



Breakout Session G: The Role of Payment Data in VAT/GST Risk Management

*OECD Project on Approaches for Collecting Payment Data for VAT/GST
Risk Management*

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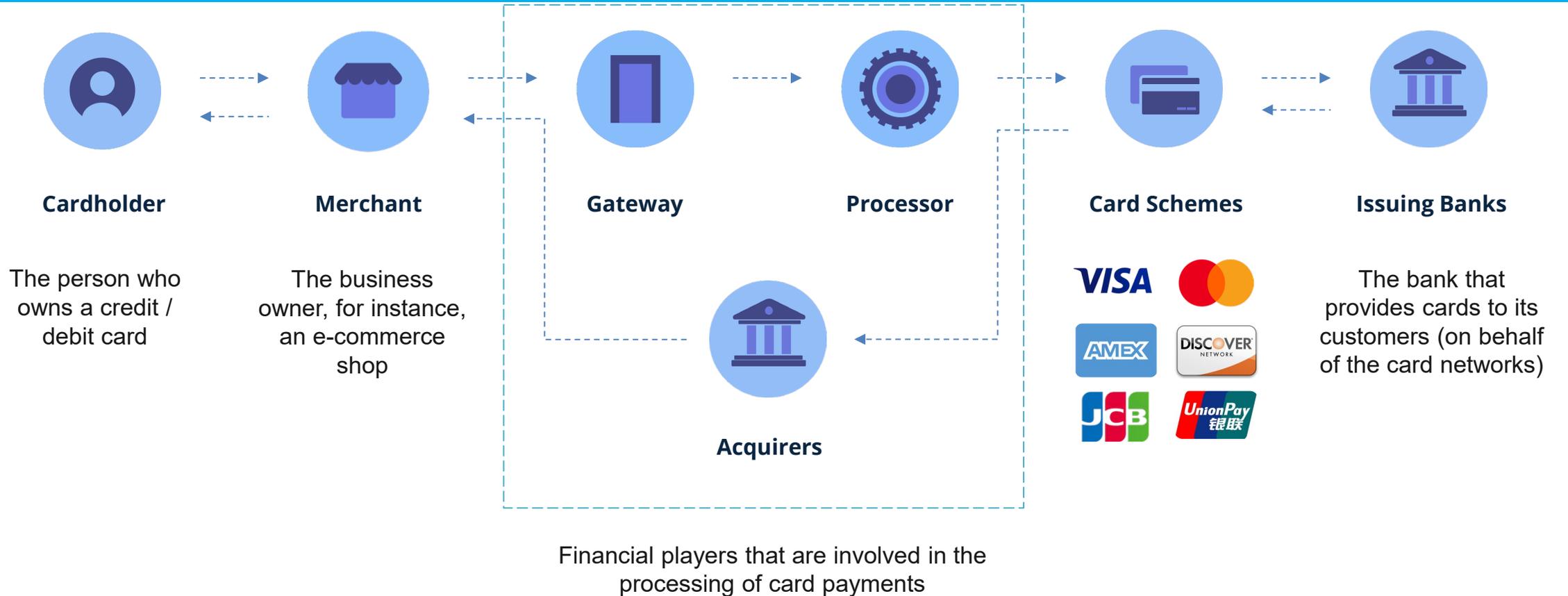
Background

- **“Follow-the-Money” (FTM) strategies** considered an effective tool to detect VAT/GST fraud and non-compliance in digital trade, as part of broader VAT/GST risk management.
 - **A critical importance of payment data** in supporting these FTM strategies, notably in monitoring compliance levels and in identifying non-compliance in digital trade.
- **A growing number of jurisdictions have implemented reporting obligations for the financial institutions and other payment services providers (PSPs)** that offer and/or provide services connected with the prevalent payment methods used by consumers for online purchases.
 - **Common challenges faced by tax administrations**, including the complexity of payment processes in online trade, data protection and privacy considerations, variable data quality
 - **Heterogenous reporting obligations**, leading to growing risks of increasing compliance burdens and administrative costs for PSPs.
- Against this background, tax authorities have expressed **strong support for deepening analysis on approaches to collect payment data in an efficient and non-disruptive manner** to tackle VAT/GST fraud and non-compliance in digital trade.



