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WHAT DOES HMRC DO WITH YOUR iXBRL FINAL ACCOUNTS?

Insights & risk analysis for Corporation Tax submissions

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INTRODUCTION

WHAT WAS THE POINT OF ELECTRONIC FILING AND THE MIGRATION TO iXBRL?

In April 2011, the UK's small, medium and large businesses were required to file their Corporation Tax returns online with HMRC. This mandatory requirement included the stipulation that the accounts and tax computations that accompanied the electronic CT600 submission should be formatted with iXBRL (inline eXtensible Business Reporting Language).

The benefits for HMRC of online filing are that it is quick, secure and certain. What you send is what they see and better quality data means the tax department can be more effective in how the information is used. That should mean better service to tax payers and their agents, and less time devoted to mundane aspect queries.

Collecting a large volume of electronic data from tax returns also gives HMRC the ability to carry out risk assessments to focus their enquiries on higher risk taxpayers. It may be somewhat difficult for stressed practitioners to see it at first, but iXBRL also provides a platform for them to deliver a more consistent - and lower risk - tax filing service to small business clients.

Two years on from the introduction of iXBRL, we're still in a transitional, "soft landing" phase. But there are signs that HMRC is slowly ratcheting up its compliance activity around this pool of electronic accounts data.

This Data Tracks whitepaper explains what is happening behind the scenes and looks at some of the wider implications of interactive data filing. If you have a fuller understanding of the underlying system, you will be better able to ensure your clients are compliant. You may also be better positioned to use iXBRL to reduce the risk of tax investigations and record checks into your clients.

WHAT IS iXBRL?

Based on internationally recognised XML business reporting language standard, XBRL, iXBRL was chosen by HMRC as the vehicle for online corporation tax filing because the format could be read by both computers and humans. The lower case i before the XBRL indicates that it's an "inline" variation of XBRL, so the data tags defining each item in the accounts is also contained within a page that can be viewed within a web browser. This means that the layout and look of the accounts you see on your screen will appear the same when viewed by a third party such as HMRC.

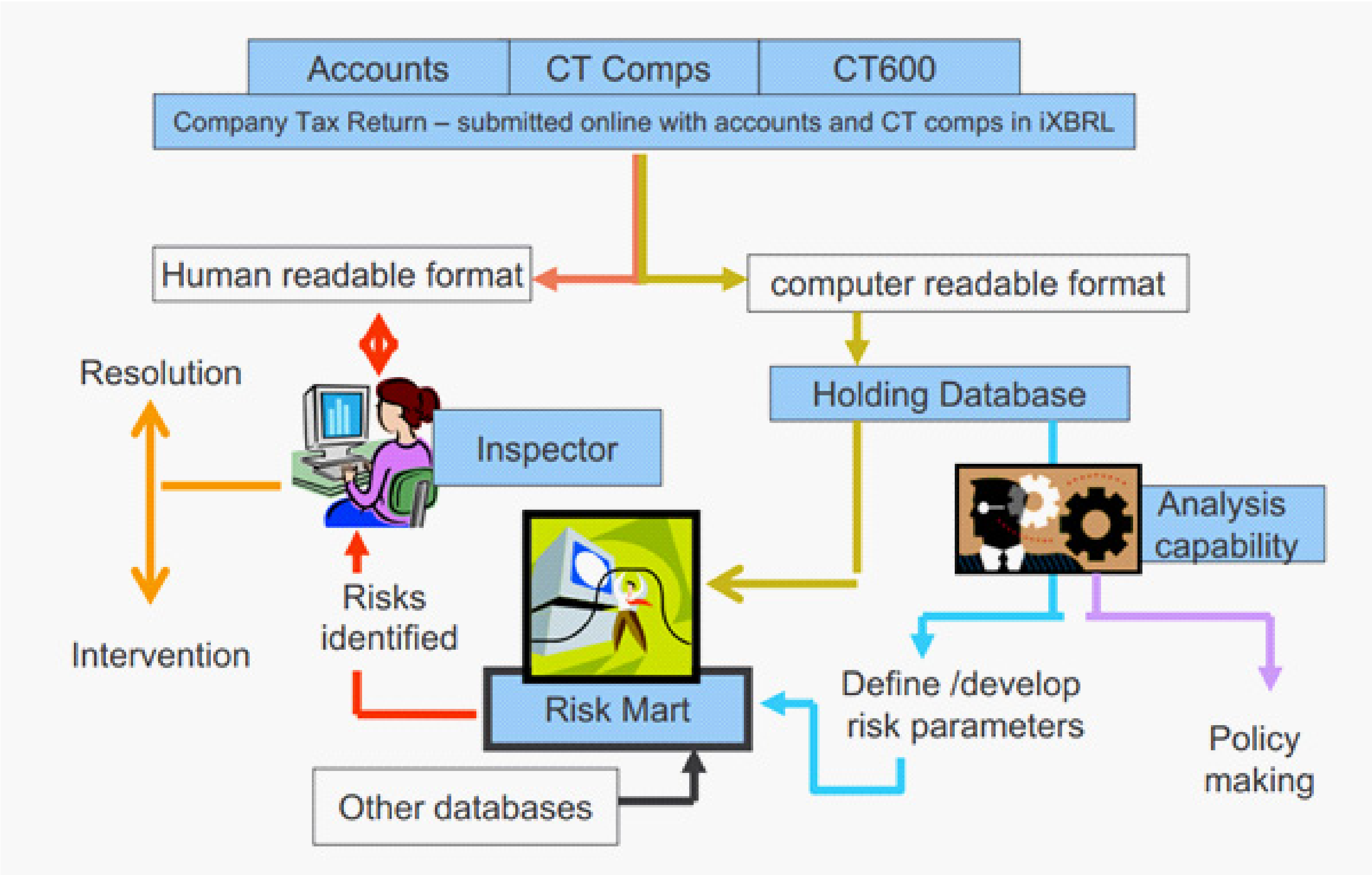
Within iXBRL, accounts data is mapped to a set of XBRL codes held in a data library known as a "taxonomy". A taxonomy is like a cross between a chart of accounts and an Excel look-up table that maps where each item of information sits within the accounts hierarchy. But it's a lot longer, as the taxonomy will also include data definitions for notes and disclosures and other related information that doesn't appear on the face of the accounts.

