





Reading Sample

In this chapter excerpt, you'll get started with configuring the general settings you need for indirect and direct tax in SAP S/4HANA. You'll explore key tax-relevant settings in the area of financial accounting, including tax codes, tax accounts, plants abroad, and exchange rates.

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Note

Our e-book includes the latest updates on Chapters 1 (Section 1.2), 5, 9 (Section 9.1), and 10. Download the supplements file on the product page to view these updates.

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Chapter 3

Basic Settings in SAP S/4HANA

In the previous chapters, you've learned about direct and indirect taxes and their implications on the organizational structure in SAP S/4HANA. Now, we'll dive deeper into the individual tax-relevant settings in SAP S/4HANA, as well as their connections and interrelations.

This chapter will cover the basic settings and customizing opportunities in SAP S/4HANA. The finance settings in SAP S/4HANA form the basis for tax accounting. We'll cover tax codes, tax accounts, exchange rates, and the plants abroad setting. In sales and distribution and materials management, the settings described in this chapter are the basis for indirect tax determination and enable enriching master data with tax-relevant indicators. Finally, we'll cover the integration between the individual functionalities for tax.

3.1 Financial Accounting

SAP S/4HANA consists of several key functionalities (also referred to as modules). Of these functionalities, for tax, finance is extremely relevant. Accounting documents in financial accounting are the basis for most tax reporting. Thus, all settings relevant for tax reporting are done in financial accounting: the definition of all tax-relevant transactions in form of tax codes, the configuration of tax accounts to fit the company's needs, settings related to registrations or establishments abroad, and the configuration of exchange rates in compliance with the respective jurisdictional requirements.

SAP also offers special settings in financial accounting for complex jurisdictions such as Brazil, Argentina, Hungary, South Korea, and many others. Due to the strong localization of these solutions, we wanted to mention them but won't cover them in detail.

3.1.1 Tax Codes

In a simplified way, the tax treatment of a business transaction is captured inside a tax code. A tax code generally contains a tax rate, description, tax account, and further tax-relevant information for a certain scenario. In SAP S/4HANA, there are tax codes for withholding tax (WHT), output tax (sales), and input tax (purchasing). Additionally,

we'll look into tax procedures for indirect tax as they form the basis for the tax code structure.

Tax Codes for Withholding Tax

As you've learned earlier, WHT is a tax that is withheld from the payment remitted to the supplier. WHT can be divided into two categories: basic and extended.

Basic Withholding Tax

WHT codes are significantly different from indirect tax codes. They are created centrally on a country-by-country basis. To reach the settings for WHT, use Transaction SPRO, and follow path **Financial Accounting • Financial Accounting Global Settings • Withholding Tax • Withholding Tax • Calculation • Maintain Tax Codes**. You'll arrive at the screen shown in Figure 3.1.

C/R	W. Tax Code	Description
US	01	Rents
US	02	Royalties
US	03	Prizes, awards
US	05	Fishing boat proceeds
US	06	Medical and health care payments
US	07	Nonemployee compensation
US	08	Substitute payments (dividends/interest)
US	09	Payer made direct sales of \$5000 or more
US	10	Crop insurance proceeds
US	13	Excess golden parachute payments

Figure 3.1 Withholding Tax Codes

To create a new WHT code, click the **New Entries** button. To view an existing WHT code, double-click the tax code, or highlight it and click on the **Details** icon to reach the screen shown in Figure 3.2.

Following are the most relevant settings that must be made for WHT codes:

- **Off.WH Tax Code**
This field contains the official WHT code as it exists in the respective tax return of the country.
- **Withholding tax base amount calculation**
The calculation of the WHT base amount consists of two settings: **Percentage Subject to Tax** and the **Net base for tax contributions** indicator.
The **Percentage Subject to Tax** determines what percent of the tax base amount is to be used for the calculation of WHT. In the example in Figure 3.2, the entire amount (i.e., 100%) of the amount is subject to WHT calculation.

The **Net base for tax contributions** indicator lets you control whether the amount including indirect tax or the amount excluding indirect tax is to be used for the calculation.

- **Withholding Tax Rate**
This field contains the WHT rate to be withheld, reported, and paid for the WHT code.
- **Reduced Rate**
For cases where a reduced rate is applicable, this field contains the reduced WHT rate.

Change View "Withholding Tax": Details

Country/Reg. USA WTax Code

Name

Description

Off.WH Tax Code

Withholding tax base amount calculation

Percentage Subject to Tax %

Net base for tax contributions

Withholding tax minimum amount

Currency

Minimum Amount

Withholding tax calculation

According to the following specifications

Withholding Tax Rate %

Reduced Rate

Reunification Tax

According to the special procedure

WTax Formula

Withholding tax posting

Posting with Payment

Specifications for withholding tax rept

Region

Provincial tax code

Income Type

Figure 3.2 Withholding Tax Code Details

To post the WHT, the debit and credit accounts for **Transaction** type **QST** must be defined. To do so, execute Transaction SPRO, and follow menu path **Financial Accounting • Financial Accounting Global Settings • Withholding Tax • Withholding Tax • Posting • Define Accounts for Withholding Tax**. You'll arrive at the screen shown in Figure 3.3, where you enter the **Credit** and **Debit** accounts for the WHT assignment. In the example, the **Debit** and **Credit** account is the same. When clicking the **Posting Key** button, you can also view the posting keys assigned to the debit and credit transactions. In SAP standard, these are predefined as posting key **40** (debit entry) for debit and **50** (credit entry) for credit. Save your changes.

Posting Key		Rules
Chart of Accounts	INT	Sample chart of accounts
Transaction	QST	Withholding tax
Account assignment		
Debit	Credit	
177000	177000	

Figure 3.3 Accounts for Withholding Tax

Extended Withholding Tax

The extended WHT provides a much larger scope of defining WHT matters in SAP S/4HANA. The main difference of the extension is that it's now possible to book the WHT based on a combination of WHT type and WHT tax code.

Before you get started with extended WHT in SAP S/4HANA, it must be activated for your company code. To activate the extended WHT functionality, use Transaction SPRO, and follow menu path **Financial Accounting • Financial Accounting Global Settings • Withholding Tax • Extended Withholding Tax • Company Code • Activate Extended Withholding Tax**. You'll arrive at the screen shown in Figure 3.4, where you can click the checkbox in the **Ext.WTax** column next to your company code to set it active.

Generally, the decision to use the extended WHT functionality should be made at the time of setup. You can migrate from the basic WHT to extended WHT, but once you activate extended WHT for a company code, you can't deactivate it.

CoCd	Company Name	Ext.WTax
0001	SAP A.G.	<input type="checkbox"/>
0003	SAP US (IS-HT-SW)	<input checked="" type="checkbox"/>

Figure 3.4 Activate Extended WHT

To reach the first step—the definition of the WHT types—as shown in Figure 3.5, use Transaction SPRO, and follow menu path **Financial Accounting • Financial Accounting Global Settings • Extended Withholding Tax • Basic Settings • Withholding Tax Type • Define Withholding Tax Type for Payment Posting**. In the overview, double-click the tax type (WTax Type) you want to view or edit, or click **New Entries** to create a new tax type.

WTax Type	Name
03	10425 Reporting
FE	1099MISC Reporting State Tax
ST	1099MISC Reporting Federal Tax

Figure 3.5 Define Withholding Tax Type

Withholding Tax Type for Invoice Posting

Alternatively, the WHT type can also be defined for invoice posting. The difference is the timing: A WHT type for payment posting will post the WHT at time of payment, while the WHT type for invoice posting will post the WHT at time of invoice. The choice of which to use here mainly depends on the legal requirements of the jurisdiction.

Double-click the WHT type to see the details of the WHT type shown in Figure 3.6. The WHT type contains the following characteristics for the calculation of the tax base amount:

- **Base amount**
The radio buttons under this heading determine from which value the tax base amount is taken. For example, if **Net Amount** is chosen, the system uses the net amount as the base amount to calculate the WHT amount. If **Tax Amount** is chosen, the tax amount is used as the base amount for calculating the WHT.
- **Rounding Rule**
The rounding rule determines the way the WHT is rounded. For details on the differences between the rounding rules, refer to Chapter 4, Section 4.1.2.
- **Cash discount**
The radio buttons under **Cash discount** define whether the WHT is applied before the cash discount (**W/tax pre c/dis**), or if cash discounts are applied before the WHT (**C/disc pre W/tx**).
- **Accumulation type**
The **No Accumulation** radio button is used when WHT is calculated. If accumulation is active, that is, the radio button is set to any other option, the accumulated WHT base amount in the current period is added to the WHT base amount.
- **Control**
These checkboxes enable the control of the WHT type, for example, whether the tax base amount and tax amount can be entered manually.

The screenshot shows the 'Change View Withholding tax type definition - posting at time of paym' interface. It includes sections for Country/Reg. (US, USA), General data (Withhld tax type: 03, Description: 1042S Reporting, WTax Type No.: 3), Calculation (Base amount, Rounding Rule, Cash discount), Accumulation type (No Accumulation, Per Calendar Year, etc.), Control (W/Tax Base Manual, Manual w/tax amnt, etc.), Information for regional withholding tax (Region), Define minimum/maximum amounts (Base amount, Withholding tax amount), Central invoice, and Minimum Check.

Figure 3.6 Define Withholding Tax Type: Details

Using Withholding Tax in Sales and Distribution

To use WHT in sales and distribution, the WHT type/WHT tax code model is automatically translated into a WHT condition type/WHT tax code model. This enables the representation of WHT per customer and material. A condition type must be assigned to the WHT type.

