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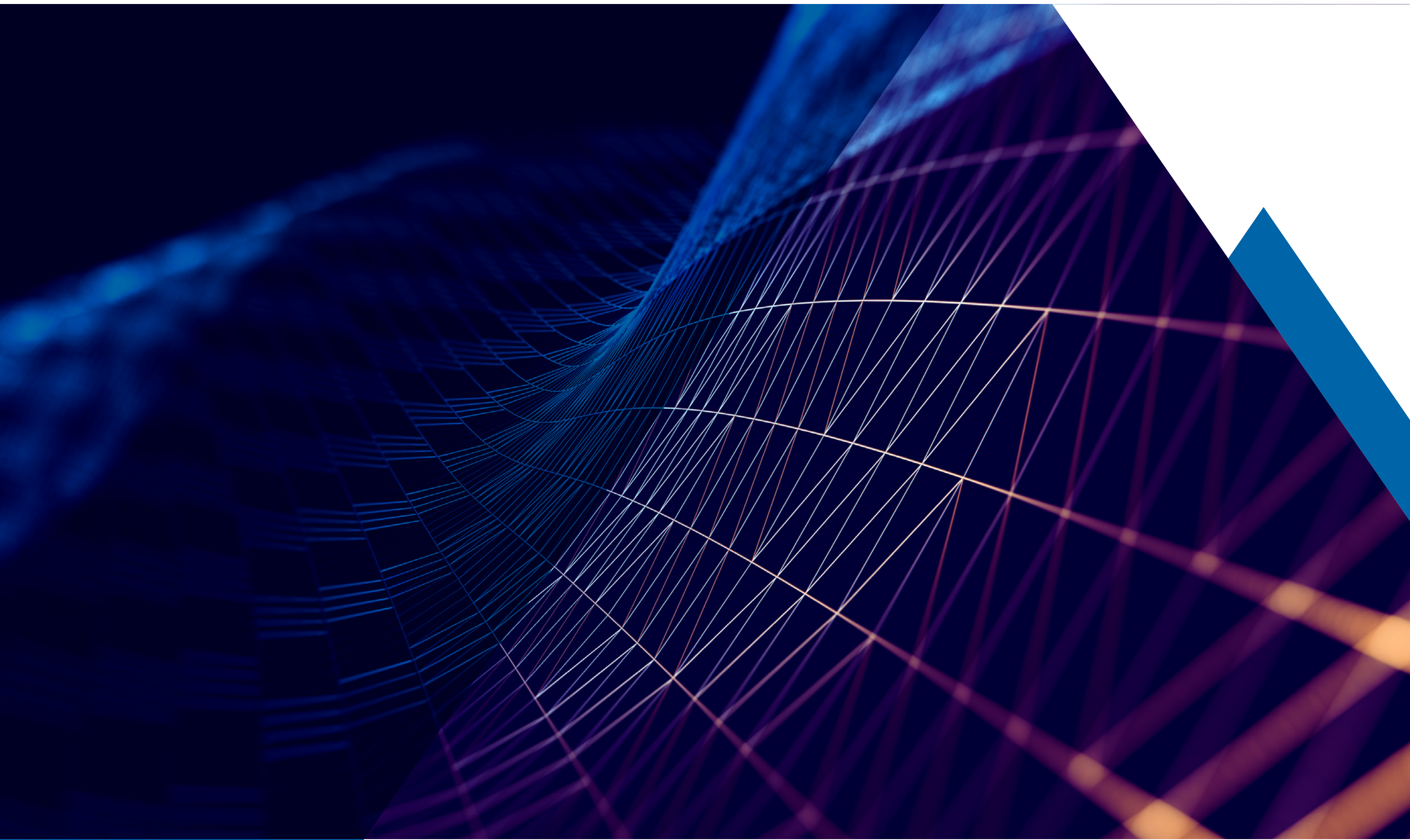

PRACTICE PRINCIPLES FOR IMPLEMENTATION OF CONTINUOUS TRANSACTION CONTROLS (CTCs)

Introduction: what are CTCs?

CTCs enable law enforcement agencies such as tax administrations, to collect data associated with business activities that are relevant to the exercise of their function. Such data is obtained directly from business transaction processing and/or data management systems, in real-time or near-real-time.

