

Countering Tax Risks in ECR's

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(NTCA)*

Belastingdienst



Introduction

Ben van der Zwet

- ▶ IT-auditor
- ▶ Cash Registers
 - ▶ Investment in knowledge
 - ▶ Demands / obligations
 - ▶ Criminal Pursuit Developers
 - ▶ Fiscalis PG cashregisters
 - ▶ **OECD ???**

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Programma

- ▶ Introduction
- ▶ Why Governments Care
- ▶ What is the problem
- ▶ How can WE solve it

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Why Governments Care

- ▶ Euro's , Tax - gap
Cash registers have a big Tax hole
- ▶ **Care**
 - ▶ **A fair and safe society**
 - ▶ **An open economy, with fair competition**

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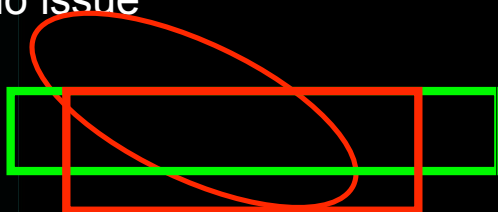
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What is the problem

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

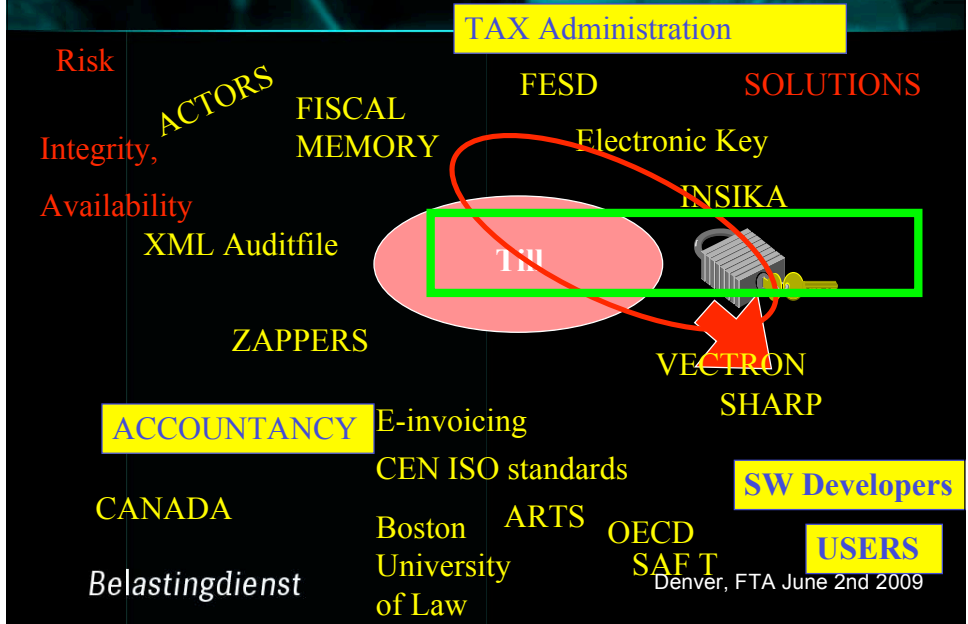
NOTE:

Nor the Risk: Automated sales suppression
 Nor the Solution: Reliable Data
 Cover the Tax risk: Completeness
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How can WE solve it



Programma

- ▶ Introduction
- ▶ **Why Governments (should) Care**
- ▶ What is the problem
- ▶ How can WE solve it

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Why Governments Care

- ▶ Money, Tax evasion
 - ▶ Quebec \$ 425 million
 - ▶ **16 % of sales not reported**
 - ▶ California: \$ 700 million
 - ▶ BRH Germany: Billions
 - ▶ Sweden: 150 - 1.500 million
 - ▶ Netherlands: Restaurants € 500 - 1000 mi

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Why Governments Care

- ▶ Money, Tax evasion
- ▶ **CARE FOR A GOOD SOCIETY**

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Care for a good society

- ▶ **Jean-Marc Fournier Quebec:**
 - ▶ \$ 425 m. = 7.000 nurses
 - ▶ Fairness, unfair competition
 - ▶ to compliant entrepreneurs
 - ▶ to employees
- ▶ **Sweden:** misuse of alcohol!
- ▶ **NL:** Safe Taxi Transport
- ▶ **USA - EU:** Green Lane (IT aide)

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Why Governments Care

- ▶ Euro's , Tax - gap
Cash registers have a big Tax hole
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What is the problem

- ▶ Non compliant to tax and other obligations
- ▶ **Tax Evasion**
- ▶ Unfair Competition
- ▶ **Money Laundering???**
 - ▶ (case in France)
 - ▶ Taxi's (NL????)

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What is the problem

- ▶ Sales suppression
- ▶ Refunds, Training mode, and 40 more
- ▶ Automated
 - ▶ ECR / POS Programs mis / used for Cash Skimming
 - ▶ Phantom ware; internal
 - ▶ Zappers, external, USB sticks etc.
 - ▶ **International!**

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Utskrift av journal

Restaurang : []

Kvitto med:
 Retur
 Hus/Åjuder
 Rabatt
 Korrigering av kvitto
 Kvitto korrigerat
 Korrigering artikel

Kvitto datum från:
 Mellan: 2005-03-11 00:00
 och: 2005-03-11 23:59

Kvitto Tid från:
 Mellan: 00:00 och 23:59

POS nr: N° 1

Criteria number: [] Filter på []

Öst Konton: []

Bill Total: [] Mellan: [] och []

Betalning: All

Searching conditions: []

Visualize tickets in error: []

Skapa kvitto [] Unselect []

15:05

Double-Click on the secret module

It is not that apparent what you need to do here, but by double clicking in the box in the lower left, entering an ID and a password, you will get to the next screen – the Electronic Journal (which can be adjusted).