You can reach the setting for this by using Transaction SPRO and following menu path **Financial Accounting • Financial Accounting Global Settings • Extended Withholding Tax • Basic Settings • Withholding Tax Type • Assign Condition Type to Withholding**

Tax Type. As shown in Figure 3.7, you can assign the **Condition type** that was defined in sales and distribution to the financial accounting WHT type (**WTax Type**).

The screenshot shows the 'Change View Withholding tax types: Condition type: Overview' interface. It includes Country/Reg. (US, USA) and a table with the following data:

WTax Type	Name	Condition type
03	1042S Reporting	

Figure 3.7 Assign Condition Type to WHT Type

As mentioned before, the second half of the extended WHT functionality in SAP comprises the WHT codes. For the settings, use Transaction SPRO, and follow menu path **Financial Accounting • Financial Accounting Global Settings • Extended Withholding Tax • Basic Settings • Withholding Tax Code**. In the overview, double-click the tax code you want to view or edit, or click **New Entries** to create a new tax code.

The settings shown in Figure 3.8 are very similar as in the basic WHT: You can enter the official WHT code used for reporting (**Off. W/Tax Key**), the base amount percentage subject to tax (**Base amount**), and the WHT rate (**WTax Rate**). The official WHT code is the code issued by the financial authorities for a certain reporting field or, in this example, for a certain form in which the code is to be reported.

The screenshot shows the 'Change View Withholding tax code: Details' interface. It includes Country/Reg. (US, USA) and sections for General data (WTax Type: FE, W/Tax Code: 01, Off. W/Tax Key: 1099, Description: Rents), Base amount (Percentage subject to tax: 100,00 %), Postings (Post.indic.: 1), Calculation (WTax Rate: 30,0000 %, With/tax rate (fraction): /, WTax Formula), and Reporting information (Region, Prov.tax code, Income Type).

Figure 3.8 Extended WHT Tax Codes

Additionally, the extended WHT functionality provides settings for exemption reasons. To access them, execute Transaction SPRO, and follow menu path **Financial Accounting • Financial Accounting Global Settings • Extended Withholding Tax • Basic Settings • Define Reasons for Exemption**. To create new exemption reasons, click on

New Entries. The exemption reasons are entirely open in their design. A classic example of an exemption reason is a certificate of exemption, as shown in Figure 3.9.

Exmpt.Resn	Text
CE	Certificate of Exemption

Figure 3.9 WHT Exemption Reasons

Finally—and similarly to the basic WHT functionality—the assignment of accounts is required. You can reach the settings by using Transaction SPRO and following menu path **Financial Accounting • Financial Accounting Global Settings • Extended Withholding Tax • Posting • Accounts for Withholding Tax • Define Accounts for Withholding Tax to Be Paid Over**. As shown in Figure 3.10, accounts are defined on a combination of **Withholding tax type** and **Withholding tax code**. On the screen, you enter the credit and debit accounts in their corresponding columns for the WHT assignment. In this example, the debit and credit accounts are the same. When you click the **Posting Key** button, you can also view the posting keys assigned to the debit and credit transactions. In SAP standard, these are predefined as posting key **40** (debit entry) for debit and **50** (credit entry) for credit. Don't forget to save your changes.

Withholding tax type	Withholding tax code	Debit	Credit
01	00	21603000	21603000
01	01	21603000	21603000
01	02	21603000	21603000
01	03	21603000	21603000
01	04	21603000	21603000
01	10	21603000	21603000
01	11	21603000	21603000

Figure 3.10 Extended WHT Accounts

Country-Specific Settings

There are more country-specific settings for WHT that we haven't mentioned. SAP offers predefined additional settings for many countries, such as India, Ireland, South Korea, Argentina, Brazil, Colombia, Mexico, Qatar, Great Britain, and the public sector in Spain.

Tax Procedures for Indirect Tax

As the indirect tax is calculated differently in different countries, tax codes for indirect tax are assigned to a certain tax procedure. The tax procedure contains all information required to define the calculation of indirect tax. This calculation is based on condition types.

To reach the settings for the tax procedures, as shown in Figure 3.11, use Transaction SPRO, and follow menu path **Financial Accounting • Financial Accounting Global Settings • Tax on Sales/Purchases • Basic Settings • Check Calculation Procedure • Define Procedures**.

Warning!

It's strongly recommended not to change the condition types and tax procedures that come with the SAP standard. Generally, SAP provides hotfixes for changes in regulations that can be installed into the system without the need to adapt the standard. However, should you need to change a tax procedure or condition type, you can copy one of the standard tax procedures and adapt it to your needs.

To view or edit a certain tax procedure, click on the procedure to highlight it, and then double-click the **Control Data** folder on the left-hand side. This will take you to the screen shown in Figure 3.12, which displays the condition types for the tax procedure. The tax procedure defines the condition types to be used for the calculation of indirect tax within the tax code.

This tax procedure must be assigned to a country to be used. To reach the configuration for this, use Transaction SPRO, and follow menu path **Financial Accounting • Financial Accounting Global Settings • Tax on Sales/Purchases • Basic Settings • Assign Country to Calculation Procedure**. To make the assignment, enter the tax procedure in the **Proc.** (procedure) column in the respective line for the country. In the example in Figure 3.13, tax procedure **TAXCN** is assigned to country **China**. This means that for the creation of an indirect tax code with China, tax procedure **TAXCN** will automatically be used.

Tax Procedures without Plants Abroad

Generally, the tax procedure is triggered by the country of the company code, meaning that without activating plants abroad, only one tax procedure can be used within a company code. We'll go into more detail on the functionality of plants abroad in Section 3.1.3.

If the plants abroad setting isn't activated, SAP recommends creating a new tax procedure **TAXEUR**, which contains the tax specifications for all countries in scope. For more details, also refer to SAP Note 63103.

Procedure	Description
TAXAR	Sales Tax - Argentina
TAXAT	Sales Tax - Austria
TAXAU	Sales Tax - Australia
TAXB	Sales Tax - Belgium
TAXBRA	Brazil, Condition-Based
TAXBRC	Brazil Using Conditions (Obs.)
TAXBRJ	Sales Tax - Brazil
TAXCA	Sales Tax - Canada
TAXCAJ	Sales Tax - Canada
TAXCH	Sales Tax - Switzerland
TAXCL	Sales Tax - Chile
TAXCN	Sales Tax - China
TAXCO	Sales Tax - Colombia
TAXCZ	Sales Tax - Czech Republic
TAXD	Sales Tax - Germany
TAXDK	Sales Tax - Denmark
TAXES	Sales Tax - Spain
TAXEUR	Collect.Proced.for Europ.Taxes
TAXF	Sales Tax - France
TAXFI	Sales Tax - Finland
TAXGB	Sales Tax - Great Britain
TAXHK	Sales Tax - Hongkong
TAXHU	Sales Tax - Hungary
TAXID	
TAXIE	Sales Tax - Ireland
TAXINJ	Sales Tax India
TAXINN	IN; India taxes new
TAXIT	Sales Tax - Italy
TAXJP	Sales Tax - Japan
TAXKR	Sales Tax - Korea
TAXKZ	Tax procedure Kazakhstan
TAXLU	Sales Tax - Luxembourg

Figure 3.11 Tax Procedures

Step	Co...	Co...	Description	Fro...	To ...	Ma...	R...	St...	Print T...	Subtotal	Requir...	Alt. Ca...	Alt. Cn...	Accou...	Accruals
100	0	BASB	Base Amount												
110	0	MWAS	Output Tax	100										MWS	
120	0	MWVS	Input tax	100										VST	
130	0	MWVN	Non-deduct.Input Tax	100										NAV	
140	0	MWVZ	Non-deduct.Input Tax	100										NVV	
200	0	CONC	Consumption tax Cre.	100										MW1	
210	0	COND	Consumption tax Deb.	200										VS1	
300	0	CNSC	Service Tax Cred. CN	100										MW2	
310	0	CNSD	Service Tax Deb. CN	300										VS2	
320	0	MWCN	Flat-rate Tax China	100										VST	

Figure 3.12 Condition Types for Tax Procedure TAXCN

C/R	Name	Proc.
CL	Chile	TAXCL
CM	Cameroon	
CN	China	TAXCN
CO	Colombia	TAXCO
CR	Costa Rica	
CU	Cuba	
CV	Cape Verde	
CW	Curacao	
CX	Christmas Isind	
CY	Cyprus	
CZ	Czech Republic	TAXCZ
DE	Germany	TAXD
DJ	Djibouti	
DK	Denmark	TAXDK

Figure 3.13 Assign Tax Procedures to Countries

Preassigned Tax Procedures

Some countries have predefined tax procedures that are also preassigned to the country. Note that there are also countries where SAP offers multiple tax procedures, depending on the tax calculation approach taken by the customer: with or without jurisdiction codes.

In certain countries, the indirect tax calculation differs between regions, that is, *jurisdictions*. To reach the settings for the creation of tax jurisdictions, use Transaction SPRO, and follow menu path **Financial Accounting • Financial Accounting Global Settings • Tax on Sales/Purchases • Basic Settings • Specify Structure for Tax Jurisdiction Code**. You'll arrive at Figure 3.14, where you can define the structure of the tax jurisdiction code per tax procedure with jurisdiction code. Those shown are delivered with the SAP best-practice installations for the respective countries. To create a new structure for tax jurisdiction codes, click on **New Entries**.

Schema	Name	Lg	Lg	Lg	Lg	Tx	In
TAXBRA	Brazil: External Tax (CBT)	3	7				<input checked="" type="checkbox"/>
TAXBRJ	Brazil: External tax calculation	3	7				<input checked="" type="checkbox"/>
TAXCAJ	Canadian Sales Tax, with Jurisdiction	2	2				<input type="checkbox"/>
TAXINJ		2	2				<input checked="" type="checkbox"/>
TAXUSJ	Standard Jurisdiction Code	2	3	4			<input type="checkbox"/>
TAXUSX	VERTEX Standard Jurisdiction Code	2	3	4	1		<input type="checkbox"/>

Figure 3.14 Tax Jurisdiction Code Structure

The length (Lg) is defined on the first, second, third, and fourth levels in the hierarchy within the tax jurisdiction code structure. Indicator **Tx In** defines whether taxes are determined on a line-by-line basis or on the header level.