These standard documents - which can run to thousands of lines of tags - are agreed by industry committees and special interest groups. For CT accounts HMRC has its own taxonomies: one for UK-GAAP; one for companies filing under IFRS (UK-IFRS); plus its own definitions for fields that appear in Corporation Tax computations (UK-CT).

Companies House also accepts filings tagged to the UK-GAAP taxonomy, but also has a taxonomy of its own in the shape of UK-GAAP-AE (Audit Exempt), which is a subset of UK GAAP taxonomy. Pay attention to these, as using the correct taxonomy for the accounts you submit is an important factor in successful filing.

For example, HMRC has devised a minimum tagging specification (MTS) of around 1,500-1,700 iXBRL tags. If a company is filing a set of iXBRL-tagged accounts, it does not have to include all of these, but any tags that do appear in the accounts should match those in the MTS.

WHAT IS SUPPOSED TO HAPPEN - BETTER DATA AND SMARTER WORKING AT HMRC



The iXBRL process begins with the submission of accounts to HMRC. Small firms below the audit and small company accounts thresholds can use an automated joint filing system on HMRC's website that will direct the accounts file to HMRC along with the CT600 and the accompanying computations. A copy of the final accounts will also be directed to Companies House.

The HMRC illustration above shows what happens when the CT600 data pack reaches HMRC. First the package has to pass through the government web gateway, where it is put through 16 very basic validation checks, such as whether the UTR is valid and correctly formatted and that the company name matches that held

Because each of the tax return data items fits into the iXBRL structure, HMRC can also carry out logical tests to check conditions such as:

• “Does period start date occur before period end date?”

• “If profit and loss values are present, do they add up correctly?”

• “Does opening balance plus movement equal closing balance?”

After passing through these validation checks the information goes to the department’s “risk mart” data warehouse, where the figures and ratios will be compared to a set of parameters designed to filter out the returns with the highest risk of tax loss.

This is the digital equivalent of the “business focus” approach that the department has used for many, many years, where the tax return information is used to profile the typical performance of businesses in specific areas. These analyses help the department to focus its enforcement and collection campaigns on areas of highest tax loss.

WHAT IS ACTUALLY HAPPENING?

To make life easier for companies HMRC initially adopted a “soft landing” approach when mandatory CT filing was introduced in 2011.

This light touch meant that unless tax was at risk, tagging deficiencies would be viewed as an education issue rather than grounds for penalties or investigation. As long as the accounts had correct iXBRL tags for around 16 very basic iXBRL Common Validation Checks, CT returns would not be rejected.

In official guidance, HMRC said it would not reject returns where a reasonable attempt was made to tag the accounts, nor would it open Corporation Tax enquiries just to check the quality of XBRL tagging.

Following discussions with tax bodies, HMRC delayed its plans to enforce the minimum tagging specification until April 2014, so submissions are still being accepted where they pass the basic 16 validation checks. Companies House has also pulled back from mandatory iXBRL filing.

But the “soft landing” is likely to come to an end. In September 2013, HMRC introduced a new taxonomy covering detailed profit & loss account submissions. This has been on the cards since 2011 and will ultimately allow HMRC to do a more thorough computerised analysis on the different income and expense categories, whether they appear in the final accounts submission or the CT computations.

The updated P&L taxonomy will need to be applied to any P&L statement covering periods ending on or after 1 April 2014 - but companies can opt to adopt the tags before then.

Companies House, meanwhile, will not be adopting the new detailed iXBRL tags. However Companies House does not require detailed P&L information, unless the accounts are coming from a listed or public interest entity (which are required to file accounts under full IFRS-UK. For most smaller companies there is no requirement to put that information in the public domain, but some commentators have questioned whether the differences may affect the functioning of the joint HMRC-Companies House filing mechanism for small companies.

