

# **Blam! Shazam! Zap! Tax Be Gone!**

Richard T. Ainsworth

ADP & Boston University

FTA Annual Conference

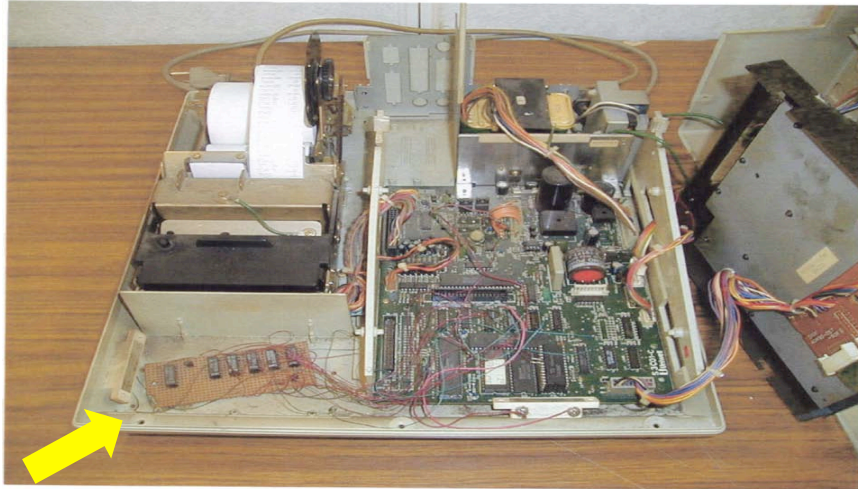
June 2, 2009

## **Involvement**

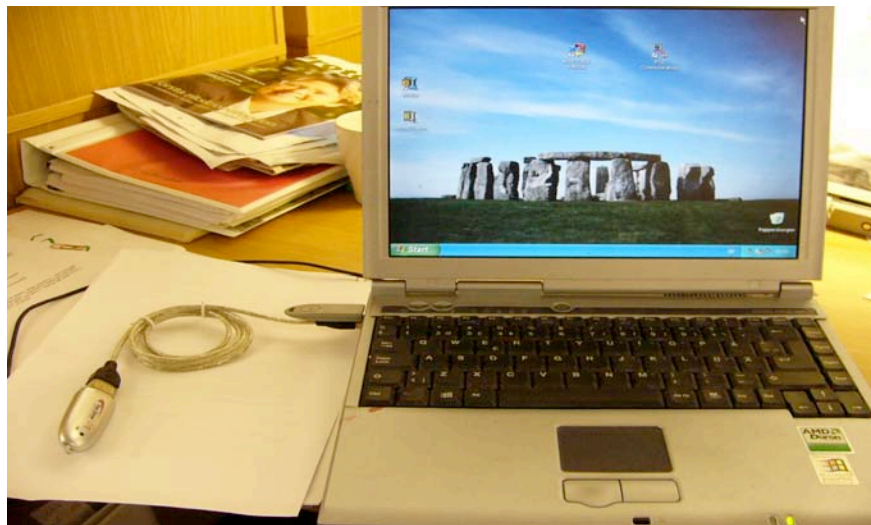
- **TECHNOLOGY, PRIVACY, AND THE FUTURE OF TAXATION (Oct. 4-5, 2007) Washington, DC**
  - Alan McNaughton
- **14 Articles**
  - Handout
- **Estimates of tax losses in the US States \$20b**
  - Handout

## Stupid Zapper

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## Smarter Zapper



# Very Smart Zapper

## Problem & Solutions

- **Quebec:**
  - Gilles Bernard
    - Assistant General Manager, Tax Evasion Control Bureau
  - Marc Simard
    - Director of the Quebec Revenue Department's Tax Audit Technologies Research Branch
- **Germany:**
  - Norbert Zisky
    - Physikalisch-Technische Bundesanstalt (German NMI)
- **Netherlands:**
  - **Ben, B.G.A.M. van der Zwet**
    - Certified Accountant and IT-auditor, Dutch Tax Administration

## 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

9.

