Infor LN Taxation User Guide for Taxation

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About this document

About this document

This document describes the process to set up, generate, and process various types of tax declarations, including the implementation of value added tax, sales tax, withholding tax and social contributions, and for countries in the European union, the Intrastat declaration and the sales listing.

Objectives

This document describes how you can set up, generate, and process various types of tax declarations.

Tax systems and legal requirements for the tax registration and declaration vary from country to country. This user's guide describe the implementation in LN of value added tax, sales tax, withholding tax and social contributions, and for countries in the European union, the Intrastat declaration and the sales listing.

Assumed knowledge

Understanding this document is easier if you have some basic knowledge of the functionality of the various logistic LN packages and LN Financials

Document summary

This document contains the following chapters and appendices:

1. **Taxation - overview**
   Describes how the various tax systems are implemented in LN. The chapter describes the concepts and components that apply to all the tax systems, and explains how LN calculates the tax amounts.

2. **Value added tax**
   Describes specific value added tax concepts and components, and the postings that LN creates when you submit the VAT declaration and when you pay the VAT.

3. **To set up value added tax**
   Provides instructions on how to set up value added tax registration.

4. **Tax registration in a foreign country**
   Provides instructions on how to set up a tax number for a financial company in countries other than the financial company's home country. *Tax registration in a foreign country (p. 43)*

5. **Sales tax**
   Describes specific sales tax concepts and components.

6. **To set up sales tax**
   Provides instructions on how to set up sales tax registration with or without the use of a tax provider application.

7. **1099-MISC reporting**
   Provides instructions on how to set up 1099-MISC reporting.

8. **Withholding tax and social contributions**
   Describes concepts and components specific for withholding tax and social contributions.

9. **To set up withholding tax and social contributions**
Provides instructions on how to set up and process withholding tax and social contributions.

10. **Tax declarations**
Provides instructions on how to set up and process the tax declarations.

11. **Intrastat declaration and sales listing**
Provides instructions on how to set up and generate the European Intrastat declaration and sales listing.

12. **No tax**
This chapter provides instructions on how you define tax codes for transactions that are not subject to taxation, tax codes for taxable transactions with a zero tax amount, and how you can deactivate the tax functionality.

13. **Appendix A: Sales tax - address hierarchy**
Contains the tables that indicate the hierarchical order LN uses to determine the addresses of transactions to which sales tax applies.

14. **Appendix B: Tax parameters**
Lists the tax-related parameters in Common, Financials, and Invoicing, for reference.

15. **Appendix C: Automatic transfer of tax declarations**
You can set up LN to generate an electronic tax declaration file. Appendix C describes how you can set up electronic transmission of the declaration file in those countries in which this is legally required.

16. **Glossary**
Provides definitions of the terms and concepts used in this document, in alphabetical order.

How to read this document

This document was assembled from online Help topics. As a result, references to other sections in the manual are presented as shown in the following example:

For details, refer to *To test the tax model*. To locate the referred section, please refer to the Table of Contents or use the Index at the end of the document.

Underlined terms indicate a link to a glossary definition. If you view this document online, you can click the underlined term to go to the glossary definition at the end of the document .

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Chapter 1
Taxation - overview

1

Overview of tax handling

Tax handling in LN consists of the following processes:

- **Tax registration**
  Tax registration consists of the calculation and posting of the tax amounts for taxable transactions.

  The tax registration setup defines the way LN calculates and posts tax amounts. The LN tax handling setup is very flexible and detailed so that for most situations and types of transactions, the default tax rates and the calculated tax amounts are correct. For details, refer to *Setting up tax registration (p. 31)*.

- **Tax declarations**
  Processing a tax declaration consists of preparing and submitting the tax declaration to the tax authorities, and paying the due amounts to the <u>collection office</u>. For each type of tax declaration, you must define a tax declaration master.

  For details, refer to *Setting up a tax declaration (p. 89)* and *Processing tax declarations (p. 90)*.

  In some countries, you must submit the tax declaration through electronic transfer of the declaration file to the collection office. For details, refer to *Automatic transfer of tax declarations (p. 125)*.

Note

If you do not want to use the LN tax functionality, you must perform the steps described in *Deactivating tax functionality (p. 111)*.

Tax systems

LN distinguishes the following types of tax systems:

- <u>Sales tax</u>, which is also called Destination Sales Tax or Sales and Use Tax.
- <u>Value added tax (VAT)</u>.

Value added tax can be combined with <u>withholding tax</u>.

For all types of tax, you can define exceptions and <u>exemptions</u>.

For all types of tax, you must define <u>tax codes</u>. For details, refer to *To use tax codes (p. 17)*.

To determine the tax rates for transactions and invoice lines to which tax applies, LN uses the tax code and the <u>tax country</u>. Among other details, LN compares the financial company's home country with the buy-from or the sold-to country of the order to determine whether <u>domestic tax</u>, or <u>import</u> or <u>export</u> tax applies to a transaction.

Sales tax

Sales tax is a kind of tax to be paid on goods and services when they are delivered to the consumer. The party that delivers the end product to the customer is liable for paying the tax. The destination location determines to which authorities the tax must be paid.

In North America and Canada, sales tax usually must be paid to the tax jurisdictions with authority over the location where the goods or services are received or consumed. If the point of origin and the destination location reside in different jurisdictions, sales tax applies. In many cases, multiple jurisdictions have authority over the same location. You can use a <u>tax provider</u> to calculate the various tax amounts. For details, see *Sales tax (p. 55)*.

1099-MISC income tax

In the United States, the Internal Revenue Service (IRS) is the government agency responsible for enforcing the tax regulations. 1099-MISC is one of the types of revenue included, and certain supplier payments are subject to reporting under these regulations.

You can set up 1099-MISC payment reporting. For details, refer to *1099-MISC reporting (p. 73)*.

