Seven Reasons to Automate VAT Determination in SAP

INTRODUCTION

The tax function in today's multinational business is subject to constant change whether it be legislative or company re-organisation, geographic expansion, mergers & acquisitions, new business units, new sourcing, or new complex product lines. These influences all impact VAT determination. The manual process of updating SAP systems to cope with changes requires IT and Finance resources.

Even when systems have been updated, the weakness of native SAP in multinational VAT determination may still leave the company exposed to potential errors, creating issues for tax declaration and the auditing process.

There are seven key reasons why businesses should look at automating their VAT determination in SAP.

REASONS TO AUTOMATE VAT DETERMINATION

- Responding to business and legislative changes

- Improve VAT determination accuracy

- Reduced need for IT involvement

- Staff no longer need to manually change purchase orders or invoices

- Improved reporting processes

- Improve tax department control, agility, and scalability

- Reduce the cost of global VAT management

RESPONDING TO BUSINESS AND LEGISLATIVE CHANGES

Keeping up to date on VAT legislative changes can be a challenge for international operations. Each new legislative change in the indirect tax system in every country where the company does business brings new risk that the company's VAT determination has become outdated. This exposes the business to risk in the sales channel with customer invoicing. Accounts payable can have issues with vendors due to delays in invoice processing and late payments. All of these factors further expose the company to challenges for tax assessment at audit.

Examples of recent legislative changes in Europe

- Brexit – the agreement between the EU / UK was announced very late in December 2020 and gave very little time for business to react

- Distance Selling OSS - important change to the way businesses treat sales to online customers

- Fundamental change to VAT treatment of B2B transactions with the move to the 'destination principle' – this is likely to be very complex particularly for businesses with cross-border EU supply chains and introduces the concept of the certified taxable person. In practice that may mean that businesses need to determine VAT based using the current approach or the destination principle depending on the status of their customer.

Using native system functionality to manage VAT nearly guarantees a need for a constant process of re-design, re-configuration, testing and stabilising every system to stay abreast of regulatory and company developments. This may lead to further patchwork developments which create even more complexity. Over the years, such an approach can create a highly complex and customised VAT logic that no-one is fully able to understand, trust or maintain. This increasingly entails complex and expensive IT projects.

The scope and nature of changes that we are seeing highlights the importance of having a flexible and adaptable solution in place for SAP VAT determination. The Meridian solution removes the time and effort internally to customise and build in-house solutions by Tax and IT experts. Particularly, over time such approaches can become very complex and difficult to maintain.

Legislative changes (changes to VAT rules) and new business requirements are constantly being worked on by Meridian and these become automatically available to the entire Meridian install base. The Meridian solution is constantly evolving. The VAT Add-on has comprehensive functionality to cater for EU VAT complexities, meaning that "off the shelf" updates should be available quickly for EU legislative changes.

IMPROVE VAT DETERMINATION ACCURACY

Companies who commit significant human-hours checking and validating transactional data, and are lucky enough to have the adequate resources to maintain labour intensive and manual updates to their SAP system, may still incur penalties for incorrect VAT determination when SAP simply cannot handle the complex VAT rules and associated reporting requirements.

Standard SAP determines a VAT decision using five basic VAT determination characteristics:
- Tax departure country
- Tax destination country
- Customer tax classification
- Material tax classification
- Customer VAT ID number (in the case of EU transactions)

As a consequence, condition records often have to be manually updated to enable SAP to cope with non-standard sales transactions.

Often businesses will have to comply with non-standard VAT outcomes due to the specific circumstances of suppliers and customers. A good example of this is Triangulation. This is one of the most complex areas in VAT. Businesses with multiple VAT registrations may be VAT registered in the country of destination and some EU countries don't allow use of the simplification in such scenarios. As such, ensuring staff correctly recognise when triangulation applies is a huge challenge.

The Meridian VAT Add- on provides automated "right first time" tax determination. The system driven logic will automatically determine the correct VAT, even on the most complex multi-country triangular transactions. Meridian's solution teaches SAP all of the relevant VAT rules and as a result is able to achieve a compliant and fully automated tax determination directly in the SAP system. This eliminates instances where sensitive tax decisions are made by non-tax staff and reduces risk associated with manual processes which are inherently subject to human error.

Blocking functionality for non-compliant flows : Meridian's VAT Add-on solution incorporates integrated transaction control and blocking functionality. This ensures the business has full visibility of non-compliant flows, and allows for preventative rather than corrective action to be taken.

