

# Opportunities for the Tax department: When your company migrates to SAP S/4HANA

**The move to SAP S/4HANA is the perfect opportunity for tax to finally regain control and transform and automate the indirect tax operations by implementing a tax engine.**

This guide highlights the key points of this opportunity and how a tax engine can contribute to improved VAT determination in SAP.





## Why is it difficult to manage and control VAT in your current SAP environment?

This is all about change. The VAT structure in SAP was designed decades ago and has not evolved with legal and business requirements, resulting in business specific customizations within the system. This is like a Tesla with a T-Ford engine driving on a 20th century highway, steered by a one-eyed driver (IT) and navigated by a blindfolded navigator (VAT manager).

### 1 Standard SAP uses too few data elements to calculate VAT

The VAT structure in SAP was designed in times where transactions were either local or regular exports. This design has not been adjusted for the increased complexity in VAT or global business, meaning that your own IT department had to design its own solution, using a combination of enhancements (changing of SAP code) and own defined condition records. In some cases, the end result of this IT effort is unfortunately no more than patchwork, it doesn't actually solve the VAT complexity in your business. Manual interventions and corrections are still necessary to become compliant.

### 2 SAP VAT knowledge sits in the IT department

Your IT department "owns" the SAP environment and as a result also VAT determination. But they are not VAT experts. For a VAT manager it is difficult to grasp the VAT complexities in the SAP landscape, so the required insights to ensure your systems setup is VAT compliant are often missing.

### 3 Global business has changed

Centralization, globalization, e-commerce, cloud, control frameworks are common terms nowadays. As a VAT manager you often need to manage your company's VAT position mainly based on trust. Have all relevant legal and business changes been collected and properly embedded and tested in your SAP environment? And developments like real-time reporting leave no room for errors; "trust is good, but control is better".



## What creates the opportunity when migrating to SAP S/4HANA?

For a Tax department or VAT manager the migration to SAP S/4HANA provides a unique opportunity to take control of VAT and significantly improve the tax control framework.

### 1 SAP S/4HANA does not provide an out-of-the-box VAT solution

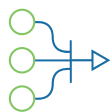
SAP S/4HANA has a lot of new functionalities and improvements, but SAP is NOT developing new VAT solutions within the system. In order to ensure compliant transactions for VAT, customization in SAP S/4HANA or another solution will still be needed. But one crucial change is that SAP now also facilitates external tax engines for VAT by means of the SAP Localization Hub. This is your opportunity to implement consistent and future proof settings by deploying a Vertex tax engine.

### 2 SAP S/4HANA does not allow copy/paste of VAT settings

It is quite common practice when upgrading SAP that VAT settings are copied from the old system and pasted into the new system. A migration to SAP S/4HANA does not allow such a copy/paste transition due to the new data structure, many enhancements made for VAT need to be recoded. This is time and resource demanding so needs to be done efficiently and makes deploying a tax engine a viable option. This is your opportunity to squeeze out all existing errors and co-develop a compliant VAT environment.

### 3 The role of a VAT manager has changed

Within a multinational organisation the VAT manager no longer only has an advisory role. More and more the VAT manager becomes responsible or accountable for VAT operations and this includes ensuring correct VAT processing in the SAP system. VAT processes and systems are added to the existing portfolio of legal changes and VAT controls. This implies the VAT manager, together with IT, needs to search for solutions to ensure compliance while optimizing processes.



## Considerations for a tax or VAT manager when moving to SAP S/4HANA

As a tax or VAT manager you need to ensure you are aligned with your IT department at a very early stage of the SAP S/4HANA journey. Make sure you have a seat at the table so Tax can benefit from the improved data and analytics capabilities and embed or improve your tax control framework (TCF) within your company's core financial system.

