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Forum on Strategic Management

NOTE BY THE SECRETARIAT ON HOW IMPLEMENTATION OPTIONS IN THE OTTAWA DISCUSSION PAPER MAY BE PROGRESSED

(Note by the Secretariat)

This document is submitted to the FSM Sub Group on Electronic Commerce FOR DISCUSSION through a written procedure via the Electronic Discussion Group. Comments are requested by 13 December 1999.

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Action Required

Delegates are invited to provide written comments to the Secretariat, by **13 December 1999**, on the analysis, presented below, of how to progress the taxpayer service and tax administration implementation options contained in the paper; Electronic Commerce: A Discussion Paper on the Taxation Issues.

Comments should be sent to the electronic discussion group at <http://appli1.oecd.org/daf/CFAForumSM.nsf> or to Violet Sochay, e-mail: violet.sochay@oecd.org or fax: +33 1 44 30 63 12.

Executive Summary

1. In September 1998, the Committee on Fiscal Affairs released a paper, Electronic Commerce: A Discussion Paper on the Taxation Issues [DAFFE/CFA(98)50] (the discussion paper), to accompany the Taxation Framework Conditions report [DAFFE/CFA(99)38/REV3]. The discussion paper contained 28 implementation options giving practical means by which the principles contained in the Taxation Framework Conditions could be implemented. At the first meeting of the Steering Group of the Forum on Strategic Management (FSM) in February 1999, that group asked, on behalf of the FSM, that the newly formed electronic commerce sub-group of the FSM prepare a report detailing where:

- Tax administrations could progress the implementation options (where it is within their own authority);
- Tax administrations should recommend law changes to Treasury/Finance departments to progress the implementation options (where this is required); or
- Tax administrations should lobby other departments or organisations to progress the implementation options.

2. The Steering Group also requested an opinion as to whether, if the implementation options were implemented, they would assist in dealing with the key electronic commerce administration issues.

3. This note has been prepared by the Secretariat. It only addresses the implementation options characterised as being taxpayer service or tax administration options as these fall within the scope of the mandate of the FSM. This note does not address the issue of whether the implementation options, if implemented, would assist in dealing with the key electronic commerce administration matters as this is still under discussion. The paper has been prepared on the basis of discussions at the June 1999 meeting of the electronic commerce sub-group of the FSM and any subsequent comments by FSM delegates. The note is prepared for consideration and comment by the FSM, through a written procedure. Comments should be provided to the Secretariat by **13 December 1999**. A revised note, taking account of comments received, will be prepared, if required, before Christmas for further consideration and finalisation by the FSM in the New Year.

4. In summary, the taxpayer service options could be progressed domestically by Revenue authorities according to their own domestic legislation and policy environment. In addition, option 9, dealing with businesses engaged in electronic commerce identifying themselves to Revenue authorities in a manner comparable to businesses engaged in conventional commerce could also be progressed domestically by Revenue authorities. In relation to the remaining tax administration options, the note finds that all could be progressed domestically subject to the domestic or supra-national (e.g. European Union) legislation and policy environment. However, it also finds that all would be better progressed by international co-operation between Revenue authorities. Implementation option 10, regarding the encouragement of business practices that would provide easier identification of businesses engaged in electronic commerce, is the only option where it would appear that Revenue authorities must work closely with other bodies. In the case of implementation options 11 through 16 inclusive, Revenue authorities could work to prepare a collective view and to communicate it to other parties, but it is largely a question for those other parties as to what weight they give to the views expressed. In the case of implementation option 10, it may be that Revenue authorities work with other bodies to develop compatible views on areas of mutual interest.

Progress of the taxpayer service and tax administration implementation options

5. Delegates are invited to provide written comments to the Secretariat, by **13 December 1999**, on the analysis, presented below, of how to progress the taxpayer service and tax administration implementation options contained in the paper; Electronic Commerce: A Discussion Paper on the Taxation Issues [DAFFE/CFA(98)50] (the discussion paper). Comments should be sent to the electronic discussion group at <http://appli1.oecd.org/daf/CFAForumSM.nsf> or to Violet Sochay, e-mail: violet.sochay@oecd.org or fax: +33 1 44 30 63 12. A revised note, taking account of comments received, will be prepared, if required, before Christmas for further consideration and finalisation by the FSM in the New Year.

