



Managing Withholding Tax Complexity with SAP Solutions

Strategies to Mitigating Withholding Tax Through Tax Technology



Introduction

Keeping up with the constant flow of international tax developments, including the accelerating pace of change in tax rates and regulations within highly complex regimes, can be a real challenge for multinational organisations. With policies and regulations varying from country to country, the universal trend by tax authorities to find more ways to raise tax revenues has created tensions which have multiplied the challenges facing tax professionals. Taxes have historically been used as a policy instrument, and while the recent global backdrop presented a difficult economic environment, it also adjusted the focus for tax authorities in many jurisdictions as they introduced regulations and automated requirements to expedite the reporting and collection of taxes. This has created significant 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 for multinational organisations.

Complying with tax laws is far from easy, and over the years, there have been numerous international industry forums that have discussed solutions for threats facing organisations engaged in international operations, including the management of business transactions, tax audits, risk and controversy, and damage to reputation. As management concern grew, businesses reviewed their reputational and operational risks, and realised they lacked tax professional and IT resources to cope with this increased demand for accurate and timely processes, reports, transparency, and compliance with tax regulations. Coupled with the increasing intense media and public scrutiny, tax departments found themselves in the spotlight and under increasing pressure. These organisations, typically operating across multiple business lines and numerous jurisdictions, found gaps in processes and resources. Many were under-resourced, leading to a rise in demand for automated systems that could assist with data gathering, processing, reporting, and compliance.

ERP Systems and Tax Engines for Indirect Taxes

Tax automation can take many forms. It can be as simple as configuring a set of tax code and rates in an enterprise resource planning (ERP) system, or it can be as complex as implementing a third-party tax engine to automatically determine the taxability, tax rate, and reporting obligations for VAT, GST, or other transaction taxes. However, certain taxes such as withholding tax (WHT) often fall outside the scope of these solutions, representing a significant problem for multinational organisations.

While the enabling tax technology industry has grown and is delivering more sophisticated and powerful solutions, unfortunately tax technology is still misunderstood and under-utilised as an enabling tool by most tax functions. Increasingly, although technology typically falls within the realm 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.

A Real Solution for Withholding Tax Automation

This white paper discusses tax technology strategies and presents a working solution for automating withholding tax that was identified by Ryan professionals and successfully implemented for a Fortune 50 global organisation. The solution was among the first to be deployed in a multinational organisation in more than 51 countries, functions, complex supply chains, and multilevel tax regimes and is still successfully carrying out determination of WHT in more than 30 countries.

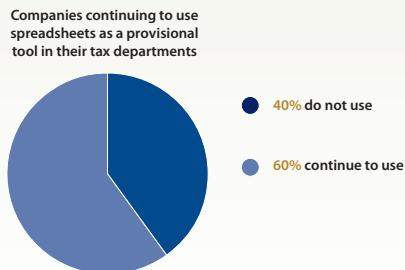
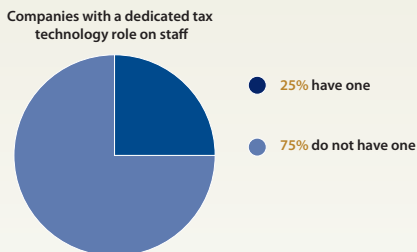
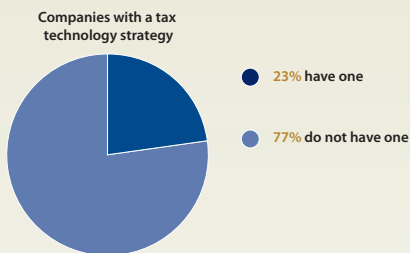
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Understanding Withholding Tax Automation

TAX TECHNOLOGY TRENDS

A survey of 100 international organisations within the Manufacturers Alliance for Productivity and Innovation (MAPI) revealed the following:



WHT 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. WHT is used by tax authorities as a mechanism to combat tax evasion and is imposed at source on both local and foreign supplies. 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 payer that is liable for penalties.

WHT regimes are complicated—what is deemed taxable can vary significantly from jurisdiction to jurisdiction, and the rules can be complex. Effective WHT solutions demand careful consideration of the information they handle, including vendor type, supply type, supply location, and country treaties. WHT adds yet another layer of complexity for companies operating across international markets such as Argentina, Brazil, Canada, France, India, Mexico, Thailand, and the United States. In such tax jurisdictions a 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 vs. Tax Compliance Technology

In an ideal environment, international organisations would invest in a fully compliant, capable ERP solution that has applications which could keep up with the changing tax environment. Several organisations have 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 and calculations. 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 maximised. They typically end up only delivering 80% compliance, leaving numerous international organisations vulnerable and open to errors and inaccuracies.