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Elektronisk journal

Change password [] End []

Restaurant: [] POS Nb: N° 1 Waters: 2 CAFE 2, 3 SERV 3, 4 SERV 4, 5 SERV 5

Date: 2005-03-11 au 2005-03-11

Bill Total: [] Receipt time: []

Maner to: []

Date	Time	Nb ticket	POS	Wait	Type	Amount	Replaced by	Total removed
05-03-11	11:33	000007/1	1	1	Direkt	65,00 kr	45,00 kr	20,00 kr
05-03-11	11:30	000004/1	1	1	Direkt	65,00 kr		
05-03-11	11:35	000005/1	1	1	Direkt	136,00 kr		
05-03-11	11:44	000006/1	1	1	Direkt	76,00 kr		
05-03-11	11:46	000007/1	1	1	Direkt	136,00 kr		
05-03-11	11:48	010001/2	1	1	Bord	45,00 kr		
05-03-11	11:49	000008/1	1	1	Direkt	68,00 kr		
05-03-11	11:54	000010/1	1	1	Direkt	68,00 kr		
05-03-11	11:55	000011/1	1	1	Direkt	68,00 kr		
05-03-11	11:55	000012/1	1	1	Direkt	130,00 kr		
05-03-11	11:55	000013/1	1	1	Direkt	35,00 kr		
05-03-11	11:56	000014/1	1	1	Direkt	68,00 kr		
05-03-11	11:56	000015/1	1	1	Direkt	65,00 kr		
05-03-11	11:57	000016/1	1	1	Direkt	70,00 kr		
05-03-11	11:58	000017/1	1	1	Direkt	136,00 kr		
05-03-11	11:59	000018/1	1	1	Direkt	65,00 kr		
05-03-11	12:04	000019/1	1	1	Direkt	65,00 kr		

Total Sales: 40 836,31 kr Amount to remove: [] Threshold amount: 100

Total P Total: 20,00 kr

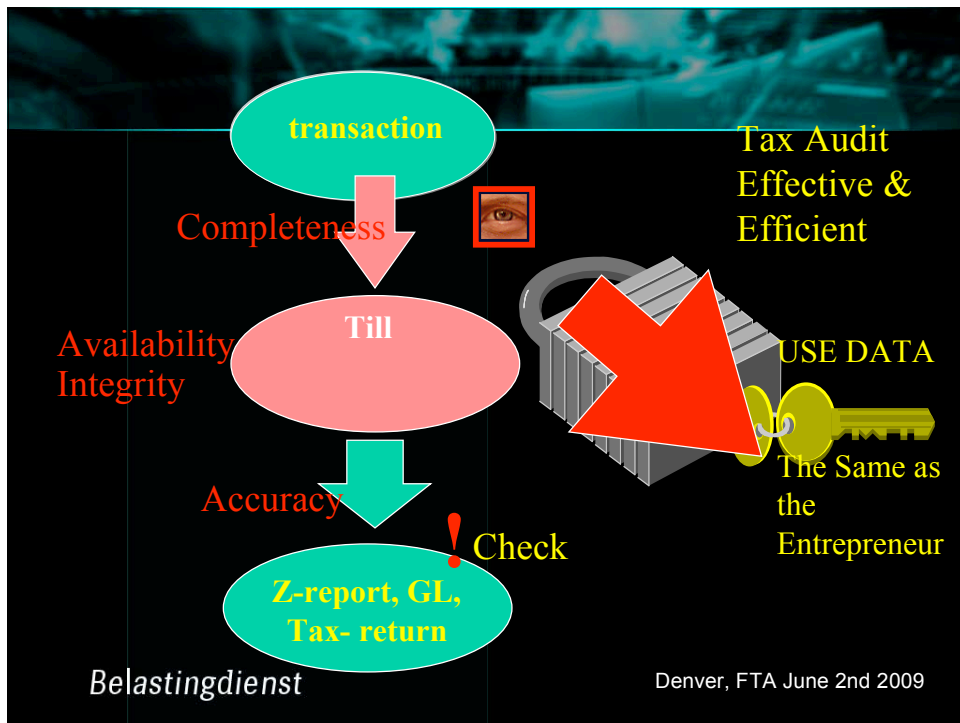
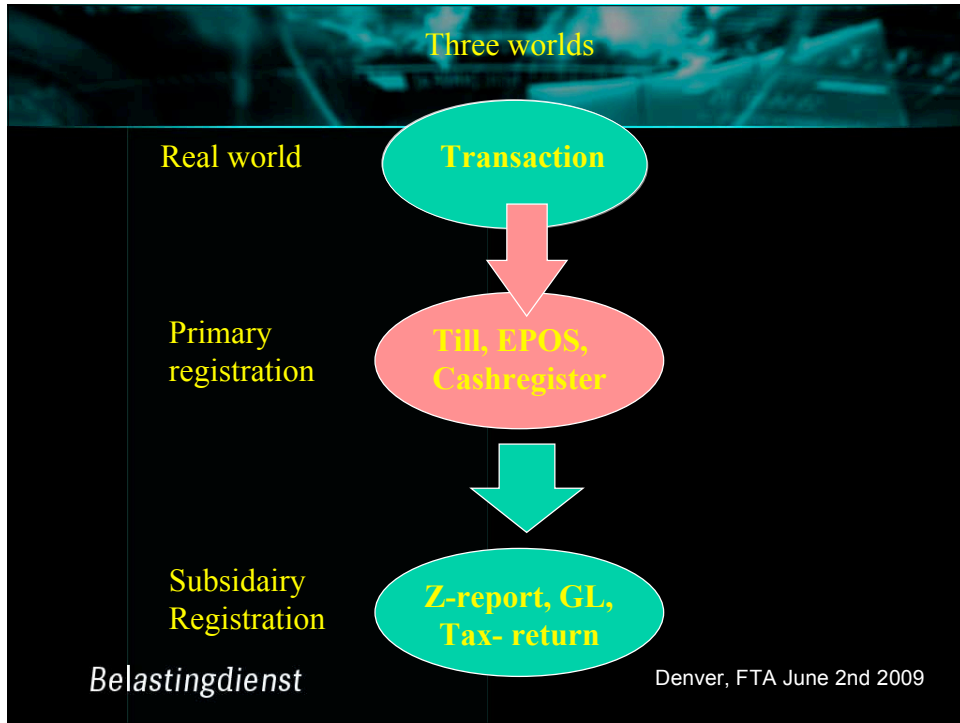
Total Gross: 40 816,31 kr