Example

The jurisdiction codes of tax procedure **TAXUSX** are defined as follows:

- Two digits for the state code (e.g., Alaska = AK)
- Three digits for the county code (e.g., area code 907 = Anchorage County)
- Four digits for the city code (e.g., ANCH = Anchorage)

The length of the columns for the state code, county code, and city code should be defined to match the length of the customer master level in the **Customer: Tax Data** tab.

Multiple Tax Procedures

Notice how there are two tax procedures for both Brazil and the United States. One of the tax procedures is used for indirect tax determination inside the SAP system, and the other is used for external indirect tax determination. For example, tax procedure **TAXUSX** is used with the external tax engine Vertex. For details on external tax determination solutions, see Chapter 7.

To define the tax jurisdiction codes themselves, use Transaction SPRO, and follow path **Financial Accounting • Financial Accounting Global Settings • Tax on Sales/Purchases • Basic Settings • Define Tax Jurisdictions**. You'll arrive at the screen shown in Figure 3.15, where you can see the result of the structure you designed for the tax jurisdiction codes.

Change View "Tax Jurisdiction": Overview

Costing Sheet TAXUSX

Tax Jur.	Description	DIN	T...
10000000	Sample entry for jurisdiction on state level	<input checked="" type="checkbox"/>	<input type="checkbox"/>
10110000	Sample entry for jurisdiction at county level	<input type="checkbox"/>	<input type="checkbox"/>
10110001	Sample entry for jurisdiction at city level	<input type="checkbox"/>	<input type="checkbox"/>
AK000000	Alaska	<input checked="" type="checkbox"/>	<input type="checkbox"/>
AL000000	Alabama	<input checked="" type="checkbox"/>	<input type="checkbox"/>
AR000000	Arkansas	<input checked="" type="checkbox"/>	<input type="checkbox"/>
AS000000	American Samoa	<input checked="" type="checkbox"/>	<input type="checkbox"/>
AZ000000	Arizona	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CA000000	California	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CO000000	Colorado	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CT000000	Connecticut	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Figure 3.15 Define Tax Jurisdiction Codes

When installing the best practice for a country with tax jurisdictions, SAP provides several jurisdiction codes that you can use. To define new jurisdiction codes, click the **New Entries** button, and enter the jurisdiction code in the format you defined in the step before as well as a description. If you deviate from the defined format, SAP will issue an error message asking you to correct the format.

There are two indicators you can apply as required for the jurisdictions: **DiN** and **TxN**. Indicator **DiN** determines that the discount base amount is the net value; that is, the sales tax isn't part of the discount calculation. Indicator **TxN** is the opposite and defines that the base amount for sales tax calculation is indeed reduced by the discount.

Tax Codes for Indirect Tax

As we explained at the beginning of this section, the tax code is a crucial setting for tax, even more so for indirect tax in SAP S/4HANA. We'll discuss tax code design, maintenance, and reporting dates for indirect tax in the following sections.

Tax Code Design

To determine the appropriate number of tax codes, consider the following:

■ Indirect tax rate

In SAP S/4HANA, a tax code can only have exactly one indirect tax rate. Therefore, there must be one tax code per indirect tax rate.

SAP has recently started rolling out *time-dependent taxes* functionality for on-premise SAP S/4HANA. In SAP S/4HANA Cloud, this functionality is already available. Historically, it wasn't possible to change the indirect tax rate of a tax code in an audit-proof way. Therefore, when changing the tax rate, the tax rate of past transactions was also changed, even if the tax rate on those transactions had been correct. This led to the need to create new tax codes every time a tax rate was changed in a jurisdiction. As you may be aware, there are jurisdictions where such tax rate changes are very frequent, leading to a high number of tax codes that may become obsolete rather quickly.

Time-dependent taxes make it possible to change the tax rate of the tax code in an audit-proof and history-proof manner.

■ Reporting in the periodic indirect tax return

The SAP best practice approach is to create at least one tax code for each business transaction that must be reported in different fields of the indirect tax return. For example, there should be one tax code for tax exempt domestic supplies of certain goods and one for tax exempt cross-border supplies, if these two transactions are to be reported separately.

■ Reporting in the annual return

In addition to the periodic indirect tax return, it may be useful to also differentiate between cases where a transaction must be reported differently in the annual return. For example, in Ireland, domestic purchases are to be reported in field T2 of the VAT3 value-added tax (VAT) return. However, in the return of trading details (RTD) in the

annual return, there is a differentiation of purchases for resale (to be reported in field R1 of the RTD) and not for resale (to be reported in field R2 of the RTD).

■ Real-time reporting

With real-time reporting becoming more popular in jurisdictions worldwide, often the transaction must be reported at the time of issuing an invoice. Such reporting generally contains a large amount of information, including a mapping of the tax code of the transaction to a nature code of the real-time reporting obligation. There should be enough tax codes to enable the reporting of all relevant nature codes in the real-time reporting requirements.

Nature Code

Nature code is code that's defined by the tax authorities to show the nature of a transaction. Nature code is usually alphanumeric and describes, for example, standard sales, reduced-rate sales, or the reason for tax exemption.

For example, in Spain, all taxable transactions must be reported in the Immediate Supply of Information or Suministro Inmediato de Información (SII) with a code explaining the cause of exemption. As this reporting must be automated because it's in real time, this mapping must be available.

■ Exemption reasons on the invoice

In many jurisdictions, an explanation—the *exemption reason*—must be printed on the invoice if no indirect tax is applied. Often, it's useful to trigger the printing of the invoice text via the tax code. For example, if all requirements are fulfilled, an export from Germany is tax exempt. Such must be indicated on the invoice, for example, with the following text: “Export supply is tax exempt according to Art. 146 (1) a, b Directive 2006/112/EC”.

Maintain Tax Codes

To maintain tax codes for indirect tax, use Transaction SPRO, and follow path **Financial Accounting • Financial Accounting Global Settings • Tax on Sales/Purchases • Calculation • Define Tax Codes for Sales and Purchases**. Alternatively, you can use Transaction FTXP. In the popup, enter the country for which you want to create the tax code. On the following screen, enter the two-digit alphanumeric code defined as a tax code (e.g., **Tax Code C1** in Figure 3.16).

If the tax code was already created, SAP will lead you straight to the view shown in Figure 3.16. Here, you can see the settings of the tax code. These settings are triggered by the settings made earlier in the tax procedure—you'll recognize the condition types for tax procedure **TAXCN**. The tax type was entered in the **Properties** settings, which we'll discuss next. To maintain the tax code, enter the appropriate rate in the relevant line under **Tax Percent. Rate**. In the example, we're creating a tax code for output VAT in China, so the tax rate is entered in the **Output Tax** line.

Country/Region Key	CN	China
Tax Code	C1	China - 13% Output VAT
Procedure	TAXCN	
Tax Type	A	Output tax

Percentage rates						
Tax Type	Acct. Key	Tax Percent. Rate	Level	From Lvl	Cond. Type	
Base Amount			100	0	BASB	
Output Tax	MWS	13,000	110	100	MWAS	
Input tax	VST		120	100	MWVS	
Non-deduct.Input Tax	NAV		130	100	MWVN	
Non-deduct.Input Tax	NVV		140	100	MWVZ	
Consumption tax Cre.	MW1		200	100	CONC	
Consumption tax Deb.	VS1		210	200	COND	
Service Tax Cred. CN	MW2		300	100	CNSC	
Service Tax Deb. CN	VS2		310	300	CNSD	
Flat-rate Tax China	VST		320	100	MWCM	

Figure 3.16 Tax Code Settings: General

Reverse Charge

You can also create tax codes for reverse charge. *Reverse charge* generally means that the recipient of a certain good or service is liable for indirect tax, in contrast to transactions where usually the supplier is the party responsible to pay and collect the indirect tax on the transaction.

Usually, the indirect tax that is due on the transaction can instantly be deducted by the liable party. To create a reverse charge tax code, simply enter the output tax amount in a line for output tax and the corresponding deductible tax in a line for input tax.

While doing this, it's important to keep the **From Lvl** column in mind because it determines from which **Level** the amount is deducted for the input tax. In the example in Figure 3.16, if we entered the deductible input tax in the **Input tax** line, the amount would be deducted from **Level 100**—the tax base amount. Therefore, we would enter “-13,000” in the line.

If we created a tax code for service tax, we would enter the output tax in the **Service Tax Cred. CN** line and the deductible input tax in the **Service Tax Deb. CN** line. Note how the debited amount is calculated from level **300** instead of level **100**. Therefore, we would enter “-100,000” in the line to deduct 100% of the output tax from level **300**.

If the tax code is new, SAP will prompt you with the popup shown in Figure 3.17. In the **Properties** overview, enter the description of the **Tax Code**. This description should be concise and should explain the nature of the underlying transaction for which this tax code will be used. It should, for example, contain the country and type of transaction, for example, “China - 13% Output VAT”. An alternative could be “CN Output VAT standard rate”. For tax-exempt or nontaxable tax codes, it sometimes makes sense to include a more detailed description or even a reference to the underlying legal code.

For example, a tax code for local reverse charges due to the supply of construction supplies in Germany could be called “DE – Local RC - §13b(2)Nr.4”.