WHT Functionality within SAP and Tax Technology Software

The SAP standard WHT functionality is mainly driven by setting up the WHT tax type and 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, which 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.

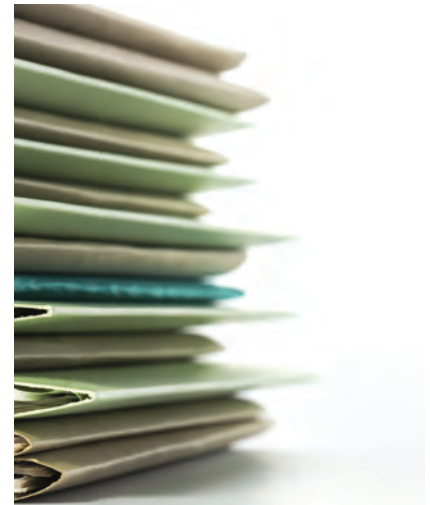
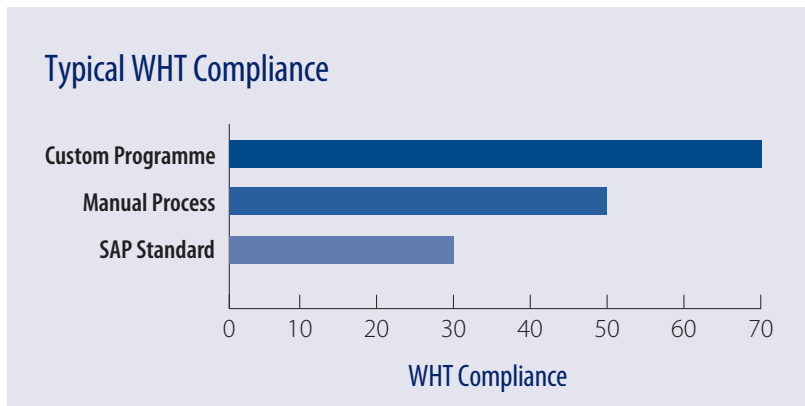
As a result, most companies implement manual work processes whereby they review invoices that are subject to WHT. Where necessary, they manually change the system-proposed WHT code and base amount, depending on the type of transaction.

Could Leveraging an Existing SAP Application Help Manage WHT?

To help address some of the questions facing organisations struggling with the deployment of ERP and tax engines, and the WHT requirement, Ryan developed a viable solution on behalf of a Fortune 50 multinational organisation.

Leveraging an SAP functionality, BRFplus, Ryan identified an innovative and unique solution based on a comprehensive application programme and user interface that automates business rules.

The chart below clearly demonstrates the ability to achieve WHT compliance by each of the following solutions.



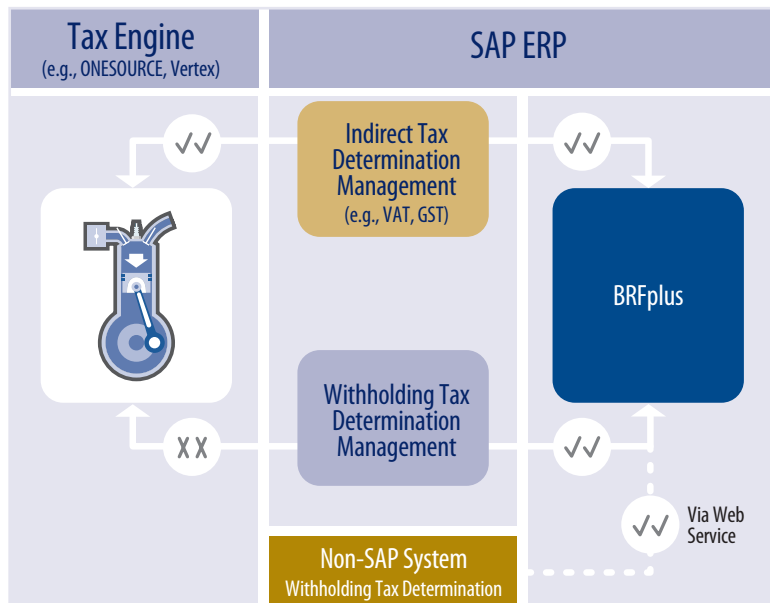
LIMITATIONS IN SAP AND TAX ENGINES

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.

