

E-business Tax mystery or Tax solution from customer's point of view

**Julia Schlei
Jeppesen GmbH
Neu-Isenburg**

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Introduction

2013 Jeppesen (a Unit of Boeing located in Denver, CO) has extended the Oracle E-Business Suite R12.1 implementation to their Poland branch. Swedish Branch is following (launching in December 2013). The functionality included Project Costing/Billing, Payables, Receivables, General Ledger, I-Procurement and Purchasing. One of critical success criteria was an acceptable tax solution. The manuscript describes experience and learning's out of financial implementation in EU countries with focus on VAT information and contains useful reference information.

It includes:

- requirements section
- implementation considerations
- configuration overview
- troubleshooting

Generally understanding of E-business Tax requires an examination of the huge number of documents. No single instruction for VAT implementation exists. Experience of Jeppesen may be helpful for the efficiency of a work with E-business Tax related to VAT.

Requirements

The list below includes organization/country specific requirements in addition to common Tax recording and reporting needs:

Poland:

- VAT Declaration should be based on Tax Invoice Date.
- Ability to identify purchase of goods and services classified as fixed assets/purchase of remaining goods and services on monthly and quarterly basis.
- VAT incurred on passenger cars' hire, is recoverable only up to 60 percent but not more than PLN 6,000 of total

- Supplier information from receipts should be recorded in expense reports and visible in TAX register.
- Ability to report VAT for reselling goods or services to Polish employees taxed with all kind of rates.
- Ability to report VAT for "Internal invoice" related to giving free goods or services to employees taxed with full rate or reduced rate (parking case).

Sweden:

- Swedish branch is registered in Sweden and in Australia.
- Supplies of goods or services between a branch and its head office are deemed as non-supplies from a Swedish VAT perspective.
- If you pay an expense that is unconnected with the business for an employee, such as a lunch, you may not deduct VAT since this is not regarded as an acquisition for the business. Certain education/training can also be considered an employee benefit.
- Deduction of input VAT is limited to that part of the cost that you may deduct under income taxation.

EU:

- Buyer in EU must create a reverse charge on the Payables invoice line for such Intra EU transactions.

Implementation Consideration

Main goal of implementation was: Fulfill Requirements but Keep it Simple! To achieve this goal we followed implementation recommendation from oracle described in Oracle® E-Business Tax Implementation Guide.

This includes analyze of Tax Requirements and questions we need to answer:

- Who we are?
Poland: Jeppesen Poland Sp. z o. o
Exists in Oracle E Business Suite as Operating Unit and as legal Entity
Sweden: Jeppesen Systems AB
Exists in Oracle E Business Suite as Operating Unit and as legal Entity
- In which countries we have our business?
Across the Globe
In which countries we are legally registered?
Poland: in Poland
Sweden: in Sweden and in Australia
- What are the operations/businesses that we have?
Poland: production and distribution of digital cartography.
- What products do we buy or sell?
Poland/Sweden: Our transactions are purchase of services/goods across the globe and domestic and international sales of services. Out of scope are services related to touristic, car hire... We are not using Oracle Inventory Module for this implementation
- Who are our customers and suppliers?
Our customers and suppliers located across the globe with include intercompany customers and suppliers.

- What taxes are we subject to?

Table 1: Poland

Rate Description	Rate valid From	Rate valid To
Standard	1/1/2011	12/31/2010
Reduced 1	1/1/2011	12/31/2010
Reduced 2	1/1/2011	12/31/2010
Reduced 3	1/1/2011	
Zero Rate		
Exempt Rate		
No Vat for INTRA EU		

Table 2: Sweden

Rate Description	Rate valid From	Rate valid To
SE-Standard		
Reduced 1		
Reduced 2		
Exempt Rate		
No Vat for INTRA EU		
GST Standard		
GST Zero		

To simplify visibility we have created the VAT matrix which we used going forward as a base for tax configuration. Table 3 include one sample record out of VAT Matrix for Poland

