

Fighting Tax Evasion with Sales Reporting Management

As tax evaders become increasingly advanced in their methods for skimming cash receipts, governments are challenged to keep pace. CGI helps public sector clients fight tax evasion in cash-based industries with a sophisticated technology solution implemented at Revenu Québec, one of the largest revenue agencies in North America.

SALES TAX EVASION: A SIGNIFICANT ISSUE FOR STATES

Skimming of cash transactions and underreporting of sales by merchants have been significant, ongoing problems since the inception of sales taxes. The challenge deepened in the mid-1990's as sales suppression software, also referred to as zapper software, became available to easily erase or modify transactions from electronic cash registers (ECR) or point of sale (POS) systems.

This software allows cash transactions to be hidden, with two sets of books created: one, an accurate set for the business owner, and a second set that "zaps" a sizable percentage of the cash transactions. This allows business owners to more easily hide sales and avoid hundreds of thousands of dollars in taxes that they collected at the point of sale. It also allows the business owner to avoid income taxes from those transactions. This kind of fraud is extremely difficult for tax agencies to detect, employing traditional audit activities.

CGI estimates that in the restaurant industry alone, States are losing \$2.1 billion per year from skimming, zappers and other forms of sales tax evasion.

A PROVEN SOLUTION

The Province of Québec passed legislation requiring the use of an electronic transaction lockbox that could not be altered by zapper software. This device captures all information entered into an ECR or POS, and places a barcode on each receipt to demonstrate that the device is in use, thereby guarding against both traditional skimming and zapper software. Revenu Québec partnered with CGI as its principal provider to implement the **Sales Reporting Management** solution. The public was also enlisted to report to tax authorities about merchants that did not provide a receipt with a barcode. To avoid having this effort being deemed an unfunded mandate, the Province gave each merchant a 100% rebate for the cost of the device and also subsidized the ECR or POS, if required.



RESOUNDING RESULTS

Despite many approaches to fighting tax evasion in the restaurant industry, the Province of Québec estimated it was losing hundreds of millions per year from traditional skimming and tax "zappers." After implementing a program including advanced technology, Québec now expects tax recovery of approximately \$2.1 billion by 2018-2019. From September 2011-September 2014, the Québec government recovered \$673 million in lost taxes.

"It's hard to compete with restaurant owners who are not paying taxes. We conduct our business honestly and welcome such a project. That's why we got on board with the pilot project. If the playing field is level, I believe that we'll rapidly see a difference."

— Representative of the restaurant Le Cartier, La Tribune, January 16, 2010

ENSURING INDUSTRY COLLABORATION

While tax agencies overwhelmingly agree that this approach makes good business sense, multiple stakeholders need to be informed about this solution as it is an opportunity for states to raise revenue without raising taxes. The Revenu Québec example demonstrates how working closely with key stakeholders in the solution process can ensure project success.

During its implementation, Revenu Québec worked to obtain the cooperation of several business partners, including trade associations, cash register manufacturers, POS systems designers, and installers of the transaction lockbox device itself. Once presented with the issues and an approach to refund the cost of devices, the industry associations provided their support to assure fairness across the industry.

PRESERVING DATA SECURITY AND INTEGRITY

Ensuring the security and integrity of data gathered was an essential part of this effort, and mechanisms were implemented to record the sale information without loss of data or disruption in the printing of bills. The solution also had to detect any attempt at physical intrusion of device data or software manipulation.

PILOT APPROACH

For States interested in pursuing a Sales Reporting Management (SRM) approach, but are not ready for a full-scale implementation, a pilot approach is an excellent first step. This allows the State to use existing statutes to determine the true magnitude of the problem, verify potential results, and show the industry how minimal operational impacts can be. During a pilot, States would typically select 500-1,000 taxpayers to utilize the SRM. This would allow the State to proceed without any new legislation as tax agencies already have the authority to conduct audits as they deem appropriate.

Expected pilot benefits

Based on an extrapolation of the actual benefits realized by the Province of Québec, CGI expects a state to achieve benefits that far exceed the cost of performing a pilot. In addition, the pilot helps the State estimate the rate of non-compliance and the estimated benefits from a full rollout. A pilot also provides as a strong business case to expand the implementation. The pilot also helps guide the new legislation for a full rollout.

ABOUT CGI

Founded in 1976, CGI is the world's fifth largest independent information technology and business process services firm. With annualized revenue of over CAD\$10 billion, CGI has 68,000 professionals in hundreds of offices worldwide.

CGI IN TAX, REVENUE AND OBLIGATION RECOVERY

CGI has been at the forefront of the evolution of tax management through successful partnerships with government organizations. Our solutions and services have helped government clients certify \$5 billion in increased revenues, money that would not have been collected, except for our projects.

For nearly three decades, we have made it our business to understand the management of government tax administration and debt collection. We provide both first-class software programs as well as true subject matter experts to implement the best practices for our clients. We offer a proven and effective approach to implementing software solutions that has led to successful delivery for government agencies around the globe.

CONTACT

For more information on our tax, revenue, and collection services and solutions, visit us at www.cgi.com/tax or email us at tax.solutions@cgi.com