Value added tax

Value added tax is an indirect percentage tax to be paid on all goods an services supplied either to the consumer or to other businesses, for example, on final products delivered to a distributor or dealer, and on intermediary products delivered to a manufacturer. The place of supply determines to which authorities the tax must be paid.

Organizations that use value added tax must usually apply two sets of tax rates:

- <u>Domestic tax</u> rates for sales and purchase transactions within the home country.
- Tax rates for <u>import and export</u> transactions.

Organizations that are based in EU countries must also report their transactions with other EU member countries. For details, refer to *EU transaction reporting (p. 97)*.

You can set up value added tax as described in *Setting up tax registration (p. 31)*.

LN also supports the following special types of value added tax:

- **Consumption tax**
  Consumption tax is a form of value added tax to which specific rules apply. This type of tax is levied in Japan. For details, refer to *Consumption tax (p. 38)*.

- **Stamp tax**
  If you use trade notes, in some countries you must pay <u>stamp tax</u> on trade notes. Stamp tax is a type of tax that is imposed on trade notes. Stamp tax consists of a fixed amount instead of a percentage. Depending on the country of your company, if you issue trade notes you can be obliged to pay stamp tax on the trade note.

- To minimize the amount of stamp tax to be paid, you can divide the amount payable of a trade note. Instead of issuing one trade note for the entire amount, LN generates multiple trade notes that together cover the amount. For details, refer to *To set up stamp tax (p. 38)*.

- **Tax on freight orders**
  For freight order lines and for freight invoices, LN supplies the default tax country and tax code. In all cases, you can manually change the tax country and the tax code if this is required. For details, refer to *Tax codes for freight orders (p. 37)*.

Withholding income tax and social contributions

In many countries, in specific situations, companies are legally required to retain payable income tax and/or social contributions from the payments of purchase invoices, and pay the amount directly to the tax collector's office. For example, withholding income tax and social contributions can apply to services provided by subcontracting companies, employment agencies, and self employed workers.

For details, refer to *Withholding tax and social contributions (p. 75)*.

If you must pay <u>stamp tax</u> on <u>trade notes</u>, you can set up stamp tax as described in *To set up stamp tax (p. 38)*.

To use tax codes

You use tax codes to specify the following for each type of tax:

- The tax rates in each country
- The way the tax must be calculated
- The tax authority to which the tax must be paid
- The ledger accounts to which the tax amounts must be posted
- The text that must be printed on invoices to which the tax applies

Each type of tax is represented by a tax code. For example, you can use the tax code VAT to indicate value-added tax and DST to indicate destination sales-tax. For each tax code, you must select the VAT Type, which defines the way in which LN handles the tax, and the Kind of Tax.

If you use a <u>tax provider</u>, the information about the tax rates is not used. The tax provider contains all the data required to calculate the tax amounts and returns the amounts to LN. You must still define tax codes to specify the ledger accounts to which the tax amounts must be posted.

Tax codes by country

For the home country of each financial company, you must link the tax codes that apply to the country. You link tax codes to countries in the Tax Codes by Country (tcmcs0536m000) session.

Single tax rates

If a type of tax in a country consists of only one tax rate, you can define the tax code as a singular tax code. You specify the tax rate, the maximum amount, and other details, in the Single Tax Rates (tcmcs0132m000) session.

Multiple tax codes

If a type of tax in a country consists of several parts that must be paid to different tax authorities, you must define the tax as a multiple tax code for this country. For each part, you must create a multiple tax code line in the Multiple Tax Code Lines (tcmcs0535m000) session. LN assigns a sequence number to each line.

The tax on the multiple tax code lines can be calculated in the following ways:

- **Parallel**
  Individually for each line
- **Cumulative**
  Including the tax amounts of previous lines

Next, you specify the tax rates for each multiple tax code line in the Multiple Tax Code Lines (tcmcs0535m000) session.

No-tax tax codes

LN cannot create, finalize, and post transactions if no tax code is available. Consequently, you must define a tax code for transactions that are not subject to taxation. To define the tax code for non-taxable transactions, select the **Tax Code for No Tax** check box in the Tax Codes by Country (tcmcs0136s000) session.

Zero rate tax codes

Taxable transactions on which no tax must be paid are considered as transactions with a zero tax rate rather than as non-taxable transactions. For such transactions, you must set up tax codes with zero rates.

Tax exemption can apply, for example, for the following reasons:

- The goods or services are not taxable.
- The goods transfer to or from specific countries is not taxable
- The transactions are related to service operations in specific situations.
- The business partner holds an exempt certificate.

Usually, if no tax is levied on a transaction, some additional information, such as a reference to the tax law that states the exception, or the business partner's tax exemption certificate number, must be printed on the invoice. Depending on the type of tax, you can use a reason code linked to the tax code or you can link a text to the tax code to contain this information.

Tax ledger accounts and dimensions

You must specify the ledger accounts to which LN must post the tax amounts, for each financial company. In each financial company of your system, use the following sessions:

- Posting Data for Single Tax Codes (tfgld0571m000), for single tax codes.
- Posting Data for Multiple Tax Codes (tfgld0570m000), for multiple tax codes.

If dimensions are linked to the tax ledger accounts, for invoices LN derives the dimensions from the financial business partner group control accounts. For journal vouchers, LN derives the dimensions from the ledger account of the journal.

If mandatory dimensions are linked to the tax accounts and no dimensions are defined for the transaction ledger account, LN uses the dimensions that you specify in the Posting Data for Tax Codes (tfgld0171s000) or the Posting Data for Multiple Tax Codes (tfgld0170s000) session.

Shifted tax

The responsibility for the payment of value added tax can be shifted from the supplier to the customer. In such a situation, you can define a value added tax code of the **Shifted** type. LN does not add the calculated tax amount to the invoice amount but posts the tax amount to a separate ledger account to be dealt with later.

The shifted tax amount is posted to the sales tax account or the purchase tax account. Simultaneously, a reverse entry is generated on a shifted tax contra-account. In the tax analysis the amount is included twice:

- As an entry on the purchase tax account or the sales tax account.
- As a reverse entry on the Shifted Purchase Tax or Shifted Sales Tax account.

