

OECD's Forum on Tax Administration publishes new report on tax authority-linked online cash registers

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Executive summary

The Organisation for Economic Co-operation and Development's (OECD) Forum on Tax Administration (FTA)¹ held its 12th plenary meeting in Santiago, Chile, on 26-28 March 2019. At this year's plenary, the FTA focused on four priorities:

- 1) Delivering on base erosion and profit shifting (BEPS) and tax certainty
- 2) Improving tax cooperation
- 3) Supporting the continued digitalization of tax administrations
- 4) Building capacity for developing countries

The high-level outcomes of the plenary are discussed in a separate EY Global Tax Alert.²

At the plenary, FTA members welcomed the publication of seven reports that provide tax administrations direct, practical assistance on the four priorities. *Implementing Online Cash Registers: Benefits, Considerations and Guidance*³ was one of the seven reports published.

This report describes how, in 2014, the Federal Tax Service of Russia (FTS) developed and started testing a new solution enabling the FTS to sustain online access to retail sales data generated by electronic cash registers equipped with secure fiscal data units. This system also has the functionality to transmit

data in real-time to the FTS servers. Following a successful pilot, legislation mandated the use of online cash registers in all retail businesses across Russia, through a phased implementation process.

The report notes how, after encouraging results from the first phase of implementation, Russia's FTS introduced its work to the FTA Bureau. As a result of the 2017 report, Russia's FTS, with coordination by the OECD's FTA and with assistance from many other FTA member countries, developed a "how-to" guide. This guide provides useful insights for other FTA members considering the introduction of online cash register systems in their own jurisdictions. The results of this work are detailed in the OECD report.

While potentially only affecting the retail sector, the report illustrates how advanced many tax authorities' digital agendas and capabilities have become, supported by widespread collaboration and sharing of leading practices.

Detailed discussion

In retail, sales data are a primary source of information that is critical for business management as well as tax reporting, payment and verification. Cash registers have been the primary tool for accurately recording business to consumer (B2C) sales transactions. They generate records and issue receipts indicating items and pricing, as well as providing proof of sales. The report notes that a previous OECD study in 2014⁴ found that technology in this area has been changing the way retail businesses operate and showed how tax compliance could become an integral part of the cash register systems businesses use to carry out their daily transactions.

The use of secure electronic cash registers provided an illustration of this changing landscape. They help to address issues of security, accuracy and reliability - including for reporting and verification purposes. However, as the use of transaction-recording and data-storage technology has increased among business, so has the sophistication of measures used by those attempting to commit fraud and evade tax, says the report.

Identified risks and recommendations

The 2014 research by the OECD identified numerous risks for tax administrations and businesses arising from the vulnerability of electronic cash register data to sales suppression and consequent under-reporting of income. These included:

- Integrity of transactions
- Software
- Internal memory
- External filing
- Reporting

Each risk area presents opportunities for sales data deletion, alteration or (in the case of the actual transactions) failure to be recorded, all of which could be performed by dishonest business owners and/or employees, including through purposeful misuse of hardware and software.

The OECD therefore recommends that tax administrations develop a strategy for tackling electronic sales suppression within their overall approach to tax compliance, improving detection and counter measures, and promoting voluntary compliance.

Progress at the point of sale

The report notes that since the 2014 recommendations, much progress has been made. Many tax administrations have seen success by implementing strategies to prevent sales suppression fraud, each seeking the right solution and manner of engaging with stakeholders depending on their respective national circumstances. For some jurisdictions, however, adopting online cash registers, a specific type of electronic cash register that dynamically submits data in real- or near real-time to the national tax authority, has played a significant role in such a strategy.

Online cash registers' main characteristic is their online connectivity with the tax administration. Sales data are shared automatically and systematically with the tax administration, triggered either by the sales system itself, or on demand by the tax administration. Many countries that have introduced online cash registers, according to the report, have recorded significant improvements in retail sector tax compliance.

From further exploration, understanding

At the September 2017 FTA plenary, Commissioners agreed to a proposal by Russia's FTS to lead a project to produce a report on experiences with implementing an online cash register system, as well as a "how-to" guide for those considering similar implementations.

This was not to suggest that using online cash registers was necessarily the optimal solution across the board. Rather, it was intended to assist tax authorities in determining the

potential costs and benefits, as well as providing countries with the benefit of lessons learned by those who previously designed and implemented such a system.