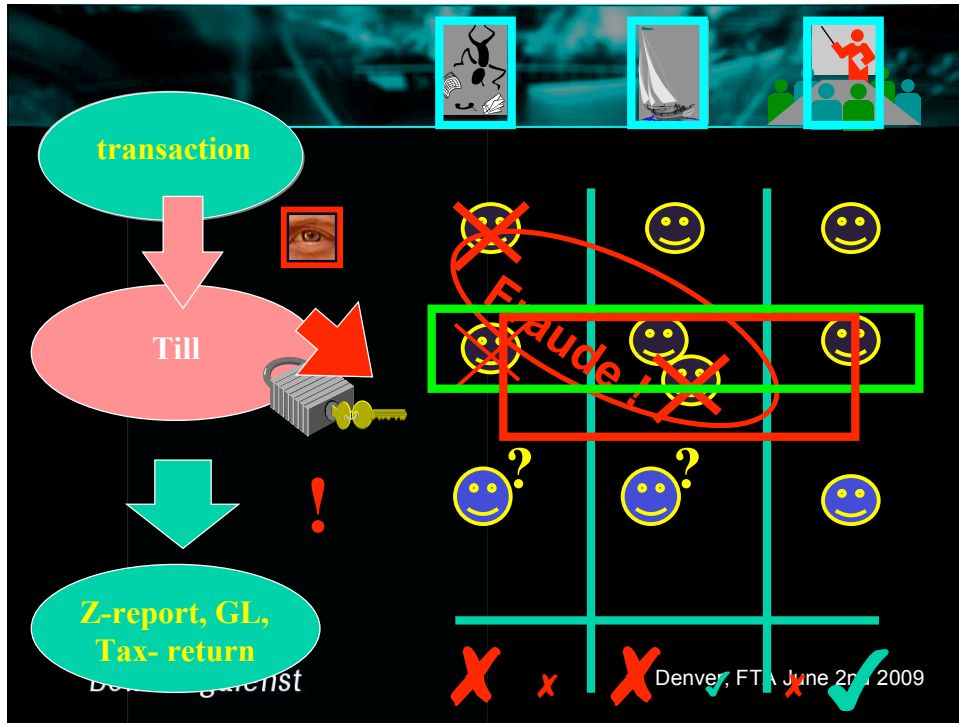
Manuel selecting of replacement tickets []

Manipulated Electronic Journal (pro-forma)

Here is what we have done so far – is this enough manipulation?
 Ticket 2/1 has been changed from 65,00 to 45,00 with a reduction of 20,00 on this ticket
 There is a running total kept (in case you want to remove more)

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What is the problem

- ▶ Small : Not registering sales
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- ▶ 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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Programma

- ▶ Introduction
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- ▶ **How can WE solve it**

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How can WE solve it

Dudok A “Grand Café”

- ▶ TAX Audit Approach
 - ▶ Understanding the business
 - ▶ What data do you need
 - ▶ An Excel File did not do
 - ▶ Getting the transaction data
- ▶ The Phantom Ware was on the shelf
- ▶ Entrepreneur and Software Developer Convicted
- ▶ Straight Systems, what is in an name?
 - ▶ and their change in strategy

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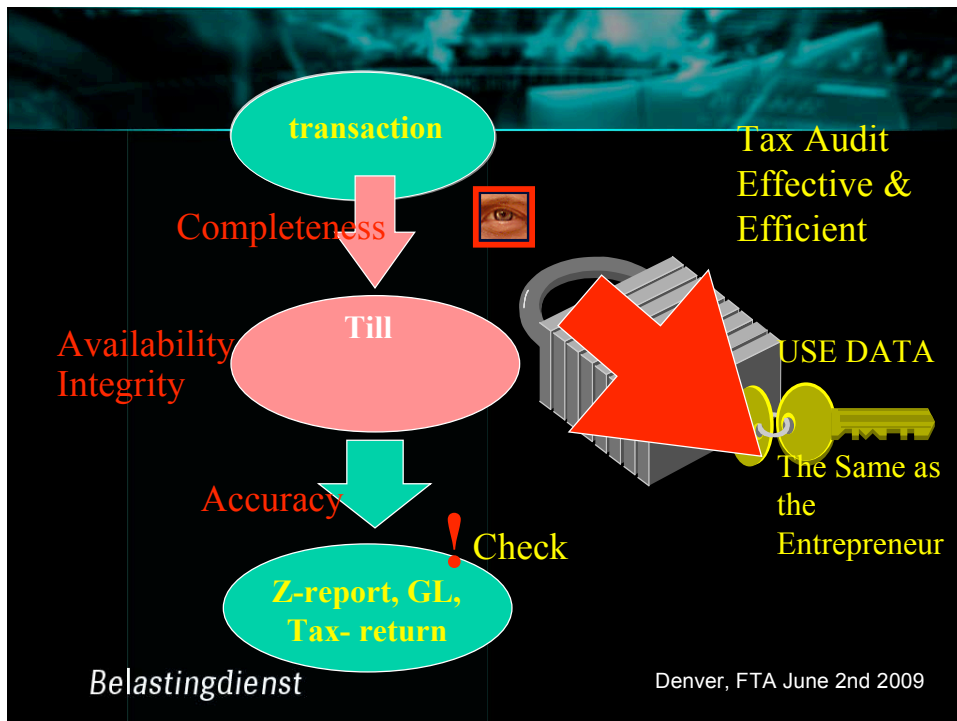
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How can WE solve it

- ▶ Training IT-auditors
 - ▶ Gaining expertise brings comfort
- ▶ Playing Hide and Seek
 - ▶ Hairdressers (1997)
- ▶ Horizontal (or Responsive) supervision
 - ▶ From mutual trust if possible
 - ▶ Harsh where needed
- ▶ Improve behavior of
 - ▶ Entrepreneur and
 - ▶ ECR supplier

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Support AO/IC business

▶ Examples of (standard) reports:

- ▶ Daily totals (Z totalling), Period summary ..
- ▶ Price look-up (PLU) summary including the sales of each article or groups of articles.
- ▶ Daily article range summary.
- ▶ Article group summary, sales for each group of articles.
- ▶ Hourly summary, sales total per hour of the day.
- ▶ Sales summary of each salesman
- ▶
- ▶ ...