Uses of shifted tax codes

Among others, shifted tax is used as follows:

- Shifted tax is used in The Netherlands in relation to legislation concerning the responsibility for tax payment on the invoices from subcontractors to the main contractor.

- In the European Union, shifted tax can be used for purchase invoices from other EU countries. Such purchase invoices do not state any tax, but when you post them you must calculate a fictitious tax amount against the national tax rate. This tax amount is included on the tax report as both chargeable and payable.
- <u>Direct pay</u> sales tax codes for purchases must be of the **Shifted** type.

Group tax codes

A group tax code is a method to link multiple individual tax codes to a transaction. If withholding tax and/or social contributions apply to an invoice as well as value added tax or sales tax, you can use a group tax code.

A group tax code must include:

- One tax code of the **VAT** kind of tax, set up either for <u>value added tax</u> tax or for <u>sales tax</u>.
- One of the following:
  - One or multiple tax codes of the following kinds, as required:
    - **Withholding Income Tax**
    - **Withholding Social Contribution**
    - **Social Contribution (Company Expense)**
  - One or multiple **Exclude from Withholding** tax codes.

If the invoice-from business partner's <u>tax classification</u> indicates that payments of their invoices are subject to withholding tax and social contributions, LN can link a group tax code to the transaction.

LN verifies that the group tax code corresponds to the business partner's tax classification. For example, if the tax classification indicates that withholding income tax applies and withholding social contributions does not apply, the group tax code must contain a tax code of the **Withholding Income Tax** kind and cannot contain a tax code of the **Withholding Social Contribution** and/or the **Social Contribution (Company Expense)** kind.

You can only use group tax codes for the following types of transactions:

- Purchase invoices for cost items and for service items. The invoices must not be self-billed.
- Purchase orders for cost items and service items.

Tax authorities

A tax authority is a government body with jurisdiction over the sales taxes in a specific area. For example, the state of California, the province of Ontario, the county of Dade, and the city of Atlanta.

LN uses tax-authority codes and tax-authority groups to identify the jurisdiction of a specific tax code or tax code level. You can optionally link a tax authority to a single tax code or to a line of a multiple tax code.

You can select and sort tax-analysis report data by tax-authority codes and by tax-authority groups, and you can update the tax rates at once for all the tax codes linked to a tax authority or a group of tax authorities.

Item tax codes

You can link default tax codes to items and to service orders, contracts, and so on from specific service departments, in the following sessions:

- **For sales orders:**
  Item - Sales Defaults (tdisa0102s000) and Items - Sales (tdisa0501m000)

- **For purchase orders:**
  Items - Purchase Defaults (tdipu0102m000) and Items - Purchase (tdipu0101m000)

- **For service orders:**
  Service Departments (tsmdm1100m000)

For value added tax, in sessions and transactions in which a tax code is required, LN can display the default tax code. If you use the **Standard** search order, LN retrieves the tax codes from the following sessions, in the following order:

1. **Tax Handling (tctax0138m000)**
   The tax code for the tax country and item combination, if you specify one.

2. **Items - Sales (tdisa0501m000)**
   The tax code for the item if you specify one.

3. **Tax Handling (tctax0138m000)**
   The tax code you define for the tax country and an empty **Item** field.

Expense purchase tax

If an expense purchase tax code applies to a purchase invoice, the tax amounts on the invoice are considered as costs. LN posts the tax amount to the same account and dimensions to which the purchase receipt transaction is posted.

Expense purchase tax is not restricted to the sales tax functionality. That means that you can set up expense purchase tax codes independently of the selection of the **Destination Sales Tax Applicable** check box in the COM Parameters (tccom0000s000) session. In Europe, expense purchase tax only applies to cost invoices.

Posting expense purchase tax is performed during these processes:

- Manual invoice approval in the Match/Approve Purchase Invoices (tfacp2107m000) session.
- Self billing and generation of internal invoices in the Generate Self-Billing Purchase Invoices (tfacp2290m000) session.

Tax calculation

LN calculates tax on the following types of transactions, among others:
- Sales invoices
- Purchase invoices
- Service invoices
- Project invoices
- Interest invoices
- Advance payments
- Settled discounts
- Journal vouchers

Whether LN calculates tax on advance payments depends on the **Calculate Tax on Advance Payments/Receipts** parameter in the CMG Parameters (tfcmg0100s000) session.

The way in which LN handles tax on deductions is explained in To adjust tax for deductions.

Level of tax calculation

Usually, tax must be calculated for the individual transaction lines.

For manually entered purchase invoices, you can select the **Level of Tax Calculation** in the following sessions:
- ACP Parameters (tfacp0100m000), the default value.
- Purchase Invoice Entry (tfacp2600m000), for each transaction.

The level of tax calculation can be:
- **Invoice Header**
- **Transaction Line**

For purchase invoices to which only one tax code applies, you can calculate the tax at invoice header level. If several tax codes and/or tax types apply, you must calculate the tax by transaction line.

As a rule, you create manual sales invoices in Invoicing and LN calculates the tax for each transaction line. However, for sales invoices that you create manually in the Accounts Receivable module, you can select the **Level of Tax Calculation** or use the default value you selected in the ACR Parameters (tfacr0100s000) session.

Maximum tax amount

If a maximum tax amount applies for a specific tax code, you can specify the amount in the Single Tax Rates (tcmcs0132m000) and the Multiple Tax Rates (tcmcs0133m000) sessions.

If the calculated tax amount exceeds the maximum tax amount, LN replaces the calculated tax amount with the maximum tax amount. For an example, refer to *Example of maximum tax amount (p. 23)*.