Transparency and full audit trail The Meridian solution also brings transparency to the whole process, providing global tax and finance managers with a clear understanding of how and why the VAT Add-on has arrived at a tax decision

No.3 REDUCED NEED FOR IT INVOLVEMENT

To overcome the deficiencies of SAP in complex VAT determination, IT departments are often required to develop bespoke access sequences together with a complex set of condition records in order to try and derive a complex VAT decision.

Furthermore, each ongoing business or legislative change to VAT rules must be manually updated in every transactional system and for all relevant condition records in the system. This requires significant effort and teamwork between the tax department and IT resources on an ongoing basis. Whilst this approach can work for specific scenarios, it usually falters as new scenarios arise either when the business changes, or new VAT rules are introduced.

With the Meridian VAT Add-on, IT departments are no longer required to carry out heavy customising or hardcoding in the system in order to get the correct VAT determination. Furthermore the solution is built directly into standard SAP using SAP technology which means is there is no expensive external software or interfacing systems required.

The implementation roadmap is also simpler. The Meridian system does not require an extended project for implementation. The VAT Add-on fits into your SAP systems and is therefore easier to implement and maintain. Because of many years experience with EU VAT, almost 90% of the Meridian solution is off the shelf. Hence very little IT development expertise is needed for installation . The Meridian VAT add-on is typically a 90-100 day implementation project.

No.4 STAFF NO LONGER NEED TO MANUALLY CHANGE PURCHASE ORDERS OR INVOICES

It is possible for staff to manually change the purchase or sales order VAT characteristics in SAP. This could be done to attempt to overcome a known limitation within SAP VAT determination and to try and force the correct the VAT result. Staff may tamper with these fields, in order to intentionally manipulate a tax result. This is usually done because the SAP system is not trusted to derive the correct tax treatment automatically. Whatever the circumstances, where such changes are allowed it means your company is allowing your non-tax staff to make decisions - which is very high risk.

The Meridian VAT Add-on improves AP/AR process efficiency by automating SAP paper invoice and purchase order creation. It means administration staff do not have to manually adjust sales and purchase orders.

- Paper invoice automation - All complex EU flows are solved on the AP side, with integration and automation for manual AP processes for the standard MIRO transaction within SAP
- No manual selection of tax codes is required. This process is fully automated and compliant.
- Purchase Orders – Automated determination of the VAT ID number of the buying entity

Overview of the AP process for enhanced MIRO

The Meridian solution integrates seamlessly within the standard MIRO transaction to have as little impact as possible on the company's SAP system.

Two additional tax relevant fields are added:
- 2 digit country code of issuing VAT ID used by the vendor
- 2 digit country code of receiving VAT ID used by the company
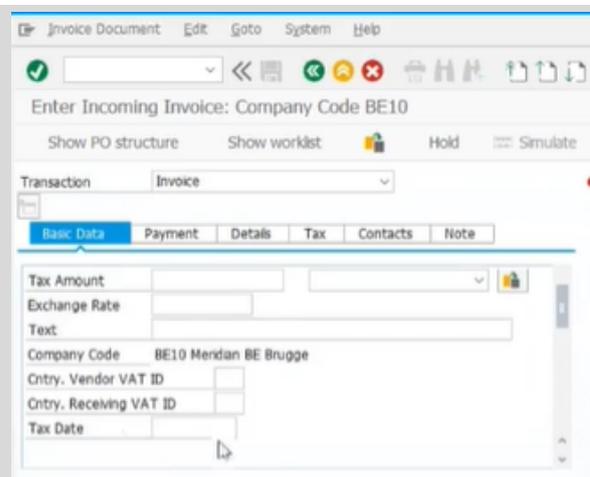
The Meridian system automatically proposes the above fields based on system driven logic from the purchase order relevant to the posting of the invoices. With this information the selection of the VAT code at a line item level is automated. This removes the need to train staff on complex VAT rules such as intra community acquisition, extended reverse charges, EU triangular deals, and bonded flows.

It should be noted that some companies have introduced automation into the AP process, by investing in scanning solutions. This does however not give them full automation as the process has to stop to get the VAT codes added (manually). The VAT add-on combined with the scanning solution will deliver full automation.

The indirect tax environment had seen a huge increase in reporting obligations, where data needs to be correct from the beginning with little option to make changes later. This creates additional exposure to tax authority requirements, and therefore mitigation of the tax and compliance risk is critical. Improving the efficiency and accuracy in both transactional processing and reporting by automation will be high on the agenda for many companies.