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How can WE solve it

Liberty and Responsibility

The acid test with CIR is starting june 4th

Call on shared responsibility

- ▶ Entrepreneur
- ▶ Business Partners
 - ▶ Industry and trade organizations
 - ▶ Accountant
 - ▶ Software developer and Supplier

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How do WE solve it.

ECR Software Developer and Supplier

- ▶ What is in for them?
- ▶ We have about ten bigger local suppliers in the branch.
- ▶ If we detect fraud, the next focus is on the supplier

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Audit Approach

- ▶ Integrated Tax Audit
- ▶ Income, Company, VAT, and Pay Roll Tax
- ▶ Understanding the business
- ▶ What data is used by the Entrepreneur to stay in control
- ▶ Explore the data
 - ▶ E-journal, Control Roll
 - ▶ Z-reports
- ▶ Searching for anomalies, Refunds Early in the morning, Late in the evening

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Audit Approach

Completeness

- ▶ Internal consistency in the goods and value cycle
- ▶ is checked via third party information of Suppliers, Wholesalers
- ▶ If Necessary Checks on Site,
 - ▶ Announced within a period of time
 - ▶ Counting Clients with plastic bags
 - ▶ Counting and Identifying employees
 - ▶ Checking Cash with the X-report

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Audit Approach

Change of strategy

- ▶ We Call on the responsibility of
 - ▶ the accountant
 - ▶ the Supplier of ECR and POS
 - ▶ branch organizations
 - ▶ Whenever we need to impose Tax corrections with fines
- We also have to see to it that the accounting and business information systems improve

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How can WE solve it

Scales Fraud, a grocer with affiliate stores

- ▶ Curiosity at the coffee bar
- ▶ Internal measurements were almost perfect.
- ▶ Why was there no signature of the cashier in charge??
- ▶ An IT-auditor with personal skills to read programs
- ▶ Hidden feature to skim of

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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

How can WE solve it

- ▶ Stakeholders
 - ▶ Entrepreneur
 - ▶ Accountant
 - ▶ Industry and trade branch organizations
 - ▶ Software Developers
 - ▶ Tax Administrations

- ▶ **Develop Open Standards for Reliable Data**

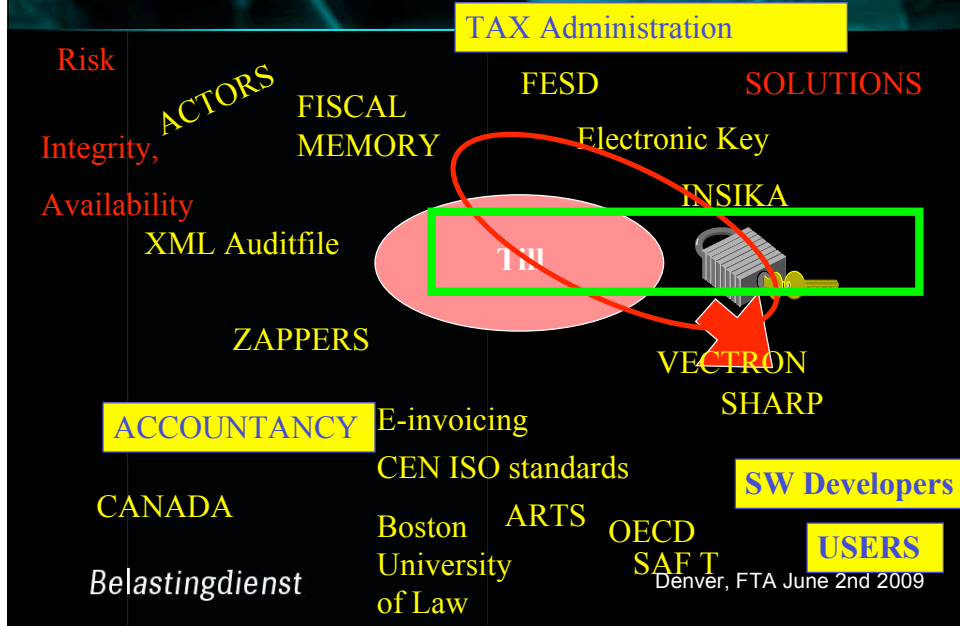
ISO, CEN, UNCEFACT, CC

- ▶ OECD to take the lead??

