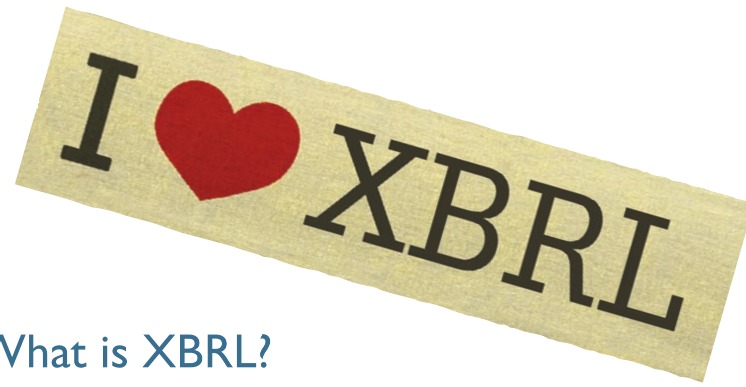
Four little letters

Do you know how XBRL will affect your practice? SANTHIE GOUNDAR provides an overview of this new requirement.



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XBRL. Four little letters that mean so much – but strike terror into the heart of many a tax practitioner. As of 1 April 2011, HMRC will no longer be accepting corporation tax returns on paper or in PDF format; the only method of submission will be electronic.

E-filing, of course, is nothing new; however, HMRC have mandated the international IT standard XBRL (which stands for eXtensible business reporting language) for the online submission of all tax returns – even for the accompanying computation and statutory accounts. More specifically, HMRC require that submissions are made using a derivative of XBRL known as inline XBRL, or iXBRL for short.

According to a recent survey from the tax and accounting providers CCH, firms are failing to address the wider implications of the move to iXBRL for corporation tax filing. David Routley, technical product manager at CCH, said: 'What this research has shown is that accountants are still not geared up for the move to compulsory e-filing next year. However, by making a few simple changes now, accountants will minimise the impact iXBRL will have on their practice'.

But there have been murmurs within the profession that many are unsure as to exactly what they will need to do, if anything at all. Indeed, the amount of confusion and debate within the industry was a subject heavily discussed at a recent roundtable discussion between software house IRIS Accounting & Practice Solutions and representatives of the UK's main accountancy bodies. So what will all this mean for the humble tax practitioner?

KEY POINTS

- Machine-readable XBRL format will replace manual input by HMRC.
- Software should do the XBRL work in most cases.
- Where will agents require knowledge for non-standard returns?
- Main benefit of XBRL will be to HMRC.
- Small practices could be at risk from change unless action taken now.

What is XBRL?

First of all, an explanation regarding XBRL – and iXBRL – is in order. Phill Robinson, managing director of IRIS APS, explains:

> 'The challenge is that documents that have been submitted by e-filing so far have not been machine-readable. Generally, the submission goes in a PDF file and is sent electronically to HMRC. But when it reaches them, because the files are not readable by a machine, staff will have to look at it on a screen or print it out. It needs human intervention: someone has to look at it and then re-key the information that's on that return into their systems at their end.'

This is where XBRL comes in. Simply put, XBRL is a computer language for communicating business and financial data electronically, rather than as a block of text as per your standard internet page, PDF file or printed hard-copy document. To make a document computer-readable, each individual item of financial data – say company turnover for example – is given what is known as a unique 'tag' in XBRL. HMRC's computer system is then automatically able to read what a company's turnover figure is, rather than a member of staff manually searching the document for the correct figure or typing in their computer software to find all instances of the word 'turnover', for example. The unique XBRL 'tags' provide a way for HMRC's computer systems to instantly read and record each item of financial information, rather than needing manual input to do so.

Inline XBRL, or iXBRL, effectively enables the presentation of a financial report in normal, human-readable form. The XBRL tags will still be embedded within the document and will not normally be visible, although they can be displayed by the software if the user requires. The use of iXBRL should therefore ensure that there is no change in the computations, accounts or tax return forms from what practitioners usually see on their screens, unless they choose otherwise.

