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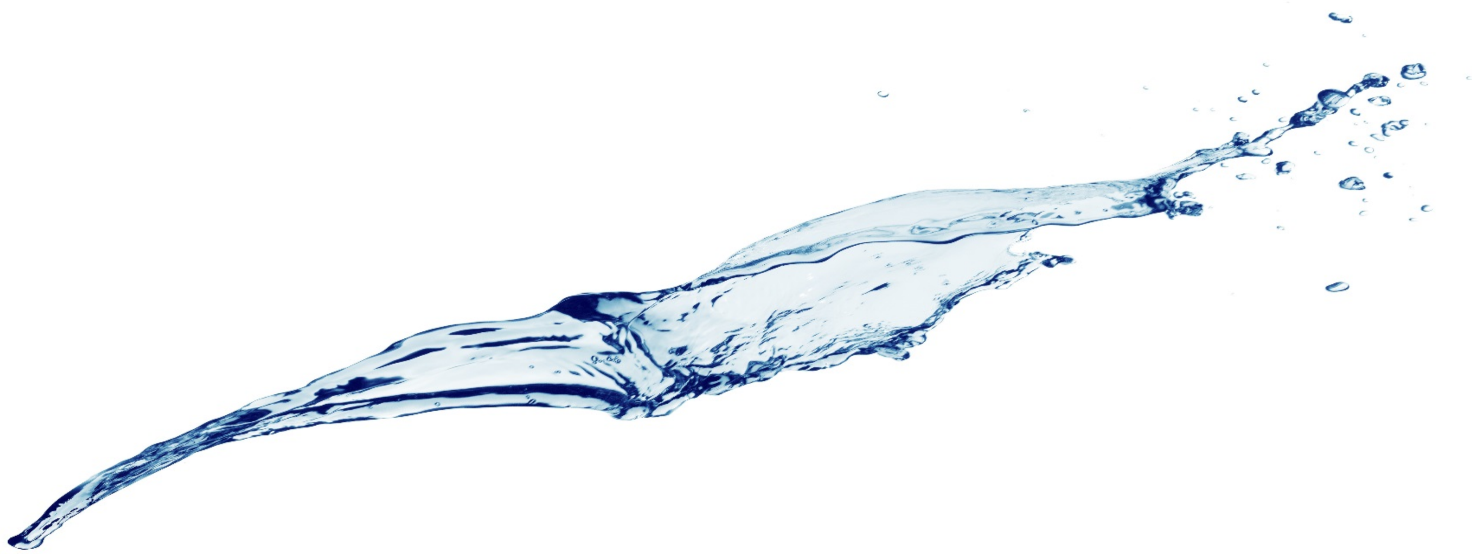

Indirect Tax Automation News
May 2014

We are pleased to be sending you the first edition of our European Indirect Tax Automation Newsletter. The purpose of this quarterly newsletter is to keep you informed about trending issues in the area of Indirect Tax Automation. We will be covering changes in the indirect tax laws in the EU impacting ERP and related systems and developments in the area of indirect tax automation, such as the availability of new indirect tax software.

Proposal for Directive introducing a ‘standard VAT return’

In February 2014, the European Parliament approved the proposal for a Directive introducing a ‘standard VAT return’. The proposal aims to reduce the administrative burden for businesses by harmonizing the content of periodical VAT returns throughout the EU.

Proposal content

The main change introduced by the proposal, which will have a significant impact on ERP systems, is that it plans to standardize the content and impose a minimum and a maximum list of information boxes for the standard VAT return, as follows:

- A standard VAT return should have a minimum of 5 mandatory information boxes, namely the total amount of supplies made, the total amount of purchases made, the corresponding amount of VAT payable, the deductible VAT, and the VAT balance. Until 2019, boxes for the amount of intra-community supplies and acquisitions will also be mandatory.

- Member States may extend the number of boxes, with up to 21 additional information boxes, such as additional boxes for different types of supplies and for different VAT rates.

The content of the 5 mandatory information boxes as well as the content of the 21 additional boxes will be exactly the same in all EU Member States.

Member States will also no longer be allowed to require the submission of an annual recapitulative VAT return.

The use of the standard EU VAT return will be evaluated after five years.

