- ***Transaction Information Guidance***

The purpose of this note is to encourage appropriate guidance on transaction information for businesses offering services or products via the Internet. The paper is written from an audit perspective—to ensure that an appropriate amount of information exists in the transaction so as to enable verification of the tax results arising from the transaction or aggregated series of transactions. While written for the emerging electronic commerce environment, it applies equally to traditional business transactions using electronic systems.

To the extent that transaction information requirements and their format and mode of storage can be more consistently agreed between jurisdictions, the costs of compliance and of administering the system are likely to be reduced. It should be recognised that most of the transaction information data elements are already in place in most businesses as part of their existing accounting systems and processes, either for internal control reasons or to comply with domestic legal requirements.

The approach of the guidance note is a minimalist one that aims to provide a pragmatic balance between the costs and burdens placed on business and the need for revenue authorities to establish that the correct tax has been declared. Additional data to that required for normal business practices should only be required where it is essential for good governance of tax systems.

Centre for Tax Policy and Administration

Tax guidance series

Tax Administration Guidance – Transaction Information

Transaction Information Guidance

Caveat
Each revenue authority faces a varied environment within which they administer their taxation system. Jurisdictions differ in respect of their policy and legislative environment and their administrative practices and culture. As such, a standard approach to tax administration may be neither practical nor desirable in a particular instance.

The documents forming the OECD Tax guidance series need to be interpreted with this in mind. Care should always be taken when considering a Country's practices to fully appreciate the complex factors that have shaped a particular approach.

TRANSACTION INFORMATION GUIDANCE

Introduction

1. To facilitate the growth of electronic commerce the OECD's Forum on Tax Administration has been developing guidance papers[1] to assist revenue authorities and business in creating more consistent practices across borders. The purpose of this paper is to encourage appropriate standards for transaction information for businesses offering services or products via the Internet. The desirable data elements contained in this guidance paper will be promulgated to interested groups such as, for example, the OASIS Universal Business Language (UBL) Technical Committee [http://www.oasis-open.org/committees/ubl] and the XML Common Business Library Working Group http://www.xcbl.org/about.html. Where practical the guidance will utilise the extensive work already performed by such groups in mapping out data requirements for business transactions in an e-commerce environment. While written for the emerging electronic commerce environment it applies equally to traditional business transactions using electronic systems.

Background

2. At the 1998 Ottawa Ministerial Conference on Electronic Commerce the OECD was tasked by Governments with progressing the Taxation Framework Conditions to govern the taxation of electronic commerce that it had drawn up with input from over 40 countries and international organisations.[2] This guidance note is part of ongoing work to transform the agreed taxation conditions into practical administrative measures.

3. The opening paragraphs of the Taxation Framework Conditions note:

> *"Electronic commerce has the potential to be one of the great economic developments of the 21st Century. The information and communication technologies which underlie this new way of doing business open up opportunities to improve global quality of life and economic well being. Electronic commerce has the potential to spur growth and employment in industrialised, emerging and developing countries.*

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1 See documents at http://www.oecd.org/EN/documents/0,,EN-documents-101-nodirectorate-no-27-no-22,00.html

2 On 8 October 1998 at Ottawa, the OECD issued a set of Framework Conditions to govern the taxation of electronic commerce. These conditions were drawn up in co-operation with several countries outside the OECD (Argentina, Brazil, Chile, China, Chinese Taipei, Hong Kong (China), Israel, Malaysia, Russian Federation, Singapore, South Africa), the Centre for Inter-American Tax Administrators (CIAT), the Commonwealth Association of Tax Administrators (CATA), the European Union, the World Customs Organisation, and the business community. They were welcomed by Ministers at the October 1998 OECD Ministerial Meeting.

Revenue authorities have a role to play in realising this potential. Governments must provide a fiscal climate within which electronic commerce can flourish, weighed against the obligation to operate a fair and predictable taxation system that provides the revenue required to meet the legitimate expectations of citizens for publicly provided services." [3]

4. OECD governments and others[4] have endorsed neutrality, efficiency, certainty, simplicity, effectiveness, fairness and flexibility as the taxation principles that should guide Governments in relation to the taxation of electronic commerce.

5. From the revenue authority viewpoint, expectations about the adequacy and accuracy of transaction information on the Internet, were explicitly expressed in the Ottawa Taxation Framework conditions.

"Tax administration, identification and information needs

(ii) Revenue authorities should maintain their ability to secure access to reliable and verifiable information in order to identify taxpayers and obtain the information necessary to administer their tax system."[5]

6. The Taxation Framework Conditions also recognised that there are ongoing developments in areas such as Internet governance where revenue authorities both individually and through international fora, such as the OECD, may need to play a role if they are to succeed in implementing the tax principles.

7. The Taxation Framework Conditions were developed further in a discussion paper on the taxation issues that was also released at Ottawa. Implementation Options 15 of that paper noted:

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.

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3 From: *Electronic Commerce: Taxation Framework Conditions*, Introductory paragraphs 1 and 2. http://www.oecd.org/daf/fa/E_COM/framewke.pdf

4 In addition to the 40 countries and international organisations that were involved in the preparation of the Taxation Framework Conditions, they were also adopted by APEC (Asia-Pacific Economic Co-operation) countries at a joint OECD-APEC meeting in November 1998 and were endorsed by APEC Finance Ministers in May 1999.

5 Available at: http://www.oecd.org/daf/fa/E_COM/framewke.pdf

through the OECD, at an early stage to enhance a constructive dialogue designed to find mutually acceptable solutions.