Background

1. In September 1998, the Committee on Fiscal Affairs released the discussion paper, to accompany the Taxation Framework Conditions report [DAFFE/CFA(99)38/REV3]. The discussion paper contained 28 implementation options giving practical means by which the principles contained in the Taxation Framework Conditions could be implemented. At the first meeting of the Steering Group of the Forum on Strategic Management (FSM) in February 1999, that group asked, on behalf of the FSM, that the newly formed electronic commerce sub-group of the FSM prepare a report detailing where:

- Tax administrations could progress the implementation options (where it is within their own authority);
- Tax administrations should recommend law changes to Treasury/Finance departments to progress the implementation options (where this is required); or
- Tax administrations should lobby other departments or organisations to progress the implementation options.

2. The Steering Group also requested an opinion as to whether, if the implementation options were implemented, they would assist in dealing with the key electronic commerce administration issues.

3. This note has been prepared by the Secretariat. It only addresses the implementation options characterised as being taxpayer service or tax administration options as these fall within the scope of the mandate of the FSM. For these implementation options, it does not address the issue of whether the implementation options, if implemented, would assist in dealing with the key electronic commerce administration matters as this is still under consideration.

4. In order to address effectively the request made by the Steering Group of the FSM, the differentiation categories have been slightly modified. It was found that the variation between countries as to whether the tax administration and tax policy functions were undertaken by the same or different organisations and, where they are undertaken by different organisations, the division of the functions, between organisations in each country, made it impossible to provide a meaningful answer to whether implementation options could be advanced by tax administrations alone, or in concert with tax policy organisations. Instead, a more useful division is to group tax administration organisations and tax policy organisations under the heading, Revenue authorities.

5. Having established the wider category of Revenue authorities, consideration is then required as to whether the implementation options can be advanced by a Revenue authority domestically or in co-operation with other Revenue authorities. Further there is also consideration as to whether Revenue authorities, at either the domestic or international level, will need to work in co-operation with other groups. This combination of factors gives four categories as illustrated below:

Domestic Revenue authority, alone	International co-operation between Revenue authorities
Domestic Revenue authority with others within the domestic economy	International co-operation between Revenue authorities and with others in the international environment

6. Where it appears that a Revenue authority may be able to progress an implementation option domestically, further consideration is given as to whether that unilateral action is likely to be detrimental to either the country progressing the option or to other countries.

7. Using these classifications, each of the taxpayer service and tax administration implementation options is analysed in turn below.

8. In each case it should be noted that a Revenue authority must take into account its domestic and supra-national (e.g. European Union) policy and legislative environment. For example, Revenue authorities may need to consider such matters as tax policy objectives, privacy laws or requirements in relation to the security of government Internet sites when considering the implementation options.

Analysis

Implementation Option 1

Revenue authorities may consider developing Internet web sites offering up to date information and providing taxpayer guidance

- a) Many Revenue authorities have established web sites where information, such as tax legislation, rulings, case law, revenue statistics and forms can be viewed and downloaded.
- b) In addition, the new technologies may allow for 'intelligent' electronic tax forms to be produced which guide a taxpayer through the form, providing context sensitive help or explanations, automating calculations and ensuring that all necessary details are included before finalisation. Such technologies offer the potential for reduced information processing costs by ensuring completeness and accuracy of data entered into Revenue authority systems as well as providing taxpayers with assistance and a degree of assurance in meeting their tax obligations.
- c) Further, Revenue authority web sites could be configured to provide taxpayer specific responses to appropriately qualified taxpayers, providing the potential for private advice to be provided remotely or to mobile clients at a faster speed than can be achieved with conventional mail.

9. This implementation option could be progressed domestically by the Revenue authority of a country, subject to its legislative and policy environment. It deals with primarily domestic taxpayer service matters which, if implemented unilaterally are not expected to have a detrimental effect on either the country implementing them or any other country.

