



meridian



# Who is my Legal Customer



Available on  
**SAP Store**

**SAP® Certified**  
Integration with SAP S/4HANA\*

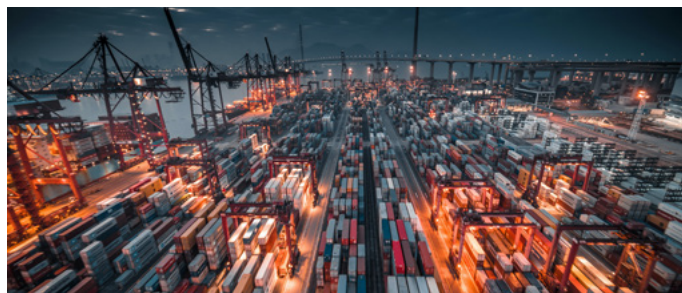
**SAP® Certified**  
Built on SAP Business Technology Platform

## WHO IS MY LEGAL CUSTOMER FOR VAT PURPOSES

Every sales order in SAP contains four (or more) partner-functions. If left to its own devices, standard SAP may identify the wrong partner as your legal customer for VAT purposes. This can lead to non-compliance and often goes silently unnoticed until your VAT inspector raises an assessment including penalties.

In this Guide we explain the importance of the legal partner for VAT purposes in the sales transaction and how you can ensure your SAP system selects the correct legal partner.

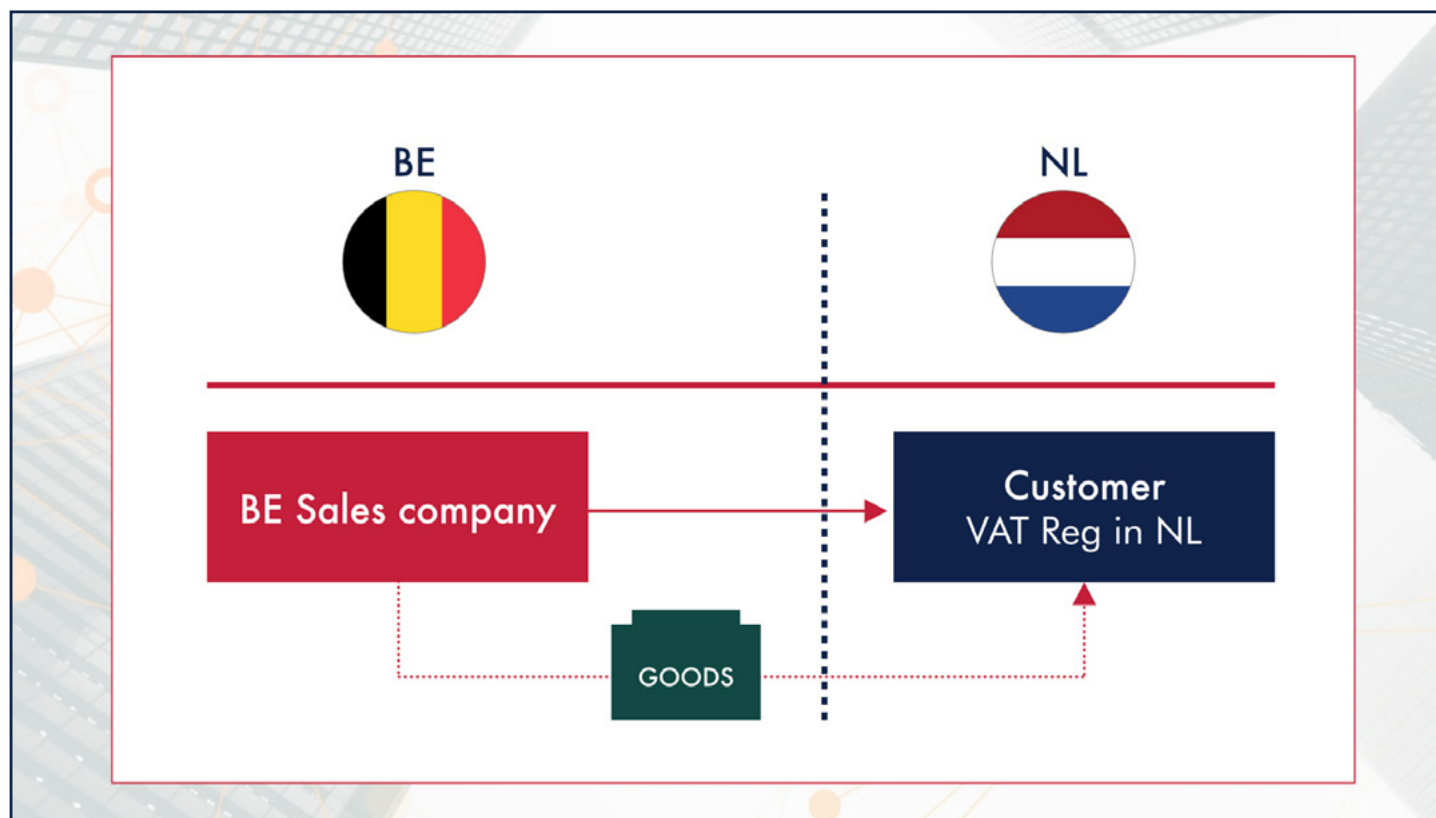
Let's firstly look at how it is important to identify the correct legal partner in order to exempt a transaction from VAT because of an Intra Community Dispatch.