8. Since 1999 the OECD has been working with revenue authority delegates and business representatives through several Technical Advisory Groups (TAGs) set up to assist the OECD Working Parties in progressing the Taxation Framework Conditions. The initial results of this work were reported in the OECD publication 'Taxation and Electronic Commerce: Implementing the Ottawa Taxation Framework Conditions' (available as an e-book at: http://www1.oecd.org/publications/e-book/2301011E.PDF).

9. More detailed on work the OECD Working Parties and the Technical Advisory Groups can be found in the following reports:

- Professional Data Assessment TAG (http://www.oecd.org/pdf/M000015000/M00015523.pdf),
- Consumption Tax TAG (http://www.oecd.org/pdf/M000015000/M00015515.pdf),
- Working Party No 9 [Consumption Taxes] (http://www.oecd.org/pdf/m00022000/m00022378.pdf), and
- Forum on Strategic Management (http://www.oecd.org/pdf/M000015000/M00015520.pdf).

10. This guidance paper builds on the above reports and the work of the Council of the European Union, as detailed in Directive 2001/115/EC[6].

Objectives

11. There are a number of overlapping objectives associated with the production of this guidance:

- To simplify and have greater consistency between revenue authority requirements - where this is practical;
- To reduce compliance burdens for businesses and administrative costs for revenue authorities;
- To provide a guide for international best practice;
- To help both internal and external auditors in testing the effectiveness of internal controls;
- To provide systems and software developers with the key data elements that if provided by their systems will help facilitate compliant systems;
- To enhance understanding by revenue authorities and businesses of the issues associated with transaction information in an electronic commerce environment; and
- To assist revenue authorities verify tax declarations.

Scope

12. While a tax guidance paper on transaction information will naturally appear to focus on tax requirements associated with a transaction, such as consumption taxes and sales and use taxes, this guidance paper is also applicable to taxes that make use of aggregated transaction information, such as income taxes. The paper is written from an audit perspective, that is to ensure that an appropriate amount

6 On simplifying, modernising and harmonising the conditions laid down for invoicing in respect of Value Added Taxes covered by the Directive 77/388/EC (the Sixth Directive). It can be found at: http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=32001L0115&model=guichett

of information exists in the transaction so as to enable verification of the tax results arising from the transaction or aggregated series of transactions. While written for the emerging electronic commerce (e-commerce) environment, it applies equally to traditional business transactions using electronic systems.

Issues

A common need for reliable transaction information - Business needs

13. Private enterprise needs reliable information in order to manage a business so that it operates in an effective and cost efficient manner. These management information needs within a business are generally fairly consistent across an organisation, even when it spans multiple jurisdictions, so as to minimise information costs while maximising reporting comparability. It should be noted that transaction information needs may vary between jurisdictions for the purposes of satisfying other stakeholders and that to the extent that these information requirements can be made more consistent, the overall system's compliance costs are likely to be reduced.

14. The policies and practices that are designed to provide management with reasonable assurance that their goals have been met are known as the internal control procedures. The internal control procedures aim to ensure the orderly and efficient conduct of business including:

- Adherence to management policies,
- The safeguarding of assets,
- Prevention and detection of fraud and error,
- Tthe accuracy and completeness of the accounting records, and
- The timely preparation of reliable financial information.

The internal control procedures[7] are also designed to ensure that business can comply with the various legislative requirements of the jurisdictions in which it operates.

15. Management balances the costs of internal control against the benefits expected. Many internal controls, which would be relevant to large businesses, may not be practical or cost-effective in small and medium sized enterprises (SMEs[8]). These SMEs may lack effective segregation of duties and this internal control weakness is often compensated for by stronger formal and informal supervisory controls by the owner/manager.

16. Information from both internal and external sources is used to control processes in businesses. In a traditional environment, paper documents are often used to distribute control information whereas in an e-commerce environment this information is generally exchanged in an electronic format.

[7] The COSO report states "Internal control is a **process** (bold emphasis added), effected by an entity's board of directors, management and other personnel, destined to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with laws and regulations."

[8] It should be noted that the criteria to classify an enterprise as a small or medium sized business may differ from jurisdiction to jurisdiction.

17. Regardless of their form, internal controls and documentation must be adequate to provide reasonable assurance that assets are safeguarded and transactions are properly authorised and correctly recorded in the accounting records. This recording or documentation of transaction information must be:

- Complete (all transactions are recorded with no duplications or omissions),
- Accurate (the right accounts are correctly debited or credited with the right amount), and
- Timely ('cut-off' - transactions must be recorded in the relevant time period).

18. Transaction information documentation, or its electronic equivalent, is usually consecutively numbered to facilitate a completeness control over documents (so that all transactions can be accounted for) and as means to trace documents if they are needed at a later date. Documents are often designed for multiple purposes so as to minimise the number of different forms.

19. The transaction information recorded on the documents must be sufficient to carry out adequate internal control. The documents, and the specific transaction information data on the documents, will naturally vary depending on the type of business and from business to business within an industry. Just as there is no standard internal control system, there is no unique set of control information. That said, there is often a high degree of commonality of the data elements required for internal control purposes between businesses.

20. Annex 1 gives an example of a generic sale and purchase process and the documents that are used to control these transactions. The four main control documents in a sales/purchase cycle are identified as:

- Customer order,
- Delivery note,
- Invoice, and
- Payment advice.

