



*"Working together to  
fund Washington's future"*

# Sales Suppression



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# Myth or Fact?



# 30 STATES WITH ANTI-ZAPPER LAWS AS OF DECEMBER 31, 2018 (in order of date of enactment)

|                             |                            |                              |                            |                            |
|-----------------------------|----------------------------|------------------------------|----------------------------|----------------------------|
| Georgia<br>(05/03/11)       | Oklahoma<br>(11/01/12)     | Arkansas<br>(08/15/13)       | Florida<br>(07/01/14)      | South Dakota<br>(03/10/16) |
| West Virginia<br>(06/08/12) | Wyoming<br>(02/15/13)      | Texas<br>(09/01/13)          | Rhode Island<br>(07/01/14) | Pennsylvania<br>(07/13/16) |
| Louisiana<br>(06/12/12)     | Vermont<br>(04/25/13)      | North Carolina<br>(12/01/13) | Virginia<br>(07/01/14)     | Minnesota<br>(08/01/17)    |
| Connecticut<br>(07/01/12)   | Indiana<br>(07/01/13)      | California<br>(01/01/14)     | Kentucky<br>(07/15/14)     | Kansas<br>(07/01/18)       |
| Tennessee<br>(07/01/12)     | Washington<br>(07/28/13)   | Illinois<br>(01/01/14)       | Utah<br>(05/12/15)         | Mississippi<br>(07/01/18)  |
| Maine<br>(09/01/12)         | North Dakota<br>(08/01/13) | Michigan<br>(04/01/14)       | Alabama<br>(08/11/15)      | Arizona<br>(08/03/18)      |

## What is Sales Suppression?

- Sales suppression is the umbrella term for many different types of falsifications of electronic sales records on POS systems and ECRs for the primary purpose of tax evasion.

# Types of Sales Suppression

1. Zappers: The term came from an early criminal case in Canada where the sales suppression was activated by a floppy disk with the word “zapper” written across it.

- ✓ Nowadays, a zapper is a thumb drive put into a POS system to activate suppression which can eliminate a certain percentage of sales, a desired dollar amount of sales or delete line items or certain menu items off a receipt.

## Types of Sales Suppression

2. Phantomware is a built-in program housed in the computer and known only to the provider and a few key personnel in the restaurant.

- ✓ This program is activated usually by certain key strokes or passwords and essentially works to eliminate certain sales, usually the entire ticket or receipt.

## Types of Sales Suppression

3. RDM - Remote Data Manipulation is a term used when the data is removed from the POS system most often remotely to another computer or another server including the cloud. The sales suppression occurs outside the business location and then the data is reloaded into the POS system after being altered.

# Recent U.S. Sales Suppression Cases

- Yu-Ling Wong (restaurant owner) – Washington State
- John Yin (POS vendor) – IRS Seattle, WA
- Owners of 5 restaurants in Chicago – IRS Chicago, IL
- Dan Xu and Zhong Wei Lin (restaurant owners) – Minnesota
- Christina and Dong Hyun Chang (restaurant owners) – Michigan
- Xiaoning Fan (restaurant owner) – Connecticut
- Large cases are pending in California, Washington State, Wyoming, IRS, etc.



# How do they work?

## 1. Line item(s) deletion

### Real Receipt

#A03  
 [Redacted]  
 -----  
 Date: Nov 30, 2012 Time: 03:24PM  
 Server: Su  
 Table : A03

|              |                        |              |
|--------------|------------------------|--------------|
| 1            | Chicken & Garlic Sauce | 7.75         |
| 1            | Chicken & Blk Pppr     | 7.99         |
|              | Brn Rice               | 0.50         |
| 1            | Coke                   | 2.00         |
| Subtotal     |                        | 18.20        |
|              | Sales                  | 1.59         |
| <b>Total</b> |                        | <b>19.79</b> |

Food 16.20  
 Liquor 2.00

Open Time : Nov 30, 2012 02:57PM

### Reprint of Modified Receipt

#A03  
 [Redacted]  
 -----  
 \*\*\* Reprint (2) \*\*\*  
 Date: Nov 30, 2012 Time: 03:40PM  
 Server: Su  
 Table : A03

|              |                        |              |
|--------------|------------------------|--------------|
| 1            | Chicken & Garlic Sauce | 7.75         |
| 1            | Coke                   | 2.00         |
| Subtotal     |                        | 9.75         |
|              | Sales                  | 0.85         |
| <b>Total</b> |                        | <b>10.60</b> |
| cash         |                        | 10.60        |

Food 7.75  
 Liquor 2.00

Open Time : Nov 30, 2012 02:57PM

# How do they work?

## 2. Deleting and reindexing tickets

### Example 2.1

**Real Receipt**

```

Server: LEoN                      Station: 1
-----
Order #: 213654                    Walk-In
-----
>> SETTLED <<
1 Pad Kee Mao                      7.95
  Chicken                          .
1 Dumplings                         4.95
SUB TOTAL:                          12.90
CA Sales Tax:                       1.16
=====
TOTAL:                               $14.06
Cash Tendered:                      20.00
=====
CHANGE:                             -5.94

>> Ticket #: 87 <<
Created: 5/20/2015 3:52:56 PM
SETTLED: 5/20/2015 3:53:12 PM
THANK YOU!
  