## EXEMPTING A TRANSACTION FROM VAT DUE TO AN INTRA COMMUNITY DISPATCH

In this example a Belgian sales organisation delivers the goods to a company in the Netherlands. This sales flow can be exempted from VAT as an Intra-EU dispatch from BE to NL only if:

- The BE sales company can prove the goods have moved from BE to NL
- A valid VAT registration number is used for the correct legal partner for VAT purposes



## HOW TO IDENTIFY THE CORRECT LEGAL PARTNER FOR VAT PURPOSES

SAP identifies who your customer is via Partner roles. Within a sales order a minimum four partner roles are defined:

- Ship-to partner role
- Sold-to partner role
- Payer partner role
- Bill-to partner role

It is not uncommon in large companies for sales documents to contain different partners. Infact, it is not uncommon for all four partners to be different.

### What is the customer legal structure for VAT purposes?

Legal entity A is your customer who sells hardware. The hardware is sold via a number of stores. Legal entity A has it's own VAT ID, but all the stores also have their own VAT IDs.

- The contract is signed with **Legal entity A**
- Every store will place electronic orders themselves (EDI)
- Goods are shipped directly to the stores, but **Legal entity A** will be the owner of all the hardware shipped to these stores.



## DETERMINING THE DIFFERENT PARTNER ROLES

Your customer also sells furniture and clothing via **Legal entity B** and **Legal entity C**

**Holding entity D** has been created (Treasury function) and this pays all the invoices for the Legal entities. A separate Shared Service Centre, **Legal entity E** processes all invoices.



Because we have many different legal entities involved we need to determine how we set up the different partner roles (using entity A as an example):

### Question

- Which partners should be setup as ship-to
- Which partners should be setup as sold-to
- Which partner should be setup as the payer
- Which partner should be setup as the bill-to

### Answer

- **The stores** (as they receive the goods)
- **Entity A** (contract partner, owner of goods)
- **Entity D** (as they pay all invoices)
- **Entity E** (address where invoices are sent to)