10. Twenty-seven of the twenty-nine member countries, and the European Commission, already have Internet web-sites¹ providing some type of taxpayer service information.

Implementation Option 2

Revenue authorities may consider interactive telephone answering systems for many standard inquiries

1 . http://www.oecd.org/daf/fa/links/links_mem.htm

- a) Some simple client inquiries may now be capable of being answered without human intervention on the part of the Revenue authority, although the responses tend to be generic. By use of appropriate identifiers to protect privacy and taxpayer confidentiality, interactive telephone systems linked to the database of the Revenue authority could be used to provide taxpayer-specific information.
- b) Developments in telephone technologies and their convergence with information technology could extend the versatility of widely-accepted telephone technology to allow the taxpayer to have timely access to the most current information tailored to the specific circumstances of that taxpayer.

11. This implementation option could be progressed domestically by the Revenue authority of a country, subject to the legislative and policy environment. It deals with primarily domestic taxpayer service matters which, if implemented unilaterally are not expected to have a detrimental effect on either the country implementing them or any other country.

Implementation Option 3

Revenue authorities may consider a single e-mail access point for highly mobile taxpayers

- a) Many taxpayers change address frequently and this can lead to instances where important mail does not reach them. Where a taxpayer has an e-mail address this could be used to deliver Revenue authority mail, avoiding the cost and inconvenience of mis-directed mail. While security and integrity issues would need to be considered, these might be addressed by the taxpayer accessing the e-mail, using password, digital certificate or smart card authentication.
- b) Alternatively, Revenue authorities, alone, or as part of a single entry point initiative, could establish e-mail post-boxes for clients to which government mail could be delivered, relieving the taxpayer of the cost of maintaining an e-mail post-box and of the need to redirect e-mail due to changes in e-mail providers.

12. This implementation option could be progressed domestically by the Revenue authority of a country, subject to the legislative and policy environment. It deals with primarily domestic taxpayer service matters which, if implemented unilaterally are not expected to have a detrimental effect on either the country implementing them or any other country.

13. Internet e-mail accounts² are a proven technology and, recently institutions, like Universities, have started offering free e-mail accounts to alumni³. In the latter case, the service is desirable and the advantage to the providers is that they are able to keep contact with their "market". Revenue authorities could potentially obtain the same advantages. This implementation option could be progressed domestically by the Revenue authority of a country, subject to the legislative and policy environment. It deals with primarily domestic taxpayer service matters which, if implemented unilaterally are not expected to have a detrimental effect on either the country implementing them or any other country.

2 . e.g. hotmail (www.hotmail.com), yahoo mail (www.yahoo.com), iname (www.iname.com)

3 . anecdotal evidence suggests Stanford University as an example.

14. If a Revenue authority elects to use digital certificate technology to implement this option it is recommended that this aspect be undertaken in an internationally co-ordinated way amongst Revenue authorities and involve bodies associated with setting international standards for digital certificate technologies⁴. The use, by Revenue authorities, of mutually acceptable digital certificates, particularly those which are consistent with wider international standards, is expected to greatly enhance the capacity of Revenue authorities to properly identify, and possibly determine the taxable jurisdiction of, taxpayers as well as assisting in exchange of information under Article 26 of the OECD Model Tax Convention. Such capacity would greatly reduce the risk of double taxation and unintentional non-taxation.

15. If Revenue authorities introduce digital certificates that are not internationally compatible then the potential benefits, for exchange of information for example, may be lost. This is only a lost opportunity and not an actual impediment to tax administration.

16. The Tax Information Exchange Systems (TIES) sub-group of Working Party No.8 has been asked to develop an automated exchange of information specification and their draft task plan indicates that they will examine digital certificates in this context. The chair of the TIES sub-group has been invited to attend the meetings of the electronic commerce sub-group of the FSM to ensure exchange of ideas on this issue.