Tax on advance payments

In some countries tax is charged on <u>advance payments/receipts</u>, which exceed a certain minimum amount. If you want to charge tax on advance payments/receipts, you must select the **Calculate Tax on Advance Payments/Receipts** check box in the CMG Parameters (tfcmg0100s000) session. You must also enter the minimum amount in the **Minimum Amount for Tax Calculation** field of the CMG Parameters (tfcmg0100s000) session.

If an advance payment is made or received, you can specify a tax amount for the following types of transactions:

- Bank transactions
- Anticipated payments
- Anticipated receipts
- Standing orders of the **Advance** type

LN enters the singular tax amount on the **Purchase Tax on Advance Payments** ledger account and the **Sales Tax on Advance Receipts** ledger account. You can define these ledger accounts in the Posting Data for Tax Codes (tfgld0171s000) session.

LN enters the multiple tax amount on the **Purchase Tax on Advance Payments** ledger account and the **Sales Tax on Advance Receipts** ledger account. You can define these ledger accounts in the Posting Data for Multiple Tax Codes (tfgld0170s000) session.

Tax on settled discounts

In some countries the charged tax is settled, for example, when a cash discount is deducted from an invoice. If you select the **Adjust Tax for Deductions** check box in the CMG Parameters (tfcmg0100s000) session, the tax amount for <u>anticipated payments</u> is adjusted in case of:

- A discount
- A late payment
- Payment differences

You can define the step at which settlement must take place in case of anticipated payments in the Posting Data by Bank/Payment Method (tfcmg0146s000) session.

Example of maximum tax amount

If a maximum tax amount applies for a specific tax code, you can specify the maximum amount in the Single Tax Rates (tcmcs0132m000) and the Multiple Tax Rates (tcmcs0133m000) sessions.

Example based on the following tax code details:

- **Tax Rate**: 10 percent
- **Maximum Tax Amount (Net)**: 10,000
- **Tax Base Amount (Net)**: 50,000

■ **Rate for Excess Amount**: 5 percent

The following table shows the calculated tax amounts for various order amounts.

Order amount	10,000	100,000	1000,000
Amount included in tax base amount	10,000	50,000	50,000
Tax on base amount (10 percent)	1,000	5,000	5,000
Excess amount	0	50,000	950,000
Tax on excess amount (5 percent)	0	2,500	47,500
Total tax amount	1,000	7,500	52,500
Maximum tax amount	10,000	10,000	10,000
Resulting tax amount	1,000	7,500	10,000

Example of posting tax amounts on advance payments

During the advance payments of purchase invoice procedure, LN creates the financial postings described in the following example. Similar postings are created during the processing of advance receipts for sales invoices.

Example transaction

Example	Purchase invoice data
Purchase invoice	$ 100.00
Tax	10%
Assumption	Transaction types with **Negative Amounts Allowed** = Yes
CMG Parameters (tfcmg0100s000)	**Calculate Tax on Advance Payments/Receipts** = Yes

The Purchase Order transactions

Step 1: Create an advance payment with tax

Note: Tax amounts on advance payments are only calculated if you select the **Calculate Tax on Advance Payments/Receipts** check box in the CMG Parameters (tfcmg0100s000) session.

Debit/ Credit	Ledger account	Amount
Debit	Advance Payment	$ 110.00
Credit	Cash	$ 110.00
Debit	Net Advance Payment	$ 100.00
Debit	Purchase Tax	$ 10.00
Credit	Gross Advance Payment	$ 110.00

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Step 2: Register the purchase invoice

Debit/ Credit	Ledger account	Amount
Debit	Costs	$ 100.00
Debit	Purchase Tax	$ 10.00
Credit	Accounts Payable	$ 110.00

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Step 3: Assign the advance payment to the purchase invoice

Debit/ Credit	Ledger account	Amount
Debit	Accounts Payable	$ 110.00
Credit	Advance Payment	$ 110.00
Debit	Net Advance Payment	- $ 100.00
Debit	Tax on Assigning the Advance Payment	- $ 10.00
Credit	Gross Advance Payment	- $ 110.00

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Chapter 2
Value added tax

2

Value added tax (VAT)

Various <u>value added tax (VAT)</u> rates apply to the goods transfer within a single country and between countries. In addition, special rates apply to transactions between countries of the European Union (EU). You can set up the default tax codes for the various transactions as described in *Defining default tax codes (p. 35)*.

Tax numbers

Legal persons and businesses are identified in a specific country by a <u>tax number</u>.

You can enter the tax numbers in the Tax Numbers by Business Partner (tctax4100m000) session.

In the Countries (tcmcs0110s000) session, you can select the tax number check algorithm that LN applies to the tax numbers in the country.

Business partners that do not have a tax number in a specific country are considered to be private persons in that country instead of commercial businesses. By default, LN uses the <u>domestic VAT</u> tax code for all transactions with private persons.

Supply of goods with installation or assembly

Special rules apply to goods that must be assembled or installed on arrival, for example, if you build a radar unit on location.

This type of transactions typically occurs in a project or service environment. Therefore, LN uses the ship-to address to determine the country and the business partner's tax number for Project and Service transactions.

To determine the tax country and the tax code

To comply with the <u>VAT</u> rules for import and export, LN must determine the <u>tax country</u> of each transaction. LN uses the **Country** field in the Addresses (tccom4130s000) session of the various addresses to determine the tax countries. The sold-to and buy-from business partner's addresses appear

by default on the sales orders and purchase orders. In addition, the ship-from country, the ship-to country, the <u>point of title passage</u>, and/or the service location, as applicable, can also determine the tax country of a transaction.

Special tax codes can apply to the freight orders for goods movements within or between countries. For details, refer to *Tax codes for freight orders (p. 37)*

Triangular trade

Within the European Union, triangular trade refers to supplies of goods involving three parties of which at least two reside in EU member states, if one party ships the goods to the customer and another party invoices the customer for the goods. The goods are usually delivered to the customer as a <u>direct delivery</u>.

If the party that ships the goods to the customer and the party that invoices the customer both belong to your organization and reside in different EU countries, the simplified <u>triangular trade</u> procedure applies. In this case, your organization does not have to be registered for tax in the country of the customer.