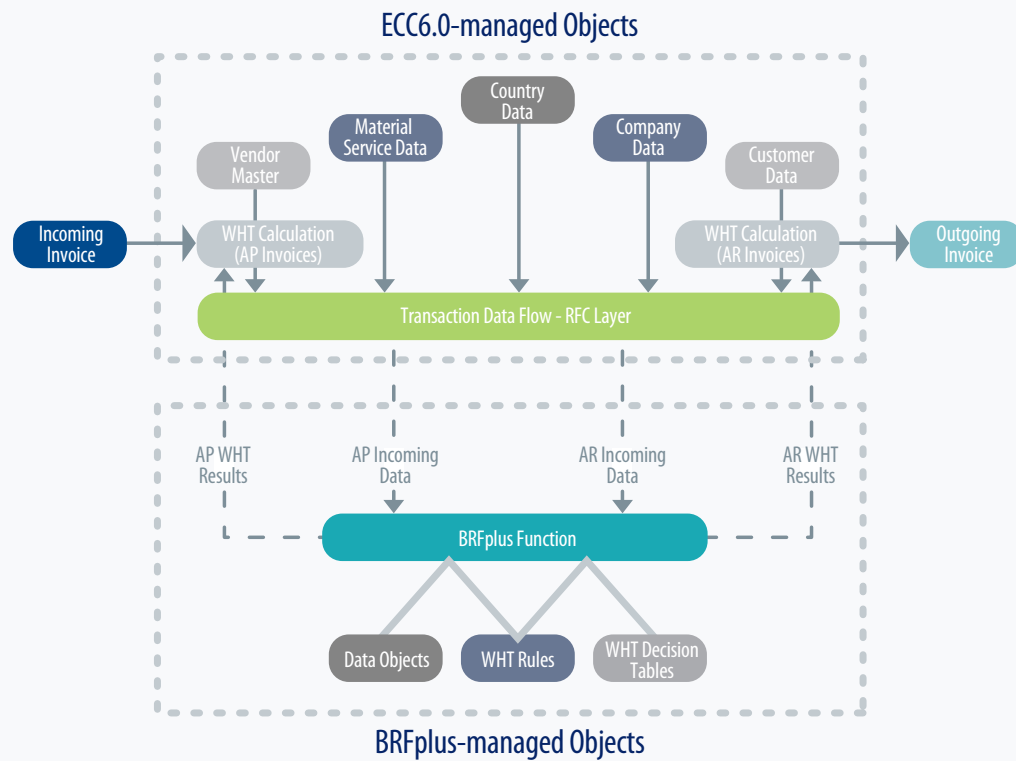
The Business Rules Framework plus (BRFplus) Solution



Business Rules Framework plus (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 customise 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 programme custom enhancement placeholders such as Business Add-in (BAI) 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.

- The applicable BAI or user exit is activated
- A call is made to BRFplus to evaluate business-defined rules

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 optimise 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 does not require any developer license keys.

Overall, it delivers efficiency and cost reduction during invoice processing.

Comparing the Options for WHT Determination

Hybrid Solution involving Custom Solution and Manual Process	Automation using Business Rules Framework plus (BRFplus)
Costly maintenance of the custom programme	One-off cost to deploy WHT tax rules and the interface with ECC
Inefficiencies due to manual work processes	Automated tax determination using existing transactional data
Custom solution changes and maintenance needed from technical experts	Tax rate changes and ongoing maintenance performed by business process expert
Does not guarantee 100% WHT compliance	Enables WHT compliance at a lower cost

Adopting BRFplus for WHT Automation

When Ryan was asked to assist a multinational Fortune 50 chemical manufacturing company, they were specifically requested to identify a global solution with which to automate the determination of WHT in more than 30 countries.

Leveraging their extensive knowledge and expertise in ERP systems and tax engines, Ryan recommended an innovative solution—adopting BRFplus. The solution had not been implemented in this manner before, but Ryan was confident of its capabilities.

The Challenge

This multinational business, which has complex multi-site operations, functions, and global supply chains, was facing the same challenge as most international organisations and not calculating its WHT obligations correctly. Mindful of its risks, the organisation had already carried out numerous studies on available ERP systems, hybrid solutions, and had also considered taking a custom approach.