21. It should be noted that in many retail businesses, where the product is both on-hand and the order, delivery and payment processes effectively take place at the same point in time, the invoice/receipt is often the primary document generated. It should also be recognised that the processing of transaction data can be outsourced to third parties or to the customer (referred to as self-billing).

22. Many internal control procedures are preventive (*i.e.* they exist to prevent an error in the making – *e.g.* authentication and approval processes at the time of the transaction). Other internal control processes are detective and corrective (*i.e.* they exist to detect and reverse an error that has been processed through to the accounts – *e.g.* via a regular review of the accounts, regular reconciliation to control accounts and the like). The proof that these internal control processes have occurred may be obtained from the use of transaction data. In a paper environment this might be via the approving staff member's initials, in an electronic environment via some authentication mechanism. The very nature of an electronic environment changes the way of undertaking tests of internal control procedures.

23. Ideally the transaction information data elements exchanged in electronic form will be sufficient to perform an effectively similar level of internal and taxation control as those in a paper-based environment at the time of the transaction. However the associated audit trail[9] may initially be less visible. The traditional approach of physically viewing the document with its transaction details and control

[9] The audit trail is the ability to trace accounting entries back to their initiation (source documents) and the reverse.

information is no longer viable and more substantive testing of electronically held transaction information often needs to occur via the use of computer assisted auditing techniques. Such techniques can often be more effective and efficient than traditional paper based approaches. The use of other electronic processes such as the production of a standard audit file may increase savings for both businesses and tax administrations (see paragraph 51).

24. The invoice is an internal control document common to all industries and specifies the goods that are delivered/received or services rendered/received. The invoice normally consists of all the data elements necessary to allow for proper accounting treatment and to facilitate taxation control. However it should be noted that a formal invoice is not required in all jurisdictions, circumstances or in all trading environments, *e.g.* retailing and B2C e-commerce transactions. From an internal control point of view the existence of an invoice is not by itself sufficient evidence of the transaction and it is usually matched with other tests or data to confirm the validity of the transaction. (Refer to Annex 1 for other documents that may evidence the transaction.)

Other stakeholder requiring reliable information –The use of audit processes for verification

25. Other stakeholders requiring reliable information include shareholders, banks, suppliers, customers, regulatory authorities and tax administrations. On the basis of the financial documents and statements, potential and existing business shareholders decide whether to invest equity in business and banks decide whether to provide loans or other financial means. Suppliers and customers decide whether to undertake transactions. For the businesses that have a tax liability in their jurisdiction, tax authorities also have to verify and collect the right amount of tax at the right time and the financial documents and statements of the business usually form the basis of their tax declarations.

26. These other stakeholders can need assurance that the financial documents and statements of the business reflect economic and legal reality. Auditability of the financial statements and supporting records and systems, is a prerequisite for this assurance. The statutory audits performed by private auditors for public companies, and many private ones, normally provide the needed assurance to the stakeholders. From a Government perspective, tax auditors verify the reliability of the information in tax declarations.

27. In order to plan the audit[10] and develop an effective audit approach[11], private auditors obtain a detailed understanding of the accounting and internal control system of the business. The private auditor then makes a preliminary assessment of risks that are involved in the internal control structure of the business and where substantive testing of transaction information and significant account balances will be needed. Compliance tests are performed to obtain audit evidence about the effectiveness of the accounting and internal control system and the operation of these internal controls over time. Substantive test procedures for significant account balances and classes of transactions are also performed as part of the financial statement assurance process.

28. Depending on the audit methodology followed by individual tax administrations, and whether direct or indirect taxes are involved, tax auditors may build on the work of the private auditors or may perform their own compliance and substantive testing.

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[10] See International Federation of Accountants (IFAC) International Standards on Auditing (ISA) 300 (planning) and ISA 310 (Knowledge of the business) available from www.ifac.org.

[11] See IFAC ISA 400 (Risk assessment and internal control) and ISA 401 (Auditing in a computer information systems environment). Also relevant is International Auditing Practice Statement (IAPS) 1005 (The special considerations in the audit of small entities), IAPS 1008 (Risk assessment and Internal control – CIS characteristics and considerations), and IAPS 1009 (Computer assisted audit techniques).

29. As is noted in the International Standards on Auditing "Audit Evidence" (ISA 500) issued by the International Federation of Accountants[12], auditors need to collect sufficient appropriate audit evidence to persuasively support their opinion. This audit evidence can be obtained by techniques such as inspection, observation, inquiry and confirmation, computation and analytical review procedures.

30. Inspection consists of examining the records, documents and tangible assets. The reliability of documents depends on the nature and source as well as the effectiveness of internal controls. In general three categories of documents, with a decreasing level of credibility, are distinguished:

- Documentary audit evidence created and held by third parties;
- Documentary audit evidence created by third parties and held by the business; and
- Documentary audit evidence created and held by the business.

31. In an environment where some or all of the business records are computerised, this inspection (or a substantial part of it) may be performed by the use of computer assisted audit techniques. Such techniques can increase both the coverage and reliability of the inspection while reducing the cost and impact on the business being inspected.

32. The invoice has a specific function with respect to indirect taxes. The invoice contains the data elements necessary to calculate the amount of tax (VAT/GST/S&UT) that has to be declared to the tax authorities. In most consumption tax systems the recipient of the goods or services can claim an input tax credit (or in some systems a deduction) for the amount of tax paid to the seller if the recipient is a business. The invoice is used as the primary documentary audit evidence with respect to such tax credits (or deductions).