Example

A customer in France orders goods from your sales office in Germany. You ship the goods from your warehouse in Belgium directly to the customer in France. The sales office generates an invoice for the invoice-to business partner in France.

Depending on the selection of the **Allow Simplified Triangulation between Own Entities** check box in the Tax Parameters (tctax0100m000) session, the following takes place:

- **The check box is selected**
  LN uses the **ICT ABC Transactions** tax code for the invoice. Your organization does not have to be registered for tax in France.
- **The check box is cleared**
  LN uses the **ICT Sales** tax code for the invoice and your organization must be registered for tax in France.

Value added tax (VAT) postings

Periodical VAT declaration

If you use the standard procedure, when you submit the periodical VAT declaration LN creates the following postings:

Amount	Debit/ Credit	Ledger account	Defined in session

VAT payable	Credit	**Sales Tax** account of the **VAT** tax code	Posting Data for Tax Codes (tfgld0171s000) or Posting Data for Multiple Tax Codes (tfgld0170s000)
VAT receiv-able	Debit	**Purchase Tax** account of the **VAT** tax code	
Net VAT amount of the declara-tion *	Credit	**Interim Tax Payment Ac-count** or **Interim Tax Recov-erable Account** of the tax declaration master	Tax Declaration Master (tfgld1620m000)

* If the net VAT amount of the declaration is less than zero, LN uses the **Interim Tax Payment Account**, otherwise, LN uses the **Interim Tax Recoverable Account**.

Using a tax balancing account

If you use an additional tax balancing account, when you submit the periodical VAT declaration, LN creates the following postings:

Amount	Debit/ Credit	Ledger account	Defined in session
VAT payable	Credit	**Sales Tax** account of the **VAT** tax code	Posting Data for Tax Codes (tfgld0171s000) or Posting Data for Multiple Tax Codes (tfgld0170s000)
VAT receiv-able	Debit	**Purchase Tax** account of the **VAT** tax code	
Net VAT amount of the declara-tion	Credit	**Interim Tax Payment Ac-count** of the tax declaration master	Tax Declaration Master (tfgld1620m000)

To balance the tax accounts, LN creates the following postings:

Amount	Debit/ Credit	Ledger account	Defined in session

| Net VAT amount of the declaration | Debit | **Interim Tax Payment Account** of the tax declaration master | Tax Declaration Master (tfgld1620m000) |
| Net VAT amount of the declaration * | Credit | **Interim Tax Payment Account** or **Interim Tax Recoverable Account** of the tax declaration master | Tax Declaration Master (tfgld1620m000) |

* If the net VAT amount of the declaration is less than zero, LN uses the **Interim Tax Payment Account**, otherwise, LN uses the **Interim Tax Recoverable Account**.

Periodical VAT payment

If you process the payment of the VAT declaration, LN creates the following postings:

Amount	**Debit/ Credit**	**Ledger account**	**Defined in session**
Net VAT amount of the declaration	Debit	**Interim Tax Payment Account** or **Interim Tax Recoverable Account** of the tax declaration master.	Tax Declaration Master (tfgld1620m000)
Bank	Credit	Account selected for the transaction type used for the bank in Cash Management.	

Chapter 3
To set up value added tax

3

Setting up tax registration

To set up tax registration:

1.   Define the necessary data, as described in Tax registration prerequisites.

2.   Define the <u>tax codes by country</u> for the home country of the financial company, as described in *Setting up tax codes by country (p. 32)*. This includes the posting data for the tax amounts.

      For consumption tax, enter the details as described in *Consumption tax (p. 38)*.

3.   Define the tax rates as described in *To set up the tax rates (p. 33)*.

4.   Assign default tax codes to items and departments as applicable, as described in *Defining default tax codes (p. 35)*.

5.   If necessary, define <u>tax code exceptions</u> as described in *To define tax exceptions (p. 36)*.

6.   For each business partner in an EU member country, enter the tax number in the Tax Numbers by Business Partner (tctax4100m000) session.

7.   If you must register and declare <u>withholding tax</u>, set up withholding tax registration as described in *Setting up withholding tax and social contributions (p. 81)*.

8.   For transactions that must be reported for taxation in a foreign country, you must set up a tax number in the country in which you do business, as decribed in *Tax registration in a foreign country (p. 43)*.

9.   If you must pay <u>stamp tax</u> on <u>trade notes</u>, perform the steps described in *To set up stamp tax (p. 38)*.

10.   Test the tax model as described in *To test the tax model (p. 39)*.

11.   Make the necessary adjustments and repeat the tests.

Note

If you do not want to use the LN tax functionality, you must perform the steps described in *Deactivating tax functionality (p. 111)*.

Common prerequisites

For all types of tax, you must set up or define the following data:

- In the Implemented Software Components (tccom0100s000) session, select the **Tax** check box.
- In the Countries (tcmcs0510m000) session, define the <u>Countries</u>.
- In the General Company Data (tccom0102s000) session, the company's home country. If you select the **EU Member State** check box for the country in the Countries (tcmcs0110s000) session, LN knows that the company resides in a European Union country.
- In the Business Partner (tccom4100s000) session, define business partners with only the invoice-from and pay-to roles for the authorities to which you pay the tax or social contribution. You must select the **Collection Office** check box.
- In Financials, the ledger accounts and dimensions to which LN must post the tax amounts.

Value added tax (VAT) and EU tax prerequisites

For value added tax including EU tax, you must set up or define the following data:

- In the General Company Data (tccom0102s000) session, enter your company's tax number.
- In the Implemented Software Components (tccom0100s000) session, select the **EU Sales Listing** and the **EU Statistical Reporting** check boxes as applicable.
- For countries in the European Union, select the **EU Member State** check box in the Countries (tcmcs0110s000) session.

