

Harnessing IT To Better Manage Your Global Tax Demands

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Tax Technology Can Help Companies Navigate Withholding Tax Complexity

In recent years, corporate taxes have been constantly under the gaze of intense media and public scrutiny. Indeed, the glare of the global spotlight on high-profile international cases, such as Google and Starbucks, has only served to fuel corporate and public concern and focus multinational companies' attention to enabling strategies that would help them best manage the global tax complexities.

In addition, a struggling global economy has led tax authorities in many jurisdictions to adjust their focus, introducing regulations and automation requirements that would expedite the reporting and collection of taxes. The constant flow of international tax developments, including an accelerating pace of change in tax rates and regulations within highly complex regimes, and the universal trend by tax authorities to find more ways to raise tax



revenues, is proving to be an ongoing challenge for multinational organizations.

This dynamic environment has had a significant impact across the corporate environment, creating considerable work and costs associated with maintaining rates, rules and logic for value added tax (VAT), goods and services tax (GST), and other international indirect taxes. It has led to a rise in demand for automated tax systems that can assist multinational companies in data gathering, processing, reporting and compliance. These organizations, operating across multiple business lines and numerous jurisdictions, typically find that they are under-resourced, with gaps in enabling technologies, processes and resources.

In fact, a recent study in 2013 conducted among 100 international organizations within the Manufacturers Alliance for Productivity and Innovation (MAPI) showed that 60 percent of the respondents were still using spreadsheets as a provisional tool in their tax departments, even amid

the use of more complex tax technology tools available today. Furthermore, nearly 85 percent said that improved technology and its integration were among their top strategies for increasing tax effectiveness and managing the tax demands. Nevertheless, at that time, many had yet to make adequate investments in technology or fully capitalize on the technologies and support that could be leveraged within their existing IT departments. While a majority of these respondents said that enhanced technology or data would have helped prevent a significant deficiency, they were failing to link enabling technology and the tax function. Indeed, while 85 percent of respondents had an enterprise resource planning (ERP) solution, it was frequently not leveraged to the fullest extent for the tax function.

More and more C-level executives understand that they must adopt a closer alignment of tax and finance strategies within their overall business plans to increase tax effectiveness and manage tax demands. Furthermore, as tax executives become more familiar with the benefits of technology and the synergies it generates, this knowledge is leading to productive dialogue across their business lines and functions and fosters a deeper understanding of ERP and available tax solutions.

Adopting ERP Systems And Tax Engines For Indirect Taxes

Solutions, such as tax automation, can take many forms. It can be as simple as a matter of setting up tax codes and rates in an ERP system, or it can be

customized with a "bolt-on" tax engine that incorporates fully maintained rates and rules. Most ERP systems only account for global tax rates, and tax departments need a more advanced solution such as a tax engine for determining taxability and then calculating, collecting, and reporting on VAT, GST and other transaction taxes. However, these systems cannot integrate changes in tax rates, regulations, and logic without human intervention. Functions, such as the automated handling of withholding tax, often fall outside the remit of these systems, and this represents a significant problem for multinational organizations.

While the enabling tax technology industry has grown and is delivering more sophisticated and powerful solutions, tax technology remains under-utilized as an enabling tool by most tax functions. Increasingly, although technology typically falls within the realms of the IT function, the onus is moving onto the tax function to ensure that the chosen system has the right activity, mechanisms and technology to properly process the financial information that must be reported in every business line and jurisdiction in which they operate.

Withholding Tax Automation

Withholding tax (WHT) is used by tax authorities as a mechanism to combat tax evasion and is imposed at source on both local and foreign supplies. It is a direct tax levied on the supply of goods and/or services, whereby the purchaser is

required to withhold or deduct tax from the payment on those goods and/or services and pay that tax directly to the tax authorities. All countries have some form of WHT regime, and as the burden to withhold tax is placed on the payer, this can be a substantial risk for businesses operating worldwide. Should the company paying not withhold or default on payments, it is the vendor that is liable for penalties.