The company was in the middle of implementing a new organisation-wide SAP ECC6.0 system, and part of this was the requirement to have its Accounts Payable (APAY) function fully leverage the OpenText automated Vendor Invoice Management (VIM) functionality for both trade and intercompany invoice processing. This implementation was one of the key drivers in the request for assistance on WHT automation.

The list of countries this organisation was dealing with included Brazil, which is one of the most complex and dynamic tax jurisdictions. The legacy system solution for WHT was a combination of custom automation and manual work processes that were mostly decentralised. Furthermore, the applications were being used by resources who were not experts on tax detail. Consequently, the potential for errors was high, and the business was investing heavily in mitigating the risk. It wanted to automate as much as possible. As a result, they were developing solutions that were costly and certainly not scalable, and while other organisations were utilising complex custom-built solutions, this multinational company was looking for a smarter solution. At the time, they had considered various options, including SAP standard WHT functionality, SAP custom developments and enhancements, and use of third-party applications, especially for complex jurisdictions such as Brazil.

The requirement was to automate the WHT process and its supporting systems in more than 30 countries. The solution had to be centralised, consistent, and able to deal with complex and correct WHT code determination. It also had to provide scalability across all the organisation's global and complex functions and operations, while providing ease of use for the tax teams that required faster, more flexible, accurate tax data in real time. In short, it had to deliver a fit-for-purpose solution that would mitigate risks and accurately process WHT on time, across multiple business lines and jurisdictions.



The Solution

Ryan's team of professional tax and technology experts first carried out an in-depth assessment of all existing systems and processes across all global functions and operations. Ryan also had in-depth discussions with all functional stakeholders before reviewing the various options. At this stage, Ryan considered the standard solutions with custom development and the use of third-party solutions that could work for a number of jurisdictions but not for all. The solutions reviewed were unsatisfactory—they were costly and not fully compliant with the requirements. The Ryan team knew that the recommended solution had to be a centralised solution that could be effectively maximised across all jurisdictions in which the company operated.

Although BRFplus was a relatively new system for the organisation, Ryan was able to demonstrate the added value and benefits of BRFplus in comparison to the other options under consideration, including a custom-built solution. Furthermore, Ryan highlighted the fact that as they already had the system in place, the organisation only needed to build the solution within the application, thus eliminating more costs, issues with buy-in across the organisation, and a lengthy project before the implementation could be deployed.

Over the next six months, Ryan worked in tandem with the organisation's global operations, incorporating all business lines and global locations to develop the concept and manage the deployment of the solution in eight Latin American countries, along with Brazil—the first complex jurisdictions to go live. In the following two years, BRFplus was deployed in another 21 countries across Asia Pacific, Europe, North America, and Central America, including India, the United States, Canada, and Mexico.

Among the challenges identified were working with the individual users on the various locations and ensuring they were on board and able to use the system correctly. Ryan, therefore, focused on user buy-in and knowledge sharing with all teams in the organisation, ensuring the solution was in place and working successfully in every location.

Since the implementation was deployed, the APAY function has rolled out the VIM functionality globally. The organisation is now benefitting from the many advantages of WHT automation using BRFplus, including less reliance on the APAY invoice processor to choose the applicable WHT code and less time spent by the APAY and Tax teams reviewing WHT tax invoices after the fact.

Ongoing Success with WHT Rate and Rule Changes

The success of the solution was immediately evident, as law changes in Brazil were easily updated in BRFplus without any IT support. As a result of the implementation, the organisation continues to maintain ongoing WHT rate and rule changes via the BRFplus workbench.