Implementation Option 4

Revenue authorities may consider receiving and responding to taxpayer service enquiries by e-mail

- a) E-mail offers the advantages of physical mail to address privately a specific matter, to allow for full discussion and consideration of the particular circumstances associated with that matter. However, e-mail also can offer the advantage of faster delivery, particularly over long distances and, within an organisation, to route more quickly the correspondence to the most appropriate officer.
- b) Issues such as confirming the identity of the taxpayer to ensure privacy and confidentiality and to ensure the integrity of the messages need to be considered.
- c) In addition to providing a service to taxpayers, such technologies may allow for more flexible or lower cost work practices such as telecommuting or e-mail 'call centres'.

17. This implementation option could be progressed domestically by the Revenue authority of a country, subject to the legislative and policy environment. It deals with primarily domestic taxpayer service matters which, if implemented unilaterally are not expected to have a detrimental effect on either the country implementing them or any other country.

Implementation Option 5

Revenue authorities may consider direct deposit programs for tax payments and refunds

- a) Direct deposit could be used for issuing refunds for taxpayers who have accounts with financial institutions. Direct deposit, depending upon the national implementation, has a number of advantages over the traditional methods of government payments. It can offer

4. The X. 509 Standard seems to be emerging as the international standard for digital certificates.

clients a safe, convenient, dependable, and timesaving way of receiving payments, and can reduce government costs through reduced fees and postage. Business clients can also have their VAT refunds and rebates deposited directly.

- b) Enhancing the capacity of Revenue authorities to accept electronic forms of payment and encouraging the use of electronic forms of payment (e.g. taxpayer authorised direct debits, automated periodic payments and electronic funds transfers) can also reduce administrative costs and public debt interest.

18. This implementation option could be progressed domestically by the Revenue authority of a country, subject to the legislative and policy environment. It deals with primarily domestic taxpayer service matters which, if implemented unilaterally are not expected to have a detrimental effect on either the country implementing them or any other country.

19. It is known that many member countries are accepting banking system transfers for the payment of tax assessments and to provide direct credits for refunds. The United States is also allowing payment of assessments by selected credit cards where the taxpayer also agrees to pay the administrative charge levied by the credit card provider.

Implementation Option 6

Revenue authorities may consider accepting tax return data and other information by the use of the new technologies

- a) Many Revenue authorities accept tax returns in electronic form, on magnetic media or via dedicated telecommunications channels. The advantages of electronic filing can include accuracy of tax data, reduced costs to the public and to tax authorities, reduced paper use and fast processing of returns. Electronic filing can be used by individuals, companies and other entities who complete their own returns, or by those who use the services of a tax professional. Appropriate security measures are needed to ensure that tax information remains confidential and that Revenue authority computer systems are secure.
- b) One of the issues associated with electronic transmission of such forms (as opposed to physical transmission on magnetic media) has been the costs and capacity of transmission. Revenue authorities could only operate a limited number of connections and so these tended to be allocated to tax professionals or other service providers who could transmit tax information on behalf of their clients. This allowed these service providers to spread the costs associated with the transmission facilities over a large client base, reducing the cost for individual taxpayers. The new technologies reduce the costs of electronic transmission to within the reach of individual taxpayers and, where businesses are using the new technologies for commerce, the cost of using them for taxation filing will be marginal. As such, Revenue authorities may consider accepting tax data electronically to reduce the costs of this existing obligation.
- c) Further, where current practices limit the variety of forms which can be accepted electronically or where electronic forms are only acceptable from a certain class of taxpayers, Revenue authorities may consider increasing the range of forms that can be accepted electronically and the range of taxpayers entitled to file electronic forms.

20. This implementation option could be progressed domestically by the Revenue authority of a country, subject to the legislative and policy environment. It deals with primarily domestic taxpayer

service matters which, if implemented unilaterally are not expected to have a detrimental effect on either the country implementing them or any other country.

21. A number of countries have long experience with electronic filing or lodgement and are progressively increasing the range and flexibility of the facilities.

Implementation Option 7

Revenue authorities may consider automated payments of social security, payroll taxes and other similar deductions

- a) Where there are regular, relatively constant, periodic payments from a business, such as for payroll deductions, Revenue authorities may consider accepting electronically payments from any employer who elects to forward them in this manner. Where such procedures have been implemented by Revenue authorities, the need for employers to file tapes or paper is substantially reduced.