Many businesses are forced to carry out significant manual work outside of their SAP system in order to compile their VAT declarations. Typically, this involves doing such work in Excel or in some cases within a bespoke database or reporting engine. This is yet another symptom of underlying issues caused by inaccurate VAT determination in SAP. Although practical when done on a small scale, such a manual approach is often not scalable for tax and finance teams responsible for multiple jurisdictions and VAT registrations.

The Meridian VAT Add-on improves the company's reporting process by ensuring the VAT determination data is correct first time. This means you do not have to later amend or re-file VAT returns. The Meridian solution enables you to drive all Intrastat, VAT and VIES reporting centrally from the Cockpit.
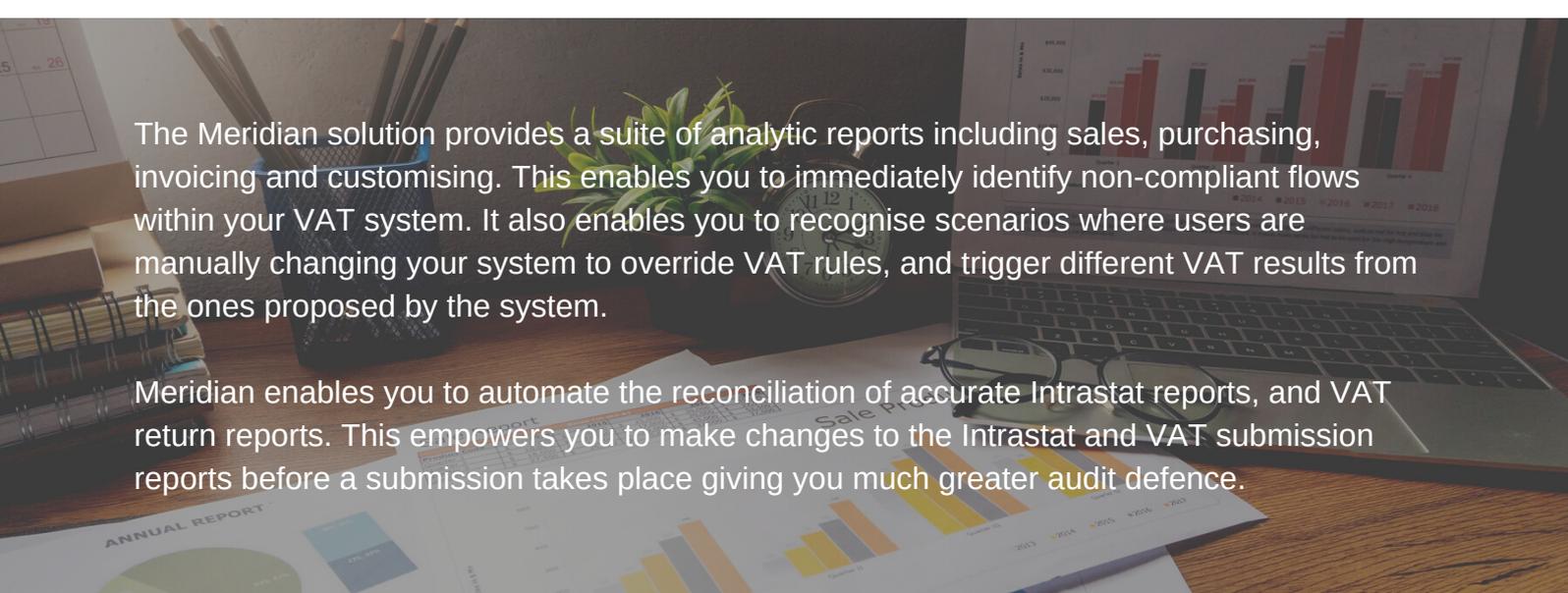
The Meridian solution provides a suite of analytic reports including sales, purchasing, invoicing and customising. This enables you to immediately identify non-compliant flows within your VAT system. It also enables you to recognise scenarios where users are manually changing your system to override VAT rules, and trigger different VAT results from the ones proposed by the system.

Meridian enables you to automate the reconciliation of accurate Intrastat reports, and VAT return reports. This empowers you to make changes to the Intrastat and VAT submission reports before a submission takes place giving you much greater audit defence.