Tax Code	C1 China - 13% Output VAT
Tax Type	A Output tax
CheckID	<input checked="" type="checkbox"/>
EU Code/Code	
Target Tax Code	
Tol.per.rate	
Reporting Cntry	CN
Inactive	<input type="checkbox"/>
MOSS TaxRepCtry	

Figure 3.17 Tax Code Settings: Properties

In the **Properties** settings, there are more options:

- **Tax Type**
Differentiates output tax (**A**) from input tax (**V**). This is also relevant for the assignment of tax accounts to a tax code; for example, it should not be possible to assign an output tax code to an input tax account.
- **CheckID**
Determines that an error message is populated if the tax amount isn't correct at the time of booking. If the indicator isn't set, a warning message appears in place of the error message.
- **EU Code/Code**
Determines that a tax code must be taken into consideration for the European Commission (EC) Sales List/EC Purchase List. The EC Sales and Purchase Lists are reporting requirements that show the flow of invoices and payments between European Union (EU) member states. There are several indicators:
 - Blank: Not EU relevant.
 - **1, 3, 4, M, H**: Output tax codes with a tax rate of 0% with relevance for the EC Sales List.
 - **5, 6, 7, 8**: Input tax codes for EU acquisitions or reverse charge with relevance for the ESL (**6** is only relevant for Hungary).
 - **9**: Input tax codes for acquisition tax. This code is relevant when you define a tax code for which you know that the total of the individual conditions (percentage rates) must result in exactly 0. For example, this code would be used for tax codes for an EU acquisition.
 - **A**: Input tax codes for reverse charge that aren't relevant for the EC Sales List.
 - **B**: Tax codes that aren't EU tax codes and don't need to produce a balance of zero.

Special EU Codes

There are additional EU codes for Spain and Poland for very special types of transactions. If these are relevant to you and/or to better understand the **EU Code** setting and its significance, we recommend SAP Notes 2402710, 732750, and 1619948.

■ Target Tax Code

Can be defined, for example, for deferred tax. It creates a relationship between two tax codes; that is, bookings with one tax code can at some point in time be converted into the other tax code. Note that if a tax code has a reference to a target tax code, an interim deferred tax account should be used. The tax can be deferred from the original tax code to the target tax code—and with it, from the interim tax account to the final tax account—with report RFUMSV50 or by using Transaction S_ACO_52000644. You'll find more details on deferred taxes and how to run report RFUMSV50 in SAP Note 1800344.

■ Tol.per.rate

Defines the percentage rate that is accepted as tolerance between a calculated tax value and an entered tax value.

■ Reporting Cntry

Only available if **Plants Abroad** is active (see Section 3.1.3). It specifies in which jurisdiction tax base amounts and indirect tax amounts must be reported.

■ Inactive

Marks a tax code as inactive. This is important, as tax codes should never be deleted from an audit perspective. Marking the tax code as **Inactive** will make booking a transaction with the tax code impossible.

■ MOSS TaxRepCtry

The SAP best practice approach is to create at least one tax code for each business transaction that must be reported in different fields of the indirect tax return.

Taxes with MOSS

Mini One Stop Shop (MOSS) is a special scheme in the EU where taxes can be paid in the country of residence even if the transaction happened abroad. This is especially useful for small companies providing electronic services or e-commerce.

Furthermore, it's necessary to enter the tax account for the tax code. To maintain the tax accounts, click on the **Tax accounts** button at the top of the tax code maintenance screen (not shown in Figure 3.16). You'll be prompted for a chart of accounts as shown in Figure 3.18. Enter your chart of accounts (**Chart of Accts**) here, and press .

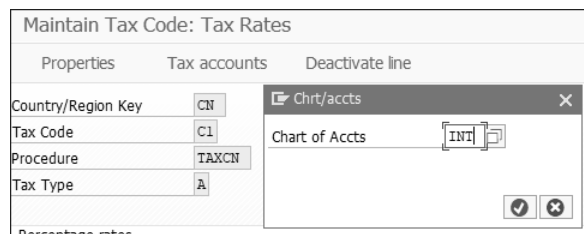


Figure 3.18 Enter Chart of Accounts for Tax Code

Then, you'll be able to enter the respective tax account, as shown in Figure 3.19. An account must be assigned for every active line. In the example, we only need to enter an account for output tax. If we were creating, say, a reverse charge tax code where we're booking input and output tax simultaneously, we would need to add one input tax account and one output tax account.

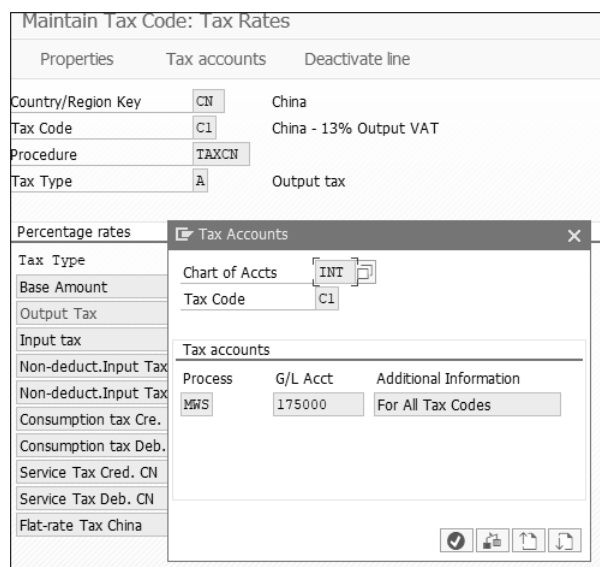


Figure 3.19 Maintain Tax Accounts for Tax Code

Tax Reporting Date

The *tax reporting date* (technical field VATDATE) is the date on which the indirect tax is due or must be reported to the tax authorities. In the SAP standard, it's generally identical to the posting date or document date. However, it can also be adapted to match your needs. (For more information, refer to SAP Note 1232484.)

To change the tax reporting date, you must first activate it in the global settings of the company code. To reach this overview, use Transaction OBY6, Transaction SM30 with view V_001_B, or Transaction SPRO, and follow path **Financial Accounting • Financial**

Accounting Global Settings • Global Parameters for Company Code • Enter Global Parameters. Double-click the company code you want to activate the tax reporting date for. On the bottom of the **Processing parameters** box, as shown in Figure 3.20, you'll find the **Tax Reporting Date Active** checkbox to select.

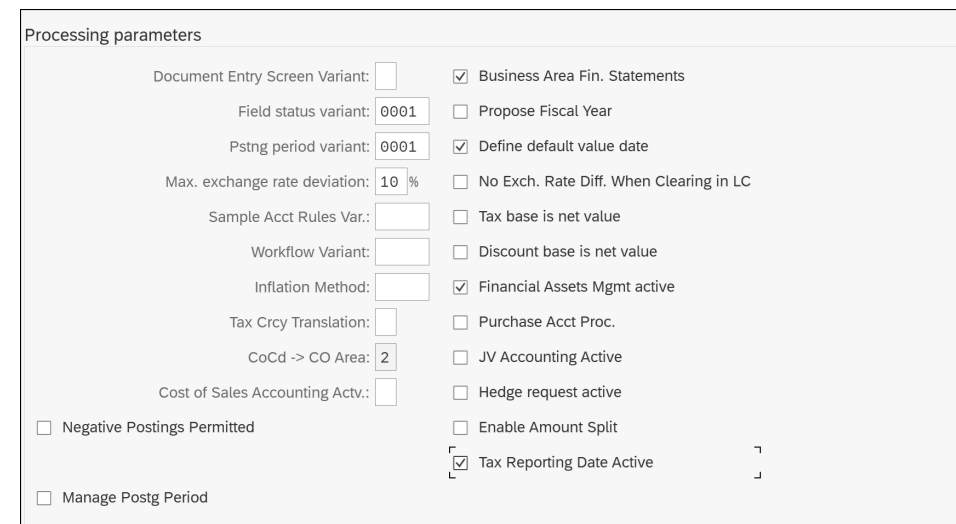


Figure 3.20 Processing Parameters

Warning!

After activating this checkbox, every tax-relevant accounting document that contains a tax code must have a valid date in field VATDATE. If it's not tax relevant, this date will be empty.

The actual determination of the tax reporting date is realized in SAP S/4HANA via a pre-delivered business add-in (BAdI). To check the status of the BAdI, go to path **Financial Accounting • Financial Accounting Global Settings • Tax on Sales/Purchases • Basic Settings • Define and Check Tax Reporting Date** in the configuration menu. In Figure 3.21, you can see that the enhancement implementation of VATDATE_VALUES_DEFAULT_SAP is available.

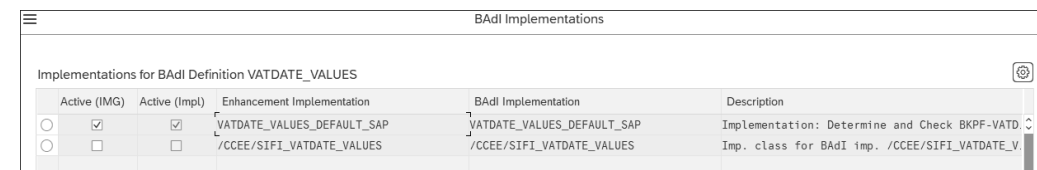


Figure 3.21 BAdI Implementation for Tax Reporting Date

To check the enhancement implementation itself, use Transaction SE19, and enter the name of the BADI into the **Enhancement Implementation** field. There are two pre-implemented methods: **VATDATE_DETERMINE** and **VATDATE_CHECK**. They can be used to determine and check the tax reporting date, respectively.

Enabling the tax reporting date also enables you to use a different date for the determination of the exchange rate. To change the exchange rate determination for the company code for which you activated the tax reporting date, use Transaction OBC8 or Transaction SM30 with view V_001_V. When choosing **Tax Crcty Translation 5: Exchange Rate Determination According to Tax Reporting Date**, as shown in Figure 3.22, the exchange rate for the company code will be determined based on the tax reporting date.