```

**Reprint of Reindexed Receipt**

```

*** RE-PRINT ***
Server: LEON                      Station: 1
-----
Order #: 188857                    Drive Thru
-----
>> SETTLED <<
1 Pad Kee Mao                      7.95
  Chicken                          .
1 Dumplings                         4.95
SUB TOTAL:                          12.90
Tax 1:                              1.16
=====
TOTAL:                               $14.06
Cash Tendered:                      20.00
=====
CHANGE:                             -5.94

>> Ticket #: 63 <<
Created: 5/20/2015 3:52:56 PM
SETTLED: 5/20/2015 3:53:12 PM
THANK YOU!
  
```

# How do they work?

## Example 2.2



| Buffet                       |                 |            |
|------------------------------|-----------------|------------|
| Server: All                  |                 |            |
| All Day Sales for 2017-07-14 |                 |            |
| Service Name                 | Amount(\$)      | Qty        |
| Holiday                      | 0.00            | 0          |
| TO GO                        | 0.00            | 0          |
| Mon-Fri Lunch                | 1,756.62        | 83         |
| Sunday Allday                | 0.00            | 0          |
| Party Tray                   | 0.00            | 0          |
| Saturday Allda               | 0.00            | 0          |
| Mon-Fri Dinner               | 2,683.55        | 68         |
| Pick Up                      | 0.00            | 0          |
| Sub Total                    | 4,440.17        | 151        |
| Total Tax                    | 410.69          | 151        |
| Surcharge                    | 0.00            | 0          |
| <b>Total Amount</b>          | <b>4,850.86</b> | <b>151</b> |
| Cash                         | 1,599.29        | 77         |
| Card Pay                     | 3,251.57        | 80         |
| Paid Amount                  | 4,850.86        | 157        |
| UnPaid Amount                | 0.00            | 0          |
| Card Tip                     | 0.00            | 0          |
| Cash Tip                     | 0.00            | 0          |
| Net Cash Total               | 1,599.29        | 77         |
| Pay Out                      | 0.00            | 0          |
| Income                       | 0.00            | 0          |
| Drink                        | 488.31          | 114        |
| Alcohol                      | 75.47           | 17         |
| DiscAmt(\$)                  | 7.00            | 1          |
| Void                         | 0.00            | 0          |
| VIP Discount                 | 0.00            | 0          |
| Cancelled Item               | 180.25          | 17         |

**This buffet restaurant closes at 9:00 p.m. At 6:13 p.m, ticket # is already at 170. The sales report for the day, however, indicated total tickets issued for the day was only 157.**

# Washington's Law

- Law Passed – SB 5715 (Effective July 28, 2013)
  - Making the possession, sale, or use of zappers a class C felony.
  - Up to 5 years in Jail and / or
  - Up to \$10,000 fine
  - Anyone who manufactures, provides or services zappers
- The law also authorizes the Department of Revenue to revoke the business licenses of any business found using such devices, seize those devices and not reinstate a business unless it agrees to ***five years of electronic monitoring.***

## Washington's Law . . .

# Why?

- To level the playing field for all businesses!
- Depending on estimates, WA State is losing tens to hundreds of millions dollars per year in sales tax that is not being remitted to the state.
  - This reduces services to state citizens
  - Police
  - Fire
  - healthcare

## What to watch for?

- Always get a receipt
- If purchasing from counter, watch them ring it up.
- If you think there is a problem, you can file a complaint at WA DOR Website:
- **Reporting Washington State tax and license fraud**
  - <https://dor.wa.gov/contact-us/reporting-washington-state-tax-and-license-fraud>

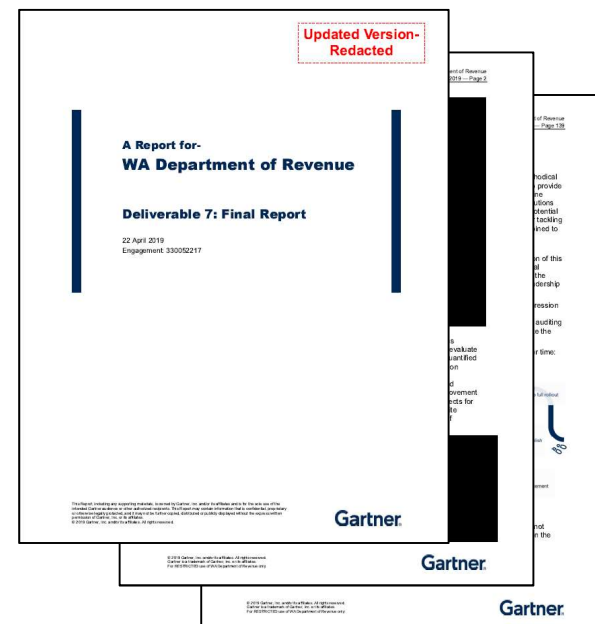
# Feasibility Study

**Gartner contracted with DOR to complete a Feasibility Study**

- **Provided 4 potential solutions to combat sales suppression in WA**
- **Recommended an alternative based on provability from other countries as well as both internal and external risk factors identified in WA as potential road blocks**

**Audit and I.S. worked closely with Gartner from November 2018 to March 2019.**

**Study produced options for the state from internal improvements through real-time data transfers and secure storage.**



**Thank You**