33. As has been noted, traditional paper documents are increasingly being replaced by information held in electronic form. In order to be able to rely upon the internal controls of the business the transaction information data elements that are exchanged in electronic form between businesses need to be sufficient to perform the same level of control as in a paper based environment. Furthermore, the authenticity and integrity of exchanged and stored electronic information needs to offer at least the same reliability to their paper equivalents if they are to serve as appropriate audit evidence for both private and tax auditors.

1. By far the greatest numbers of business enterprises are small to medium in size and complexity. Such businesses may have minimal levels of internal control that can be relied upon. For example the small number of staff may mean there is inadequate segregation of duties. For such businesses, audits have to be carried out by substantive testing procedures and third party confirmation approaches in most cases. Moreover few small businesses are privately audited and hence any tax audits that occur often need to use substantive testing of transaction information as a means for forming a view as to the accuracy of the accounting records. In a situation where adequate internal controls are not in place, both private and tax auditors may not be assured that electronic documents are credible, and therefore cannot simply rely on this documentation when performing substantive tests. This means that both a systems approach and use of substantive testing may be compromised and therefore auditability of the financial statements may not be ensured unless recourse is made to external or third party records.

The need for authenticity and integrity

2. In keeping with the neutrality principle, tax authorities need to maintain their access to reliable and verifiable information to administer their tax systems. The authenticity and integrity of important third

[12] See ISA 500 (Audit Evidence). Also relevant is the IFAC International Auditing Practice Statement: IAPS 1013 (Electronic Commerce-Effect on the Audit of Financial Statements).

party documentation like invoices and bank statements should be effectively at the same level as their paper equivalents[13].

3. External electronic documents are sometimes perceived as less reliable than their paper equivalents. However the perceived loss in reliability can be compensated by the use of techniques that provide the necessary level of assurance of the authenticity and integrity of electronic documents. Within the EU, for example, the EU Invoicing Directive[14] obliges EU Member States to accept invoices sent by electronic means provided that the authenticity of the origin and integrity of the contents are guaranteed by means of:

- An advanced electronic signature[15]. Member States may however ask for the advanced electronic signature to be based on a qualified certificate[16] and created by a secure-signature-creation device[17]; or

- Electronic data interchange (EDI)[18] when the agreement relating to the exchange provides for the use of procedures guaranteeing the authenticity of the origin and integrity of the data. (However a Member State may also require an additional summary paper document.).

4. Electronic documents, such as invoices, may also be guaranteed by other means subject to acceptance by jurisdictions. For example, other documents generated in the sale process (see Annex 1) could be used to support and guarantee the authenticity of the origin and integrity of the invoice if the business can demonstrate an appropriate high level of integrity in their electronic and other internal control systems over time. The use of these types of techniques can enable both private and tax auditors to obtain a similar level of assurance with respect to the reliability of invoices and, in the end, financial statements as in a traditional paper environment.

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13 See final report PDA TAG para 53 page 56. http://www.oecd.org/pdf/M000015000/M00015523.pdf

14 Council Directive 2001/115/EC of 20 December 2001 amending Directive 77/388/EEC with a view of simplifying, modernising and harmonising the conditions laid down for invoicing in respect of value added tax. This can be found at:

http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=32001L0115&model=guichett

15 An advanced electronic signature is an electronic signature that meets all of the four following requirements:

The signature is uniquely linked to the signatory.

The signature is capable of identifying the signatory.

The signature is created using means that the signatory can maintain under his sole control.

The signature is linked to the data to which it relates in such a manner that any subsequent change of the data is detectable See article 2 (2) of Directive 1999/93/EC of the European Parliament and of the Council of 13 December 1999 on a Community framework for electronic signatures.

16 I.e. an electronic certificate that links data for verification to an electronic signature (such as codes or public cryptographic keys) to a person and confirms the identity of that person. In order to be regarded as qualified this certificate has to meet a number of minimum requirements with regard to content and has to be issued by a certification-service provider (who, himself, also has to meet certain strict requirements)

17 See article 2 (6) and (10) of Directive 1999/93/EC of the European Parliament and of the Council of 13 December 1999 on a Community framework for electronic signatures.

18 As defined in article 2 of Commission Recommendation 1994/820/EC of 19 October 1994 relating to the legal aspects of electronic data interchange.

5. A survey among OECD members has shown that some jurisdictions[19] have already introduced specific requirements with respect to the techniques of assuring the authenticity and integrity of electronic documents. A review of these requirements indicates that different approaches have been adopted by some countries.

6. Many countries have passed legislation that recognises the equivalence of electronic documents as evidence when they make appropriate use of electronic signatures based upon electronic certificates. However in many countries there is a lack of electronic certificates meeting a sufficient level of integrity. In some countries the tax administration, or another Government authority, has acted as the issuer of high integrity digital certificates.

7. In order to avoid potential problems caused by the differing approaches by countries, there is a need for the development of more consistent cross-border standards for electronic signatures, possibly based on electronic certificates, and for simple procedures to enable the cross-jurisdictional recognition of electronic certificates. If this does not occur the current inconsistencies of approach between countries may slow the adoption of electronic invoicing on cross-border transactions.

8. Another factor affecting the deployment of electronic invoicing is that many businesses are themselves not in a position to accept invoices assured by electronic signatures. Therefore jurisdictions should not necessarily restrict themselves to the use of electronic signatures, possibly based upon electronic certificates, as the only sufficient guarantee for authenticity and integrity with respect to electronic documents (such as invoices – see paragraphs 36 and 37).