### Who will report the transactions for VAT purposes?

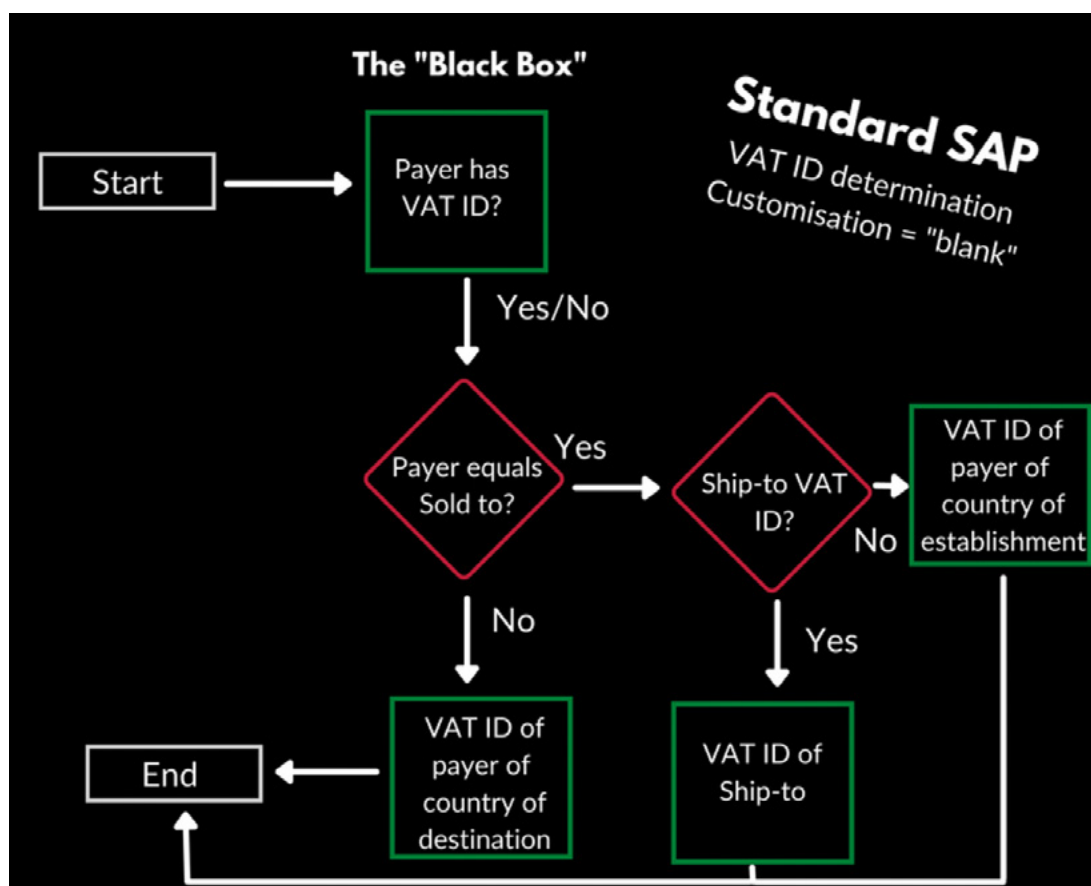
This should be Legal entity A, being the contract partner and owner of the goods.