Impact on VAT ERP processes

In general, a revamp of the VAT codes and of the VAT returns generated in ERP will be required. Although Member States can still determine the number of information boxes to be included in VAT returns (within the boundaries of the 26 standard boxes), a standardized VAT return will provide an opportunity to implement a harmonized set of VAT codes across different Member States.

The obvious benefit of this will be a highly reduced set of VAT codes, which will be a relief for certain SAP customers that currently have to maintain an extensive list of VAT codes within the limits of two digits. A challenge aggravated by the number of VAT rate changes in recent years. Fewer VAT codes means less maintenance and more flexibility.

A harmonized VAT code list will also reduce potential errors in using incorrect VAT codes (e.g., in an AP Shared Service Centre) and lead to an efficiency increase in relation to the VAT reporting process in general. Automated VAT code determination for AP will become easier.

Besides the impact to the ERP systems, this will also impact any VAT return software/tools (such as ONESource Indirect Tax reporting, Vertex solutions or basic Excel templates). If implemented, it is clear that the 'standard VAT return' will allow a more automated VAT reporting process across the different Member States in which the mapping of transactions to the boxes of the VAT returns will be more straightforward.

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Changed tax point rules in Poland – SAP support note

The tax point rules have changed in Poland as of 1 January 2014. The new tax point will be when goods are supplied or services are rendered. The old rules referred to the date the invoice was issued. Payment will also create a tax point, when payment is made prior to the supply of the goods or services. System changes are required in order to deal with the cases where an invoice has already been issued and/or received and the goods and services have not yet been supplied and/or received.

SAP has released support note 1956599 – Update tax reporting date and allows SAP users to take into account the correct tax point date in case an invoice has already been issued but the goods or services have not yet been supplied.

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Recent VAT changes impacting tax codes and VAT determination logic

Have the following changes been reflected properly in the ERP set up?

- Recent VAT rate changes in France, Croatia, Serbia, Azores, Corsica and Cyprus. New tax codes may be required.
- The introduction of a domestic reverse charge system for the building sector in France for subcontracting agreements concluded from 1 January 2014. New VAT code determination conditions may be required as well as new VAT codes.
- The introduction of a domestic reverse charge system in Denmark for the supply of cell phones, laptops, integrated circuits, etc. New tax code determination conditions may be required as well as new VAT codes.
- Tax point rules changes in Poland (see above). System changes for reporting may be required impacting when VAT is reported as due. Also, the invoice requirements (tax point date) may be impacted.
- Issuing collective correction invoices for Poland means a reference to all related invoices is required (i.e. invoice numbers and issue dates need to be included). Reporting and invoice requirements may be impacted.
- Changes regarding the deductibility of VAT on cars and related costs in Poland. New VAT codes will be needed.

Have the following upcoming changes which will impact the ERP set already been considered?

- New place of supply rules from 1 January 2015 for electronically supplied services by EU suppliers to private individuals and non-business customers. This has a potential impact on VAT codes, reporting and VAT code determination.

The above selection of VAT topics with ERP impact cannot be regarded as exhaustive, but reflects general changes impacting most VAT taxpayers in one way or another that are active in an international context.

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E-invoicing: business controls creating a reliable audit trail – official comments published in UK

The UK tax authorities, HM Revenue & Customs, have updated Notice 700/63 on Electronic Invoicing to reflect the 2013 changes regarding e-invoicing and storage. Since 2013, it has been permitted in the EU to guarantee authenticity, integrity and legibility by means of business controls creating a reliable audit trail. Notice 700/63 now contains a clear explanation of how this can be interpreted.

It is possible to guarantee authenticity and integrity by comparing invoice data to:

- Data contained in other supply chain-related documents linked via an audit trail (e.g., data from contracts, sales orders, delivery notes, payment proof); and
- Other data (e.g., master data available in accounting software, transactional data available in the accounting software)

The reliability and independence of the supply chain-related documents and/or other data can be safeguarded through internal controls, such as, but not limited to, segregation of duties, limitation of access, prevention of duplication, etc.

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Thomson Reuters builds new SAP Tax interface

The interface, connecting SAP with the tax engine of the ONESOURCE Indirect Tax product line of Thomson Reuters, has received a major update.