Official progress on iXBRL filing remains slow, and has fallen down HMRC’s list of priorities as it concentrates on boosting its collections and answering politicians’ questions about the size of the tax gap. Some observers also suggest HMRC does not have the resources or in-house skills to carry out such intensive data analysis and risk reviews. But CT filing rejections and risk-driven enquiries are likely to increase as time goes by and HMRC staff gain more experience with iXBRL tagging.

HOW YOUR FIRM CAN TAKE ADVANTAGE OF iXBRL

Even if HMRC is taking longer than expected to adapt to the efiling regime, that doesn’t mean you can’t start doing so.

The accountancy profession may have initially struggled to keep up with HMRC’s insistence on mandatory electronic filing, but being able to automate your accounts checks and risk assessments can reduce the potential for regulatory interventions and tax investigations.

iXBRL was originally designed to help financial analysts compare company results. The same possibilities exist for accountants, who can use it as an analytical tool to benchmark their clients or carry out risk analyses of the returns they plan to submit.

To find out what's possible, try using an iXBRL viewer (search online - there are several free ones available) to compare sets of iXBRL accounts - either from the US Securities and Exchange Commission website (www.sec.gov), where "interactive data" filing has been going on for more than five years - or based on your own clients' final accounts.

With a bit of compilation work, you could be using similar tools to assess and manage your own client base and to mitigate high risk areas. There is plenty of information out there to help guide you. For example, pay close attention to HMRC statements on toolkits, task forces and areas of interest and monitor conversations at Working Together meetings and minutes, tax body news and the AccountingWEB Any Answers page.

You can also use data from your own experiences of tax investigations to set risk criteria, or get an investigations specialist to help devise some analytical tests for you. Here are a few possibilities:

• If a company is filing small company accounts, is its turnover below £6.5m or balance sheet assets total below £3.26m?

• Is the company using the correct GAAP and iXBRL taxonomies for its size and status? For example, a quick check could confirm which companies are below the thresholds for filing small company accounts and requiring an audit (£6.5m turnover or £3.26m balance sheet assets).

• Are companies within 10% of the VAT threshold registered for VAT?

• Or can you identify a potential risk of being caught by IR35, for example by setting a nominal threshold if dividends paid exceed 60% of profit

Experts are predicting that scrutiny will tighten on iXBRL submissions and that missing tags may trigger alarms at HMRC. While inaccuracies may increase the likelihood of investigations, the tax department also indicated that the presence of accurate iXBRL tags conforming to the full, relevant taxonomy will have a positive effect: the more information you supply in iXBRL format, the better from a risk point of view.

Electronic accounts data can also underpin new processes within your firm and make you more efficient. XBRL tags allow users to collect and evaluate financial reporting information much more quickly and comprehensively by feeding it into browser-based viewers and analytical models.

Companies House, for example, has an online mechanism that lets filers type their figures into a PDF form, and press a button to submit the data in an iXBRL-compliant format. With a bit of work, you could do the same to collect accounts data from clients. Or you could take an overview of the pool of accounts data you have compiled on client firms in specific industries to spot underlying trends, or to feedback those insights in new ways - for example by letting them compare their figures to an industry benchmark in an XBRL viewer.

iXBRL DOS & DON'TS - 2013 UPDATE

DO

1. Ensure that you have entered and tagged all the Common Validations Check data items correctly.
2. Enter UTRs and company registration numbers in the right formats (no spaces or preceding zeros).
3. Include all the required elements, including directors' report, directors' names, and balance sheet date.
4. Ensure the company name, registration number and accounting period on the CT600 matches the information in iXBRL accounts and tax computation
5. If you are submitting detailed P&L, make sure you are using the correct, up-to-date HMRC taxonomy.

DON'T

1. Merge accounts and tax computation statements.
2. Include detailed P&L in both accounts and computation statement.
3. Attach incorrect iXBRL files to CT600, for example, iXBRL accounts iXBRL in Computations section and vice-versa.
4. Duplicate any figures with inconsistent values
5. Include any external links to the Accounts or Computations file.

iXBRL RESOURCES

- **Previous DataTracks whitepapers**

DataTracks iXBRL Dos and Don'ts

iXBRL: Top Tips for a smooth process

- **AccountingWEB iXBRL coverage**

- **XBRL international**

(for serious XBRL enthusiasts, with links to free viewing tools)

- **HMRC guidance**

Corporation Tax online filing

iXBRL - when to tag, how to tag, what to tag

Joint Filing Common Validation Checks

Minimum tagging requirements

ABOUT THE AUTHOR

An innovative technology journalist and online media pioneer, John Stokdyk has been covering tax software since 1997, the year self assessment was introduced. He was the IT/Online editor for Accountancy Age before joining AccountingWEB in 1999 and has written for the Financial Times, The Daily Telegraph, Financial Director, MacUser, PC World and many other titles.

ABOUT DATATRACKS

DataTracks UK is a part of DataTracks Services Limited (**www.datatracksglobal.com**), a global leader in preparation of financial statements in XBRL and iXBRL formats for filing with regulators. DataTracks prepares more than 12,000 XBRL statements annually for filing with regulators such as SEC in the United States, HMRC in the United Kingdom and MCA in India.

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