**Conclusion:** Your legal partner for VAT purposes is the **sold-to** Legal entity A.

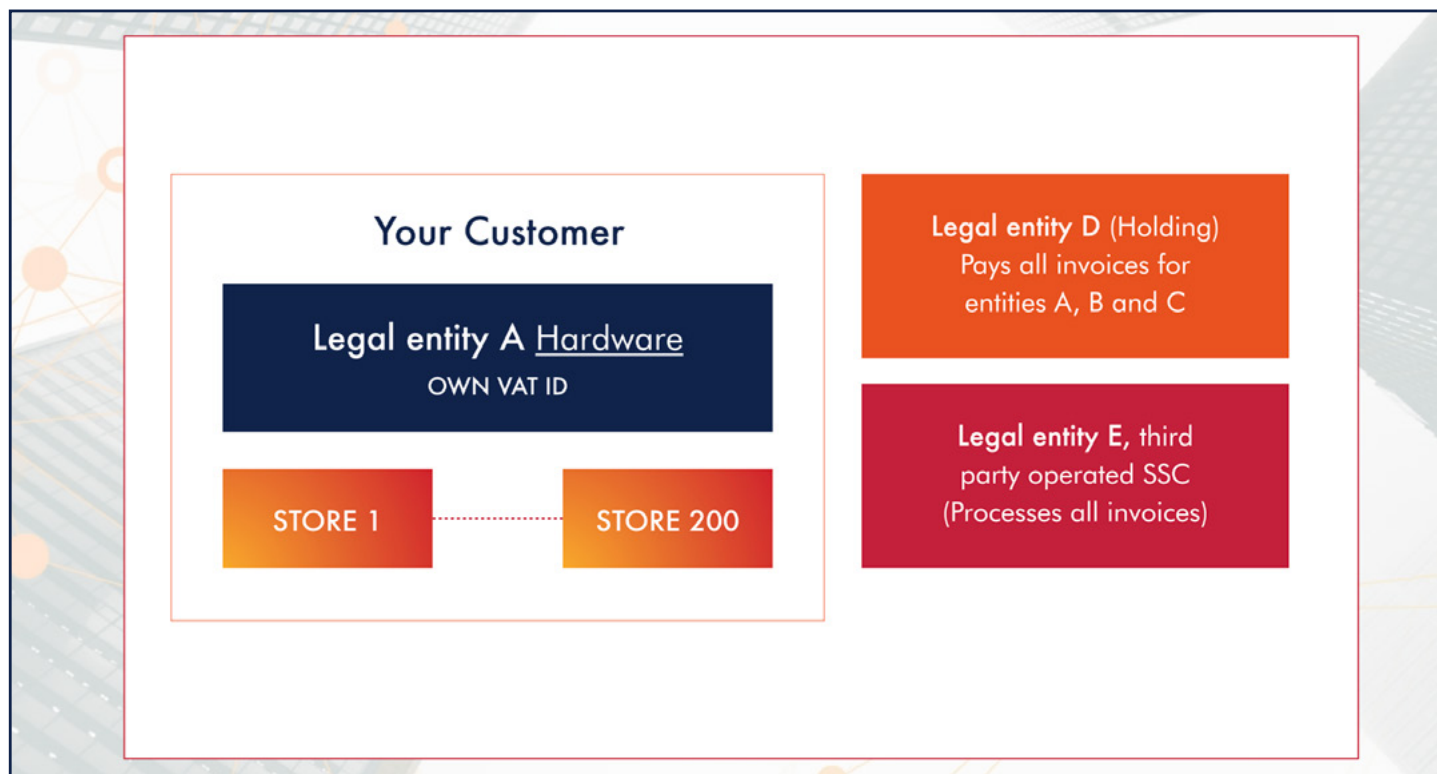
## STANDARD SAP BEHAVIOUR

In many SAP implementations the customising to determine the legal partner is left "blank". If this customising is left "blank", it is almost impossible to predict which partner role will be used as the legal partner for VAT purposes.

- If customising is left "blank", SAP will apply a "Black Box" type logic.
- The system will try and decide if the payer has a VAT ID for the country of origin or establishment.
- Regardless of whether the answer is YES or NO, SAP will check if the Payer is equal to the Sold-to. In most cases the payer will be equal to the Sold-to.
- In cases where the payer is not equal to the Sold-to (as in our example with Entity D), SAP will determine the Payer VAT ID according to the country of destination, and will define the payer as the legal partner for VAT purposes.
- If the Sold-to is equal to the Payer, SAP will check if the ship to has a VAT registration number. If true, the Ship-to will be defined as the legal partner for VAT purposes.
- If the Ship-to does not have a VAT registration number, SAP will determine the Sold-to as the legal partner for VAT purposes, but then will determine the VAT registration number of the country of establishment and will apply that to the transaction.