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How can WE solve it



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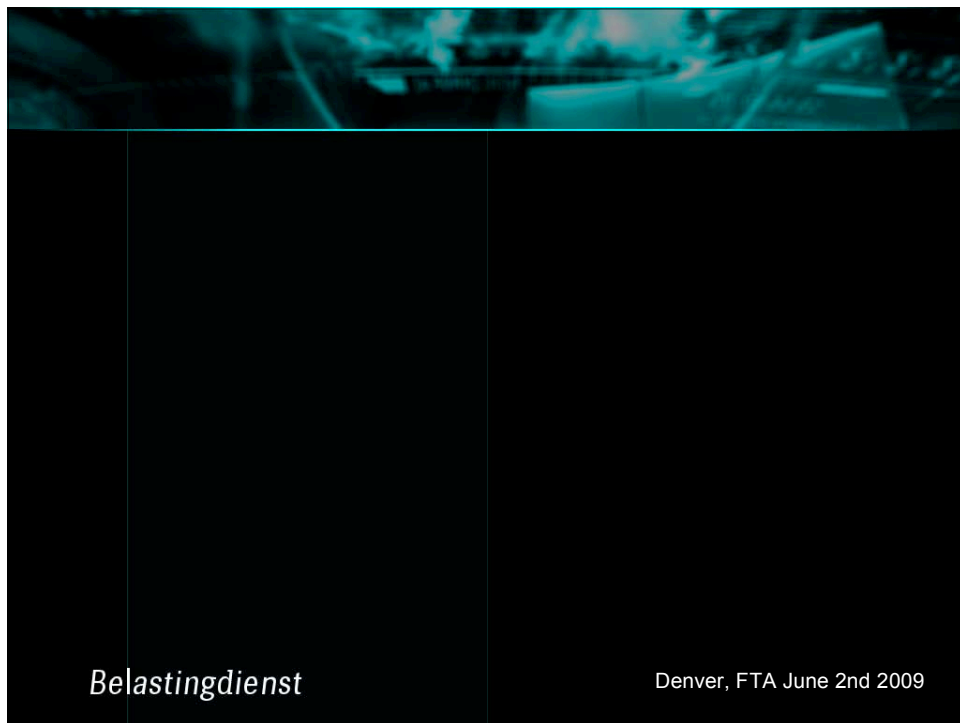
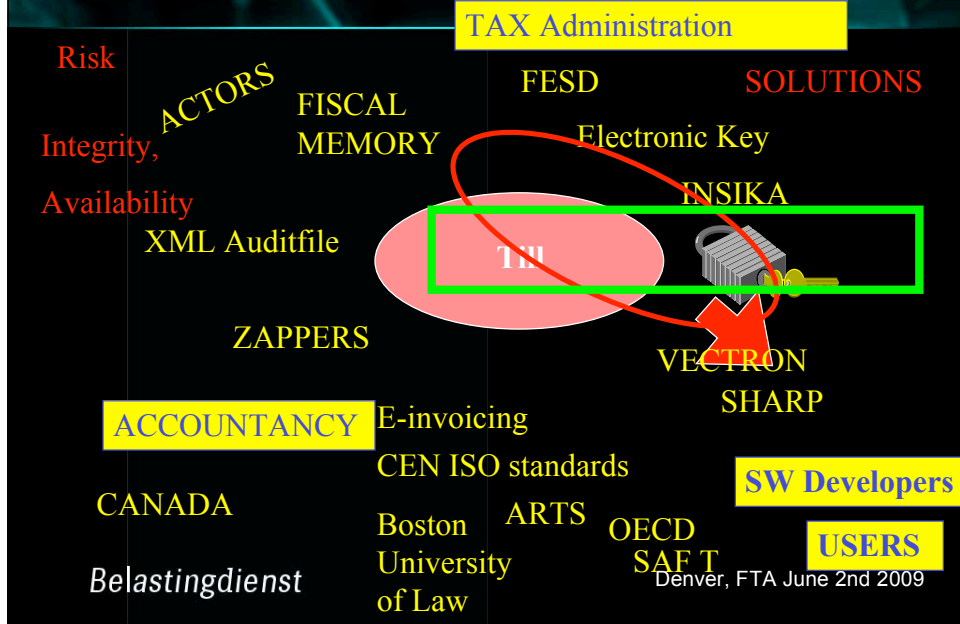
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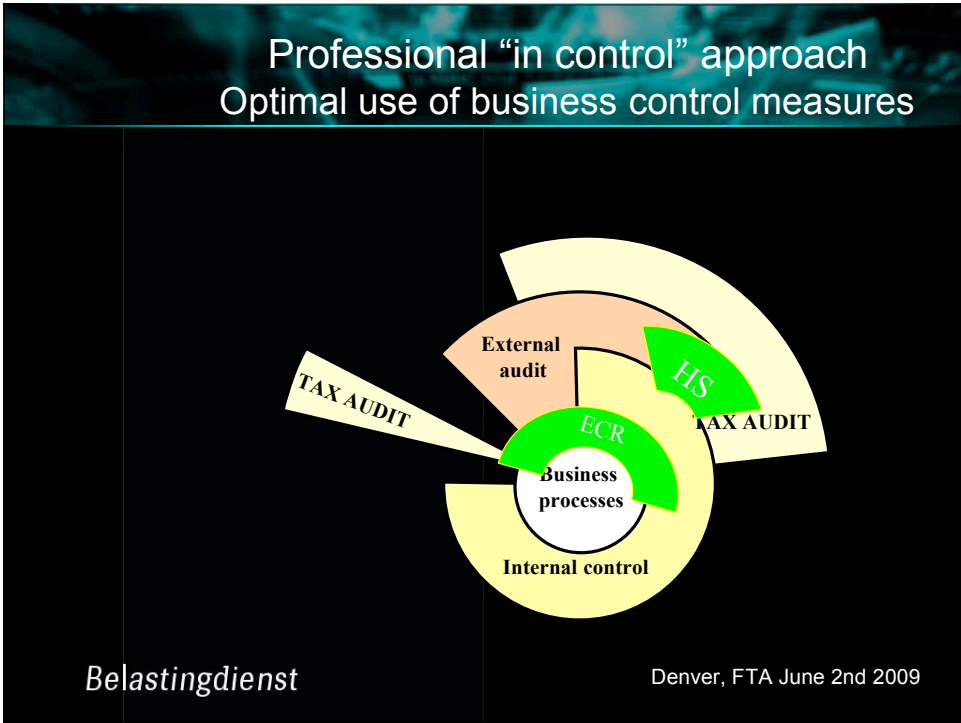
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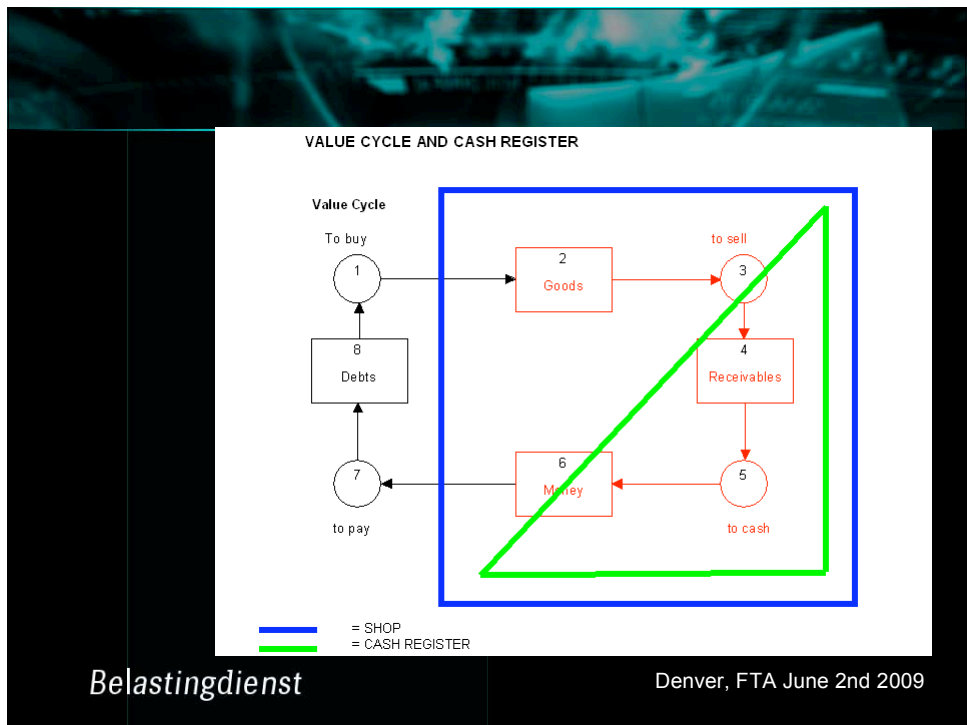
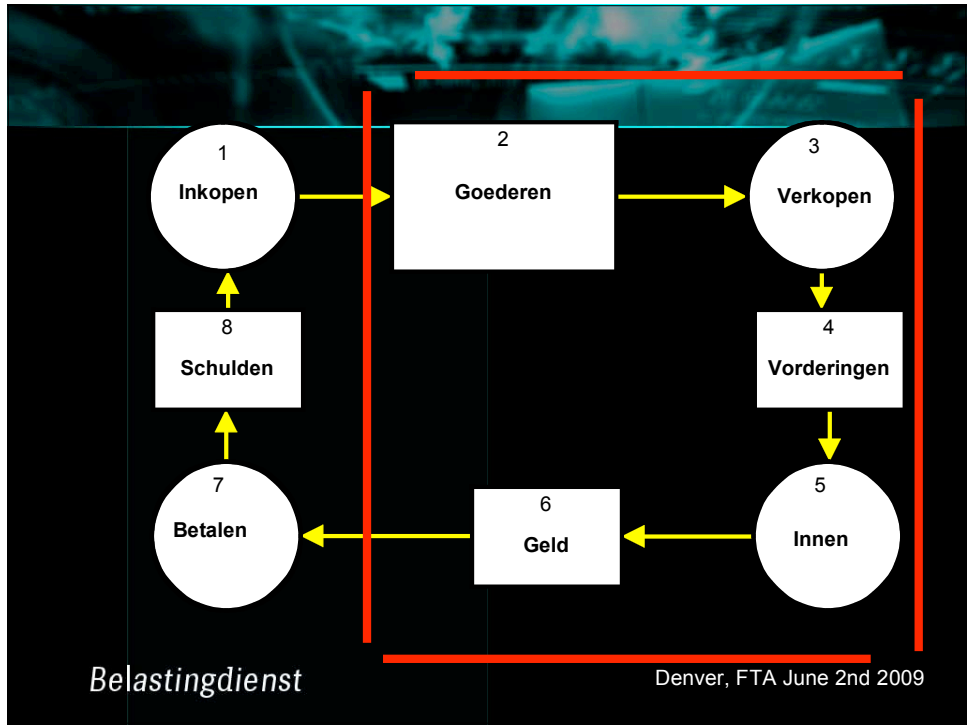
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How can WE solve it