CTCs address the inefficiencies that have always characterised the use of retroactive (hereinafter called 'post') audit, where auditors can only obtain visibility of a transaction long after its conclusion and exclusively rely on data stored by the entities whose activities they seek to audit.

CTCs remove this dependency on a 'static' approach based on the evaluation of historical evidence ledgers by a taxpayer by making it possible for a tax administration to gather relevant business information in the form of a dynamic business transaction ledger comprising authenticated transaction source data.

Why are these trends significant for business and international trade?

There is an emerging view among both public administrations and businesses that technology-driven modernisation of public revenue collection such as CTCs have the potential to reduce the administrative burden on companies while increasing the effectiveness of tax and other public administration controls.

However, this potential will not be realised if the implementation of CTCs persists with the current level of diversity of approach among jurisdictions and law enforcement and without a consistent legal, administrative and technological global framework. Additionally, CTCs need to be embedded into a broader strategy of the digitalisation of the public administration.

The resultant lack of efficiency for businesses, as well as risk of lack of compliance for public administrations, jeopardises the benefits that can be derived from digital processes within the private and public sectors; such potential negative impacts encompass domestic commerce as well as, *a fortiori*, cross-border trade as outlined in the dialog leading to the ratification of the WTO Trade Facilitation Agreement.

SCOPE AND OBJECTIVES

These Principles focus on tax and use the term CTCs as encompassing all variations of transaction controls that take place just before, during or just after the actual exchange of specific commercial documents between suppliers and buyers of goods and services. The Principles apply equally to other regulatory or law enforcement bodies using CTC concepts for their purposes; likewise, where this document focuses on e-invoices, the same recommendations will generally apply for other types of business documents or reports.

Further, these Principles not only promote consistency and compatibility of CTC processes across national borders, but also across all different parts of every country's public sector that wish to adopt CTCs. The ultimate objective is that the same data be shared with a country's public administration only once, and such in an identical or at least substantially similar manner in all countries that choose to implement CTCs.

Principles for CTC Implementation

Continuous Transaction Controls (CTCs) for tax have the potential to increase tax collection while at the same time promote efficiency and economic growth. To realise this unique potential, authorities that plan to implement a CTC system should consider the following principles.

1. Balance

CTCs should consider the need for balance between the legitimate interests of tax collection and economic growth.

- **Economic benefits** – An initial period of voluntary adoption based on clear business benefits (e.g. reduced archiving time; tax incentives; fewer periodic reporting requirements, etc.) should always be considered prior to mandating the system to taxpayers.
- **Encourage automation** – Contribute to the promotion of standard-based business process automation.
- **Flexibility** – Accommodate existing business processes rather than the other way around. Do not create a 'separate universe' of document types, process orchestration and technical standards or set up the CTC system to be incompatible with business-to-business transaction automation platforms. Leave enough flexibility to allow for the implementation of compliant processes that maximise efficiency across jurisdictions with varying CTC and other tax or legal requirements.
- **Proportionality** – Be proportionate to the tax benefits sought. Avoid burdens and costs to businesses; where such negative impacts are unavoidable, these should minimise disruption of business operations and competition.

2. Efficiency

The following principles should, where possible, be considered to ensure maximum benefits of CTC systems for both the private and public sectors:

- **'Provide data only once' principle** – The CTC concept should be taken advantage of to alleviate the burden on taxpayers created by existing requirements to provide the same data multiple times to tax and other public or law enforcement authorities. In addition, CTCs should not add to but replace pre-existing functionally equivalent requirements.
- **Consistency** – CTCs should be consistent and remain stable over time. CTCs should be designed and operated in such a way that businesses are not confronted with contradictions or conflicts among their resultant obligations across geographic or sectoral obligations. In addition, consistency among legal, process and technical requirements involved in business compliance with CTCs should be upheld as requirements and practical conditions for access and use of CTCs evolve over time within each relevant jurisdiction. Consistency should also be ensured across different variants of CTC (B2B, B2C etc.) within a jurisdiction.
- **Interoperability** – CTCs should be interoperable among jurisdictions from a business, legal, technical and operational perspective.
- **Harmonisation** – CTCs should seek to be harmonised and uniform in technical, legal and process specifications, both in domestic and international scenarios, aiming to satisfy public and private sector needs. Where CTCs are deployed, the design should, where possible, use standards for data, security and transmission protocols that are already widely deployed in practice.
- **Robustness and continuity** – CTC systems should be operationally stable, maintain appropriate response and processing times, publish service level agreements, communicate effectively in case of problems meeting such service levels, and specify the controls they

perform on submitted data. CTC systems should be designed to have ample capacity to process the data corresponding to economic activities within their jurisdiction. In case of major delays or stoppage of a production CTC system, it should be possible for trading partners to continue their transactions as if such problems had not arisen.