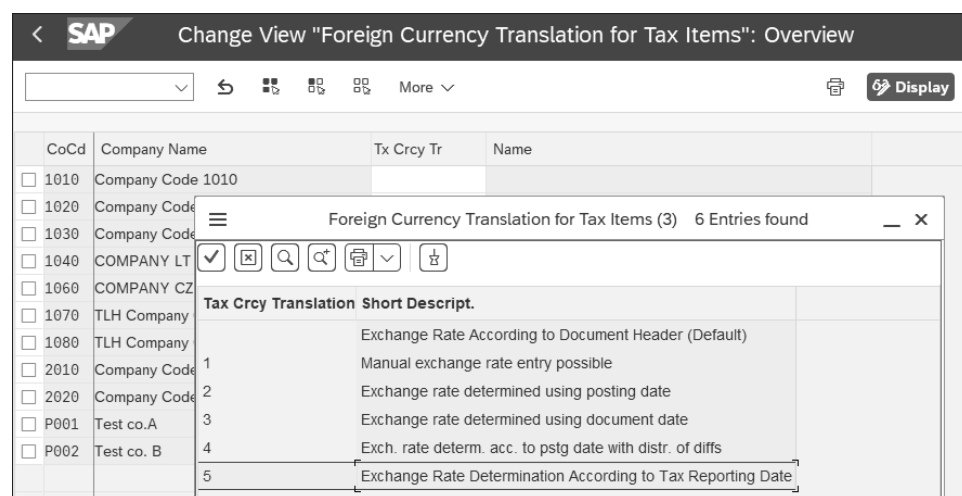


Figure 3.22 Exchange Rate Determination

3.1.2 Tax Accounts

To avoid incorrect bookings into expense or revenue accounts, tax-relevant settings can be made in the general ledger accounts. To maintain settings in general ledger accounts, use Transaction FSOO or menu path **Financial Accounting • Financial Accounting Global Settings • General Ledger Accounting • Master Data • G/L Accounts • G/L Account Creation and Processing • Edit G/L Account (Individual Processing) • Edit G/L Account Centrally**. Tax-relevant settings are found in the **Control Data** tab, as shown in Figure 3.23.

The most relevant field is the **Tax Category**. This indicator determines multiple things. First, it determines whether the account is tax relevant. An account is tax relevant if it has a tax category assigned. This then means that booking with a tax code is allowed or even mandatory. Second, you can limit the type of tax code that can be used; for example, an input tax code should not be used for a booking to an output tax account.

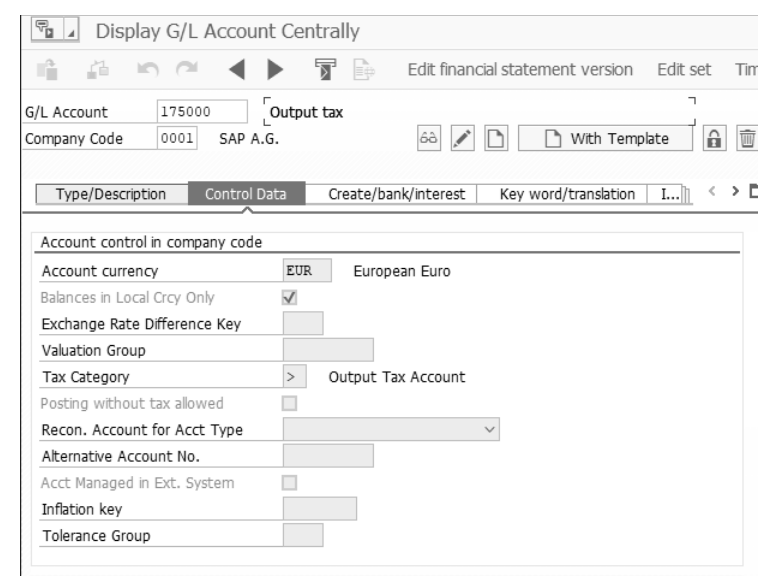


Figure 3.23 Tax Settings in a General Ledger Account

Figure 3.24 shows an extract of the available tax categories for the general ledger account that you can see by using the **F4** search help. Generally, groups of tax codes and all tax codes of the tax procedure assigned to the company code are available. Choosing a tax code as the tax category means that only bookings with that tax code can be made to the account.

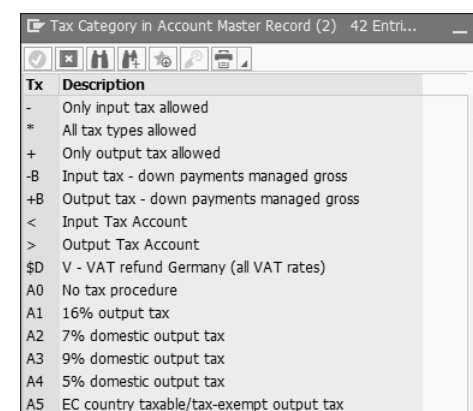


Figure 3.24 Tax Categories in a General Ledger Account

Usually, groups of tax codes are used as the tax category rather than a distinct tax code. Groups **+** (**Only output tax allowed**) and **-** (**Only input tax allowed**) define that only output tax and input tax are allowed, respectively. These groups identify this by the tax type—**A** for output tax and **V** for input tax as defined in the tax code.

For explicit tax accounts (i.e., accounts to which the indirect tax is booked), tax categories < (**Input Tax Account**) and > (**Output Tax Account**) should be chosen.

If a tax category is assigned to a general ledger account, a tax code must be used. If you want to define an account that allows bookings with and without a tax code, you can set the indicator **Posting without tax allowed** (refer to Figure 3.23).

There may be situations where you want to assign multiple tax codes to a certain account. This is possible by following menu path **Financial Accounting** • **Financial Accounting Global Settings** • **Tax on Sales/Purchases** • **Posting** • **Assign Country and Tax Code to G/L Accounts** and choosing your chart of accounts (refer to SAP Note 2469831). Then, navigate to the **G/L A/c Tax Code** folder, and enter the **G/L Account**, **Country**, and **Tax Code** you want to assign to the account. If this table, as shown in Figure 3.25, is maintained, the system checks whether the tax code is admissible for every creation of an accounting document.

G/L A/c	Tax Code	Country
G/L Account	C/R	Tx
175000	CN	C1

Figure 3.25 Assign Country and Tax Code to General Ledger Account

VAT Accounts

Generally, there is no limit on the number of tax accounts that can be created. However, in our experience, we usually recommend creating the following VAT general ledger accounts:

- **Output VAT**
An account for output VAT.
- **Input VAT**
An account for deductible input VAT.
- **Import VAT**
An account to post import VAT. This usually follows a different process than the booking of input and output VAT. Generally, the tax-relevant document for the import is the customs notice, which is either connected to another SAP module, such as SAP Global Trade Services (SAP GTS), or is posted manually.
- **Nondeductible VAT**
An account for nondeductible input VAT that can be used for all input transactions with indirect tax that can't be deducted. Here, there are two options:

- Account key NVV: Distribute to relevant expense/revenue items. Nondeductible VAT is automatically added to expenses/revenue (no separate account necessary).
- Account key NAV: Separate line item. Booking onto a separate account (separate account necessary).
- **VAT payable**
Define if the VAT payable should be posted automatically.

3.1.3 Plants Abroad

The *plants abroad* feature can enable an organization to use plants as representations of indirect tax registrations in other countries. To begin our discussion, we first need to understand the relevance of plants in SAP S/4HANA. A schematic overview is shown in Figure 3.26.

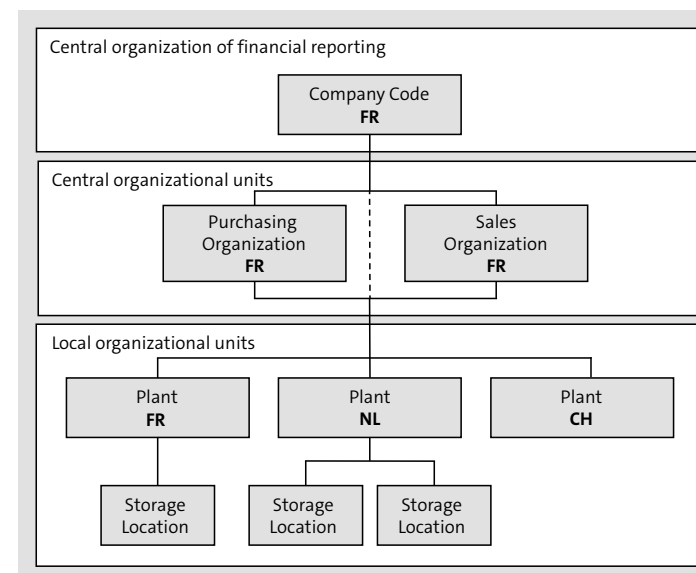


Figure 3.26 SAP Organizational Setup for Plants Abroad

Company codes mostly represent legal entities in SAP. *Sales* and *purchasing organizations* are organizational units that are responsible for the sales or purchase of goods and services. They hold the pricing and contract information for sales and purchases, such as tax codes. *Plants* are units that hold inventory or business equivalent. Plants define the primary source for evaluation of the departure country and determine generally the start/departure country for the transport. Plants can either be assigned to the company code directly or via a sales organization. A *storage location* is a separate physical location to store inventory in a plant.

When moving your own goods cross-border, certain reporting requirements apply. Inside the EU, these types of transactions lead to a combination of an EU supply of goods and EU acquisition of goods, which must be reported. Outside the EU, there is an export in the departure country, followed by an import in the destination country.