Setting up tax codes by country

To set up tax codes for value added tax and sales tax:

1. In the Tax Codes (tcmcs0137m000) session, define a tax code for each type of tax, including tax types with zero tax amounts.
2. In the Tax Codes by Country (tcmcs0136s000) session, set up the tax details, including:
   - Assign the tax codes to the home country of the financial company.
   - Specify whether the tax consists of a single tax rate or of multiple tax rates, for example, for sales tax.
   - Optionally link a <u>tax authority</u> to the tax code. For details, refer to *Tax authorities (p. 34)*.
   - If required, add a text to the tax codes containing the reference to the applicable tax law chapter. LN prints the text on invoices with this tax code.
   For consumption tax, enter the details as described in *Consumption tax (p. 38)*.

3.   For a singular tax code, define the tax rate in the Single Tax Rates (tcmcs0132m000) session. You can choose **Single Tax Rates** from the appropriate menu of the Tax Codes by Country (tcmcs0536m000) overview session.

4.   For multiple tax codes, for example, for sales tax, take the following steps:
   - Specify the details in the Multiple Tax Code Lines (tcmcs0535m000) session. You can choose **Multiple Tax Rates** from the appropriate menu of the Tax Codes by Country (tcmcs0536m000) overview session.
   - Define the tax rates of each tax code line in the Multiple Tax Rates (tcmcs0133m000) session. You can choose **Multiple Tax Rates** from the appropriate menu of the Multiple Tax Code Lines (tcmcs0535m000) overview session.

5.   Specify the ledger accounts to which LN must post the tax amounts, for each financial company. In each financial company of your system, use the following sessions:
   - Posting Data for Single Tax Codes (tfgld0571m000) for single tax codes.
   - Posting Data for Multiple Tax Codes (tfgld0570m000) for multiple tax codes.

6.   If you prepare tax declarations based on a tax declaration master, you must also define a tax settlement tax code for the country. LN links the **Tax Settlement** tax code to the payments you make to the collection office. On the tax analysis reports, this tax code represents the tax payments.

7.   **Approve the tax codes**
   Ensure that all the tax code details are correct, and in the Tax Codes by Country (tcmcs0136s000) session, select the **Approved** check box. LN performs a consistency check on the tax code details.

   Before you can add a tax code to a group tax code or test the tax model, you must approve the tax codes. LN can only link approved tax codes to the transactions.

   After you approve the tax code, you can no longer change the following details:
   - **Kind of Tax**
   - **Tax Type**
   - **Singular Tax**
   - **Expense Purchase Tax**
   - **Group Tax**
   - **Tax Category**
   - **Include In VAT Book**

Continue with *To set up the tax rates (p. 33).*

To set up the tax rates

After you define and approve the tax codes, you can set up the tax rates. Take the following steps:

1.   In the Tax Handling (tctax0138m000) session, specify the default tax codes for domestic tax and for various kinds of import and export transactions and freight orders for the home county

of the financial company. You must also select the default tax code for transactions that are exempt from tax. If a tax code applies to a specific item, you can specify the item.

2. If you prefer, you can optionally link default tax codes to items in the following sessions:
   ■ Items - Sales (tdisa0501m000)
   ■ Items - Purchase (tdipu0101m000)
   For more information, refer to Item Tax Codes.

3. In the Tax Parameters (tctax0100m000) session, select the order in which LN uses various methods to determine the tax code and the tax country of taxable transactions.

4. Optionally, use the Test Tax Model (tctax8100m000) session to check whether LN returns the correct tax code, tax country, and tax rates in specific situations.

5. Define tax code exceptions as described in *To define tax exceptions (p. 36)*, in the following situations:
   ■ If the derived default tax code is not correct.
   ■ If you set up withholding tax. For more information, refer to *Setting up withholding tax and social contributions (p. 81)*.

Continue with *Setting up a tax declaration (p. 89)*.

Tax authorities

A tax authority is a government body with jurisdiction over the tax in a specific area. If you define a tax code, you can link the tax code to a tax authority.

You can use tax authority groups to group tax authorities geographically, by type of jurisdiction, or in any other way that is meaningful when you select or sort tax information for reporting purposes.

Note

Using tax authorities for reporting purposes is not restricted to American sales and use tax. You can link a tax authority to any type of tax code.

You can use tax authorities for the following purposes:
   ■ To sort tax reports by tax authority
   ■ To update all the tax rates for one tax authority

To set up tax authorities, take the following steps:

1. Optionally define tax authority groups in the Tax Authority Groups (tcmcs1140m000) session.

2. In the Tax Authorities (tcmcs1137m000) session, define the tax authorities. You can optionally assign the tax authority to a tax authority group.

3. In the Tax Codes by Country (tcmcs0136s000) session, assign tax authorities to single-level tax codes.

In the Multiple Tax Code Lines (tcmcs0135s000) session, assign tax authorities to multiple tax code lines.

You can sort tax reports by tax authority or tax authority group when you use the following sessions:

- Print Tax Summary by Tax Authorities (tfgld8401m000).
- Print Tax Analysis (tfgld1420m000).

In the Update Tax Rates by Tax Authority (tcmcs1201m000) session, you can update the tax rates for one tax authority. LN updates all the tax codes that are linked to the specified tax authority.

Defining default tax codes

In many countries, different tax rates apply to transactions within the country and transactions across country borders. In addition, special tax rules can apply to freight invoices.

To define the default tax codes for the various types of transactions:

1. Set up the tax codes as described in *Setting up tax registration (p. 31)*. You must define a tax code for each tax rate in each country.
2. In the Tax Handling (tctax0138m000) session, specify the default tax codes in each country. If a tax code applies to a specific item, you must specify the item. LN applies the tax codes with an empty **Item** field to all the items for which you do not define specific tax codes.

    For *domestic tax,* the search path for the tax code includes the tax codes of the item data. For more information, refer to Item tax codes for domestic tax.