Table 3: Sample Row from VAT Matrix

Column Name	Value
Input/Output	Input
Transaction Type	Purchases
Bill From	EU
Bill To	Poland
Ship From	EU
Ship To	Poland
Location of Supplier(AP)/Client EU (AR)	Poland
Supplier(AP)/Client(AR) registration	Registered In EU not in Poland
Product Type	Goods/Fixed assets
Item Categorization	Reduced rate 2
VAT applicable	Yes
VAT Return Box	C33 - Intra-Community acquisition of goods
Recovery	100%
Oracle VAT Rate Code	PL VAT IN EU RED2 FA GOODS
Oracle Account Combination	XXX.XXXX
Oracle Place of Supply	Ship To(Bill To if Ship To not Found)

VAT matrix in combination with requirements document was the basis for followed VAT Setup work and helped in naming standards definitions on VAT Rate Codes.

Configuration strategy

Following decision was done prior configuration work:

- Review all available Localization features (EMEA, Poland, and Sweden) (Modules: JG, JE, CLE), get understanding on it and decide what is needed and how to proceed. Documentation we used exists in E-Business Suite Globalization Center [Note 1355613.1] and Oracle® Financials for Europe.
- Install latest localization patches [Note 737320.1].
- Install E-Business Tax Recommended Patch Collection [Note: 1481235.1]
- Use suggested by Oracle approach and data as a basis for setup: Metalink: EBusiness Tax Seed Data [Note: 463001.1]
- Extend Tax Rules with null and not null parameters. [Note 1395535.1]
- Agreement on Naming Standards - use of coding structure proposed by Oracle in [Note: 463001.1].
- Identify fields critical for Tax Setup on master date and make sure population will take place.

Configuration overview

As mentioned earlier we proceeded with approach from Note: 463001.1 and extended preinstalled seeded setup. Very useful was to go tax task by task via Home Screen in Oracle E-Business Tax module.

Task Name	Required	Go To Task
<input type="checkbox"/> Task List		
<input type="checkbox"/> External Dependencies	Yes	
<input type="checkbox"/> Tax Configuration	Yes	
<input type="checkbox"/> Fiscal Classification System	No	
Create Country Defaults	No	
Create Exceptions	No	
Create Tax Rules	No	
Complete First Party Legal Entity Party Tax Profile	No	
Create First Party Legal Establishment Party Tax Profiles	No	
<input type="checkbox"/> Create Party Tax Profiles for Third Parties	No	
Create Configuration Owner Tax Options	No	
Create Application Tax Options	No	
<input type="checkbox"/> Provider Service Details	No	
Simulate Transactions	No	
Make Tax Available on Transactions	No	

Illustration 1: Home Screen

Our extension of seeded Setup included:

- Subscription to PL VAT Regime for Poland and PL VAT and AU GST for Sweden Operating unit.
- Addition of PL OFFSET VAT and SE OFFSET VAT. Instruction how to do it exists in [Note 1368206.1] How to Setup and Troubleshoot Offset Taxes in R12 E-Business Tax (EBTax)

Focus	Code	Level Name or Jurisdiction Name for Rate Level Type	Level Type	Configuration Owner
	[-] PL VAT	PL VAT	Regime	
+	[+] PL VAT	Goods and Services Tax	Tax	Global Configuration Owner
+	[+] PL OFFSET VAT	Goods and Services Offset Tax	Tax	Global Configuration Owner

Illustration 2: Offset Tax

- Creation of additional Tax Statuses and Tax Rate to fulfil our reporting requirements like report on fixed assets for Poland, Intra EU Services/Goods. We did not mixed tax rates required for Input Tax with Output tax rates. The reason is that a Charge of Account assignment is different for Input and Output and additional separation was required to make sure that Taxes will go to the correct group into Tax Register (See VAT Return Box in Table 3).Vat Matrix helped to understand how many tax rates will be required. We learned that creation of only one tax rate for every tax status (and marking the tax rate as default within its status) will simplify following tax rule setup. For Poland we grouped tax rates under tax status and decided to change this approach for Sweden. Illustration 3 provides an example where Tax rates are grouped under one status. Illustration 4 is an example how we recommend it.