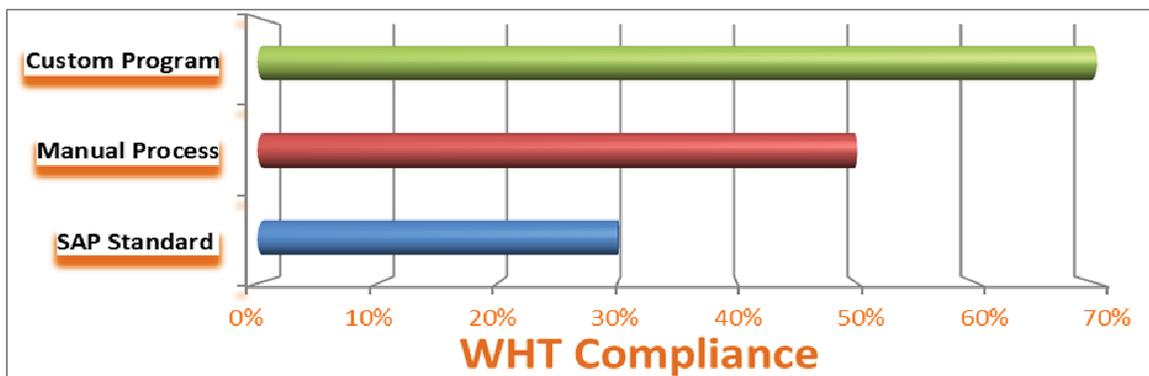
Unfortunately, WHT regimes are complicated – what is deemed taxable can vary significantly from jurisdiction to jurisdiction, and the rules can be quite complex. Consequently, effective WHT solutions demand careful consideration of the information they handle, including information pertaining to vendor type, supply type, supply location, and country treaties. For companies operating across international markets, such as Argentina, Brazil, Canada, France, India, Mexico, Thailand, and the United States, WHT adds yet another layer of complexity. In such tax jurisdictions, lack of compliance with the various WHT regulations, including overpaying, underpaying or missing a payment, can expose the business to major financial and reputational risks.

Manual Processes v. Tax Compliance Technology

In an ideal environment, international organizations would invest in a fully compliant, capable ERP solution that included applications which could keep up with the changing tax environment. Over the years, there were organizations that decided on tax technology strategies that are part-manual, part-automated to manage their processes, tax computations and reporting. Others have adopted complex and costly IT-based custom-built solutions to solve specific jurisdiction or tax-related issues. Many more are yet to determine their tax technology strategies, preferring to rely on inefficient and time-consuming manual processes to manage the complexities related to WHT determination. Unfortunately, in cases where the entire financial process is manual, they are creating ongoing risk through potential exposure for under-withheld taxes, interest and penalties.

Invariably, because a complete solution is so costly and hard to implement, the majority of the strategies adopted are not maximized. They typically end up only delivering 80 percent compliance, leaving numerous international organizations vulnerable and open to errors and inaccuracies.

Typical WHT Compliance: The Chart below clearly demonstrates the ability to achieve WHT compliance by each of the market solutions.



Utilizing The WHT Functionality Within SAP Solutions And Tax Technology Software

The SAP standard WHT functionality is mainly driven by setting up the WHT tax type and tax code indicators on the vendor/customer master record. SAP uses these indicators to determine WHT relevance when an invoice is processed in the system. One of the main limitations of this design is that the system does not take into consideration the type of transaction, such as goods, that may not be subject to WHT. In addition, the standard functionality applies WHT to the total invoice amount. This happens because the trigger for the WHT determination and calculation is at the invoice header instead of the line level.

Limitations In ERP And Tax Engines

In the case of SAP, WHT functionality is limited and mainly based on WHT code defaults on the vendor/customer master record, while in the case of external tax engines, such as ONESOURCE and Vertex, WHT is out of scope, as it is typically calculated at the time of payment.

