

## SOLUTION FOR THE UNDER-REPORTING OF INCOME IN THE RESTAURANT SECTOR:

- OBLIGATION TO REMIT INVOICES
- OBLIGATION TO USE A SALES RECORDING MODULE (SRM)



### FTA CONFERENCE

DENVER, JUNE 2, 2009

Revenu  
Québec 

## Erosion of the Tax Base in Quebec

According to a study by RQ for 2002:

- Percentage of restaurant operators who hide income: 48.4%
- Percentage of hidden income relative to declared income: 51.9%

According to Revenu Québec's estimates for 2007-08:

- Tax losses (Quebec laws only): \$417M
  - \$133M of QST charged by restaurant operators but not remitted to the government
  - Federal tax losses are as high as Quebec losses

## Problems in the Restaurant Sector and Ways to Address Them

### Main tax evasion schemes used:

- “Zapper”: a computer component that allows a portion of sales income to be masked by erasing transaction records from the books and cash registers, or by altering them
- Certain invoices are not recorded
- Double accounting
- No invoices

### Common characteristics:

- The schemes mainly involve cash sales
- Taxes are charged, but are not remitted to the government
- The customer has no idea tax evasion is taking place
- Administrators use their access to accounting records in order to destroy or falsify them

3.

## Issues and Interventions in the Restaurant Industry

- Zappers are generally created by software developers or their distributor(s), so the solution must be taken out of their hands
- Revenu Québec has made a concerted effort to fight tax evasion
- Current intervention methods are inadequate
  - RQ does not have the capacity to conduct the number of audits and investigations required to reduce tax evasion in the sector (at present, roughly 500 per year for close to 10,000 delinquents)
  - Audit and investigation results are often contested, meaning only a small portion of losses are recovered
- The solution must target restaurant operators' perception of their risk of getting caught
- Need to implement effective corrective measures with consistent and lasting results:
  - Counter zappers; **and**
  - Thwart most other tax evasion strategies being used—otherwise, the problem will simply resurface
- Most restaurant operators will declare all sales recorded in a register that is known and accessible to tax authorities

4.

## Solution to Under-Reporting in the Restaurant Industry

### Chosen solution:

Restaurant operator is required to register the sale in a sales recording module (SRM), which issues an official customer invoice

Inspection task force

Public awareness regarding the importance of receiving a check/ invoice

#### Needs:

New obligations for restaurant operators:

- Ensure that all transactions are recorded (obligation to remit an invoice) . . .
- . . . in a known and accessible register (the invoice must be produced by an SRM that only becomes operational once it is registered in RQ's systems) . . .
- . . . that cannot be altered (the SRM has several security features)

Activities aimed at convincing restaurant operators of the risk of getting caught if they do not meet their obligations:

- Inspections (rapid interventions with results that are not easily contestable)
- Public awareness campaigns aimed at informing customers (most restaurant operators do not want to be perceived as delinquent)

5.

## Solution to Under-Reporting in the Restaurant Industry (Cont'd)

### Gradual implementation:

- Pilot project to be carried out in the restaurant industry: 25 to 50 restaurant operators over a six-month period (November 2009 to April 2010). The goal is to ensure that the SRM technology functions properly and can be easily integrated into existing accounting systems
- Starting in September 2010, new businesses— along with businesses that have failed to fulfil some of their tax obligations—will be required to use a cash register or point-of-sale (POS) system with a sales recording module (SRM) connected to a printer that will print out customer checks and record transactions
- As of 2011, all restaurant operators will be required to use a cash register or POS system with an SRM
- The cost of the pilot project will be covered by Revenu Québec

6.

## Sales Recording Module

### What is a sales recording module (SRM)?

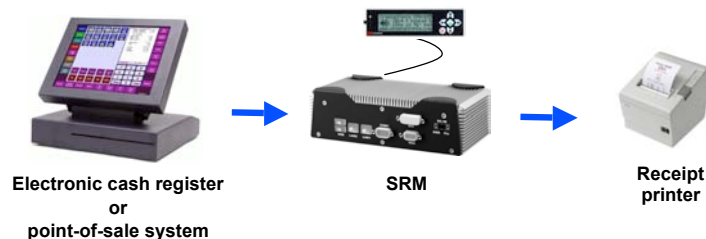
- It's a microcomputer
- When connected to an electronic cash register or POS system, the SRM receives transaction data (customer checks, cash register receipts, credit notes), retrieves relevant information such as sales and tax amounts, and saves it in a secure memory
- Once it has saved the data, the SRM generates a digital signature, which it sends to the printer, along with the information required to print a customer check/invoice

7.