ONESOURCE Indirect Tax Integration for SAP 6 is the new global tax integration solution, which has been completely re-designed to integrate with SAP ECC application modules. Compared to the previous SAP integration of Thomson Reuters' tax engine, there has been remarkable progress in the way that native SAP/VAT functionalities and processes, are now also available when implementing ONESOURCE Indirect Tax.

In addition to the known benefits that the tax engine has to offer in the field of automating AP and AR tax determination and delivery of global tax content, the new interface will now also allow companies to make full use of the native VAT reporting functionalities that SAP has to offer. Also, by decoupling the VAT rate from the VAT code, the challenge that some companies have faced in relation to the limitation of two-digit VAT codes, is now a problem of the past.

Also, from an integration point of view, the new interface is a step forward, as it is designed following the SAP Add-on methodology; it is integrated into SAP whereby configuration and enhancements are done via SAP tables.

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Thomson Reuters announces availability for Oracle 12 5.5.0.1

Thomson Reuters has announced the general availability (GA) of the Integration for Oracle 12 5.5.0.1. The Integration for Oracle is now available to be directly downloaded from the ONESOURCE Indirect Tax Customer Center.

This release of the ONESOURCE Indirect Tax Integration for Oracle 12 5.5.0.1 is a patch release in support of Oracle E-Business Suite 12.2. In addition to supporting the Oracle Online Patching for Oracle updates, Integration updates can be applied using the Oracle online patching feature of Oracle E-Business Suite 12.2. Customers on Oracle E-Business Suite 12.1 do not need to upgrade, since the Integration for Oracle 12 5.5.0.1 release is compatible with both Oracle releases.

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e-Audits

Is your ERP system ready to be audited?

Electronic tax audits (tax e-audits) are becoming more and more frequent in Europe. Countries are modifying tax laws to facilitate electronic tax audits (e.g., France) and tax administrations are making the use of electronic tax audits more systematic (e.g., Germany).

ERP systems can of course accommodate extraction of the data needed for these requirements, however, in more complex landscapes involving multiple ERPs it might not always be so easy to consolidate the information into one unified data set.

As such, it is recommended that an assessment be undertaken of new audit requirements (that impact the IT landscape, before an audit is announced. Furthermore, a broader pan-European e-Audit roadmap could be developed to more easily integrate new requirements.

e-Audit: SAP updates

SAP has released a number of support notes in relation to the new requirements in France and the use of DART in this respect:

- 1933144 – Article L47 A I of the French Tax Regulation effective 01.01.2014
- 1923322 – DART: View file creation for France Legal Requirement
- 1906078 – FTW1A: BADI for additional selections from BKPF.

An update was also released to support note 1635673 in relation to the SAF-T for Luxembourg.

e-Audit: Oracle updates (France)

Oracle Support has published a note for a patch in relation to the new French e-Audit requirements:

- MOS Note 1604003.1 for Oracle E-Business Suite French Accounting Entries Audit File, Release 12.

Customers planning to evaluate this patch should carefully consider the assumptions mentioned in the note with respect to their own specific set-ups for French established entities. This is applicable to E-Business Suite Release R12. Additional information is available in the User Guide:

For other packages – JD Edward and PeopleSoft – similar solutions for France will be released by Oracle. Documentation is available through Oracle Support.