## Smart protection of tax data in ECRs

Norbert Zisky  
Physikalisch-Technische Bundesanstalt

## History

### Germany on the way to fiscal solutions



#### **Big problems in tax compliance were indicated in 2003 – Nobody knows the exact loss of money for the society**

- The Federal Audit Office (BfR) has complained that later models of electronic cash registers and cash management systems now fail to meet the principles of correct accounting practice when it comes to recording transactions ... The risk of tax fraud running into *many billions* [of euro] should not be underestimated in cash transactions



**The German Ministry of Finance had to find a solution for this problem**



**In 2004 PTB proposed the new concept**

## Problem

### Possibilities of manipulation (1)



#### **Reports generated by ECRs can be manipulated relative easily – possibilities using standard functions:**

- Using functions for service technicians for manipulation (e.g. setting of Z-report-counter or grand total)
- Misuse of training functions
- Using report generators (e.g. suppression of voids in printout)
- Direct data modification in files or data bases) on (PC-based systems)

## Problem Possibilities of manipulation (2)



**The manufacturer can even provide special functions for data manipulation:**

- Deletion of complete transactions from the electronic journal and re-calculation of all reports
- Creation of „wish reports“
- Functions to reduce all sales by a selectable amount while keeping reasonable items prices, quantities etc.

**Some, mostly smaller companies offer these functions and even promote them quite frankly**

## Problem Communication software



**More and more customers use software for communication with POS systems. Problems**

- Modification of (unprotected) data on a PC-platform is technically impossible to detect (direct access to files or data-bases is possible)
- Unclear position of tax auditors concerning POS data stored on PCs
- Complete changeover to electronic reporting is a risk for users



## Countering Tax Risks in ECR's

*Ben, B.G.A.M. van der Zwet RA  
IT-auditor*

*The Netherlands, Tax and Custom Administration  
(NTCA)*

*Belastingdienst*



## Stories

### Corn

- ▶ To store = preserve
  - ▶ Tin Can
  - ▶ Glass Jar
  - ▶ Deep Frozen
- ▶ Transaction Data (= Tax Return)
  - ▶ Retain = Preserve
  - ▶ Global Open Standard

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# Introduction

Ben van der Zwet

- ▶ IT-auditor
- ▶ Cash Registers
  - ▶ Investment in knowledge
  - ▶ Demands / obligations
  - ▶ Criminal Pursuit Developers
  - ▶ EU Fiscalis PG Cashregisters
  - ▶ **OECD, WP8 Tax Avoidance & Evasion, Sub Zappers ?**

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## Tendency in maintaining fiscal obligations

- ▶ Jan Kees de Jager, State Secretary
- ▶ "...The energy that we put in afterward inspections is better invested in prevention. In searching beforehand for structural solutions"...
- ▶ "There must be a solid base for that confidence. For example by quality standards to which working methods and systems comply....."



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# Basic Demands

## ECR and fiscal obligations

- ▶ Data needs to **be stored electronically**.
- ▶ Measures must be taken to assure the reliability of retained data.
  - ▶ **To retain = To Preserve**
- ▶ Facilities have to be implemented to hand over E-data in detail.