The report consists of four parts:

- 1) Chapter 1 provides a brief, broad description of electronic cash registers, including online cash registers, and the factors that tax administrations may want to take into account when considering options.
- 2) Chapter 2 focuses on the core elements of successful introduction of online cash registers including the business case, legal framework, stakeholder management and data management.
- 3) Chapter 3 discusses four short case studies (Hungary, Korea, Russia and Slovakia) of online cash register system implementation.
- 4) An Annex provides a “how-to” guide, developed by Russia’s FTS under the coordination of the OECD’s FTA, and with assistance from many other FTA member countries. The guide provides recommendations and guidance drawn from experiences of authorities that have introduced such online cash registers systems. It may also be useful to administrations considering the implementation of other types of secure electronic cash registers.

The report notes that findings have benefited from the participation of both FTA and non-FTA members.⁵ It also reflects the discussions, ideas and presentations from a workshop hosted by the National Tax and Customs Administration of Hungary, as well as findings and conclusions of a survey of participating tax administrations.

The report also notes that participating countries have reaped many benefits from mandating the use of secure electronic cash registers. These include:

- ▶ Better tax compliance through fewer opportunities for underreporting and increasing detection and enforcement efficacy and timeliness
- ▶ Protection of fair competition through increasing tax compliance
- ▶ Reduction of compliance burdens such as on-site audits thanks to increased data reliability
- ▶ Enhanced consumer protection against fraud and counterfeiting, and increased accuracy of purchases

General guidance, individual application

The above benefits aside, the report sets out that national tax administrations operate in varied environments that reflect their individual circumstances. Accordingly, the way they each administer their taxation system differs based on their policy and legislative environment and further reflecting their administrative practice and culture. Accordingly, a standard approach to tax administration may be neither practical nor desirable.

This report and the observations it makes must therefore be interpreted with these factors in mind. The consideration of country-specific practices is requisite to fully appreciate the complex factors that have shaped a particular approach, says the report. Similarly, each administration has to consider its distinct challenges and priorities.

Implications

The use of online, tax authority-linked cash register systems is gaining momentum, evidenced by their successful implementation in many countries. The report notes that for tax authorities, awareness of the benefits and risks associated with these systems can prepare them for the future. Taking the initiative to explore how such a system may benefit the authority may be a worthwhile next step, but must be taken in stride with considering individual existing systems, approaches and challenges.

For businesses, the reality is that the use of tax authority-linked, online cash register systems is indicated to be increasing and their successful implementation in a number of countries - coupled with continuing research and collaboration among tax authorities - implies future implementation by many tax authorities currently not employing them. Understanding the current state of one’s business and the effects that such online cash register systems would have on investment and operations may help businesses prepare for a potential implementation.

More widely, the growing implementation of online cash register systems illustrates the rapid pace of digitalization of many financial reporting and tax compliance requirements. It also provides further insight into the types of end-to-end digital compliance management that is now the goal of many national tax authorities.

Endnotes

1. The FTA is a subsidiary body of the OECD. It was created in July 2002 by the OECD's Committee on Fiscal Affairs, with the aim of promoting dialogue between tax administrations and identifying good tax administration practices. At the time of the Chile meeting, the FTA comprised 53 member countries.
2. See EY Global Tax Alert, [*OECD's Forum on Tax Administration agrees on collective actions on tax certainty, cooperation and digital transformation*](#), dated 29 March 2019.
3. <http://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/implementing-online-cash-registers-benefits-considerations-and-guidance.pdf>.
4. [Technology Tools to Tackle Tax Evasion and Tax Fraud - OECD, 2014: https://www.oecd.org/tax/crime/technology-tools-to-tackle-tax-evasion-and-tax-fraud.pdf](https://www.oecd.org/tax/crime/technology-tools-to-tackle-tax-evasion-and-tax-fraud.pdf).
5. Full list of contributing countries: Armenia, Australia, Azerbaijan, Belarus, Belgium, Cambodia, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, India, Indonesia, Italy, Latvia, Lithuania, Luxembourg, Mexico, Norway, Poland, Portugal, Republic of Korea, Russia, Singapore, Slovak Republic, Slovenia, South Africa, Spain, Sweden and the United Kingdom.

For additional information with respect to this Alert, please contact the following:

Ernst & Young LLP (United States), Dallas

- ▶ Tony LaBove tony.labove@ey.com

Ernst & Young LLP (United States), Houston

- ▶ Carolyn Bailey carolyn.bailey@ey.com

Ernst & Young LLP (United States), Washington, DC

- ▶ Rob Thomas rob.l.thomas1@ey.com

Ernst & Young LLP (United Kingdom), London

- ▶ Chris Sanger csanger@uk.ey.com

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