You can define default tax codes for the following types of tax:

- Domestic VAT
- Import VAT
- Export VAT
- Own goods movement
- Triangular trade

Item tax codes for domestic tax

For domestic tax, you can also link default tax codes to items or item groups in the following sessions:

- Items - Sales (tdisa0501m000).
- Items - Purchase (tdipu0101m000).
- Item - Sales Defaults (tdisa0102s000).
- Items - Purchase Defaults (tdipu0102m000).

LN uses these tax codes if you do not define a specific domestic tax code for the item in the Tax Handling (tctax0138m000) session.

Default EU VAT codes

If your company's home country is a member of the European Union, you must define specific tax codes for import and export to other EU countries. Special tax rules apply to freight invoices.

You can define the following default EU tax codes:

- <u>Intracommunautair transactions (ICT Sales VAT)</u>
- <u>Intracommunautair transactions (ICT Purchase VAT)</u>
- **Freight ICT Sales**
- **Freight ICT Purchase**

LN uses the VAT codes for intra-EU transactions if the following is true:

- The business partners involved are legal persons, in other words, the business partners have a <u>tax number</u> in the country concerned.
- The transactions are posted to financial companies that reside in EU countries.

The tax rates for intra-EU transactions apply to the following transaction types:

- Sales transactions and purchase transactions between your company and external business partners.
- Sales transactions and purchase transactions between <u>affiliated-company</u> business partners.

Note

LN uses the country that you selected for the company in the General Company Data (tccom0102s000) session to determine whether or not the company resides in an EU member country.

Default tax codes for financial transactions

For transactions that you create in Financials, you can link a default tax code to a ledger account.

In the Chart of Accounts (tfgld0508m000) session, select the default tax code in the **Default Tax Code** field. For example, this is the default tax code for journal vouchers that you create for the ledger account.

To define tax exceptions

For situations in which the derived tax code is incorrect, you can define tax exceptions. A tax exception is a set of transaction details for which you define a tax code and tax country and business partner tax country other than the values that result from the standard tax code or tax country derivation.

For example, if you want to use a specific tax code for purchase transactions with a specific ship-from country and delivery terms, you can define a tax exception.

Note

If you set up withholding tax, you must use this procedure to link the group tax codes to the business partner tax classifications.

To define tax exceptions, take the following steps:

1. In the Company Sets (tctax0170m000) session, define one or a number of financial company sets.

2. In the Companies by Company Set (tctax0171m000) session, add financial companies to the company set. Ensure that each financial company belongs to only one financial company set.

    To define the tax exceptions for a single financial company, create a company set that contains only one company.

3. For the financial company set, define the tax exceptions in one of the following ways:

    - For individual countries, use the Tax Exceptions by Country (tctax1100m000) session.
    - **Tax Exceptions by Country Set (tctax1101m000)**
      If the tax exception applies to several countries, use the Tax Exceptions by Country Set (tctax1101m000) sessions.

        - First, in the Country Sets (tctax0120m000) session, define tax country sets and in the Countries by Country Set (tctax0121m000) session, add countries to the tax country set.
        - Next, run the Tax Exceptions by Country Set (tctax1101m000) session to define the tax exceptions for the country set.

4. In the Tax Parameters (tctax0100m000) session, select the following details:

    - **Tax Exempt Level**
      Select the method you use to define tax exemptions. If you do not define tax exemptions, select **Limited**.
    - **Search Order**
      Select one of the following values:

        - In one of the **Search Order** fields, select **Exceptions by Country** or **Exceptions by Country Set**, as applicable.
        - If, in addition to the tax exceptions, you define tax exemptions, you must also select **Exemptions by Country** or **Exemptions by Country Set** in a **Search Order** field.

5. Use the Test Tax Model (tctax8100m000) session to test the resulting tax code and tax country in various situations, and make the necessary adjustments.

Tax codes for freight orders

For freight order lines and for freight invoices, LN supplies the default tax country and tax code. In all cases, you can manually change the tax country and the tax code if this is required.

If the freight order concerns a transportation in the European Union countries, EU-specific tax codes apply.

If you manually enter purchase invoices for freight orders (that is, the carrier's invoices) in Financials, LN displays the default tax country and default tax code of the freight order.

If special tax rates apply to freight orders for transportation across country borders, you can set up separate tax codes for the tax on freight invoices in the Tax Handling (tctax0138m000) session. In all cases in which no special tax code applies, LN uses the domestic freight tax code.

If the financial company that is linked to the enterprise unit of the shipping office resides in an EU country, LN determines the tax code and the tax country of the invoice for transportation across country borders as described below.

- **Freight ICT Sales** tax applies to freight cost invoices for internal and external business partners.
- **Freight ICT Purchase** tax applies to self-billed invoices for internal freight costs.
- If the freight order line is linked to a sales order line or a purchase order line, LN uses the ship-from and ship-to address of the order line to determine the tax country and the tax code.
- If no ship-from address and ship-to address can be found, LN determines the tax country and the tax code based on the invoice-from and invoice-to data.
- The invoice-from country is the home country of the financial company that is linked to the shipping office. The invoice-to country is the country of the invoice-to address.

Consumption tax

Consumption tax is a form of value added tax to which specific rules apply. This type of tax is levied in Japan.

To set up consumption tax, set up the tax as described in *Setting up tax registration (p. 31)* and in the Tax Codes by Country (tcmcs0136s000) session, enter the following details:

- In the **Kind of Tax** field, select **VAT**.
- In the **Tax Type** field, select **Normal**.
- Select the **Singular Tax** check box.
- In the **Rounding Method** field, select **Down**.

To set up stamp tax

Stamp tax is a type of tax that is imposed on trade notes. Stamp tax consists of a fixed amount instead of a percentage. Depending on the country of your company, if you issue trade notes you can be obliged to pay stamp tax on the trade note.

In some countries, such as Spain and Japan, to pay the stamp tax, you must stick a stamp on the trade note document. In other countries, to pay the stamp tax, you must buy an official form for the trade note.