Diversified and complex payment ecosystem

The card payments ecosystem – An illustration of its complexity

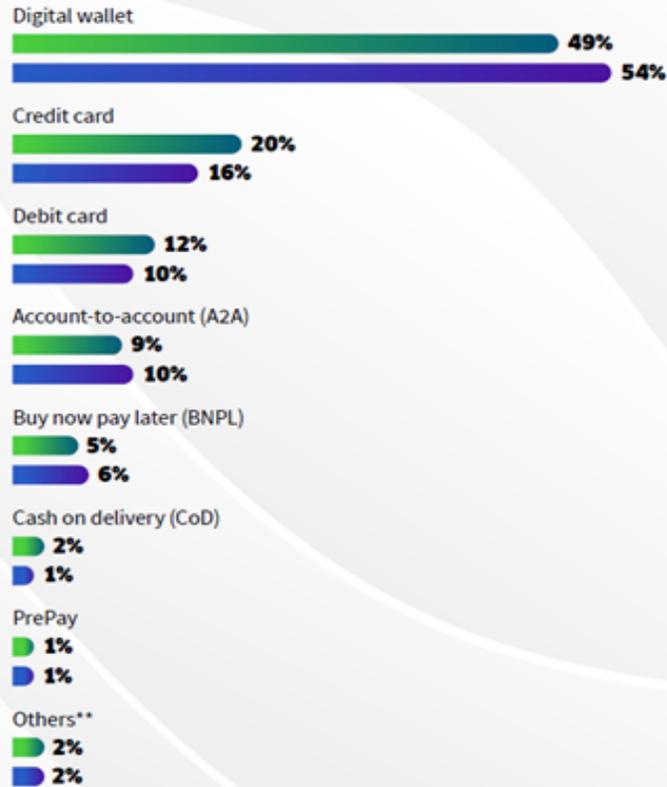




Global payment methods

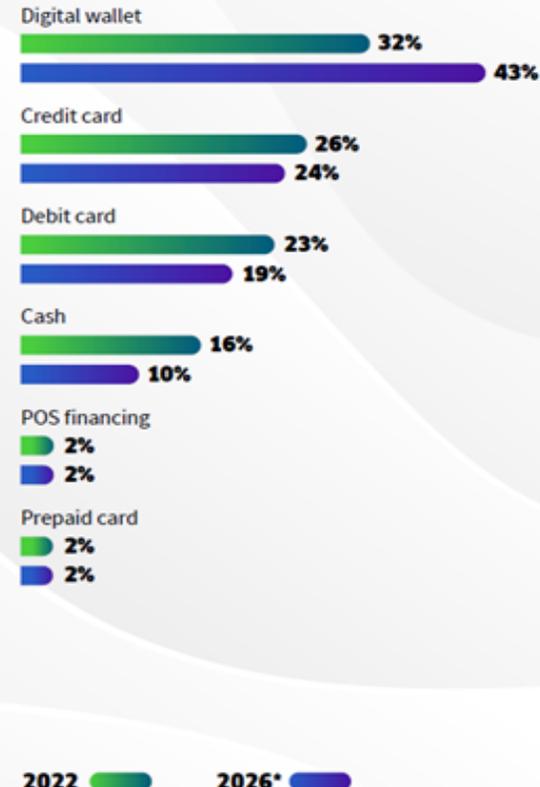
Global e-com payment methods

Share of transaction value, 2022-2026



Global POS payment methods

Share of transaction value, 2022-2026



*Forecast
**"Others" include cryptocurrencies, prepaid cards and PostPay.
Totals may not equal 100% due to rounding.