▶ SOLUTIONS – PRESENT APPLICATIONS

- ▶ GREECE:
FEDs; FECRs, AFED Printers; FESDs
- ▶ GERMANY, INSIKA,
EMBEDDING SMART CARDS IN ECRs
- ▶ QUEBEC, CANADA,
MEV
- ▶ SWEDEN
CONTROL UNIT

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How can WE solve it

▶ SOLUTIONS – PRESENT APPLICATIONS

- ▶ totals > detailed data
- ▶ Secure box > Secure data
 - ▶ e-signing, PKI
- ▶ Secure data > Secure view
 - ▶ IT Aide dia
- ▶ Using Standards CEN, ISO, CC EAL
- ▶ CERTIFICATION OF THIRD PARTY SERVICE PROVIDERS
 - ▶ USA, SSUTA
 - ▶ SAAS ?

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How can WE solve it

- | | |
|---|------------------|
| <ul style="list-style-type: none"> ▶ Greece ▶ Turkey ▶ Hungary | Rules based |
| <ul style="list-style-type: none"> ▶ Sweden ↑ Control Unit ▶ Germany ↑ INSIKA | Principles based |
| <ul style="list-style-type: none"> ▶ United Kingdom ▶ France ▶ The Netherlands ▶ Belgium ▶ Ireland | |
| <ul style="list-style-type: none"> ▶ CANADA, USA, SERBIA | |

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How can WE solve it

- ▶ Greece
- ▶ Turkey
- ▶ Hungary

- ▶ Sweden ↑ **Control Unit**
- ▶ **Germany** ↑ **INSIKA**
- ▶ United Kingdom
- ▶ France
- ▶ The Netherlands
- ▶ Belgium
- ▶ Ireland
- ▶ **CANADA, USA, SERBIA**