The plants abroad feature is especially useful for situations where there is one legal entity with indirect tax registrations in several countries and establishments (e.g., warehouses) in several countries. For the implementation and impacts, refer to SAP Note 10560. Be aware that plants abroad isn't a necessary prerequisite for automatic postings to the the EC Sales List and Intrastat within the EU, and extraction of the SAP standard report for tax on sales and purchases, RFUMSV00 (see Chapter 9, Section 9.2.1), can also be done on the tax code level to resemble an extraction on the reporting country level.

Table 3.1 shows a summary of the benefits and downsides of activating plants abroad. It can give some guidance on the decision, but should always be evaluated on a case-by-case basis.

Benefits of Activating Plants Abroad	Downsides of Activating Plants Abroad
<ul style="list-style-type: none"> ■ Tax codes are assigned to a certain reporting country. ■ Indirect tax-relevant bookings are assigned to a reporting country via the tax code. ■ Settings for discounts (small discounts on the invoice amount usually granted if the invoices are paid in a certain time frame) or currencies are possible on the reporting country level, not only on the company code level. ■ You can choose the reporting country while using the programs to create the VAT return or the EC Sales List. ■ Reporting in different currencies is supported. ■ Functionality is provided for booking cross-border stock transfers, including pro forma invoices, supply, and acquisition in the respective countries. ■ The setting is activated/deactivated per company code in financial accounting configuration. ■ Alternative solutions are very complex and require significant customizing (e.g., using separate company codes instead of plants abroad). 	<ul style="list-style-type: none"> ■ Other settings are necessary after activation (e.g., maintenance of VAT IDs of registrations abroad, maintenance of reporting country in the tax code). ■ In standard, the setting is only foreseen to be used for inside the EU. This can be quickly adapted by setting the indicator for billing relevance on such deliveries to Relevant for Billing. ■ The setting can't be used if branches/registrations abroad are separate legal entities. ■ SAP recommends creating your own company codes for permanent establishments (refer to SAP Note 1707438) in countries where a self-standing financial statement or Standard Audit File for Tax (SAF-T) file at level of the permanent establishment must be submitted. ■ Similar configuration is also possible with profit centers or business areas in SAP S/4HANA. ■ The setting is only designed for countries without jurisdiction codes (refer to SAP Note 1929128).

Table 3.1 Pros and Cons of Activating Plants Abroad

Example

Company S with headquarters in Romania is registered for VAT in Romania, Slovenia, and Slovakia, and it has a warehouse in each country as well. The company is now considering activating plants abroad. As company S moves its own stock between the warehouses and sells locally in each country it's registered in, there are several benefits of activating plants abroad: association between tax codes and the reporting country, automatic conversion into the local currency (especially relevant as Romania doesn't use the euro as their currency), automatic tracking for the EC Sales List and Intrastat, and automatic use of its own correct VAT ID on transactions.

We'll walk through the activation, setup, and relevant scenarios for plants abroad in the following sections.

Activation and Setup

To activate plants abroad, use Transaction SPRO, and follow menu path **Financial Accounting • Financial Accounting Global Settings • Tax on Sales/Purchases • Basic Settings • Plants Abroad • Activate Plants Abroad**. On the screen, check the **Plants Abroad Active** box, and save to activate the functionality (see Figure 3.27).

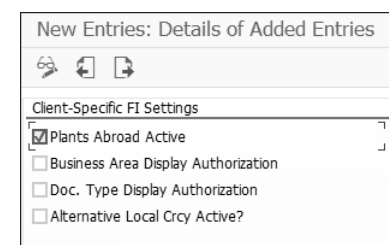


Figure 3.27 Activate Plants Abroad

After activating plants abroad, the SAP standard table for country data will receive four additional fields: the country currency, the exchange rate type, and two fields to determine the tax base amount in relation to discounts. These two fields can be used to determine whether cash discounts are deducted from the tax base amount and whether the tax amount should be considered for calculating discounts.

Warning!

The settings made on a country basis when the plants abroad feature is activated will overrule the settings made for the company code.

Settings for these indicators per country, as shown in Figure 3.28, can be made with Transaction OBY6 or through menu path **Financial Accounting • Financial Accounting**

Global Settings • Global Parameters for Company Code • Enter Global Parameters. Double-click on the respective company code you want to make these settings for. Two settings are important here: **Tax base is net value** (technical field XMWSN) and **Discount base is net value** (technical field XSKFN). When activating **Tax base is net value**, the tax base amount is reduced by the discount. When activating **Discount base is net value**, the base amount for discounts doesn't contain indirect tax.

Figure 3.28 Country Settings for Company Code

The activation of the indicators depends on the respective requirements in the jurisdiction. Overall, the following scenarios can apply:

- **No indicator activated: gross tax base and gross discount base.**
The tax base isn't reduced by the discount, and the discount contains indirect tax.
- **Only discount base is net value indicator activated: gross tax base and net discount base.**
The tax base isn't reduced by the discount, and the discount doesn't contain indirect tax.
- **Both indicators activated: net tax base and net discount base.**
The tax base is reduced by the discount, and the discount doesn't contain indirect tax.

- **Only tax base is net value indicator activated: net tax base and gross discount base.**

This setting is only permitted for jurisdiction codes, as it means that the tax base is reduced by the discount and the base amount for the discount contains indirect tax.

To make further settings related to the company code and for plants abroad, use Transaction SPRO and go through menu path **Financial Accounting • Financial Accounting Global Settings • Global Parameters for Company Code • Maintain Additional Parameters**. As you've learned, plants abroad is a global setting that will affect all company codes. Setting a flag for **Plants Abroad Not Required** on the company code level, as shown in Figure 3.29, enables you to deactivate this global setting for individual company codes.

Par.type	Parameter type	Parameter value
<input type="checkbox"/>	DTLTAX Detail Tax Entry with MIRO	
<input type="checkbox"/>	LEITW LEITW	
<input type="checkbox"/>	LWTKRS Tax Rate for Country Currency	
<input type="checkbox"/>	P13B No Contractor Acc. to .13B	
<input checked="" type="checkbox"/>	PNOWIA Plants Abroad Not Required	X
<input type="checkbox"/>	PTAXCK Tax Without Rounding Tolerance	

Figure 3.29 Maintain Additional Parameters for Company Code

Value-Added Tax Registration

After activating plants abroad, you can enter the VAT registration number for the respective VAT registrations abroad. To do so, use Transaction SPRO, and follow menu path **Financial Accounting • Financial Accounting Global Settings • Tax on Sales/Purchases • Basic Settings • Plants Abroad • Enter VAT Registration Number for Plants Abroad**. When on this screen, double-click on the combination of company code and country, or click **New Entries** to create a new VAT registration. In the screen shown in Figure 3.30, enter the VAT registration number (**VAT Reg. No.**) and a description for the **Company Name**.

Figure 3.30 Enter Foreign VAT Registration Numbers

Domestic VAT Registration Number

Note that the domestic VAT registration number of the headquarters isn't maintained here. Instead, it's maintained in the company code global settings.

If there are indirect tax registrations abroad, companies commonly transfer their own goods between these countries. This requires several settings and a specific process from an indirect tax determination perspective.

First, condition records must be created for conditions WIA1, WIA2, and WIA3. A WIA invoice (i.e., an invoice for the posting of internal stock transfers that is relevant for indirect tax reporting) will contain these three condition types:

- **WIA1**
This condition type contains the input tax in the country of destination. Therefore, condition type WIA1 may, for instance, determine a tax code with 21% indirect tax for an intra-community acquisition of goods in the Netherlands.
- **WIA2**
This condition type contains the output tax in the country of departure. For example, the WIA2 condition type may determine a tax code with 0% indirect tax for an intra-community supply of goods.
- **WIA3**
This condition type then contains the output tax in the country of destination. Therefore, the amount determined in condition type WIA1 is booked into another line with a negative amount, and the intra-community acquisition is reported and deducted at the same time.

Cross-Border Movements

If you're using different tax procedures for the different countries of your registration, it's necessary to create the respective input tax codes for cross-border movements of the company's own goods in the tax procedure of the outgoing country. For example, in a stock transfer of own goods from Italy to France, the tax procedure for Italy must contain the tax codes for an Italian intra-community supply of goods as well as an intra-community acquisition of goods in France.

For reporting purposes, the reporting country is entered in the properties of the tax code.

Non-EU Stock Transfers

As mentioned, the plants abroad functionality is generally designed for stock transfers of own goods inside the EU. However, you also can use it for stock transfers of own goods to, from, and between non-EU countries. To do so, use Transaction VOV7 or

follow menu path **Sales and Distribution • Sales • Sales Documents • Sales Document Item Define Item Categories** in the configuration menu.

The SAP standard item category (ItCa column) for stock transfer items is **NLN**, as shown in Figure 3.31.

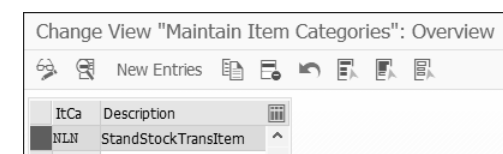


Figure 3.31 Maintain Item Categories

Double-click on the relevant item category for stock transfers. To automate indirect tax postings for cross-border movements of own goods to non-EU countries, you need to set the billing relevance of the item category to relevant for billing. In SAP standard, this is set to **J (Relevant for deliveries across EU countries)**. When setting it to **A (Delivery-related billing document)**, as in the example in Figure 3.32, it becomes billing relevant for all countries.