### 1 Build or buy?

VAT determination for a new ERP system is a build or buy decision, which is often not taken by the VAT manager. In the past the scale often tipped to "build" as home-grown settings could be copied into new SAP environments. Sometimes a "buy" decision is made to outsource and standardize the VAT settings by deploying a VAT bolt-on. Effectively this is outsourced customization of your SAP VAT settings. Many IT architects today want to deploy standard solutions as much as possible to keep the complexity and the cost of ownership low. The Vertex tax engine fits perfectly into that strategy. When migrating to SAP S/4HANA as a VAT manager you will have the opportunity to decide "again".

**This is your opportunity to implement consistent and future proof settings by deploying a Vertex tax engine.**

### 2 How do I manage VAT across multiple platforms?

As businesses have expanded and business models changed, financial platforms have been developed to support these changes. Annex to the traditional cash register there are now also platforms dedicated for e-commerce transactions, procurement, billing or expense management. As these systems process VAT relevant transactions, they all have their individual VAT settings that need to be implemented and maintained. All your relevant systems somehow need to connect (direct or indirect) to the VAT reporting platform of the tax authorities. VAT management has become a multi-platform game that can put quite some stress on your TCF.

### 3 Can I benefit from time?

Yes, you can! Start liaising with your IT colleagues immediately to understand your company's SAP S/4HANA agenda, assess the level of compliance of your current VAT settings, analyse and allocate your VAT process steps from master data to VAT reporting and archiving, design your futureproof VAT knowledge and content framework and investigate your VAT determination options. Most of this can be done prior to the transition.

If you add a tax engine before the SAP S/4HANA migration starts (for example already adding the tax engine to your current SAP ECC system), you can even de-risk the SAP S/4HANA migration as most VAT changes can already be implemented upfront.

## Why would you benefit from a tax engine?

There are two quite persistent prejudices when it comes to tax engines for VAT. The first is that you will lose your native VAT reporting options in SAP. In the past this was true but nowadays the Vertex tax engine feeds all VAT relevant data back into SAP. And the second prejudice is that tax engines are only valuable in the United States and not needed for Europe. This idea originates from the times when we operated an origin-based VAT system in Europe. However, the VAT system in the EU is gradually changing to a destination-based system where VAT of your customers' countries needs to be charged. This destination principle is embedded in the 2021 VAT e-commerce rules but also in the proposal for the definitive VAT system in the EU. And as harmonization of VAT rules and rates in the EU is hard to find, there is less difference with the US complexities.

### What are some of the benefits of deploying the Vertex tax engine?

- + One consistent system for VAT determination across multiple financial platforms globally
- + VAT determination designed, maintained and implemented by VAT experts
- + Improved accuracy of VAT/GST determination
- + Always up to date VAT content, rates and rules used for VAT determination
- + No need to continuously gather relevant global VAT data to be embedded in your financial systems
- + Reduced IT support needed; all VAT settings are maintained externally
- + Improved tax department efficiency
- + Improved Tax Control Framework for VAT
- + Improved audit performance
- + Improved scalability
- + Better customer invoicing and less discussions on incorrect VAT treatment
- + Improved efficiencies in VAT reporting as less corrections/issues will arise
- + Improved efficiency in AP processing as VAT determination is no longer manual (to a great extend)
- + Reduced consultancy costs as VAT updates are included in the SaaS software
- + Non-compliant transactions are blocked/flagged at source (sales and purchase) resulting in reduced VAT workload for Finance
- + Consistency in VAT settings across multiple ERPs as these are in the tax engine
- + Improved VAT relevant master data as this is a prerequisite for the tax engine

## About Vertex

**Vertex Inc.**, is a leading global provider of indirect tax software and solutions. The company's mission is to deliver the most trusted tax technology enabling global businesses to transact, comply and grow with confidence. Vertex provides cloud-based and on-premise solutions that can be tailored to specific industries for every major line of indirect tax, including sales and consumer use, value added and payroll. Headquartered in North America, and with offices in South America and Europe, Vertex employs over 1,100 professionals and serves companies across the globe.

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