Costs of compliance and administration

9. Governments and their tax administrations generally seek to administer the tax system in a manner that minimises the long term overall operating costs: business compliance costs, revenue authority administration costs, and other costs to society. This means having to strike a balance between those costs borne by business in complying with tax regulations and those costs borne by the revenue authority in running the system. The two types of tax system operating costs are inextricably linked but not necessarily inversely - where one rises while the other falls.

10. Enforcing compliance via frequent checks, substantive audits and prosecutions is an expensive way of ensuring adequate compliance and most revenue authorities attempt to maximise 'voluntary compliance' by businesses – that is where the taxpayer co-operates and actively complies with the tax regulations. This reduces the cost of administering the tax system, but is only practical when the requirements of the tax system are well understood, relatively easy to comply with and generally accepted by businesses.

11. As is noted in the Tax Guidance Series General Administrative Principles paper GAP001 'Principles of Good Tax Administration':

> *"Voluntary compliance is promoted not only by an awareness of rights and expectations of a fair and efficient treatment but also by clear, simple and "user-friendly" administrative systems and procedures. Voluntary compliance is enhanced when it is easier for taxpayers to do so.*
>
> *When compliance is not achieved on a voluntary basis, revenue authorities must identify and address the risks associated with non-compliance by developing strategies targeted at those*

[19] For example, Switzerland and members of the EU

risks[20]*. Voluntary compliance is maximised when revenue authorities are aware of major developments and trends in the business and legislative environment, and are responsive to their implications on tax administration and compliance. Good revenue authorities identify and assess compliance risks and develop strategies targeted at addressing those risks. These strategies include education, service, marketing, profiling risk, auditing, general anti-avoidance efforts, prosecution and proposals for legislative change."*

12. To enable voluntary compliance, from the perspective of transaction information flows, business compliance costs are minimised to the extent it is possible for tax requirements to take advantage of pre-existing business processes. Revenue authority administrative costs are minimised when this is done in a way that is compatible with their overall management of the tax system, including its auditability.

13. With large businesses this is often possible as their internal control systems and procedures are generally reasonably robust and auditors, acting on the behalf of shareholders, usually audit the business. Small to medium businesses can sometimes have relatively significant compliance costs and difficulties in understanding and complying with tax requirements. The ability of small business to create, record and maintain adequate transaction information data as an integral part of their normal business operations appears to have been somewhat limited.

14. The ongoing development of accounting software packages aimed at small businesses has ameliorated this issue to some extent, although the issue of data integrity due to inappropriate segregation of duties remains an enduring concern. It should be noted that to the extent that the creation, recording, maintenance and exportation of adequate transaction information requirements can be integrated into business software packages, the costs of compliance and of administering the system are likely to be reduced.

15. The development of e-commerce has allowed many SMEs to engage in trade across borders where previously this was not practical. To the extent that jurisdictional legal and regulatory systems vary significantly, these SMEs may have difficulty in complying and may have increased compliance costs, while administrations may suffer increased administrative costs in trying to enable or enforce such compliance. Increased consistency, where this is practical, between jurisdictions in their legal and regulatory requirements is one mechanism for reducing both compliance and administrative costs. To the extent that transaction information requirements and their format and mode of storage can be more consistently agreed between jurisdictions the costs of compliance and of administering the system are likely to be reduced.

16. While the development of e-commerce and electronic record keeping has changed the nature of businesses internal control systems, in some cases weakening audit trails, it has also encouraged the use of audit techniques such as computer assisted audit approaches that can significantly improve audit coverage and productivity. The net effect of these two contrasting influences on compliance and administrative costs will vary by business and tax administration.

17. Some revenue authorities, external audit bodies, and accounting package software developers are participating in the development and use of standard audit file approaches to reduce audit time. A Standard Audit File, as its name suggests, is a data file containing transaction elements that both a private and a tax auditor need to substantively test data using specialised audit software.

18. Standardisation of the data elements and their formats allows the same audit software routines to be used with many businesses and can provide benefits for both businesses and auditors (see paragraph 23.). It

[20] See GAP003 Risk Management and GAP004 Compliance Measurement

should however be recognised that the audit file approach does not obviate the requirement for businesses to keep records in accordance with conditions laid down by revenue authorities. While a standard audit file will in most cases facilitate the full range of substantive tests there will be cases where additional data is required from businesses by auditors. This could for instance apply in particular business sectors where non-invoice data is used, *e.g.* retail or hotel booking systems.

The need for additional data requirements

19. It should be recognised that most of the transaction information data elements are already in place in most businesses as part of their existing accounting systems and processes, either for internal control reasons or to comply with domestic legal requirements. The approach of this guidance paper is therefore a minimalist one that aims to provide a pragmatic balance between the costs and burdens placed on business and the need for revenue authorities to establish that the correct tax has been declared. Additional data to that required for normal business practices should only be required where it is essential for good governance of tax systems.

20. Any additional data requirements would also need to comply with the neutrality principle. Neutrality is one of the fundamental principles for the taxation of e-commerce endorsed by the OECD at the 1998 Ottawa Ministerial conference. In the context of guidance on transaction information, neutrality is taken to mean the following:

- Guidelines on transaction information should be technologically neutral and should not inhibit the development of new and emerging technologies.
- There should be no effective additional burden placed on transaction information provided electronically to that provided on traditional paper documents, recognising that there may be different data elements necessary in an electronic environment to maintain the same overall level of integrity and auditability in the system[21].
- Information requirements should be the same for all businesses irrespective of trading sector or location. This does not prevent certain types of transactions that entail higher risk, such as those that may involve transfer pricing[22], from having appropriate and commensurate increases in documentation requirements.