Stakeholders
Standards
ISO, CEN, CC
Third Party's
SAAS, SSUTA

Rules Based
Or
Comply

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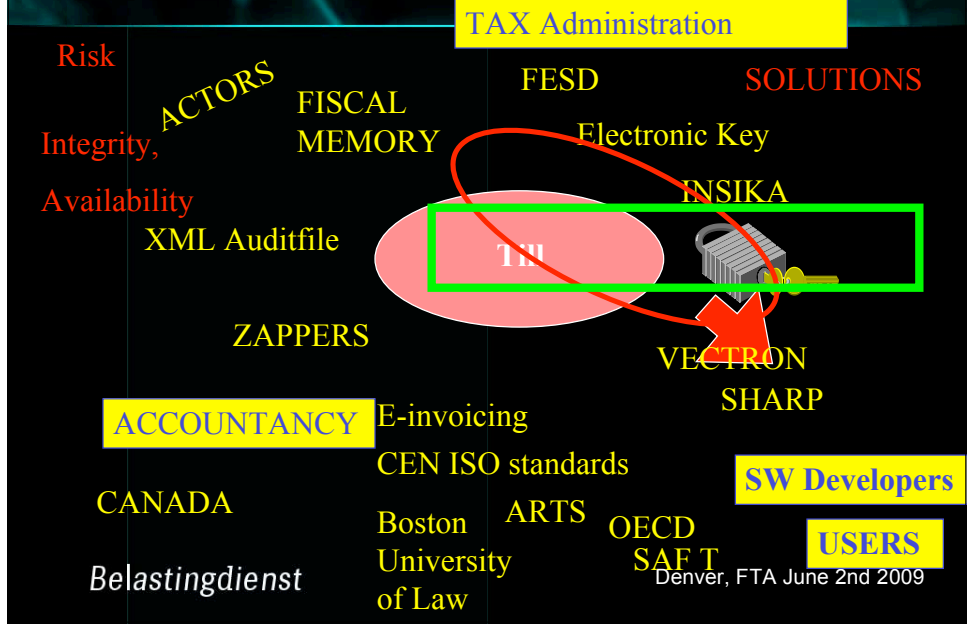
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ISO, CEN, UNCEFACT, CC
- ▶ **OECD to take the lead??**

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How can WE solve it



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

- Securing data
Are the transaction data secured against changes later on?
- Audit trail
Are the data retained and secured in such a manner that it can be traced back to how these data originated during an audit?
- Auditable within a reasonable period of time
Are the data being retained and are they accessible (or: are they in a readable/legible format) in such a manner that a tax audit can be made within a reasonable period of time?
After a certain time can the data still be produced or reproduced within a reasonable period of time? Even if a new (cash) payment system has been bought, or after a version change?
Has the audit file for cash registers been incorporated in the payment software?

2 XML Audit file for Cash registers (XAA)

2.1 A tool in tax audits

2.2 The XAA concept: some background information

2.3 Advantages of the XAA

2.4 XML platform

2.5 The XAA industry standard

2.6 Security and packing

2.7 Physical packing and exchange of data

2.8 Technical information

```

<!-- XML tagset used:      Standard XML
-->
<!-- Generated at:        02-07-2007 16:53:54
-->
<!-- Generated using:     EC-Design 1.3.5 (http://www.ec-design.nl)
-->
<!-- Generated by:        Jeffrey Outshoven, Robert Tenback van de Belastingdienst
-->
<!-- Organisation:        Branche Initiatieven
-->
<xsd:schema targetNamespace="http://www.auditfiles.nl/XAA/1.2"
xmlns:xaa="http://www.auditfiles.nl/XAA/1.2"
xmlns="http://www.auditfiles.nl/XAA/1.2"
baseURI="http://www.auditfiles.nl/XAA/1.2"
xmlns:xs="http://www.w3.org/2001/XMLSchema#"
-->

```

Account community auditfiles

www.oswo.nl/cso



EUROPEAN COMMISSION
DIRECTORATE-GENERAL
TAXATION AND CUSTOMS UNION
Indirect taxation and Tax administration
Administrative cooperation and fight against fiscal fraud

Restricted – for administrative use only

FISCALIS FPG 12

Cash Register Project Group

Cash Register Good Practice Guide

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CALIFORNIA ZAPPERS: A PROPOSAL FOR CALIFORNIA'S COMMISSION ON THE 21ST CENTURY ECONOMY

Boston University School of Law Working Paper No. 09-01
(January 8, 2009)

Richard T. Ainsworth

This paper can be downloaded without charge at:

<http://www.bu.edu/law/faculty/scholarship/workingpapers/2009.htm>

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Utskrift av journal

Restaurang: [Empty]

Kvitto med:
 Retur
 Hus/bjuder
 Rabatt
 Korrigering av kvitto
 Kvitto korrigerat
 Korrigering artikel

Kvitto datum från:
 Mellan: 2005-03-11 00:00 och 2005-03-11 23:59

Kvitto Tid från:
 Mellan: 00:00 och 23:59

POS nr: N° 1

Criteria number: [Empty] Filter på: [Empty]

Gäst Konton: [Empty]

Bill Total: Mellan: 0 och [Empty]

Betalning: All

Searching conditions: **och** eller

Visualize tickets in error: [Empty]

Buttons: Skapa kvitto, Unselect

15:05

Double-Click on the secret module

It is not that apparent what you need to do here, but by double clicking in the box in the lower left, entering an ID and a password, you will get to the next screen – the Electronic Journal (which can be adjusted).

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Elektronisk journal

Change password

End

Restaurant: [Empty] POS Nb: N° 1 Waiters: 2 CAFE 2, 3 SERV 3, 4 SERV 4, 5 SERV 5

Date: 2005-03-11 au 2005-03-11

Bill Total: Upper to: 0 Receipt time: Entre 00:00 och 23:59

List of tickets paid in cash

Date	Time	Nb ticket	POS	Wait	Type	Amount	Replaced by	Total removed
05-03-11	11:13	000002/1	1	1	Direkt	65,00 kr		
05-03-11	11:20	000003/1	1	1	Direkt	68,00 kr		
05-03-11	11:30	000004/1	1	1	Direkt	60,00 kr		
05-03-11	11:35	000005/1	1	1	Direkt	136,00 kr		
05-03-11	11:44	000006/1	1	1	Direkt	76,00 kr		
05-03-11	11:46	000007/1	1	1	Direkt	136,00 kr		
05-03-11	11:48	010001/2	1	1	Bord	45,00 kr		
05-03-11	11:49	000008/1	1	1	Direkt	68,00 kr		
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05-03-11	11:56	000014/1	1	1	Direkt	68,00 kr		
05-03-11	11:56	000015/1	1	1	Direkt	65,00 kr		
05-03-11	11:57	000016/1	1	1	Direkt	73,00 kr		
05-03-11	11:58	000017/1	1	1	Direkt	136,00 kr		
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05-03-11	12:04	000019/1	1	1	Direkt	65,00 kr		

Select the tickets to replace in the list

Total Sales: 40 836,31 kr Amount to remove: [Empty] Threshold amount: 100

- Total P Total: 0,00 kr

Total Gross: 40 836,31 kr

"Manipulate-able" Electronic Journal

Notice that we can either
 (1) select a ticket to adjust, or
 (2) auto-replace

So, assume we take the selection of a ticket approach ... (1).
 When we select the first item (ticket number 2/1) we then get ...