## IMPACT OF STANDARD SAP BEHAVIOUR

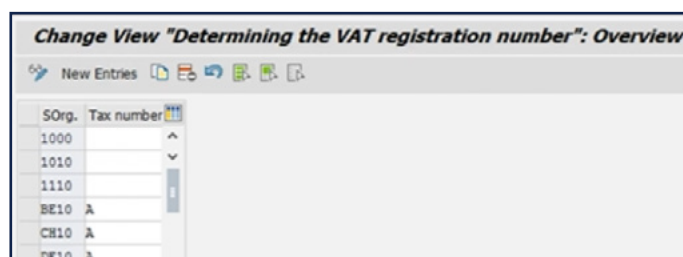


If we apply standard SAP behaviour to the flow in our previous example:

- The payer is not equal to the sold-to
- SAP will determine the VAT ID number from Legal Entity D (the payer)
- Your legal partner for VAT purposes is however the sold-to (Legal Entity A)

## HOW TO CUSTOMISE THE LEGAL PARTNER INSAP

The legal partner needs to be defined manually per sales organisation. Prior to carrying out this customising customer contracts and master data should be analysed within your organisation to determine who should be set as the legal partner for VAT purposes.



## QUESTIONS TO ASK YOUR COMPANY IN DETERMINING THE LEGAL PARTNER

- Has your Tax/VAT team provided guidance on which partner should be used?
- Is your SAP system setup to reflect the legal realities?
- Do your master data teams and finance teams know how to apply the correct rules?
- Do you deliver goods to locations that do not belong to your customers?
- Do you drop ship or deliver goods to the customers of your customers?

## MERIDIAN'S VAT ADD-ON GLOBAL TAX AUTOMATION

Solves all known limitations and shortcomings concerning VAT determination in SAP

### WHAT'S THE ISSUE

Standard SAP does not contain sufficient logic to automate tax determination for business with complex VAT flows.

This exposes a company to tax compliance risk as a result of systemic weaknesses and manual workaround procedures.

This also leads to excessive finance process costs and SAP system maintenance costs.

### THE MERIDIAN VAT ADD-ON

- Meridian VAT Add-on manages all complex VAT issues within SAP and ensures your SAP system delivers tax ready data.
- Once implemented, all complex VAT decisions on sales and purchases are automated and no manual intervention is required.
- Modular solution means customers can select required modules. Implementation and maintenance is simple with the central VAT Cockpit.

### BENEFITS OF THE SOLUTION

- Compliant VAT determination means compliant reporting.
- Reduces finance / tax compliance costs: no manual processes.
- Reduce IT maintenance costs: no requirement to maintain code.
- Flexible and scalable when business model and legislative landscape change. Fast deployment of new countries.

# ABOUT MERIDIAN

meridian

Meridian Global Services is a premier provider of comprehensive global tax determination technology for SAP, and also expert compliance and consulting solutions. With over 25 years of experience, Meridian's team of tax experts leverage their in-depth knowledge and expertise to help clients navigate complex global tax regulations and mitigate risks associated with cross-border transactions.

Meridian Global Services offers a suite of services, including technology solutions that enable automated SAP tax determination for on premise and cloud platforms. Meridian also provides global indirect tax

compliance, global corporate tax compliance, trade compliance, and consulting services. The company's technology-driven approach provides clients with real-time visibility into their global tax obligations and helps them make informed decisions.

Meridian Global Services serves clients across multiple industries, including manufacturing, technology, pharmaceuticals, and consumer goods, among others. The company's mission is to simplify global tax compliance and help clients unlock the full potential of their global business.

THE ONLY NATIVE SAP TAX SOLUTION,  
WITH SAP CERTIFICATIONS.

SAP® Certified  
Integration with SAP S/4HANA\*

SAP® Certified  
Built on SAP Business Technology Platform

## Contact Us

### Ireland

Meridian Global Services  
3009 Lake Drive  
Citywest  
Dublin  
D24 KHNO  
T: +353 (0)1 4590500

### Germany

Meridian Global Services  
Hamburger Büro  
Parkstraße 1  
D-21244 Buchholz  
Germany  
T: +49 32223270134

### France

Meridian Global Services  
115 Avenue de Paris  
94160 Saint-Mandé  
France  
T: +33 158 64 59 22

Contact one of our senior international VAT consultants  
at [taxtechnology@meridianglobalservices.com](mailto:taxtechnology@meridianglobalservices.com)