Conclusions

21. A survey among OECD countries with respect to required data elements on invoices showed that certain data elements are required in most jurisdictions while others are country specific. On the basis of

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21 For example: transactions involving the sale of digital products may require additional verification indicia. For Consumption tax purposes the customers identity and location are important in the taxing decision. There is an incentive for the customer to claim they are in an exemption category and / or that they are outside the taxing jurisdiction. These aspects are currently being analysed and recommendations on indicia should be complete by June 2003. At this stage it seems likely that the Customers IP number should be retained as part of the transaction set, given that high integrity electronic certificates are not commonly used in many jurisdictions.

22 For example a number of countries require the creation of contemporaneous transfer pricing documentation for cross jurisdictional related party or intra-party dealings. Transactions with tax havens may also lead to additional documentation requirements.

the survey, an initial list of data elements[23] has been made (see Annex 2) and definitions for each element given (see Annex 3).

22. This list of transaction data elements has been distilled down to the core transaction information set detailed in Annex 2. It is proposed that this list of data elements be promulgated to interested groups and that revenue authorities encourage their use as an acceptable basis for broadly meeting jurisdictional tax transaction information requirements on a global basis in an electronic commerce environment.

23. As with paper based systems, electronically transmitted transaction data that are required for tax purposes will in most cases require appropriate controls to prove their authenticity and integrity. These controls may be technological, *e.g.* electronic signatures, or they may be based on other approaches that may be agreed by tax authorities.

24. It is accepted that electronic documents can provide both tax and business auditors with the possibilities to achieve more efficient audit procedures. When coupled with the use of a standard audit file with transaction data elements that are agreed and accepted by all parties it provides the opportunity for businesses to reduce compliance costs and for tax and business auditors to gain greater efficiency in audit coverage and productivity.

25. The guidance in this paper aims to provide support for a win-win situation in which tax administrations can realise the increased efficiency and effectiveness of computer based auditing of electronic transaction information, and businesses benefit from lower costs of complying with differing transaction information requirements.

26. Ultimately, without steps to protect the viability and integrity of the taxation systems in an Internet environment, Governments may find it difficult to take forward the liberalisation of cross-border trade. Equally, for cross border e-commerce to achieve its potential, businesses require more consistent approaches between Governments. It is therefore critical that Governments, businesses and other interested parties work together to provide acceptable guidance to make the emerging global e-commerce market workable for all.

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23 These transaction data elements have been compared to those required by the EU invoicing directive, the data elements that were identified by the Professional Data Assessment TAG, a study by PricewaterhouseCoopers on behalf of the European Commission and the Working Party 9 report.

Guidance

1. **Revenue authorities *are encouraged to* work with relevant government regulatory agencies, business associations and other organizations, such as developers of accounting software and private auditors, to promulgate the common position, set out in annex 2 of this guidance paper, as a basis for:**

   - Ensuring that businesses engaged in e-commerce create, record and maintain appropriate transaction information,
   - Developing specifications for a standard audit file that meets the requirements of all parties

   in an electronic commerce environment[24].

2. **Revenue authorities *are encouraged to* work with relevant government regulatory agencies, business associations and other organizations, such as developers of accounting software and private auditors, to develop common specifications for technology based and non-technology based techniques providing sufficient assurance for all parties with respect to the authenticity and integrity of transaction information.**

3. **Revenue authorities should closely monitor developments in exchanging transaction information.**

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[24] Including where records are created, recorded and/or maintained electronically.

History

April 2001: The FSM Electronic Commerce Sub-group forms a team to analyse the issue of transaction information further.

October 2002: This exposure draft is released for comment. The paper is to be published as part of the "Tax Guidance Series" from the Centre for Tax Policy and Administration.

Compatibility

The principles in this document are compatible with those contained in:

- **Electronic Commerce: Taxation Framework Conditions**

OECD October 1998

- **GAP001 Principles of Good Tax Administration**

Centre for Tax Policy and Administration, OECD May 2001

Privacy

- **Guidelines governing the protection of privacy and transborder flows of personal data**

OECD Council recommendation adopted 23 September 1980

- **Guidelines concerning computerized personal data files**

United Nations General Assembly adopted 14 December 1990

- **Convention for the protection of individuals with regard to automatic processing of personal data**