So, ***Table 1*** (based on one provided by XBRL UK Limited) shows how an iXBRL-tagged balance sheet in the accounts may look on the screen or in printed format.

TABLE 1: BALANCE SHEET AT 31 DECEMBER 2009

For the year ended 31 December 2009

	Note	2009	2008
		£	£
Fixed assets			
Intangible assets	7	406,383	363,958
Tangible assets	8	3,542,723	3,792,075
		3,949,106	4,156,033
Current assets			
Stocks	9	2,195,092	2,410,817
Debtors	10	4,522,203	3,385,253
Cash at bank and in hand		66,330	35,082
		6,783,625	5,831,152
Creditors: amounts falling due within one year	11	(5,003,464)	(4,590,691)
Net current assets		1,780,161	1,240,461
Total assets less current liabilities		5,729,267	5,396,494
Creditors: amounts falling due after more than one year	12	(592,949)	(959,560)
Provisions for liabilities and charges	13	(148,112)	(165,202)
Net assets		4,988,206	4,271,732
Capital and reserves			
Called up share capital	14	3,981,190	3,981,190
Profit and loss account	15	1,007,016	290,542
Equity shareholders' funds		4,988,206	4,271,732

The financial statements were approved by the Board of Directors on 4 March 2010

Director : B B Black

However, the items that would be tagged – and only visible to the user if they choose for the software to display the tags – would be similar to that shown in ***Table 2***, with the tagged UK GAAP items in red and the corresponding iXBRL tag names on the far-right column. These tags contain information such as: whether the item is text or a number; the year the information relates to; the currency it is in; the number of decimal places; and whether, if it is a number, it refers to thousands, millions, etc.

Initially, HMRC only require between 1,200 and around 1,600 unique items in an electronic document to be tagged, depending on whether the document is a corporation tax computation, accounts prepared under UK GAAP, or accounts prepared under IFRS. The full list of iXBRL tags – known as a 'taxonomy' – extends to roughly 4,500 for a corporation tax computation or accounts prepared under IFRS, while the UK GAAP taxonomy extends to around 6,000.

All this proves mind-boggling for many accountants, and understandably so. But how much input will practitioners need to have in this brave new XBRL-tagging world? Will their software do the iXBRL work for them, or will they need to learn a whole new way of working in order to cope?

Software solutions?

With software houses expected to have brought out their full iXBRL-compliant packages by this autumn, Paul Aplin, tax partner at A C Mole & Sons, comments: 'A lot of practitioners, like myself, are looking to our software providers to provide out-of-box solutions that require little or no change to the processes we're already used to'. Paul Booth, technical and development manager of the ICAEW's IT Faculty, agrees: 'Accountants should not have to become masters of iXBRL, or indeed any other tagging methodology. Software vendors should strive to deliver a fully automated iXBRL-compliant solution.'

HMRC say that most practitioners will not need any knowledge about XBRL or what needs to be tagged; users of commercial software may not even realise the tags are there as they should be inserted automatically. This is good news for the majority of practitioners, but, unfortunately, not all.

'About 80% or 90% of the time, the software will do all the iXBRL-tagging work for you automatically', IRIS's Mr Robinson says. 'However, there will be some edge-cases when you're preparing accounts or tax returns where some human intervention will be