22. This implementation option could be progressed domestically by the Revenue authority of a country, subject to the legislative and policy environment. It deals with primarily domestic taxpayer service matters which, if implemented unilaterally are not expected to have a detrimental effect on either the country implementing them or any other country.

23. Where social security, payroll taxes or similar deductions are not the responsibility of the Revenue authority of a country, this implementation option will obviously require co-operation with the responsible domestic organisation or organisations. However, it could be domestically implemented by a country.

Implementation Option 8

Revenue authorities may consider working with other arms of Government to investigate the benefits of single Government registration points on the Internet

- a) A number of Member countries are considering initiatives such as a single registration form for a range of government services. One way of translating this to the electronic commerce environment may be for governments to establish a single website entry point for clients that allows common registration information to be sent to relevant Government agencies such as Revenue authorities, superannuation and corporate registration agencies, for example, in a single process.
- b) This streamlining across agencies can also be reflected within agencies with the information being automatically updated by relevant sub-sections within an agency, in the consumption tax and payroll tax areas of a Revenue authority for example.
- c) By creating a single registration point, duplicate paperwork is reduced for initial registration and for other events such as change of address notifications.

24. This implementation option explicitly requires co-operation between Revenue authorities and other arms of government. However it could be progressed domestically within a country if this co-

operation was achieved. The option deals primarily with domestic service matters which, if implemented unilaterally are not expected to have a detrimental effect on either the country implementing them or any other country.

Implementation Option 9

Revenue authorities may consider requiring that business engaged in electronic commerce identify themselves to Revenue authorities in a manner that is comparable to the prevailing requirements for businesses engaged in conventional commerce in a country

- a) The existing process of identification may include, for example, the requirement to complete and submit a tax return, to notify a liability to taxation, to notify changes of name or address, to register for instalments of company tax, or as an employer for employee withholding tax, or for exemptions from tax or for consumption tax purposes.
- b) In conjunction with Implementation Option 8, above, (single Government registration point), this option may offer a mechanism by which enterprises engaged in electronic commerce can meet some of their tax obligations in a cost effective manner.

25. At their meeting in June 1999, the electronic commerce sub-group of the FSM indicated that implementation option 9, on taxpayer identification, could be implemented domestically by Revenue authorities acting independently and according to their domestic legislation. There is some evidence that this is already taking place where tax administrations are beginning to accept tax returns via the Internet with the aid of digital certificates or other identifiers for example.

Implementation Option 10

Revenue authorities may consider encouraging business practices that identify businesses engaged in electronic commerce

- a) Revenue authorities recognise that many businesses will provide information on their web sites and other electronic places of business which can be used to accurately identify the business and its physical location, (e.g. registered trading name, a physical or mailing address, telephone and facsimile numbers etc.) so as to engender consumer confidence amongst other things. As this is the type of information which Revenue authorities have traditionally required of businesses, it would be helpful if it is provided as a matter of common business practice.

26. It is acknowledged that this implementation option could be progressed domestically by a Revenue authority negotiating with the business community of that country or through government legislation in a country. However, due to the global nature of the Internet and the current weaknesses in accurately determining whether a particular business has a jurisdictional link with any particular country, it is felt that unilateral implementation would prove to be less effective than internationally co-ordinated implementation.

27. The alternative is that Revenue authorities work in co-operation to have comparable requirements in each jurisdiction such that the vast majority of businesses engaged in Internet electronic commerce are subject to the same or similar requirements. Further, it would appear that Revenue authorities are not alone in their view that such practices would be desirable.

28. At their meeting in June 1999, the electronic commerce sub-group of the FSM indicated that there were aspects of this implementation option that may need to be considered in conjunction with work on other matters such as consumer protection and intellectual property rights. The sub-group considered that international standards bodies might need to be influenced to fully progress this option.