Council of Europe directive adopted 24 October 1995

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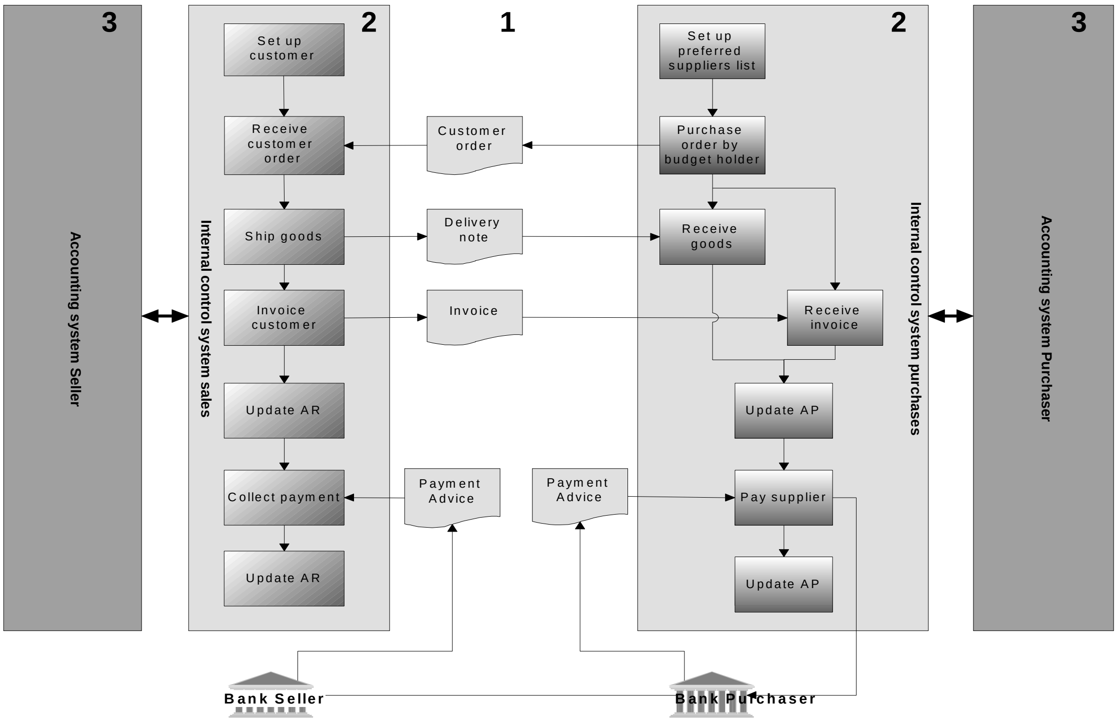
ANNEX 1- EXAMPLE OF A GENERIC SALES AND PURCHASING SYSTEM FOR GOODS. HIGH LEVEL.

A purchaser and seller have to exchange information to accomplish a commercial transaction. In a traditional environment paper documents are often used to distribute this information whereas in an e-commerce environment this information is generally exchanged in an electronic format. The transaction information recorded on the documents must be sufficient to carry out adequate internal control. The documents, and the specific transaction information data on the documents, will naturally vary depending on the type of business and from business to business within an industry. Just as there is no standard internal control system, there is no unique set of control information. That said, there is often a high degree of commonality of the documents required for internal control purposes between businesses as shown in this figure.



There are three types of information that can be distinguished in a generic sale and purchasing system in relation to a transaction:

1. *The transmission information*. This is the information that is needed to exchange the actual transaction messages between the parties. In a traditional situation the messages are printed on paper and packed in a paper envelope. The messages are delivered by postal services or courier. In an e-commerce situation the actual messages are in electronic format and are generally sent via a network. Depending

on the network, specific network related ‘envelopes’ (packets) are used to transmit the messages between the parties. In order to guarantee the integrity and authenticity of the transmitted messages over the networks different techniques like electronic signatures can be used.

2. *The actual message*. In a generic sales and purchase transaction four types of documents are typically exchanged: customer order, delivery note, invoice and payment advice. These documents need to contain the data elements necessary for internal control purposes of both the seller and purchaser.

3. *The accounting system information*. This is the internally generated information that is recorded in the accounting system with respect to the transaction such as the general ledger code, cost centre account code and accounting period. The accounting system has to provide and maintain the audit trail for the transactions.

ANNEX 2 - COMMON TRANSACTION DATA ELEMENTS

As noted in Annex 1 there are three types of information in relation to a typical sale and purchase transaction:

1. Transmission information;
2. Actual message (source document) and
3. Accounting system information.

This annex describes the data elements for these three types of information.

Annex 1 described the four different source documents that can be distinguished in a typical sale and purchase transaction. The data elements that are commonly used on each separate document have been marked in separate columns. It should be noted that some of the marked data elements in the source documents listed may not be exchanged in some modern EDI and web enabled systems where the parties have an established trading relationship.

The data elements as described in this annex are identified as international best practice. However it should be noted that depending on the type of transaction and the jurisdictions involved other additional data elements may be required by law – particularly for invoices.

For example, the EU requires, besides the data elements as described in the invoice column, specific data elements in case of:

- intra-Community deliveries,
- margin scheme transactions, and
- the delivery of new vehicles.

This list of data elements is therefore not restrictive, but should be seen as the common denominator for international trade. The list may be used by messaging standards groups and software developers as the minimum set of data elements for electronic orders, delivery notes, invoices and payment advices.

The identified documents, or the data elements necessary to recreate them, have to be retained and maintained in accordance with the requirements as described in the TAG003 Record Keeping Guideline and any relevant laws.

It should be noted that in case of electronic documents the complete message, including transmission information, should be retained.

The list of data elements may also be used as a basis to describe a standard audit file as discussed in paragraph 50 and 51. Duplication of data elements should be avoided in the development of a standard audit file. It would only be necessary to hold one occurrence in the audit file if the same data is held in more than one of the four source documents listed.