TABLE 2: BALANCE SHEET AT 31 DECEMBER 2009 WITH IXBRL TAGS

Balance sheet at 31 December 2009				uk-bus:BalanceSheetDate
For the year ended 31 December 2009				
	Note	2009 £	2008 £	
Fixed assets				
Intangible assets	7	406,383	363,958	uk-gaap:IntangibleFixedAssets
Tangible assets	8	3,542,723	3,792,075	uk-gaap:TangibleFixedAssets
		3,949,106	4,156,033	uk-gaap:FixedAssets
Current assets				
Stocks	9	2,195,092	2,410,817	uk-gaap:StocksInventory
Debtors	10	4,522,203	3,385,253	uk-gaap:Debtors
Cash at bank and in hand		66,330	35,082	uk-gaap:CashBankInHand
		6,783,625	5,831,152	uk-gaap:CurrentAssets
Creditors: amounts falling due within one year	11	(5,003,464)	(4,590,691)	uk-gaap:CreditorsDueWithinOneYear
Net current assets		1,780,161	1,240,461	uk-gaap:NetCurrentAssetsLiabilities
Total assets less current liabilities		5,729,267	5,396,494	uk-gaap:TotalAssetsLessCurrentLiabilities
Creditors: amounts falling due after more than one year	12	(592,949)	(959,560)	uk-gaap:CreditorsDueAfterOneYear
Provisions for liabilities and charges	13	(148,112)	(165,202)	uk-gaap:ProvisionsForLiabilitiesCharges
Net assets		4,988,206	4,271,732	uk-gaap:NetAssetsLiabilitiesIncludingPensionAssetLiability
Capital and reserves				
Called up share capital	14	3,981,190	3,981,190	uk-gaap:CalledUpShareCapital
Profit and loss account	15	1,007,016	290,542	uk-gaap:ProfitLossAccountReserve
Equity shareholders' funds		4,988,206	4,271,732	uk-gaap:ShareholderFunds
The financial statements were approved by the Board of Directors on 4 March 2010				uk-gaap:DateApprovalAccounts
Director: B B Black				uk-gaap:NameDirectorSigningAccounts

required. For example, there may be certain pieces of information that require you to type freeform text or data – that is specific to this company's return, for example explaining some of the regulations – into the software or the system. This will have to be manually tagged so that HMRC's computers can read the information and understand what to do with it. So there may be some level of iXBRL understanding that's going to be required in practice.'

The onus will therefore probably fall on the software houses to provide information and training. Some already do. CCH has prepared *The iXBRL Resource*, a free online resource on its website to help accountants and their clients prepare for the changes, while IRIS offers training and information seminars.

Who benefits, and who doesn't?

Common consensus at the IRIS roundtable discussion was that HMRC would be the prime beneficiary of the introduction of iXBRL for online corporation tax return filing. Currently, accountants can either file tax returns online – usually sending PDF documents from their software through HMRC's gateway systems – or on paper. For the latter method, a variety of methods are used to produce these: for example, accounts produced in Microsoft Word, computations produced in Excel, tax returns written by hand or produced from non-iXBRL-compliant tax software.

From HMRC's point of view, there is a compelling case for some kind of standardisation that will eliminate these differences. Using iXBRL should be more efficient in collecting data thanks to the automation of the whole process, rather than requiring staff to input manually the information from the tax return into their systems. It should also make targeting the best candidates for an investigation or tax enquiry more effective and, ideally, less prone to error. Furthermore, it allows HMRC to compare financial data between companies as iXBRL tags collect every single important fact or figure. Theoretically, iXBRL should allow HMRC to spend less to collect more.

There is also the fact that Companies House will also be introducing iXBRL online filing for unaudited accounts this summer, with a view to introducing iXBRL-filing capability for other accounts types by summer 2011. With other countries having already started to use XBRL as a means of electronically filing accounts – the US Stock Exchanges already uses XBRL as a means of filing accounts, with the Chinese Stock Exchanges said to be set to follow in the future – some could argue that the introduction of XBRL benefits the UK on the global financial stage as well.

But there may be some benefits to ordinary tax advisers, too. Just as HMRC can use it to compare companies, accountants could also use it to compare clients' financial performances. There are other potential benefits, too. 'XBRL is very versatile,' says Mary Fraser, technical consultant for ACCA. 'You can use it for management accounts, statutory accounts and tax returns and potentially use one set of data for all those purposes.'

However, many benefits of XBRL will be longer term and in the meantime XBRL is likely to come at some cost to practitioners and their clients – not least that many may have to review their software capabilities and consider staff training.