## Three worlds

Real world

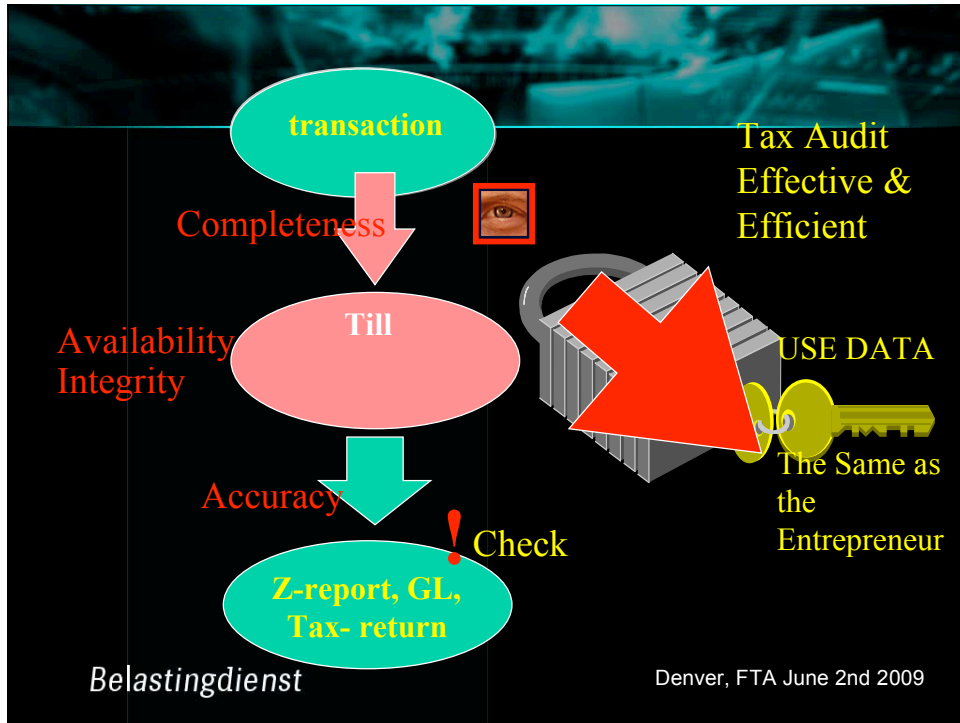
Transaction

Primary  
registration

Till, EPOS,  
Cashregister

Subsidiary  
Registration

Z-report, GL,  
Tax- return



## Basic Demands

- ▶ Small : Not registering sales
- ▶ Medium : Zappers and Phantomware
- ▶ Big : Normally no issue

**NOTE:**

Nor the Risk: Automated sales suppression

Nor the Solution: Reliable Data

Cover the Tax risk: Completeness

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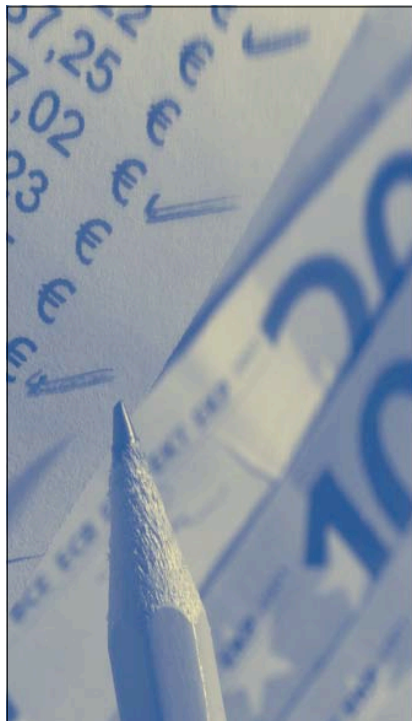
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## Basic Demands

- ▶ 95% of ECR's and POS do not comply with basic demands
- ▶ Data needs
  - ▶ to be preserved,
  - ▶ tamperproof
  - ▶ Handed over on demand easily

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**your cash register  
and the fiscal  
accounting  
obligations**

## Basic Demands

- ▶ Stakeholders
  - ▶ Entrepreneur
  - ▶ Accountant
  - ▶ Industry and trade branch organizations
  - ▶ Software Developers
  - ▶ Tax Administrations
- ▶ **Develop Open Standards for Reliable Data**  
ISO, CEN, UNCEFACT, CC
- ▶ OECD to take the lead??

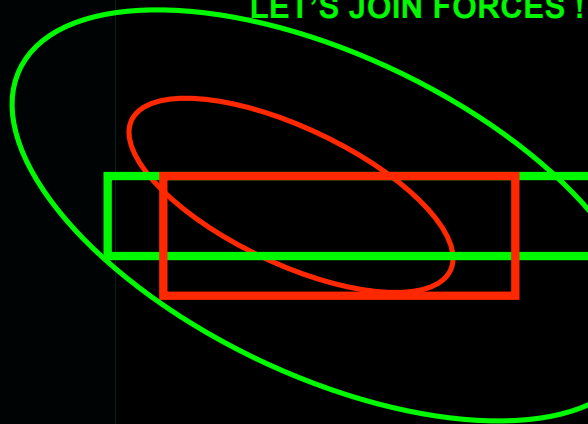
## Basic Demands

- ▶ February 18th Berlin INSIKA Seminar
  - ▶ CASIO: “It is time to take our responsibility”
- ▶ May 25th Paris:
  - ▶ OECD “We put the problem on the agenda”
- ▶ USA FTA It is a global issue
  - ▶ Let's join forces !

**THANK YOU !**

- ▶ The Hat
- ▶ The Bag
- ▶ The Corn

**LET'S JOIN FORCES !**



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## **ZAPPERS & Phantomware**

Automated Sales Suppression **is a global issue**

- ▶ Let's join forces !
- ▶ Exchange Knowledge & Experience
- ▶ Start Cooperation on Open Standard For Reliable Data

▶ **Thank you !**

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