IMPROVE TAX DEPARTMENT CONTROL, AGILITY, AND SCALABILITY

The Meridian VAT Add-on gives the tax department control because the system is operated and maintained by your VAT professionals instead of your IT staff.

New VAT requirements can be quickly translated into VAT conditions by the tax department users, putting control in the hands of VAT users rather than IT and SAP developers. This ensures standardized and consistent VAT treatment across all systems with centralised visibility via the VAT cockpit. Improved VAT controls at a central level enables, a more agile tax organisation due to shorter lead times and instant scalability. Within the Meridian VAT Add-on the tax department are able to directly:

- Activate relevant sales organisation company codes
- Maintain country and sales organisation relevant VAT rules in sales and purchase transactions. This includes triangulation, extended and domestic reverse charges, and indirect exports
- Maintain VAT condition records for sales and purchases
- Manage VAT IO check results from the VIES module
- Execute and control analytic reports

The above all means the tax department can directly devise and drive tax determination themselves including directly maintaining and modifying all the companies VAT rules, manage exemptions, as well as all the sales, purchasing and finance condition records. This is one of the key advantages of the Meridian solution over an external tax engine. Meridian operates within your SAP system and uses internal data. An external tax engine still requires your IT department to map internal data to the external tax engine. If the business data changes, the IT department must get involved again to ensure the data mapping is updated.

As the Meridian system is built into native SAP, there is no need to synchronise master data or tax table changes with an external tax engine. Everything is already synchronised internally within SAP.

The Meridian Add-On is modular meaning organisations can implement in a flexible and scalable way. Hence organisations can decide to implement and scale the modules as best suit their requirements. Within the Meridian VAT cockpit the tax department can selectively activate each of the modules at a sales organisation or company code level.

Changes to VAT regulations and updates are implemented centrally by Meridian. The solution facilitates changes to the business model and legislative landscape. It also enables the rapid deployment of new countries, as the tax department can simply add VAT content for new products or markets. Meridian's VAT Add-on can scale with the SAP system, and multiple instances. It can also follow a transition from premises to cloud, without further IT developments or integration .

No. 7 REDUCE THE COST OF GLOBAL VAT MANAGEMENT

The Meridian VAT Add-on can provide for significant VAT management cost reductions:

Reduced IT costs

The Meridian solution is built directly into SAP using SAP technology which means there is no customising or hardcoding in the system, or additional and external interfacing systems required. Also, there is no longer a requirement for IT to build and maintain complex condition records. The Meridian VAT cockpit provides business VAT experts with the control to manage VAT determination, without costly IT resources.

Reduce training and turnover costs for AR/AP staff

As Meridian's VAT Add-on achieves a compliant and fully automated tax determination directly in the SAP system, there is no longer a need to turn AP and sales order desk staff into VAT experts. This greatly reduces the costs associated with administration staff training and turnover.

Manual processes no longer necessary

With correct VAT determination in the system, the manual work of fixing incorrect tax codes and reviewing invoices is no longer required. This results in less human errors and a reduction in administrative costs due to higher automation.

Reduced Audit and Accounting costs

As taxes are correctly determined first time, this means VAT returns do not have to be resubmitted. The increased insights and tax related information greatly reduces audit costs. There is also a reduction of penalties for late or inaccurate submissions, high provisions and defense costs

Annual running Costs

Meridian VAT Add-on pricing is fixed and does not vary based on values or transactions volumes. On the other hand, the cost model for an external tax engine can often be variable, and costs can increase with number of transactions or transaction value.

Service and support costs

The Meridian team of VAT and technology experts ensure clients always get the support they need to remain compliant with ever changing company structures or legislative changes. Access to the Meridian Jira Expert Help Desk is included in the solution cost.

CONCLUSION

The case for automating international VAT determination in SAP is evident. The legislative environment is becoming increasingly complex and ongoing manual updates to SAP systems are becoming unmanageable. Automation provides increased VAT determination accuracy as manual coding is removed from the process.

The Meridian VAT Add-on transfers the task of VAT determination in SAP back to the tax experts. The solution removes the need for IT departments to develop complex access sequences and condition records, meaning tax determination is kept up to date centrally, ensuring a reliable, repeatable and agile AP/AR process.

The Meridian VAT Add-on improves the company's reporting process by ensuring the VAT determination data is correct first time. The solution is highly flexible, and remains agile to meet a changing business and legislative environment. The business case for SAP VAT automation becomes increasingly compelling when total cost reduction benefits are taken into account from both a financial and operational perspective.

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