Focus	Code	Level Name or Jurisdiction Name for Rate Level Type	Level Type
	[-] PL VAT	PL VAT	Regime
+	[-] PL VAT	Goods and Services Tax	Tax
	⌕ Previous		
+	[+] PL VAT ZERO	PL VAT Zero	Status
+	[-] PL VAT STANDARD	PL VAT Standard	Status
	⌕ Previous		
	PL VAT IN EU STD GOODS	PL VAT Intra EU Standard Goods Rate	Rate
	PL VAT IN EU STD GOODS FA	PL VAT Intra EU Standard Fixed Assets Rate	Rate
	PL VAT IN EU STD SVC	PL VAT Intra EU Standard Services Rate	Rate
	PL VAT IN PL STD	PL VAT Input Standard Rate	Rate
	PL VAT IN PL STD GOODS FA	PL VAT Input Standard Fixed Assets Rate	Rate
	PL VAT NON EU STD SVC	PL VAT Non EU Standard Services Rate	Rate
	PL VAT STANDARD RATE	PL VAT Output Standard Rate	Rate

Illustration 3: Tax Rates not recommended

Focus Code	Level Name or Jurisdiction Name for Rate	Level Type	
[-] PL VAT	PL VAT	Regime	
[-] PL VAT	Goods and Services Tax	Tax	
	Previous 1 - 5 of 10		
[-] PL VAT NON EU ZERO	PL VAT Output Non EU Zero	Status	
	PL VAT NON EU GOODS SALES	PL VAT Output Non EU Goods Rate	Rate
[-] PL VAT NON EU SVC SALES	PL VAT Output Non EU Services	Status	
	PL VAT NON EU SVC SALES	PL VAT Output Non EU Services Rate	Rate
[-] PL VAT INTRA EU ZERO	PL VAT Output Intra EU Zero	Status	
	PL VAT INTRA EU ZERO RATE	PL VAT Output Intra EU Goods Sales	Rate
[-] PL VAT INTRA EU SVC SALES	PL VAT Output Intra EU Services	Status	
	PL VAT INTRA EU SVC SALES	PL VAT Output Intra EU Services Rate	Rate

Illustration 4: Tax Rates recommended

- Assignment of Reporting details information into all tax rates and to Tax in order to achieve grouping of transactions in tax reports is based on VAT Return Box.

Tax Rate Details	
Tax Regime Code	PL VAT
Tax	PL VAT
Tax Status Code	PL VAT STANDARD
Tax Rate Code	PL VAT IN EU STD GOODS
Tax Jurisdiction Code	
Rate Type	Percentage
Effective From	01-Jan-2011
Tax Regime Name	PL VAT
Tax Name	Goods and Services Tax
Tax Status Name	PL VAT Standard
Configuration Owner	
Tax Jurisdiction Name	
Percentage Rate	23
Effective To	

Reporting Details	
Tax Rate Name	PL VAT Intra EU Standard Goods Rate
Tax Transaction Type	PL_IN_INTRA_EU_GOODS_C33
Tax Rate Description	23% Input: Intra EU Goods

Illustration 5: Reporting Details

- Assignment of Tax Recoverable/Liability account to every tax rate. As charge of accounts we used only 2 accounts: Input VAT and Output VAT.
- Classification creation. Fiscal classification system from oracle gave us all required attributes which we were able to use in tax rules: Party Fiscal Classifications was used to identify employees. Product Fiscal Classifications was required to categorize a product for a tax (No Inventory module installed), User defines Fiscal Classifications in order to differentiate fixed assets. Zero Recovery based on Intended Use Fiscal Classifications was included into seeded values provided thru the patch. We extended it with 60% Recovery for Poland.
- Subscription to the event classes. With the help of Tax Events inside of Tax Rules (Sales Transaction; Purchase PrePayment Transaction, Purchase Transaction, Intercompany Transaction, Expense Report) we were able to differentiate business cases based on similarity in handling tax information. The event classes are associated with a first party legal entity/operating unit owning tax content. At transaction time, E-Business Tax uses the tax option settings of the configuration owner and application event class, as a result the required

step was a subscription to the event class using the ‘Configuration Owner Tax Options’ possibility. As an example we decided to not calculate tax in Purchasing, so that it was required to uncheck “Enforce tax from Reference Document” on Standard Invoice Event class.

