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iXBRL is almost here!
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Companies and other entities submitting corporation tax returns have very little time left before mandatory electronic filing commences.

From 1 April 2011 all corporation tax returns must be filed online using iXBRL for accounting periods ending after 31 March 2010.

Those firms wishing to “buy more time” to adopt iXBRL – particularly those with a heavy January workload with income tax self assessment filing – will need to file accounts early – that is before 1 April 2011 – in order to buy a little more time to adopt compliant procedures and software. For example, a company with an accounting period year ended 30 September 2010 can still file in the old fashioned way (on paper or electronically with accounts attached as a PDF).

What next?

The requirement to file using iXBRL comprises three elements :

- The corporation tax return itself must be filed in XML format
- The computations supporting the return (the adjustment of profits, capital allowance computations and similar) must be filed in iXBRL format, and
- The accounts or financial statements on which the return is based must also be filed in iXBRL format.

iXBRL format provides the data to HMRC (or Companies House) together with “tags” identifying the nature of the data. HMRC are working to a standard list of tags based on UK Generally Accepted Accounting Practice (GAAP), some of which are mandatory items, and some of which are optional tags.

Producing accounts in either Excel or Word – as many accountants and indeed companies do – does not easily lend itself to iXBRL and tagging. The documents need to be manually tagged so that each data item has an appropriate tag attached to it. When the data (and tags) are submitted to HMRC they can then be processed and viewed in the same format as that used by the preparer of the document – but the provision of the underlying data allows HMRC to perform much more sophisticated checks on the figures provided, by using computerised analytical tools. Compliance in corporation tax will change for ever once iXBRL becomes mandatory!

How to tag, what to tag?

Manual tagging solutions currently available in the market place allow users to add tags to documents which have been prepared in Word and Excel, so that these can be used alongside iXBRL compliant tax software. However, this is a very labour intensive job; some outsourcing arrangements are even sending accounts to India for manual tagging – this clearly conveys how labour intensive this is.

Added to this the user will need to learn how to attach the tags to data, and in many cases what is the minimum tagging that is acceptable. Not every single item of information in the accounts and computations must be tagged, so those that are required comprise the “minimum tagging list”. The issue of minimum tagging is a difficult one. At present HMRC is working off quite a short minimum tagging list, but this will be expanded once iXBRL has bedded in; this will inevitably lead to a longer learning period, while users adjust to increasing required tagging levels over the next few years. So the “learning curve” will go on and on for those who adopt manual tagging solutions.

Some firms may decide to go down this route until they can decide which software they will use in the future. This option is almost the worst of all possible worlds, as it involves learning how to use the tagging solution, only for that knowledge to become redundant when new software is selected for a more permanent solution.

Intelligent tagging tools

There are “smart” or “intelligent” tagging solutions and tools emerging now which will speed up the tagging operation by suggesting the tags and making recommendations as to how items should be tagged. Similar to voice recognition software, these tools will “learn” what tags are applied to items of data and make recommendations based on this.

This will improve productivity over a manual tagging solution, while allowing the firm to retain current software solutions for accounts production.

Alternative approaches

One “half way house” to a full integrated solution is to use HMRC’s free software offering to complete and file corporation tax returns and accounts and computations. The data is entered into a “smart” PDF which already includes the tags, so the data is entered against the tags rather than vice versa.

However, many currently using this alternative find it slow and rather clumsy; and of course it is almost less productive still than manual tagging, as it requires the re-inputting of the required data into the HMRC software; firms are unlikely to adopt the output as formal accounts to present to a client, so in effect the accounts are prepared twice – once in Word or Excel, and then re-typed into the HMRC filing facility. Add to this that the software has limitations much like the free software for income tax filing with certain types of income etc excluded, then this hardly looks like a comprehensive solution.

Using iXBRL ready accounts software

The only way to replicate current workloads and therefore profitability under the current regime, once mandation of iXBRL commences is to use accounts preparation software which includes iXBRL functionality.

When client accounts are prepared using software with pre allocated tags, once the figures are finalised they are also ready tagged so that iXBRL filing is essentially as simple as printing the accounts. The software will enable preparation of final accounts to comply with relevant legislation (such as Companies Act requirements) but there is no requirement to add tags or decide which information must be tagged – this part is all embedded in the software. As the software is geared towards final accounts production, the printed output is suitable to use for submitting to the client, and almost as a by-product, the iXBRL tagged file will also be generated.

Ideally, the software will permit the user to add manual tags too – to provide maximum flexibility when client companies have unusual disclosure items.

For the smaller practice, the case for separate free standing iXBRL accounts software is almost overwhelming. While those who wish to may invest in fully integrated accounts/corporation tax packages, this may leave the preparation of partnership (including LLP) and sole trader accounts to be done using other software targeted at entities filing income tax returns, for which no iXBRL is necessary. Free standing accounts software will frequently be compatible with your existing corporation tax software – and you may be reluctant to change both accounts and CT filing processes this spring. Purchasing accounts production software which can be used with any CT filing package gives the best of all worlds, and minimises the cost of keeping the practice compliant.

Where a solution is sought for iXBRL filing only, the practice should ensure that their chosen solution meets an appropriate price structure when it is to be used for a small number of clients. Using packages which are “pay per use” or provide usage price points can be the most cost effective solution for a practice with only a small number of limited company clients.

The “bolt together” solution

Where accounts preparation software can be integrated through a communication module to both CT filing and IT filing modules, the practice has a powerful solution. Staff use a single accounts production package for all clients, which provides output to printed accounts, iXBRL files, and basic data for the tax returns – be they Income Tax self assessment or partnership returns, or Corporation Tax returns and computations in iXBRL format.

The data is provided to the tax module directly, so that there is no re-keying, reducing the risk of errors. Adding further computational items to provide a full capital allowances and computation, the user has no additional work over and above the current workload, but maximum flexibility. Using the same module for all accounts production will ensure that staff can be moved between small company accounts work and sole trader partnership work with no additional software learning required.

Summary

For the smaller practice the transition to iXBRL filing is now urgent. Those making the choice of software solutions may consider that there is no other option open to them than to use an interim solution of manual tagging with their own current systems while they assess the next step. While this may appear to be a cost effective solution, the hidden costs in terms of staff time learning how to tag and what to tag – and in potentially numerous rejected CT filing attempts – makes a more permanent solution in the form of iXBRL ready accounts software an attractive proposition.