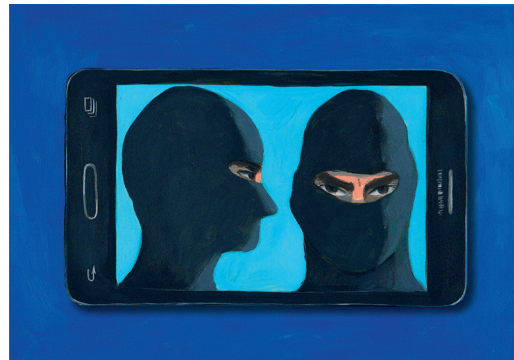


Tax crimes: The fight goes digital

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Tax has been a high-profile topic in recent years. People often think of large-scale tax avoidance by huge multinationals—which the OECD has estimated at between US\$100-240 billion in lost revenue annually. However, tax evasion and fraud go on every day, and may be happening right at your local restaurant, bar, grocery store or hairdresser’s.

In the digital world, everyday tax evasion can be facilitated even more by taxpayers using readily available technology to evade tax. Previously, tax evasion in small businesses could be undertaken simply by accepting cash under the table or keeping a separate set of books.

Now, the same outcomes can be achieved even more efficiently, using software such as “zappers” and “phantomware.” Zappers physically prevent sales from appearing on the records. Phantomware creates virtual sales terminals for the same purpose. Both allow businesses to selectively delete or reduce their sales figures without leaving a trace of any alteration. The taxpayer reports lower sales and lower taxable income, all the while retaining the actual profit. This type of evasion and fraud (called “electronic sales suppression”) makes it hard for tax authorities to detect any discrepancies. These types of tax evasion technologies are also now becoming available over the internet, which can make it harder for tax authorities to control and penalise.

Not only that, but taxpayers can also evade tax by over-reporting their deductions. This can occur by creating false invoices that look genuine but where no outgoings have actually been paid. This fraudulently reduces taxable income, causing

substantial revenue losses to the government. For example, in the Slovak Republic, the amount of risky VAT detected in domestic invoicing fraud in 2014 and 2015 was more than half a billion euros.

Tax authorities also face challenges in the online-sharing economy through online ride-sharing and home-sharing marketplaces. These online-sharing platforms—which are, of course, legal—can generate taxable income for taxpayers, but which may not be reported and stay under the radar of the tax authority. However, tax authorities are catching up.

The OECD’s new report *Technology Tools to Tackle Tax Evasion and Tax Fraud* shows how technology is being used by tax administrations around the world as a powerful tool to swiftly identify and tackle tax evasion and tax fraud. The report details countries’ technical experience and revenue successes from implementing technology tools, particularly to counter electronic sales suppression and false invoicing.

It demonstrates how easy and effective these technology tools can be. For example, a number of technology solutions to combat electronic sales suppression are available, which can include a tamper-proof black box installed in point-of-sales machines as well as real-time transaction-reporting to the tax authority. The results are impressive. Sweden experienced an increased tax revenue of €300 million per annum. Rwanda and Hungary both saw significant VAT increases: 20% in Rwanda within two years of introducing this solution and 15% in Hungary in the first year of operation, which more than covered implementation costs. Mexico brought 4.2 million micro-businesses into the formal economy as a result of e-invoicing. And in Quebec, Canada, not only was substantial revenue recovered, but it enabled the tax authority to conduct audits more efficiently, with the number of inspections being increased from 120 to 8,000 per year.

The report also shares successes in using technology to tackle false invoicing. Countries have already shown that using electronic invoicing solutions can prevent and reduce tax

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evasion : invoices can be verified as authentic using digital signatures and online verification tools. It can also make tax compliance easier for businesses where electronic documentation replaces paper-based audits or reporting obligations.

Finally, the report describes the emerging tools tax authorities are using to detect online business activity. It notes that this is likely to be a growing area for tax authorities in the digital world.

Besides detailing the technical features of these solutions, the report also explains best practices for effectively implementing them. By sharing these successes and best practices, it is hoped that other tax authorities can leverage this information and give consideration to how they might quickly implement similar solutions.

Not only can this mean more revenue for public services, but it has a preventative and deterrent effect, and levels the playing field for compliant businesses that pay their fair share of taxes.

This report is part of an ongoing series of reports on tax and technology, which is produced by the OECD's Task Force on Tax Crime and Other Crimes. The Task Force furthers the work of the Oslo Dialogue, which promotes a whole-of-government approach to fighting tax crimes and illicit flows.

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References and links

www.oecd.org/tax/crime/

www.oecd.org/ctp/crime/publications-and-reports-on-tax-crime.htm