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Elektronisk journal

Restaurant: N:1 POS Nb: N:1 Waiters: 2 CAFE 2, 3 SERV 3, 4 SERV 4, 5 SERV 5 Date: 2005-03-11 au 2005-03-11

List of tickets paid in cash

134 P	60,00 kr
203 ESPRESSO	25,00 kr
534 FAUSTINO	238,00 kr
330 FLASKÖL 33CL	35,00 kr
334 FLASKÖL 50CL	45,00 kr
341 POLKÖL 33CL	25,00 kr
210 FYRA SMÅ RÄTTER	105,00 kr

Price Level: Normal

Replacement tickets

334 FLASKÖL 50CL	1	45,00 kr
------------------	---	----------

Total: 45,00 kr

List of replacement tickets

334 FLASKÖL 50CL	1	45,00 kr
Cash		45,00 kr
MOMS 25%		9,00 kr

Total Sales: 40 836,31 kr Amount to remove: Threshold amount: 100
Total P Total: 0,00 kr
Total Gross: 40 836,31 kr

Replace the Lunch Buffet (65,00) – with a beer (45,00)
Notice the price reduction (we could have gone lower) – Notice the tax reduction
The Swedish VAT is at 25%

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Elektronisk journal

Restaurant: N:1 POS Nb: N:1 Waiters: 2 CAFE 2, 3 SERV 3, 4 SERV 4, 5 SERV 5 Date: 2005-03-11 au 2005-03-11

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05-03-11	11:48	010001/2	1	1	Bord	45,00 kr		
05-03-11	11:49	000008/1	1	1	Direkt	68,00 kr		
05-03-11	11:54	000010/1	1	1	Direkt	68,00 kr		
05-03-11	11:55	000011/1	1	1	Direkt	68,00 kr		
05-03-11	11:55	000012/1	1	1	Direkt	130,00 kr		
05-03-11	11:55	000013/1	1	1	Direkt	35,00 kr		
05-03-11	11:56	000014/1	1	1	Direkt	68,00 kr		
05-03-11	11:56	000015/1	1	1	Direkt	65,00 kr		
05-03-11	11:57	000016/1	1	1	Direkt	73,00 kr		
05-03-11	11:58	000017/1	1	1	Direkt	136,00 kr		
05-03-11	11:59	000018/1	1	1	Direkt	65,00 kr		
05-03-11	12:04	000019/1	1	1	Direkt	65,00 kr		

Total Sales: 40 836,31 kr Amount to remove: Threshold amount: 100
Total P Total: 20,00 kr
Total Gross: 40 816,31 kr

Manipulated Electronic Journal (pro-forma)
Here is what we have done so far – is this enough manipulation?
Ticket 2/1 has been changed from 65,00 to 45,00 with a reduction of 20,00 on this ticket
There is a running total kept (in case you want to remove more)

Belastingdienst Denver, FTA June 2nd 2009

Nr	Namn	Ant	SUM
21	LUNCH B	1	65,00
1	KONTANT	1	65,00
	MOMS 25%	1	13,00
TOTAL KVITTO			65,00
Direkt			
Bord NR:0 POS number:1 Nyk nr:1			
2005-03-11 11:13 GÅST ANT:1 Kvitto NR:000002/1 Servit NR:1			

Original

Nr	Namn	Ant	SUM
334	FLASKÖL 50CL	1	45,00
1	KONTANT	1	45,00
	MOMS 25%	1	9,00
TOTAL KVITTO			45,00
Direkt			
Bord NR:0 POS number:1 Nyk nr:1			
2005-03-11 11:13 GÅST ANT:1 Kvitto NR:000002/1 Servit NR:1			

Manipulated

Comparison: Original & Manipulated Electronic Journal

Notice the reduction in gross sales & the reduction in tax.
If this record is tied into inventory control, adjustments in related purchases will be necessary
[some zappers will do this for you] because you may have just "sold" more beer than you ordered

Belastingdienst

Denver, FTA June 2nd 2009

Arkiv	Redigera	Format	Visa	Hjälp
A	334	1	4500?	
R	1	1	4500?	
X	1	1	900?	
C	0	2	OG	
D	0	1	1	1L
-1103051113000002/1 45000767000600.H				
F				
A	23	1	6800G	
R	1	1	6800D	
X	1	1	1360B	
C	0	2	OG	
D	0	1	1	1L
-1103051120000003/1 68000767600600.N				

Manipulated

A	21	1	6500H	
R	1	1	6500I	
X	1	1	1300P	
C	0	2	OG	
D	0	1	1	1L
-1103051113000002/1 650007670006001.H				

Original

Comparison of the TIC-files – Manipulated & Original

Notice the "?" in the Manipulated version in contrast with the letters "H", "I" & "P" in the original version. This one of the tell-tale signs of manipulation in this particular program. It may indicate that the system has not been correctly updated since the manipulation procedure.

Belastingdienst

Denver, FTA June 2nd 2009

**GRATULATIONS
ON WHAT YOU HAVE ACHIEVED !!**

Belastingdienst

Denver, FTA June 2nd 2009

How can WE solve it

- ▶ 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??

Belastingdienst

Denver, FTA June 2nd 2009