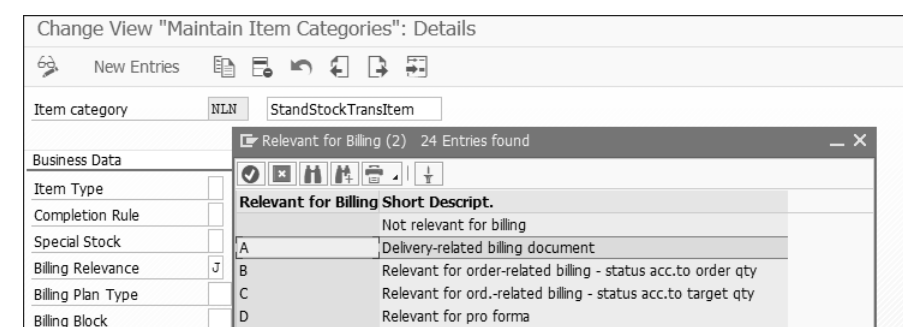


Figure 3.32 Maintain Billing Relevance for Item Category

Warning!

Keep in mind that the billing and reporting processes need to be adapted per the local requirements of the jurisdiction. It may be necessary to adapt the pricing procedure relevant for the creation of the WIA invoice for certain countries to ensure that there is no reverse charge posting for non-EU countries, but an input tax posting on the indirect tax input side is triggered.

Keep in mind that this setting will affect all company codes in the system.

Furthermore, an additional **Reporting Cntry** field will become available for each tax code, as shown in Figure 3.33.

Figure 3.33 Tax Code Settings for the Tax Reporting Country

The reporting country of the tax code is essential if you want to use the **Tax Reporting Country** functionality in the SAP standard report for the advance return for tax on sales and purchases (report RFUMSV00), as shown in Figure 3.34. Additionally, the **Nat.Crcy Instead of Local Crcy** checkbox becomes available after activating plants abroad. This enables you to extract the report in the local currency in which it must be reported, even if the original transaction was in a different currency. Referring back to the example, this means that we could extract the indirect tax return for Romania in Romanian leu, even if the invoice was posted in euro.

Figure 3.34 Report RFUMSV00 with Plants Abroad

3.1.4 Exchange Rates

Most jurisdictions require companies to report indirect taxes in the currency of the country. When receiving or sending invoices in different currencies, a translation of the amount must be made—usually to a certain date with the rate of a certain institution, such as the federal reserve bank.

In the following settings, we'll explain how to set up and maintain exchange rates. You'll also see how they work in sales.

Basic Settings

Generally, the system uses the currency maintained as company code currency in path **Enterprise Structure • Definition • Financial Accounting • Edit, Copy, Delete, Check Company Code**. From the popup submenu that appears, you choose **Edit Company Code Data**. The overview is shown in Figure 3.35.

Figure 3.35 Company Code Settings

As we've mentioned in Section 3.1.3, reporting in other currencies than the company code currency is only possible when plants abroad is activated.

You can also assign multiple currencies to one company code via two methods. The first method is to assign a currency on the company code level. As you can see in Figure 3.36, this is limited to a maximum of two additional currencies. The first currency is always the company code currency, while the second currency is usually the group currency. For example, if a legal entity in the United Kingdom belongs to a group from the United States, the group currency may be USD. The third local currency can be chosen freely. However, the setting is limited by currency types. We've already explained the company code currency and group currency. Other standard currency types are the hard currency (assigned at country level), index-based currency (for high inflation), or global company currency (assigned to a company or internal trading partner).

To reach the configuration, use Transaction OB22 or Transaction FINSC_LEDGER or follow menu path **Financial Accounting • Financial Accounting Global Settings • Ledgers • Ledger • Define Settings for Ledgers and Currency Types**. In the overview, choose the ledger you want to customize, and then navigate to the company code settings for the ledger. Double-click the company code you want to customize. In this overview, as shown in Figure 3.36, you can see three currencies that can be freely defined by using the indicator in the **Crcy type** field. In the example, there are only two defined—a company code currency (indicator 10) for company code 1010 and a group currency (indicator 30). For each of the company codes, an exchange rate type can be assigned in the

ExRateType field. The SAP standard is exchange rate type **M**. However, as you'll learn a little later in this chapter, you also can define new exchange rates for special legal requirements that can be assigned here. Further important fields are the **Currency** itself, the source currency type (**Srce Crcty**), and the translation date type (**TrsDte Typ**). The currency maintained in the example is **EUR**. The source currency type defines which currency is used as the basis for translation. Generally, the transaction currency is used as a basis for the calculation here, as using another currency (e.g., the group currency) can lead to exchange rate differences. Finally, the translation date type defines which date is used for the translation. Here, you have the option between document date, posting date and translation date. Translation date is the default value, but it may be necessary to use another date depending on the legal requirements.

Display View "Additional Local Currencies For Company Code": Details

Company Code 1010 Company Code 1010

1st local currency

Crcty type	10	Company code currency	Currency	EUR
Valuation	0	Legal Valuation		
ExRateType	M	Standard translation at average rate		
Srce Crcty	1	Translation taking transaction currency as a basis		
TrsDte Typ	3	Translation date		

2nd local currency

Crcty type	30	Group currency	Currency	EUR
Valuation	0	Legal Valuation		
ExRateType	M	Standard translation at average rate		
Srce Crcty	1	Translation taking transaction currency as a basis		
TrsDte Typ	3	Translation date		

3rd local currency

Crcty type			Currency	
Valuation	0			
ExRateType				
Srce Crcty				
TrsDte Typ				

Figure 3.36 Additional Local Currencies for the Company Code

In the second option, the additional local currency is maintained only for the advance return on sales/purchases. To reach the configuration, as shown in Figure 3.37, use menu path **Financial Accounting • General Ledger Accounting • Periodic Processing • Report • Sales/Purchases Tax Returns • Activate Alternative Local Currency for Advance Tax Return**. Select the **Alternative Local Crcty Active?** checkbox.

Client-Specific FI Settings

- Plants Abroad Active
- Business Area Display Authorization
- Doc. Type Display Authorization
- Alternative Local Crcty Active?

Figure 3.37 Activate Alternative Local Currency for Advance Tax Return

After the activation, you can assign a currency and exchange rate type to the combination of company code and selection program via **Financial Accounting • General Ledger Accounting • Periodic Processing • Report • Sales/Purchases Tax Returns • Specify Alternative Local Curr. for Advance Tax Return**. Click on **New Entries** to create a new line with your company code. **Program Name RFUMSV00** is the standard report for the advance return for tax on sales/purchases. In the example in Figure 3.38, company code **1010** is using Polish zloty (**PLN**) as the additional currency, for example, due to an indirect tax registration and corresponding reporting requirements in Poland.

CoCd	Program Name	C/R	Crcty	Exch
<input type="checkbox"/> 1010	RFUMSV00	PL	PLN	M

Figure 3.38 Specify Alternative Local Currency

Both options are only possible if there is only one additional currency. If more currencies are relevant, it may be a good starting point to think about activating plants abroad.

Maintain Exchange Rates

To translate currency amounts from the foreign currency to another currency, such as the official in-house or group currency, the exchange rate must be maintained in the system. Maintenance of the exchange rates as in the example in Figure 3.39 can be reached either through Transaction OBO8 or menu path **SAP NetWeaver • General Settings • Currencies • Enter Exchange Rates** in the SAP Reference IMG. In this list, you can see the maintained exchange rates by exchange rate type and date. In the example, we see a daily exchange rate maintained for the exchange rates from **HKD** to **EUR**. The exchange rate type (**ExRt**) is **B** (standard translation at selling rate) and for each day—shown by the **ValidFrom** date—an exchange rate is entered. For the indirect quotation that is used here, we're converting the company code currency **EUR** to the other currency by defining the cost of one unit of local currency in units of foreign currency. In the example, that means **0.84970 HKD** equals **1 EUR**. With direct quotation, the other currency **HKD** would be converted to **EUR** by defining the cost of one unit in foreign currency in local currency. Generally, these work hand in hand, and only one needs to be defined.

Change View "Currency Exchange Rates": Overview

ExRt	ValidFrom	Indir.quot	X	Ratio(from)	From	=	Dir.quot.	X	Ratio (to)	To
B	26.04.2017	0,84970	X		1 HKD	=		X		1 EUR
B	25.04.2017	0,84890	X		1 HKD	=		X		1 EUR
B	24.04.2017	0,84730	X		1 HKD	=		X		1 EUR
B	21.04.2017	0,83670	X		1 HKD	=		X		1 EUR
B	20.04.2017	0,84010	X		1 HKD	=		X		1 EUR
B	19.04.2017	0,83560	X		1 HKD	=		X		1 EUR
B	18.04.2017	0,84310	X		1 HKD	=		X		1 EUR

Figure 3.39 Currency Exchange Rates

You can maintain different exchange rates with different exchange rate types for the same period.

In practice, exchange rates are often automatically uploaded. Program RFIMPBNS offers the possibility to import exchange rates from an XML file provided by the European Central Bank (refer to SAP Note 1286897). Program RFTBFF00 makes it possible to read exchange rates from market data.

In many jurisdictions, the prescribed exchange rate is different from the exchange rate used for accounting. SAP Note 730466 offers guidance on the usage of a different exchange rate type for the advance return for tax on sales/purchases. Generally, there are four steps involved:

1. Activate plants abroad

For details on this step, refer to Section 3.1.3.

2. Define exchange rates

To reach the configuration for defining exchange rates, use Transaction OB07 or follow menu path **SAP NetWeaver • General Settings • Currencies • Check Exchange Rate Types**. Click on **New Entries** to create a new exchange rate type by entering the abbreviation in the **ExRt** column and the description in the **Usage** column. In the example in Figure 3.40, we've created a new exchange rate for the **HMRC** daily rate that will be used for exchange rate calculations in Great Britain.