Furthermore, there may be a risk of penalty costs for some. While HMRC have been said to take a 'soft landing' approach to those who attempt to apply iXBRL tags, an HMRC spokesman warned that late filing penalties may be imposed on those without a 'reasonable excuse' for not e-filing on time – and 'reasonable excuse' would not include having non-compliant software or 'finding the online system too complicated'. He advised that in the event of an HMRC system failure or software problem, practitioners should make a note of the details of any error message received as 'each case will be considered on its own merits'.

There is a list of commercial software applications and services on HMRC's website at www.lexisurl.com/CTonline. Additional information that may be of use to advisers is as follows.

- HMRC's webpage on setting up and managing an online account (www.lexisurl.com/OnlineMan).
- *Signing up for Corporation Tax Online – a beginner's guide* (www.lexisurl.com/CTsignup).
- *Filing your Company Tax Return online – a beginner's guide* (www.lexisurl.com/CTonlinefile).
- HMRC's guide, *XBRL – When to tag, how to tag, what to tag* (www.lexisurl.com/XBRLtag).
- The UK arm of the XBRL International Consortium (www.xbrl.org/uk/).

Client documents

There is also the issue of tax accountants receiving documents from clients which need converting to an iXBRL-friendly format. According to CCH's survey, almost a third of accountants submit corporation tax returns for clients that have been produced externally. 52% of accountants who receive accounts from outside sources received them in paper format, with 48% receiving them in PDF format. Converting these to an iXBRL-compliant file would be time-consuming – even with 'conversion' software products that HMRC are expecting suppliers to release shortly, which in principle will embed XBRL tags into final accounts Excel or Word documents.

The big risk for many will be within their engagement letter. The survey revealed that 72% of practices said their engagement letters did not currently cover the XBRL issue, which CCH's Mr Routley warned could leave them exposed over any incorrect submissions.

'Accountants will need to spell out to clients and third parties who will be responsible for ensuring the tagging of data, otherwise they will be left with a much larger volume of work than they expected', Mr Routley said. 'They could also be faced with incorrect documents being returned by HMRC and could potentially lose the confidence of clients.'

Many accountants will have engagement letters on file from when working with those clients commenced, but will not have reviewed them since sign-off, Mr Routley warns. 'With such significant changes just around the corner, it is crucial that these are reviewed so that they cover the possible implications of the new electronic system', he added. 'The most effective way for accountants to manage the situation is to ensure that all corporation tax computations and accounts information is created in the right format at source and dialogue is opened now with clients in order to cover themselves and get a workable process in place.'

Smaller-scale practitioners?

Spare a thought for sole practitioners, part-timers, the semi-retired and mothers returning to the workplace, says the ACCA's Mary Fraser, who thinks that this group are particularly at risk of being left behind from the XBRL changes sweeping through the tax world. 'A lot of these people provide an essential service to many micro-businesses, such as the local sports club', she says. 'They are still likely to do their returns on paper and the accounts and computations in either Word or Excel; and they are the least likely group to have made any investment in tax software. Furthermore, mothers returning to work may find iXBRL is a significant skill they lack after being away.'

So will small-scale practices need to invest in compliant software just to continue practising? The answer is, hopefully, not necessarily. One option is to outsource the iXBRL tagging of a set of accounts. Alternatively, for small companies or organisations with straightforward tax affairs, HMRC provide their own free online software service, which would also require practitioners to register and enrol for their corporation tax online service to submit the return. Setting up the online account with HMRC would need to be done in plenty of time before the April mandation date. A third way is to postpone the problem altogether: filing all clients' tax returns by 31 March 2011 in order not to worry about XBRL until April 2012 comes around. But even so, iXBRL-compliance is unavoidable – and the sooner it is faced by all tax practices, the easier it has to be when April rolls round.

As Paul Aplin concludes, 'iXBRL, regardless of who wins and loses, is an example of the industry evolving and moving forward. As a smaller business, paying a nominal premium to make the transition from a casual part-timer to a compliant practice should be beneficial in the long term'. ■

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