29. In the field of consumer protection there are international discussions about the use of “assurance seals”. Assurance seals are seals issued by third parties to businesses engaged in Internet electronic commerce signifying that the business engages in “good behaviour” in one or more fields like; protection of personal information, accurate product descriptions, reliable delivery and reasonable dispute resolution processes. In the case of more robust assurance seals, the issuing body collects and stores the name of the Internet business operator and physical contact information like physical address, telephone and facsimile.

30. The Professional Data Assessment (PDA) TAG and the Technology TAG have both indicated, in their workplans, that they may look at assurance seals. The Technology TAG will be investigating whether the identification and jurisdictional elements can be standardised to assisted automated determinations and interoperability. The PDA TAG is more concerned with the issue of the robustness of the seals - the types of information collected, it’s validation and accessibility to third parties.

31. In the field of intellectual property protection, the World Intellectual Property Organisation (WIPO) has proposed a robust registration regime to the Internet Corporation for assigned Names and Numbers (ICANN). Their submission included the collection and storage of physical contact information. The Technology TAG has identified ICANN as one of the standards bodies that it could monitor and to which the CFA could make submissions about such matters as the relationship between an Internet site and its physical operations.

32. There are also “good business practice” guides which advocate providing physical contact information on Internet sites as a means by which to improve customer confidence. The CFA has invited participants from Consumers International to participate in the Technology TAG as one means by which we could explore areas of mutual interest in having Internet sites which can be linked to persons or incorporated entities.

33. As the views of Revenue authorities are shared by a number of other groups, it is recommended that this option be progressed by co-operation amongst Revenue authorities and in co-operation with those other bodies that have similar views. Where there are domestic bodies which may have convergent interests to Revenue authorities in relation to this option (e.g. consumer protection or intellectual property rights groups) then it may be useful for Revenue authorities to have discussions with these other groups at the domestic level to mirror the collective discussions at the international level.

Implementation Option 11

Revenue authorities may consider mechanisms facilitating tracing, for tax purposes, of inadequately identified web sites and other electronic places of business

- a) While the majority of enterprises engaged in electronic commerce adequately identify the legal entity operating the web site or electronic place of business, a small but significant percentage of web sites have inadequate identification for tax purposes. Revenue authorities, in common with other bodies, require appropriate mechanisms to allow tracing of the legal entity operating a business through a web site or other electronic place of business. (E.g. through Internet Protocol (IP) number allocation records.)

34. This implementation option could be progressed domestically by a Revenue authority of a country. However, Revenue authorities have already identified benefits of sharing information on their different approaches to this challenge which would justify work being undertaken in co-operation amongst revenue authorities. Further, it is known that groups like police forces and fraud investigators are working on developing similar techniques for use in their fields of investigation and there may be some scope for co-operation with these other organisations.

35. At their meeting in June 1999, the electronic commerce sub-group of the FSM indicated that considered that implementation option 11 would need to be progressed primarily within the sub-group. There is already work being undertaken by the United States and Australia, to identify businesses operating on the Internet and this could form the core of the implementation of this option.

Implementation Option 12

Revenue authorities may consider making their views on user identity known to other bodies with a role in determining the identity of parties engaged in electronic commerce

- a) Revenue authorities will need to keep themselves informed about developments in bodies such as those dealing with the Internet domain name system and involved in issuing or setting standards for digital certificates or other technological means by which taxpayers may identify themselves for electronic commerce. Revenue authorities could make their views about the identification of parties engaged in electronic commerce known to these bodies.
- b) Alternatively, Revenue authorities may collectively, through international organisations such as the OECD, hold themselves out to provide guidance to parties developing identification standards or protocols for electronic commerce.

36. This implementation option could be progressed domestically by a Revenue authority of a country. However, the FSM sub-group felt that collective input, via the OECD, would be more likely to be effective than representations by individual countries. For this reason it is recommended that this implementation option be progressed by co-operation amongst Revenue authorities.

37. As noted above, the Technology and PDA TAGs are already monitoring standards bodies, some of which would promulgate standards affecting identity on the Internet. Both TAGs have workplan tasks which indicate that they will try to formulate draft submissions which could be made to the relevant bodies via the CFA. Where the TAGs are unable to formulate such submissions, the electronic commerce sub-group of the FSM has a workplan item indicating that it will attempt to draft a submission for consideration by the CFA and its subsidiary bodies.