Source: IFS - The Global Payments Reports



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Objective and scope

- A Consultative Project was established to foster a **well-structured and constructive engagement with the global payment industry representatives** to:
 - Ensure a proper understanding of the payment ecosystem in digital trade.
 - Identify opportunities to maximise the operational efficiency of payment data reporting requirements.
 - Consider options to minimise compliance costs and administrative burden and safeguard data security and privacy.
 - Tax administrations from 10 jurisdictions + global payment industry representatives from 16 companies.
- With emphasis on reporting obligations implemented for the financial institutions and other payment services providers (PSPs) that offer and/or provide **services connected with the prevalent payment methods in digital trade**
 - Focus on the three prevalent payment methods in digital trade (i.e. *cards, digital wallets, bank transfers*).
 - Alternative payment methods, such as crypto payments are outside the scope for the time being.



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Organisation and sequencing of the analysis

Phase 1 (2024-2025)

Phase 2 (to be completed within 2026)

Enhancing the understanding of the payment ecosystem

- Operations of three prevalent payment methods (i.e. cards, digital wallets, bank transfers)
- Roles of main actors involved

Identifying general guiding principles

Step 1. Challenges and opportunities associated with different payment data reporting approaches

Step 2. Emerging guiding principles for the effective and efficient design and operation of payment data reporting requirements

Translate the general guiding principles into practical guidance for interested jurisdictions to consider

Practical considerations for the implementation of the general guiding principles

Mapping available payment data with relevance for VAT/GST risk management

+ Key design features of payment data reporting requirements



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Emerging observations of data mapping analysis

- Relevant payment data for VAT/GST compliance risk management are typically **dispersed across multiple entities** in the payment chain.
- There is typically no single data point enabling reliable and straightforward traceability of a payment from a customer (payer) to a supplier (payee; merchant) throughout the payment process. **A combination of data points** often held by various entities in the payment chain is required.
- **Availability** of relevant payment data to an actor **may not necessarily translate into a straightforward reportability** of these data.
- Payment-related information is **typically available at an aggregated level** and tends to **lack sufficient detail on aspects that relate to the nature of the underlying supply and/or the status of the parties** involved for VAT purposes.
- **The reliability and quality** of available relevant payment data **can vary significantly** among actors in the payment chain.
- **Particular sensitivity concerns** may arise due to **privacy and data protection regulations or internal operational constraints**.



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General guiding principles - *Effective and efficient design and operation of payment data reporting requirements*

1. **Evaluate the need for introducing payment data reporting requirements** for payment industry actors **to complement** a broader VAT compliance risk management strategy.
2. **Have a clear understanding of the pursued policy objective.**
3. **Consider interaction** of the envisaged payment data reporting requirements **with the jurisdiction's overall VAT/GST compliance management framework/strategy**, including other reporting obligations.
4. **Have a proper and up-to-date understanding of the operation of the payment ecosystem** in digital trade and of the role(s) of different actors involved therein.
5. **Consult with stakeholders concerned/involved** from the outset of the process to ensure a good understanding of their business processes and available payment data and to establish the appropriate environment in a workable and proportionate manner.
6. **Leverage on (or develop) a robust legal framework** that ensures accessibility to the required data under strong safeguards aligned with other regulatory requirements, notably data privacy, data protection and financial secrecy legislation.
7. Design the reporting requirements to **strike an appropriate balance between administrative and compliance costs** while **minimising disruption**.
8. **Regularly monitor and evaluate** the efficiency and neutrality of reporting approaches, including their potential impact on the evolution of other payment methods in digital trade.



Work in progress

- Focus of ongoing analysis on:
 - ❑ Evaluating **specific design features of automatic reporting obligations**:
 - Scope, format, data submission, frequency, record keeping obligations, approaches for avoiding duplication, safe-harbor rules, etc.
- To further benefit from VAT Global Forum's feedback.
- With the aim to translate the analysis into a comprehensive report to serve **as a point of reference for interested jurisdictions** in introducing or reforming their payment data reporting regimes to tackle VAT/GST fraud and non-compliance in digital trade.