## Sales Recording Module

### Requires the following equipment:

- An electronic cash register or point-of-sale system that is compatible with the SRM
- A receipt printer that can print bar codes



8.

## Sales Recording Module

### SRM features:

- The machine is owned by restaurant operators
- It can save recorded data for seven years
- It produces a digital signature, which differs from one module to another. This signature, printed inside a bar code on each customer invoice, will facilitate inspection
- Restaurant operators will be able to consult and copy saved data, but will not be able to modify it
- Revenu Québec personnel will also be able to consult and copy saved data, resulting in more efficient interventions
- Restaurant operators can print periodic sales summaries to be sent to Revenu Québec for each income tax reporting period

9.

## How It Works

```

RESTO - BRASSERIE
418 123-4567
2009-01-28 - 14:03:35      252001-1

      Soupe      2.50 $
      Steak frite 12.95 $
      Tarte au sucre 3.95 $

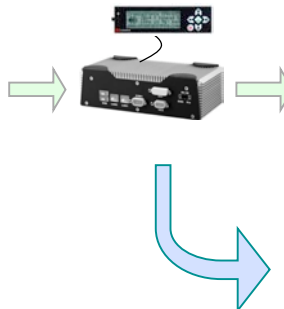
      Sous total 19.40 $

N° TVQ : 1012345678 0001
N° TPS : 239987234

Table n° 15      client 1

Vous avez été servi par
Roger

Merci et revenez nous voir !
  
```



```

RESTO - BRASSERIE
418 123-4567
2009-01-28 - 14:03:35      252001-1

      Soupe      2.50 $
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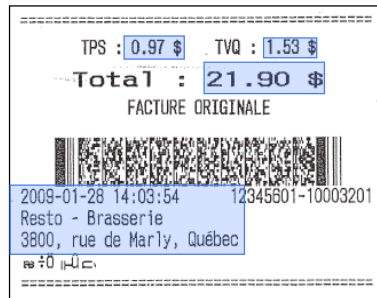
-----
TPS : 0.97 $   TVQ : 1.53 $
Total : 21.90 $
FACTURE ORIGINALE

[Barcode]
2009-01-28 14:03:54      12345601-1000201
Resto - Brasserie
3800, rue de Marly, Québec
se 40 sUm
  
```

10.

## How It Works: Additional Elements

The SRM adds certain elements to the invoice, allowing Revenu Québec personnel to validate the integrity of the transaction and the fact that it was recorded in the secure memory



## How It Works: Additional Elements

### Original Invoice



### Adjustment



## How It Works: Additional Elements

**Reprint**

RESTO - BRASSERIE  
418 123-4567  
2009-01-28 - 14:05:22 252001-3

Soupe	2.50 \$
Steak frite	12.85 \$
Tarte au sucre	3.85 \$
Café	1.50 \$
Sous total	20.90 \$

N° TVQ : 101234  
N° TPS : 238987234

Table n° 15                    client 1


Vous avez été servi par  
Roger

Merci et revenez nous voir !

---

TPS : 1.05 \$    TVQ : 1.85 \$  
**Total : 23.60 \$**

REIMPRESSION



2009-01-28 14:05:35    12345601-10003205  
Resto - Brasserie  
3800, rue de Marly, Québec

Document en test  
Ne pas remettre au client

RESTO - BRASSERIE  
418 123-4567  
2009-01-28 - 14:05:22 252001-3

Soupe	2.50 \$
Steak frite	12.85 \$
Tarte au sucre	3.85 \$
Café	1.50 \$
Sous total	20.90 \$

N° TVQ : 1012345678 0001  
N° TPS : 238987234

Table n° 15                    client 1

Vous avez été servi par  
Roger

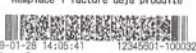
Merci et revenez nous voir !

---

TPS : 1.05 \$    TVQ : 1.85 \$  
**Total : 23.60 \$**

Document en test  
Ne pas remettre au client

FACTURE REVISEE  
Remplace 1 facture déjà produite



2009-01-28 14:05:41    12345601-10003205  
Resto - Brasserie  
3800, rue de Marly, Québec

Document en test  
Ne pas remettre au client

13.