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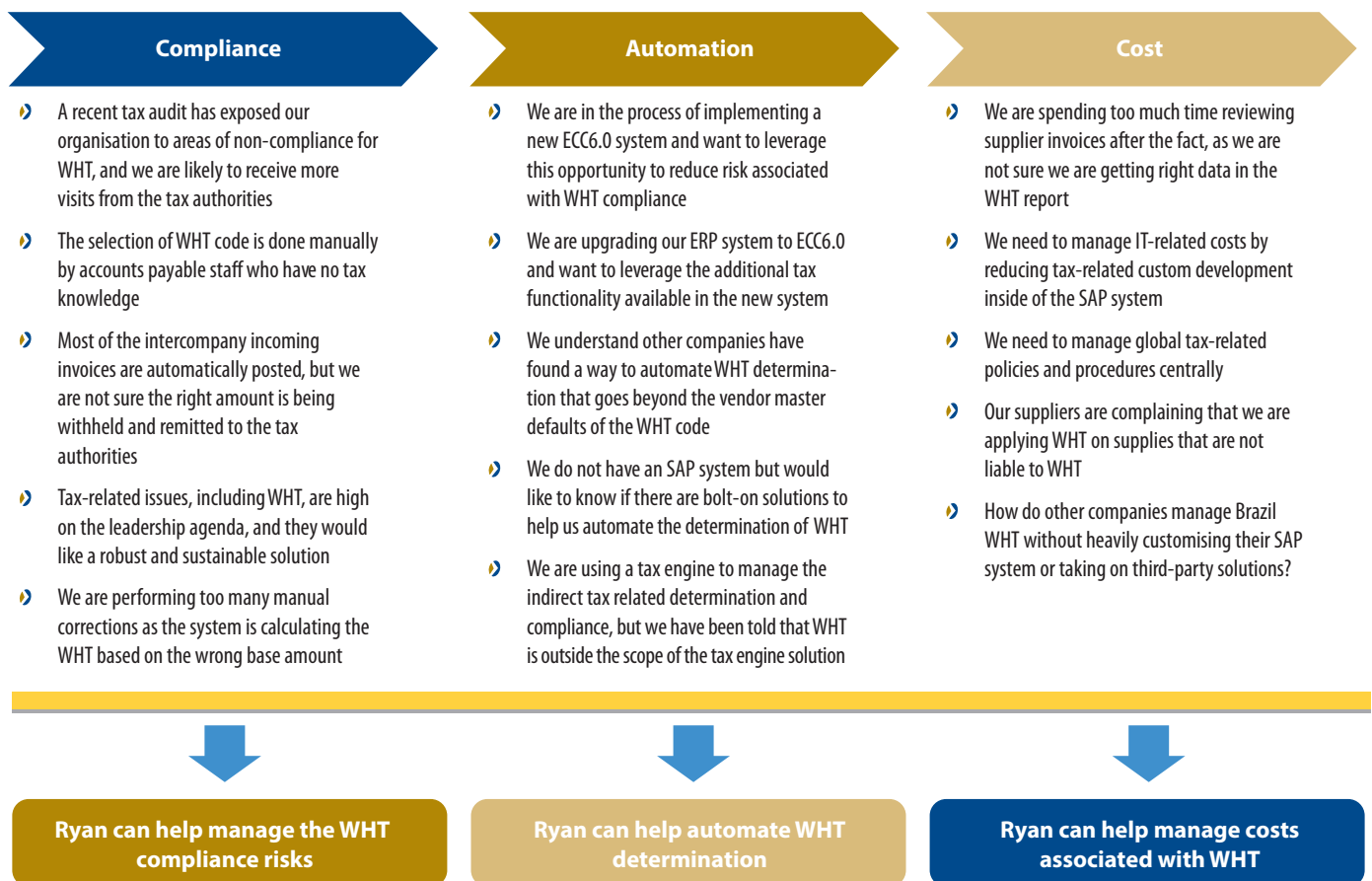
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How to Harness the Power of BRFplus for Your Organisation

Harnessing BRFplus could be a major driver in addressing some of the challenges facing your organisation with the deployment of ERP and tax engines, and the WHT requirement.

Ryan can help you get the greatest benefit while mitigating your financial risks and tax obligations. Together, we can

- Identify and design the right fit for your solution
- Derive the best framework that meshes seamlessly with BRFplus, regardless of your system
- Help you develop the business case
- Execute the solution utilising our award-winning Ryan team of experts and best-in-class processes and methodologies



About Ryan

Ryan is an award-winning global tax services firm, with the largest indirect and property tax practices in North America and the seventh largest corporate tax practice in the United States. With global headquarters in Dallas, Texas, the Firm provides a comprehensive range of state, local, federal, and international tax advisory and consulting services on a multi-jurisdictional basis, including audit defense, tax recovery, credits and incentives, tax process improvement and automation, tax appeals, tax compliance, and strategic planning. Ryan is a three-time recipient of the International Service Excellence Award from the Customer Service Institute of America (CSIA) for its commitment to world-class client service. Empowered by the dynamic *myRyan* work environment, which is widely recognized as the most innovative in the tax services industry, Ryan's multi-disciplinary team of more than 2,100 professionals and associates serves over 12,000 clients in more than 40 countries, including many of the world's most prominent Global 5000 companies. More information about Ryan can be found at ryan.com/Global.



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