Implementation Option 13

Revenue authorities should express their views to the appropriate bodies to ensure that features of electronic payment systems do not exacerbate the challenges associated with the cash economy

- a) In conventional commerce, cash does not provide a very good audit trail and cash transactions are thought to account for a significant amount of the transactions that are untaxed in an economy. The tax not collected from the conventional “cash economy” is an enduring concern for Revenue authorities.

- b) In the context of electronic commerce, cash-like electronic payment systems or unaccounted electronic payment systems, represent the same types of concerns as physical cash does in conventional commerce. However, unaccounted electronic payment systems raise additional concerns in that they can be used to conduct transactions over large distances, unlike physical cash, and they do not have the bulk of large quantities of physical cash, making the value easier to conceal.
- c) While Revenue authorities do not have jurisdiction over the banking, finance and payment system sectors of the economy, they should express their views to the appropriate bodies to ensure that features of electronic payment systems do not exacerbate the challenges associated with the cash economy. For example, Revenue authorities might press the appropriate bodies to ensure that electronic payment system providers operate their systems in a way that enables the flows of funds to be properly accounted according to prevailing legislation. In addition, Revenue authorities may seek limits on the values attached to unaccounted electronic payment systems.

38. This implementation option could be progressed domestically by a Revenue authority of a country. However, FSM sub-group delegates considered that, as for implementation option 12, this implementation option would be better progressed by collective input of revenue authorities co-ordinated via the OECD. For this reason it is recommended that this implementation option be progressed by co-operation amongst Revenue authorities.

39. The monitoring of standards bodies being undertaken by the Technology and PDA TAGs includes groups working on electronic payment systems and these TAGs may be able to formulate draft submissions which could be made to the relevant bodies via the CFA. Once again, where the TAGs are unable to formulate such submissions, the electronic commerce sub-group of the FSM has a workplan item indicating that it will attempt to draft a submission for consideration by the CFA and its subsidiary bodies.

Implementation Option 14

Revenue authorities should co-operate with businesses developing codes of practice or other instruments which would encourage the widespread application of appropriate technologies, such as message digests and digital notarisation, to ensure the integrity of electronic records

- a) Revenue authorities recognise that there are a number of elements of the new technologies which will mean that electronic records which are authenticated may provide much more information than is currently possible from records in conventional commerce; and in a form that is easier to utilise and less expensive to produce and store.
- b) Electronic records have been produced since the advent of electronic accounting. However, the expected increase in the number of electronic records requires that the issues associated with them be re-examined. Revenue authorities recognise that electronic records are capable of being more secure and detailed than records produced by conventional means. Accordingly they should individually and collectively co-operate with businesses developing codes of practice or other instruments which would encourage the widespread application of appropriate technologies, such as message digests and digital notarisation, to ensure the integrity of electronic records.

40. This implementation option could be progressed domestically by a Revenue authority of a country. Once again, however, FSM sub-group delegate considered, in June 1999, that this implementation option would be better progressed by collective input of Revenue authorities co-ordinated via the OECD.

For this reason it is recommended that this implementation option be progressed by co-operation amongst Revenue authorities.

41. As with the previous two options, the PDA and Technology TAGs have a role in monitoring and preparing draft submissions in relation to the relevant technologies. Once again, the electronic commerce sub-group of the FSM is prepared to prepare a draft submission, for wide consideration, in the absence of material from the TAGs.

Implementation Option 15

Revenue authorities may consider expressing their views on information requirements to appropriate bodies developing standards or protocols for electronic commerce

- a) Revenue authorities have, wherever possible, used or adapted commercial developments for taxation purposes so as to avoid the creation of a separate and burdensome tax regime. However, modifying systems after they have been finalised is costly and should be avoided where possible. Revenue authorities could co-operate with business initiatives to create protocols for trade that facilitate electronic offers, delivery, payment and documentation and express their views in a timely manner to the bodies developing such protocols or standards so that they can be developed, taking into account the views of Revenue authorities.
- b) Further, private sector groups aiming at the introduction of new technical standards or protocols for electronic commerce could co-operate by contacting Revenue authorities, e.g. through the OECD, at an early stage to enhance a constructive dialogue designed to find mutually acceptable solutions.