Change View "Currency Translation Exchange Rate Types": Overview

ExRt	Usage	Ref.crcy	Buy.rt.at	Sell.rt
HMRC	GB Daily HMRC Rate			

Figure 3.40 Create New Exchange Rate

3. Assign the new exchange rate to the country

In the SAP NetWeaver configuration, choose **General Settings • Set Countries • Define Countries in mySAP Systems**. Double-click the respective relevant country. In the **Exch. Rate Type** field, as shown in Figure 3.41, enter the newly created exchange rate.

Properties

EU Country	<input type="checkbox"/>	GCC Country	<input type="checkbox"/>
Trde Stat.Short Name	GBRIT	ISO code	GB
Procedure	TAXGB	ISO code 3 char	GBR
Country Crcy	GBP	Intrastat code	6
Exch. Rate Type	HMRC	Net Discount Base	<input checked="" type="checkbox"/>
Capital Goods Ind.	<input type="checkbox"/>	Net Tax Base	<input checked="" type="checkbox"/>

Figure 3.41 Assign New Exchange Rate to Country

4. Set tax conversion rules

In the configuration, use Transaction SPRO, and go to menu path **Financial Accounting • Financial Accounting Global Settings • Global Parameters for Company Code • Enter Global Parameters**. In the overview, choose the company code where the new exchange rate type is relevant. In the **Processing parameters** box, as shown in Figure 3.42, enter **1 (Manual exchange rate entry possible)** in the **Tax Crcy Translation** field. If you have a company code where the exchange rate is generally determined based on a date other than the pricing date, this is the point to make that change.

Processing parameters

Document Entry Screen Variant: 2

Field status variant: TT01

Pstng period variant: 1010

Max. exchange rate deviation: 10 %

Sample Acct Rules Var.:

Workflow Variant: 0001

Inflation Method:

Tax Crcy Translation: 1

CoCd -> CO Area: 2

Cost of Sales Accounting Actv.: 2

Foreign Currency Translation for Tax Items (1) 6 Entries found

Tax Crcy Translation	Short Descript.
	Exchange Rate According to Document Header (Default)
1	Manual exchange rate entry possible
2	Exchange rate determined using posting date
3	Exchange rate determined using document date
4	Exch. rate determ. acc. to pstg date with distr. of diffs
5	Exchange Rate Determination According to Tax Reporting Date

6 Entries found

JV Accounting Active

Hedge request active

Figure 3.42 Set Tax Currency Translation Rules for the Company Code

Exchange Rates in Sales

First, it's important to mention that the relevant date for the exchange rate is the pricing date. The pricing date itself depends on the sales document type. The settings for the sales document types can be found under path **Sales and Distribution • Sales • Sales Documents • Sales Document Header • Define Sales Document Types** in the SAP Reference IMG. In the **Requested delivery date/pricing date/purchase order date** area, as shown in Figure 3.43, you can find the proposed pricing date based on the requested delivery date (**Prop.f.pricing date**). If this field is empty, the system suggests the system date—that is, today's date—as the pricing date. Alternatives are **A (requested delivery date)**, **B (valid-from date)**, and **C (contract start)**.

Requested delivery date/pricing date/purchase order date	
Lead time in days	<input type="checkbox"/> <input checked="" type="checkbox"/> Propose Deliv.Date
Date type	<input type="checkbox"/> Propose CustRef Date
Prop.f.pricing date	Cons. Goods Rec.Hrs. <input type="checkbox"/>
Prop.valid-from date	

Figure 3.43 Pricing Date Settings

Additional settings can be made in the condition type for sales (refer to Chapter 4, Section 4.1.2) or in the copying control (refer to Chapter 4, Section 4.3.2).

To reach these settings, use Transaction V/06 or Transaction SPRO followed by menu path **Sales and Distribution • Basic Functions • Pricing • Define Condition Types • Set Condition Types for Pricing**. Among other settings, the condition type offers the setting **Pricing Date** in the **Control Data 2** section, as shown in Figure 3.44. The default setting is blank, that is, the pricing date from the pricing date field **PRSDT** in structure **KOMK** or from date of services rendered for tax and rebates. Other options include the date of services rendered, billing date, price date, creation date, or order date. As these settings are made on the condition level, you can have different pricing dates for different conditions. For example, you could calculate the net price based on the creation date to include certain time-dependent rebates and the tax pricing date based on the invoice pricing date.

Control Data 2	
Currency Conversion: <input type="checkbox"/>	Exclusion: <input type="checkbox"/>
	Pricing Date: <input type="checkbox"/> Standard (KOMK-PRSDT; tax and rebate KOM)
Accruals: <input type="checkbox"/>	
Variant Condition: <input type="checkbox"/>	Rel. for Acct Assigt: <input type="checkbox"/> Relevant for account assignment
Invoice List Cond.: <input type="checkbox"/>	
Quantity Conversion: <input type="checkbox"/>	
Intercomp.Billing: <input type="checkbox"/>	ServChgeSettlem: <input type="checkbox"/>

Figure 3.44 Condition Type Pricing Date

The copying control responsible for the transmission of data between different sales documents can be reached via Transaction SPRO followed by menu path **Sales and Distribution • Billing • Billing Documents • Maintain Copying Control for Billing Documents**. In the copying control, as shown in Figure 3.45, you can maintain the pricing exchange rate type at the item level at the time of data transmission between a preceding document such as a sales order or delivery note and the billing document. This setting has priority over the setting of the condition type, if filled. The standard setting is blank, with other options to copy the exchange rate determination from the sales order or match it to the accounting rate, billing date, pricing date, current date, or date of services rendered.

Target	Source
Target Bill. Type: F2 Invoice	From Delivery Type: LF Delivery
	Item Category: TAN Standard Item
Copy	
Copying Requirements: 004 Deliv-related item	Billing Quantity: G
Data VBRK/VBRP: <input type="checkbox"/>	Pos./Neg. Quantity: +
	Pricing Type: G
	PricingExchRate Type: <input type="checkbox"/> <input type="checkbox"/>
	<input type="checkbox"/> Cumulate cost
	Price Source: E

Figure 3.45 Exchange Rate for Copying Control

Warning!

This setting only has an influence on the exchange rate calculation on the billing document. The exchange rate in financial accounting is always based on the posting date.

3.2 Sales and Distribution and Materials Management

There are several settings in the sales and distribution functionality and materials management (purchasing) functionality that influence tax determination both on the input and output side. Some of these settings are related to master data, and others are related to tax determination and pricing itself. In this section, we'll cover tax classifications and further settings related to master data, as well as the relevance of indirect tax determination as a part of pricing.

3.2.1 Tax Classifications

Tax classifications are the basis for indirect tax determination. They are indicators that describe a certain characteristic of a product, customer, vendor, or even taxable transaction. We'll discuss the different tax classifications in the following sections.

Material

Maintaining correct master data for the material is a crucial step in achieving correct and reliable automatic indirect tax determination. The material tax classification in

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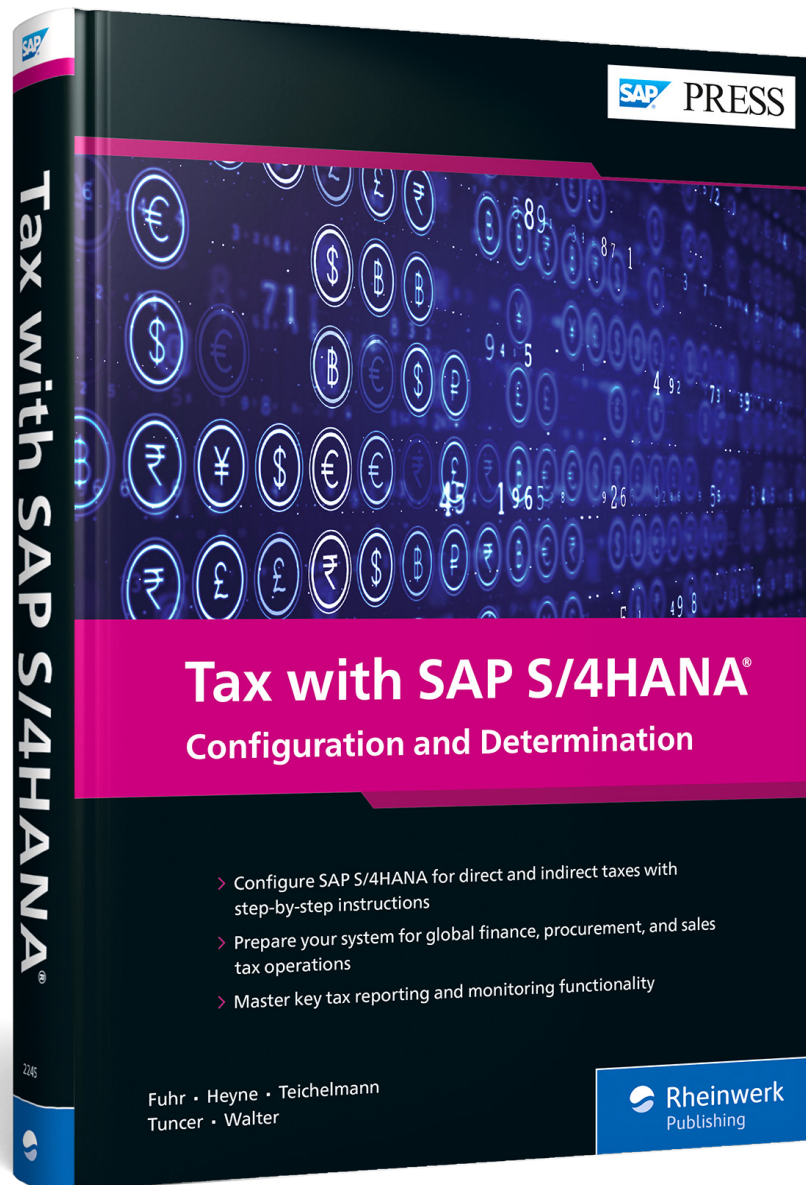
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