Search

* Indicates required field

* Configuration Owner

Application Name

Event Class

Create

Configuration Owner	Application Name	Event Class	Entity Name	Effective From	Effective To	Enable	View	Update
Jeppesen Poland Sp. z o.o.	Receivables	Credit Memo	Transactions	18-Apr-2003		Yes	∞∞	
Jeppesen Poland Sp. z o.o.	Receivables	Debit Memo	Transactions	18-Apr-2003		Yes	∞∞	
Jeppesen Poland Sp. z o.o.	Receivables	Invoice	Transactions	18-Apr-2003		Yes	∞∞	
Jeppesen Poland Sp. z o.o.	Purchasing	Purchase Order and Agreement	Purchase Order	18-Apr-2003		Yes	∞∞	
Jeppesen Poland Sp. z o.o.	Purchasing	Release	Release	18-Apr-2003		Yes	∞∞	
Jeppesen Poland Sp. z o.o.	Purchasing	Requisition	Requisition	18-Apr-2003		Yes	∞∞	
Jeppesen Poland Sp. z o.o.	Payables	Expense Reports	AP Invoices	18-Apr-2003		Yes	∞∞	
Jeppesen Poland Sp. z o.o.	Payables	Standard Invoices	AP Invoices	18-Apr-2003		Yes	∞∞	

Illustration 6: Configuration Owner Tax Options

Others

Regime Determination Set **Determine Applicable Regimes**

Perform Additional Applicability for Imported Documents

Enforce Tax from Reference Document

Enforce Tax from Account

Allow Offset Tax Calculation

Offset Tax Basis **Ship From Party Site**

Allow Tax Applicability

Allow Entry of Manual Tax Lines

Allow Recalculation for Manual Tax Lines

Allow Override for Calculated Tax Lines

Tax Line Override Impacts Other Tax Lines

Allow Override and Entry of Inclusive Tax Lines

Illustration 7: Configuration Owner Tax Options for Standard Invoices

- Creation of third party tax profile. By following the instructions under chapter ‘Managing Tax Profiles and Registrations’ in Oracle E-Business Tax User Guide we understood how to create a third party tax profile. It has to be populated accordingly for the legal entity and its main legal establishment (without it tax reporting will not work) and third parties (Customer/Supplier).
- Definition of taxation rules to calculate the tax based on requirements. Note “How Tax Determining Factors Work with Tax Rules in R12 E-Business Tax” [Note 1108463.1] describes all attribute that may be used by the E-Business Tax engine to find and calculate taxes for a specific transaction. [Note 1395535.1] extending Tax Rules with null and not null parameters.

Reporting

EMEA VAT Reporting, described in Oracle® Financials for Europe document, covered all our tax reporting needs. No additional customization was required. To make sure EMEA Reporting is working Tax Profile on Legal establishment should be populated correctly.

Troubleshooting

Following notes helped to diagnose and troubleshoot:

Note 728906.1 - How To Diagnose E-Business Tax Issues In Procurement (This note includes helpful pictures to understand how tax calculation is working)

Note 417238.1 - How to obtain and read a debug log file for R12 E-Business Tax (EBTAX) (This note explains debugging with is very helpful from technical perspective)

Note 464243.1 - E-Business Tax for Oracle Purchasing

Note 1082172.1 - How to Troubleshoot a Tax That Does Not Calculate in R12 E-Business Tax (EBTAX)

Additionally Tax Simulator was very helpful tool to test and diagnose different tax scenarios.

Conclusion

Jeppesen was able to implement finance modules in Poland on time and within budget. Without working tax this would be not possible.

From customer perspective we can confirm that E-Business Tax in combination with region and country Localizations is very powerful and flexible tool and cover 100% of our mandatory tax requirements.

Negative aspect is documentation; we have to learn that no single documentation source is available. Pictures, explaining diagrams, step by step instructions can be found in Metalink only. A lot of research is required to find answers/solutions. There is a lot of ways of configuration in place and clear directions for beginners are hard to find. Oracle can really work on improvement here.

Contact address:

Julia Schlei

Jeppesen GmbH
Frankfurter Str 233
D-63263, Neu- Isenburg

Phone: +49(0)6102-5070
Email: julia.schlei@jeppesen.com
Internet: www.jeppesen.com