42. This implementation option could be progressed domestically by a Revenue authority of a country. However, it is considered that the collective views of Revenue authorities would be given more weight by bodies with a role in developing these standards. For this reason it is recommended that this implementation option be progressed by co-operation amongst Revenue authorities.

43. The June 1999 meeting of the electronic commerce sub-group of the FSM considered this a “catch-all” option and considered that it should operate as for the previous three options discussed.

Implementation Option 16

Revenue authorities may consider encouraging taxpayers that utilise encryption or security technology to also consider key recovery, trusted third party or other arrangements to guard against inadvertent loss of encryption keys

- a) For legitimate security reasons, electronic commerce technologies often introduce encryption and other security technology into transactions, distinguishing the audit trail of electronic commerce transactions from those of conventional commerce by the fact that the former may be easily encrypted.
- b) Cases may arise where a taxpayer cannot recall the key to decrypt an encrypted transaction or where a taxpayer decides not to provide the key or decrypted transactional data. To reduce the occurrence of the first case, Revenue authorities could encourage taxpayers that utilise encryption or security technology to consider also key recovery, trusted third party or other

arrangements to guard against inadvertent loss of an encryption key. In many countries, the loss of a key will not excuse a taxpayer from providing information to the Revenue authority and having the onus of proof in regard to any encrypted transactions.

44. This implementation option could be progressed domestically by a Revenue authority of a country. However, it is considered that the collective views of Revenue authorities would be given more weight by bodies with a role in encouraging the widespread application of these technologies. For this reason it is recommended that this implementation option be progressed by co-operation amongst Revenue authorities.

45. Through the efforts of the Technology TAG, the electronic commerce sub-group of the FSM has become aware of the key recovery alliance⁵. The alliance is an organisation which has as its aim the facilitation of the worldwide use of strong encryption with a recognition that this may require the use of key recovery products. The Technology TAG or the electronic commerce sub-group of the FSM should be in a position to draft some type of submission for the CFA to provide to this group and others like it.

Summary

46. In summary, each of the taxpayer service options (options 1 to 8 inclusive) could be progressed domestically by Revenue authorities, subject to their own domestic legislation and policy environment. Similarly, option 9, dealing with tax administration could be progressed domestically by Revenue authorities.

47. In relation to the other tax administration options, (options 10 to 16 inclusive) the note finds that all could be progressed domestically, subject to the domestic legislation and policy environment. However it also finds that all would be better progressed by international co-operation between Revenue authorities.

48. Implementation option 10, regarding the encouragement of business practices that would provide easier identification of businesses engaged in electronic commerce, is the only option where it would appear that Revenue authorities must work closely with other groups in the international environment. In the case of implementation options 11 through 16 inclusive, Revenue authorities could work to prepare a collective view and to communicate that view to other parties, domestic and international, but it is largely a question for those other parties as to what weight they give to the views expressed. In the case of implementation option 10, it may be that Revenue authorities work with other bodies to develop compatible views on areas of mutual interest.

49. The summary is tabulated below:

Domestic Revenue authority, alone	International co-operation between Revenue authorities
Implementation Options 1 - 8 inclusive, dealing with taxpayer service.	Implementation Options 11 - 16 inclusive, dealing with tax administration.
Implementation Option 9, dealing with tax administration.	<i>If digital certificates are used to progress Implementation Option 3, this aspect should be</i>

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	<i>discussion between Revenue authorities.</i>
<p>Domestic Revenue authority with others within the domestic economy</p> <p><i>It is considered that Revenue authorities could undertake discussions at a domestic level to mirror the recommended discussions in relation to Option 10.</i></p>	<p>International co-operation between Revenue authorities and with others in the international environment</p> <p>Implementation Option 10, dealing with tax administration.</p>