3. Communicate a holistic and long-term strategy embedded into a broader strategy of the digitalisation of the public administration

Most countries mandate and implement as a first step towards CTC implementation either business-to-business invoices or consumer receipts. A gradual broadening of the data and process scope, without sufficient taxpayer predictability of the end state of full CTCs that a tax administration is working towards, and without transparency of the intermediate steps, can result in a heterogeneous system, process and archive patchwork that creates suboptimal results for all stakeholders. Countries with advanced CTC systems show us that the final aim of many tax authorities is to digitise many or all documents and automate processes that are directly or indirectly relevant for tax purposes. This affects topics like conventional invoices, data generated by POS and mobile supplies, payment and financing, payroll, inventory, transport and logistics, trade facilitation and procurement. In view of this potential complexity and its transformational impact on business systems and processes, recommended practice for tax administrations is to have an explicit strategy which communicates from an early stage where the journey will end and what the steps and milestones on this journey will be. A commonly shared understanding among all stakeholders of these objectives from an early stage will have a positive impact on the coherence of tax administrations' and taxpayers' solution architecture and will generate greater economic benefits.

4. Cooperation

Technology-based controls need to be based on a common legal framework and a cooperative compliance regime where tax administrations and taxpayers maintain a common understanding of each other's imperatives and constraints based on ongoing and constructive consultations. Authorities should in their design and implementation of CTCs work closely with experts and representatives from business; this includes seeking feedback from volunteer early adopters as well as informed decision-making considering economic impact analysis as well as processes, technological and legal imperatives of businesses. Specifically, during the initial implementation by businesses of a new CTC regime, the responsible authorities should work closely with the business community in order to capture unanticipated challenges. Also, after the initial implementation period, businesses and authorities should work closely together with a view to sharing experiences and best practices.

5. Introducing or changing CTCs

- **Compliance Timelines** – For both initial implementation and subsequent changes, authorities should communicate specifications and implementation timelines to the market to give the private sector enough time to design and implement requirements in such a way as to maximise the savings potential of business process automation. Compliance deadlines should be realistic (generally, for a broad new CTC mandate, 12-18 months from publication of final regulations and technical specifications is considered reasonable), and they should consider the compliance capabilities of different taxpayer categories, as well as the availability and cost of technology solutions for affected taxpayers. CTC systems should ensure availability of end-to-end testing by taxpayers with non-production invoices.

- **Clear and exhaustive guidance** – CTCs should be introduced together with technical, legal and process guidance for taxpayers that is complete, available in at least one international language and from a single location, and practically meaningful. Refinement of such guidance during initial implementation by taxpayers should be avoided, but where unavoidable such refinement should be equally clear and issued promptly.

6. Data Protection / Data Privacy

It is critical that the public body or certified private entity that operates the CTC platform treats submitted business data in accordance with international legal norms for data protection, data privacy and data security. Such consistency should be an integral and prioritised objective in CTC system design.

7. Trade impact and non-discrimination

CTCs should be designed to uphold the principle of non-discrimination in treatment of taxpayer classes and be implemented in a manner that does not discriminate between resident and non-resident service and technology suppliers. It should be possible for non-domestic companies and their technology, logistics and other service providers to comply with applicable CTC requirements without mandatory use of local technology or other solution vendors. When certification, accreditation or other approvals are required for connecting to CTC platforms, the ability to obtain such approvals should not be restricted to local solution vendors. There should not be practical barriers for non-local solution vendors to connect to CTC platforms; for example, it should be possible for a non-local solution vendor to obtain test and production credentials for accessing CTC platforms, provided compliance with local legal requirements, data sovereignty and protection regulations.

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