As a result, most companies implement manual work processes whereby they review invoices that are subject to WHT. Where necessary, they then manually change the system-proposed WHT code and base amount, depending on the type of transaction.

However, businesses can help address some of the challenges they face with the deployment of ERP and tax engines and the WHT requirement by leveraging an SAP functionality, BRFplus. This

unique solution is based on a comprehensive application program and user interface that automates business rules.

Business Rules Framework Plus (BRFplus) Solution

BRFplus is a business rules management system that is part of the SAP portfolio of applications. It is a service-oriented application that allows a business to fully customize the framework, describing its operations, definitions and constraints. Being integrated into SAP NetWeaver, BRFplus-based applications model and apply business rules from a strictly business-oriented perspective, making it an ideal application to use for tax rules and processes. All SAP applications based on SAP NetWeaver 7.0 Enhancement Pack 2 or higher can access BRFplus within the boundaries of an SAP system. However, it is also possible to develop BRFplus to be offered as a service in any service-oriented application (SOA) landscape, regardless of the software platform used.

Understanding BRFplus

BRFplus is part of the SAP ECC6.0 system and operates as a rules engine:

- It is a business rules system that is available in the SAP NetWeaver ABAP and is supplied with SAP NetWeaver 7.0 Enhancement Package 2;
- The framework can be linked to relevant business process steps in ECC6.0 via standard program custom enhancement placeholders, such as Business Add-in (BAdI) or user exit;
- The BRFplus interface works independent of other business-relevant interfaces and enhancements.

The Advantages Of BRFplus

BRFplus adds real-time value to a tax function. It interfaces with invoice processing in run-time and it is designed to automate business-specific rules, such as assignment of WHT codes without interrupting normal invoice processing.

It allows business process experts (or tax subject matter experts) to create the logic within the rules:

- It is used to define, simulate and test all within the application;
- It uses simple conditional logic, such as IF/THEN statements;
- It allows Import/Export into Excel for ease of managing decision table based rules;
- It uses existing transaction data to evaluate the rules in real time;
- It delivers the rule outcome seamlessly back to the calling process in SAP.

BRFplus is the right framework for WHT for a number of reasons:

- While the rules for WHT determination are too complex for the SAP standard functionality, the framework automates the manual work processes such as the adjustment of the taxable base. It

supports the return of multiple results such as WHT code and type and also supports the line item based determination;

- There is a high degree of transparency;
- BRFplus can support WHT determination for both Procure-to-Pay (PTP) and Order-to-Cash (OTC) processes. The application leverages existing key transactional data elements, such as the material group, commodity code, vendor and customer location, to determine the correct results, and it supports both the invoice and payment based WHT determination;
- It empowers business processes and tax experts, giving them the control to manage the operations. Within the system, they can build, test, simulate and optimize tax procedures without the need to constantly rely on IT experts;
- There is a quicker response time to adapt to the dynamic rules and rate changes;
- BRFplus customization does not require any developer license keys.

Typical WHT Compliance: The chart below clearly compares the ability to achieve WHT Compliance by comparing the options for WHT Determination in each of the market solutions.

Hybrid Solution involving Custom Solution and Manual Process	Automation using Business Rules Framework plus (BRFplus)
<ul style="list-style-type: none"> • Costly maintenance of the custom program • Inefficiencies due to manual work processes • Custom solution changes and maintenance needed from technical experts • Does not guarantee 100 percent WHT compliance 	<ul style="list-style-type: none"> • One-off cost to deploy WHT tax rules and the interface with ECC • Automated tax determination using existing transactional data • Tax rate changes and ongoing maintenance performed by business process expert • Enables WHT compliance at a lower cost

Conclusion

BRFplus can create the right framework for WHT within any multinational organization, delivering the required efficiency and cost reduction during invoice processing. These benefits can

be recreated for many international organizations and harnessing BRFplus could be a major driver in addressing some of the challenges created with the deployment of ERP and tax engines and the WHT requirement.