Common transaction data elements - *Continued…*

Item No.	1. Transmission data elements				
1	IP Address of customer (if any – only the download IP address)				
2	Electronic signatures (if any)				
3	Electronic certificate (if any)				
4	Transmission date				
		Document			
	2. Source document data elements	**Order**	**Delivery Note**	**Invoice**	**Payment Advice**
5	Document name (e.g. Tax invoice, credit/debit note)			✓	
6	Document issue date	✓	✓	✓	✓
7	Document number (unique or sequential identifier)	✓	✓	✓	✓
8	Tax identification number of supplier			✓	
9	Supplier name and address	✓	✓	✓	✓
10	Tax identification number of customer			✓	
11	Customer name and address	✓	✓	✓	✓
12	Delivery Address (if different from customer address)		✓		
13	Description of goods and services	✓		✓	
14	Quantity of goods and services ordered or supplied	✓	✓	✓	
15	Date of supply of goods or completion of services		✓	✓	
16	Unit price for the unit/group of units			✓	
17	Tax Rate for unit/group of unit			✓	
18	Sub-total of price and tax for the unit or group of units			✓	
19	Total tax amount payable			✓	
20	Total sales value excluding tax			✓	
21	Total amount including tax			✓	
22	Tax exemption or reduction reason or rationale			✓	
23	Credit note reference (where applicable) to original invoice			✓	
24	Credit note reason or rationale			✓	
25	Settlement/Other Discount			✓	✓
26	Settlement amount				✓
27	Date settled				✓
28	Currency ($US, Euros, etc)	✓		✓	✓
29	Payment Mechanism				✓
	3. Accounting system information				
30	Tax Entity				
31	Accounting Period				
32	Posting status				
33	General Ledger and Cost Centre Account Codes				

General Notes:

1. The list above doesn't differentiate between header and item level detail.
2. Some data elements will not be required for non-significant transactions.
3. The above list includes some items that are country/region specific.

ANNEX 3 - DEFINITION OF EACH DATA ELEMENT

Item No.	Common Transaction Data Elements	**Definition** (Note: Not all elements will be applicable to every transaction or every jurisdiction)
	Transmission data elements	
1.	IP Address of customer	Internet Protocol number of customer when originating the transaction via the Internet
2.	Electronic signature (if any)	An electronic signature means data in electronic form which are attached to or logically associated with other electronic data and which serve as a method of authentication[25].
3.	Electronic certificate (if any)	An (electronic) certificate is an electronic attestation, which links signature-verification-data (such as codes or public cryptographic keys) to a person and confirms the identity of that person[26].
4.	Transmission date	The date of the transmission over the network.
	Source document data elements	
5.	Document name (Tax invoice, credit/debit note)	The name of the document according to the requirements of the country where the issuing business is established.
6.	Document issue date	The date on which the document is issued/generated in the country where the issuing business is established.
7.	Document number	A unique number, which may be based on one or more series, which identifies the document.
8.	Tax identification number of supplier	The unique number (if any) allocated to the supplier by the tax administration.
9.	Supplier name and address	The name, full address, postal code, city and country of the supplier.
10.	Tax identification number of customer	The unique number (if any) allocated to the customer by the tax administration.
11.	Customer name and address	The name, full address, postal code, city and country of the recipient.
12.	Delivery Address	The address to which the delivery has been made.
13.	Description of goods and services	A description of the goods ordered, supplied or the services rendered. The description in plain text may be replaced by codes.
14.	Quantity of goods and services supplied	The quantity of the goods supplied or the extent of the services rendered.
15.	Date of supply of goods or completion of services	The date on which the supply of goods or of services was made or completed or the date on the payment on account was made, insofar as that date can be determined and differs from the date of issue of the document.
16.	Unit price for the unit/group of units	The unit/group of unit's price exclusive of tax and any discounts or rebates if they are not included in the unit/group of unit's price.

[25] Reference is made to article 2 (1) of the European Parliament and Council Directive 1999/93/EC of 13 December 1999 on a Community framework for electronic signatures.

[26] Reference is made to article 2 (9) of the European Parliament and Council Directive 1999/93/EC of 13 December 1999 on a Community framework for electronic signatures.

Item No.	Common Transaction Data Elements	Definition (Note: Not all elements will be applicable to every transaction or every jurisdiction)
	Source document data elements – *continued…*	
17.	Tax Rate for unit/group of unit	The tax rate applied for the unit/group of units
18.	Sub-total of price and tax for the unit or group of units	Sub-total of price and tax for the unit or group of units. The sub-total should be in the currency of the document.
19.	Total tax amount payable	The total tax amount payable in the currency of the document ($US, Euros, etc).
20.	Total sales value excluding tax	The total sales value excluding tax in the currency of the document.
21.	Total amount including tax	The total of the total of the sales value and the total tax amount payable in the currency of the document.
22.	Tax exemption or reduction reason or rationale	A clear description of the reason or rationale for any tax exemption or reduction granted.
23.	Credit note reference (where applicable) to original invoice	A clear reference or link to the number which uniquely identifies the original document.
24.	Credit note reason or rationale	A clear description of the reason or rationale for issuing a credit note.
25.	Settlement /Other Discount	A description of any settlement or other discount that can be effected when the payment is made.
26.	Settlement amount	The amount that has been settled and the currency of the amount.
27.	Date settled	The date on which the amount was settled.
28.	Currency	The currency of the amounts laid down in the document. ($US, Euros, etc)
29.	Payment mechanism	Whether settlement is made by cash or by some other payment mechanism.
	Accounting system information	
30.	Tax Entity	Company/Division/Branch reference
31.	Accounting Period	Business accounting period in which transaction posted to accounts
32.	Posting Status	Indicator that confirms transaction posted to accounts
33.	General Ledger and Cost Centre Account Codes	Codes used by the business to indicate category and ownership of transaction

General Notes:

1. The list above doesn't differentiate between header and item level detail.
2. Some data elements will not be required for non-significant transactions.
3. The above list includes some items that are country/region specific.