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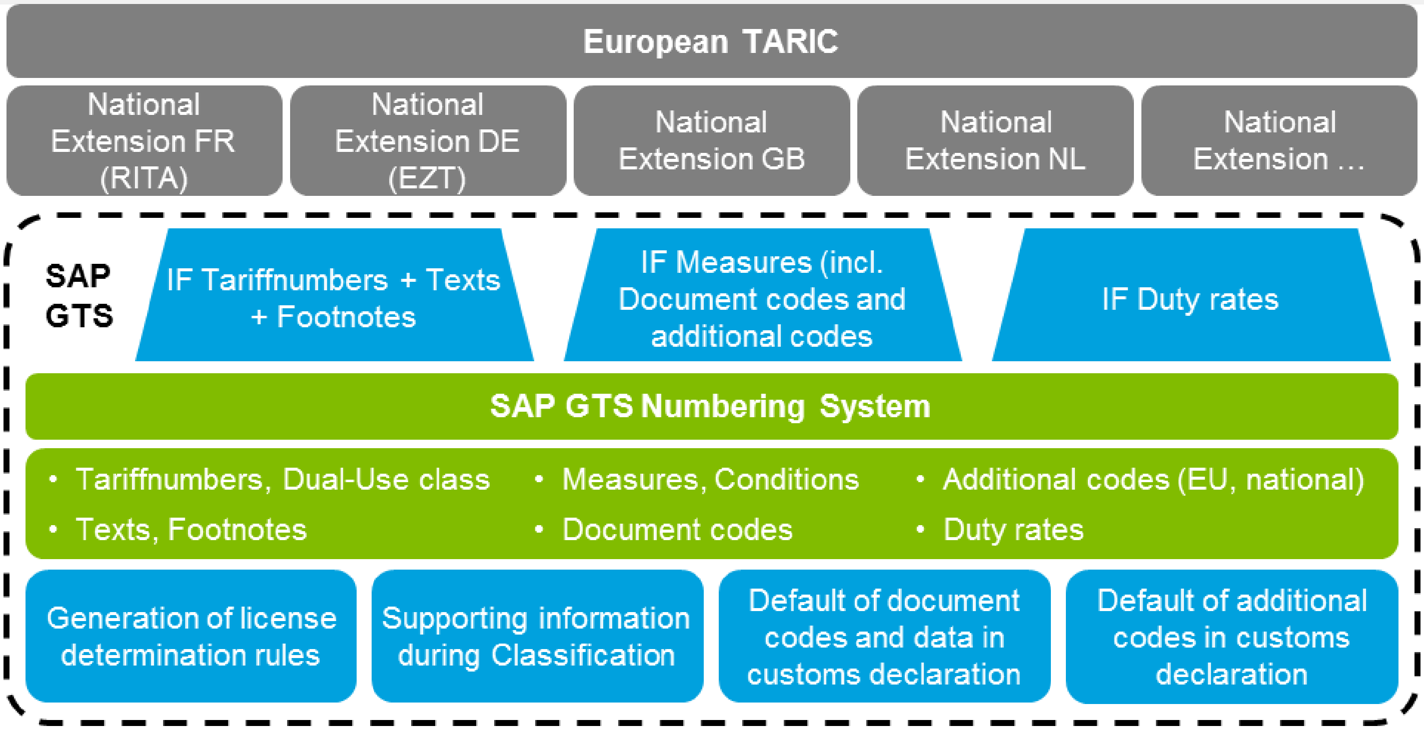
New functionality in SAP GTS – Trade Measure Integration

International trade of goods can be subjected to various measures which are applicable on import and/or export which impact on the applicable taxes of the goods. These tend to fall into two broad categories, tariff and non-tariff related. Examples of tariff related measures are preferential duty rates applicable for certain originating products or tariff suspensions. Examples of non-tariff related measures could be import quota and restrictions or the need for import/export licenses.

Within the European Union, most of the measures are published on the **EU website** and the potential for applicable measures can be evaluated based on the classification code of the products (i.e. TARIC number). Furthermore, the EU measures could be extended by country specific measures which will be identified by country specific extensions of the EU TARIC code.



The latest version of SAP GTS (i.e. the global trade solution of SAP) provides functionality to maintain and manage the additional measures. In this respect, SAP GTS foresees two integration points:

1) Integration with Customs Master Data

- SAP GTS foresees in the upload of Trade Measures published by the authorities.
- SAP GTS provides display of measure dependent information for product classification which provides upfront visibility to a company on the potential import/export requirements of a product in a specific country.

2) Integration with Customs Processing of Import/Export Transactions

- SAP GTS facilitates the creation of a customs declaration in an integrated manner that contains all documents of the measures, which are relevant for the tariff number assigned by the used product (e.g. SAP GTS will flag the need for additional certificates and licenses).
- SAP GTS facilitates the management of additional data on Customs declarations, such as document codes which are required on the customs declarations or affected imports / exports to demonstrate that the relevant measures have been complied with.

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