## Periodic Sales Summary

Once a restaurant's SRMs are activated, Revenu Québec expects to receive periodic sales summaries for each module on the premises:

- generated from every SRM
- with the same frequency as tax remittance reports
- on paper or electronically

The periodic sales summary contains:

- a summary of sales
- transaction analysis (statistics on the various transactions)
- an event log
- general information

**SOMMAIRE PERIODIQUE  
DES VENTES**



Destinataire : Resto001  
Resto Le HQ  
3800 rue Marly  
Québec  
QC, H1A 1A1

No REV : 123456  
Produit le 2009-01-21 à 11:22:33

Période  
2008-10-01 au 2008-12-31

Montre :	99 999 999
Total event taxes :	999 999 999 99 \$
TVQ :	999 999 999 99 \$

Contient aussi les données de la période  
2008-01-01 au 2008-09-30

N.B. Veuillez transmettre ce SPV au HQ

14.

## Inspections

### Short inspections:

- Rapid interventions permitting very broad coverage
- Aim is to ensure that invoices generated by SRMs are remitted to customers
- Check that transactions are being recorded in the SRM for subsequent validation by Revenu Québec personnel

### Full inspections:

- To verify the integrity and proper operation of the SRM software (integrity tests on programs and data, tamper-proof seal examination)
- Ensure there is no equipment on the premises to reproduce invoices
- Make a copy of the detailed data for further examination

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## Inspections

### Short inspections:

- Goal: ensure that all invoices generated by the SRM are remitted to customers
- Inspectors examine one or several invoices and read the bar code
- The machine validates the digital signature and the integrity of the invoice
- The content of the bar code is recorded in RQ's databases for subsequent validation of the SRM data
- Quick interventions permitting very broad coverage:
  - In cases of infraction, fines are imposed



Bar code



Handheld computer with bar code reader

16.

## Inspections

### Full inspections:

- Verify the integrity of the SRM software and its proper operation (integrity tests on programs and data, tamper-proof seal examination)
- Ensure there is no equipment allowing the reproduction of invoices
- Make a copy of detailed data for further examination
- The software checks that all invoices in RQ's systems are in the SRM and that they have not been altered



17.

## Effectiveness of the Solution

### Against zappers:

#### Current situation:

- Revenu Québec must detect tampered accounting records and establish the value of undeclared amounts

#### With the SRM:

- If the invoice is produced using an SRM, Revenu Québec personnel will have access to an image of the invoice as it was provided to the customer (before the transaction was altered using a zapper)
- An invoice that was not generated by an SRM will not have a digital signature

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## Effectiveness of the Solution

### Against piracy (hacking) of SRMs:

- SRM security features make this task very difficult
- If an SRM was to be cloned, only the original owner would be able to use it (because of the digital signature)
- During inspections, some invoices are examined by inspectors
  - Penalties could be applied and/or search warrants obtained for further examination

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## Effectiveness of the Solution

- Cancelled transactions, reuse of invoices, item transfers
- Bankruptcy
- New registrants
- Collusion between restaurant operators and customers
- Reuse of a signed invoice
  - Many restaurants have menus that allow the same invoice to be used for a number of customers
  - Can be done by:
    - Reproducing invoices
      - Photocopying
      - Scanning
      - System combined with the POS
    - If the signed invoice is returned to a POS, it is possible to develop a program that re-uses signed invoices in specific circumstances. The net effect is equivalent to using a zapper

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## Effectiveness of the Solution

- **Cancelled transactions, check redistribution etc.:** all type of transaction used to produce the invoice are recorded and gathered statistics on their use
- **Bankruptcy New registrants:** SRM inspections allow for much faster action than traditional inspections (audits and investigations), which require a minimum transaction history before an acceptable risk level may be ascertained
- **Collusion between restaurant operators and customers**
  - Exists, but is not very common.
  - In this situation, taxes are not collected, which makes it less appealing from the restaurant operator's standpoint
  - Most restaurant operators will not take this risk with most of their customers
  - An inspector will be able to observe this behaviour (invoices not remitted) and potentially impose penalties
- **Reuse of a signed invoice**
  - **Reproducing invoices**
    - **Photocopying:** unlikely, because thermal paper is used
    - **Scanning:** image quality isn't good enough and the bar code isn't legible
  - **If the signed invoice is returned to a POS:** our solution is entirely independent of cash register and POS system developers. The signature do not return to cash register and POS system

21.

## Questions?



22.