on the e-filing of profits tax returns. We also attended a number of consultation sessions, webinars and meetings with more than 7,000 participants from various professional bodies,

information technology and professional accounting firms. We have organized and participated in focus discussion groups and engagement meetings during the current stage of voluntary e-filing and will take into account stakeholders' views, where appropriate, for strengthening the provision of e-services to the public.

Implementation Timeline

First phase of mandatory e-filing

6. With all the above efforts in place, it is now considered appropriate to take forward the implementation of the first phase of mandatory e-filing of profits tax returns. Currently, in-scope MNE groups (i.e. MNE groups whose annual consolidated group revenue reaches at least EUR 750 million) are required to e-file their Country-by-Country reports. Under our current proposal, in-scope MNE groups will be subject to the Global Anti-Base Erosion rules and Hong Kong minimum top-up tax, and need to file their top-up tax returns electronically, for an accounting period beginning on or after 1 January 2025 (i.e. year of assessment 2025/26).

7. Having balanced the need to take forward the mandatory e-filing of profits tax returns and that to allow more time for small and medium-sized entities to get prepared for the new e-filing mechanism, we propose to mandate in-scope MNE groups to e-file their profits tax returns with effect from the year of assessment 2025/26. These MNE groups should have more resources to adapt to e-filing of profits tax returns and should by then be familiar with e-filing of tax-related documents. Riding on the public consultation regarding the implementation of the minimum top-up tax initiatives during the period from 21 December 2023 to 20 March 2024, we have consulted the stakeholders about our plan to take forward the first phase of mandatory e-filing of profits tax returns. A total of 26 submissions were received. The respondents generally supported the proposed application of mandatory e-filing of profits tax returns to in-scope MNE groups from the year of assessment 2025/26.

8. We have taken into account views received during the consultation referred to in paragraph 7 above and are formulating legislative amendments to give effect to our plan to mandate in-scope MNE groups to e-file their profits

tax returns through a designated computer system with effect from the year of assessment 2025/26. The legislative proposal will be introduced into the LegCo by the end of 2024.

Second phase of mandatory e-filing

9. After the implementation of first phase of mandatory e-filing in 2026 (subject to the enactment of relevant legislation), we will consider the actual situation and feasibility, including whether taxpayers and tax practitioners have sufficient time to get familiar with the new e-filing mechanism. The second phase of mandatory e-filing will be implemented, at appropriate time, to require small and medium-sized entities (e.g. with turnover above a certain threshold) to e-file their profits tax returns. In mapping out the scope of taxpayers for the second phase of mandatory e-filing and the implementation timeline, we will consult with the stakeholders. Meanwhile, we will continue reviewing the existing voluntary e-filing services and listening to stakeholders' feedback. In any event, our ultimate goal is to achieve full-scale implementation of mandatory e-filing by 2030.

Advice Sought

10. Members are invited to note the content of this paper. Any feedback from the Members is welcome.

Inland Revenue Department
August 2024