To set up stamp tax

To set up <u>stamp tax</u> on <u>trade notes</u>, use the following sequence of sessions:

1. **CMG Parameters (tfcmg0100s000)**
   On the **Trade Notes** tab, select the **Trade Notes** check box. Then enter the other trade notes information required in this session.

2. **Tax Codes by Country (tcmcs0136s000)**
   Define a tax code for the stamp tax and in the **Kind of Tax** field, select **Stamp Tax**.

3. **Posting Data for Tax Codes (tfgld0171s000)**
   For the stamp tax tax code, select the following ledger accounts:
   - **Accrued Stamp Tax Account**
   - **Purchase Tax**, which is renamed to **Stamp Tax** if the kind of tax is **Stamp Tax**.

4. **Revenue Stamp Tax (tcmcs1131m000)**
   Define the stamp tax tariffs on trade notes applied in your financial company's home country. You can enter the stamp tax amount as an amount or as a percentage.

5. **Pay-by Business Partner (tccom4114s000) and Pay-to Business Partner (tccom4124s000)**
   If you wish to generate trade notes for the business partner based on the stamp tax tariffs, in the **Trade Note Division Method** field select **Revenue Stamp Tax Division**.

6. **Division for Revenue Stamp Tax (tcmcs1132m000)**
   If for some or all of your pay-to and pay-by business partners you have selected the **Revenue Stamp Tax Division** trade note division method described in Step 5, use this session to define the division data.

Note

In a multicompany structure with a number of financial companies in various countries, the table **Division for Revenue Stamp Tax (tcmcs132)**, in which this data is stored, must not be shared.

To test the tax model

After you have set up the tax registration, you can use the Test Tax Model (tctax8100m000) session to test the outcome in various situations.

You can enter multiple sets of test data, which you can save. In this way, you can repeat a specific test after you have adjusted the tax registration setup.

The test data is identified by the combination of:
- The logon code
- The generated sequential test number

Your logon code identifies you as the owner of the test data.

You can test the tax model as follows:

1. In the Test Tax Model (tctax8100m000) session, select an order origin and enter the details for which you want to test the tax outcome, such as the invoice-from business partner and the buy-from country.

    The selected order origin determines which other data you can enter.

    You must always select a department, which determines the financial company in which you test the tax model.

    You can optionally enter the data on the **Miscellaneous** tab.

    On the **Expected Outcome** tab, you can optionally enter values in the **Expected Tax Country**, the **Expected Tax Code**, and the **Expected BP Tax Country** fields to identify a particular test, especially if you save the test data for later use.

    To test the tax outcome for direct delivery and for triangular invoicing, you can enter a warehouse or a work center.

2. Click Save to save the data.

3. On the <u>appropriate</u> menu, click **Determine Tax Data**.

4. On the **Expected Outcome** tab, you can view the following resulting tax data:
    - **Tax Outcome Retrieved From**
      This field displays the tax method used to obtain the test result. For details, refer to Search Order Tax Defaults.
    - **Tax Country**
    - **Own Tax Number**
    - **Tax Code**
    - **Tax Rate**
    - **BP Tax Country**
    - **Business Partners**

5. On the <u>appropriate</u> menu of the Test Tax Model (tctax8100m000) session, you can click **Tax Outcome** to display more details of test result. The Tax Outcome (tctax8101m000) session starts, which displays the search order of the tax libraries. The first line displays the tax method that resulted in the tax outcome, in all capitals.

    In the Tax Outcome (tctax8101m000) session, you can double-click a tax library line to display the logged information for the tax library, for example, if the test data answered the criteria that resulted in a <u>tax exception</u>.

    LN displays the logged information for the tax libraries in the following sesisons:
    - Logging Exception Library (by Country) (tctax8110m000)
    - Logging Exception Library (by Country Set) (tctax8111m000)
    - Logging Standard Library (tctax8120m000)
    - Logging Destination Sales Tax Library (tctax8130m000)

6. If the tax outcome is not correct, you can make the necessary changes in the tax registration setup and repeat the test. If you have saved your test data you can restart at Step 3.

7.   If you have finished testing the tax model, you can use the Delete Test Data (tctax8200m000) session to remove the entered test data and the generated logged data from the database.

Chapter 4
Tax registration in a foreign country

4

Tax registration in a foreign country

For an enterprise with sites in multiple countries, you can set up financial companies with a registered tax number in each country. The transactions of each department must be reported for tax to the authorities of that country and with the company's tax number in that country.

However, in some situations, transactions must be reported for taxation in a foreign country. To report tax in a country other than the company's home country, an enterprise must have a registered tax number in the other country, whether or not the company has employees, facilities, inventory, or other assets in the other country.

In the following situations, you must have a registered tax number in countries other than the company's home country:

- If you perform transactions that are taxable in the destination country.
- If you have branch offices in some countries that belong to legal entities in other countries.

Transactions taxable in the destination country

Transactions can be taxable in the destination country:

- Under the distance-selling rules, sales transactions and service transactions with customers in EU countries if the related invoice amount exceeds the defined thresholds.
- If the delivered goods are installed in the destination country.

Transactions taxable in the destination country often are 'supply-and-install' projects. Because projects are characterized by being unique, LN does not support a tax country other than the home country for sales schedules and purchase schedules, which typically are predictable and repetitive.

Transactions taxable in foreign countries can be:
- Sales orders
- Service orders
- Purchase orders and invoices related to direct delivery sales orders
- Sales invoices, including manual invoices, credit notes, and sales invoices for service orders

For transactions taxable in foreign countries, you must create a separate financial company for tax registration in the foreign country.

Tax registration requirements

To tax registration in foreign countries, the following requirements apply:

- You must have a registered tax number for each country in which you do business. Departments that belong to the same legal entity can share the tax number for a country.
- Documents for the customer or supplier, such as order acknowledgements and invoices must show your company's tax number in the tax country and the address of the order's administrative department. The department's address can be in the <u>tax country</u> or in a different country.
- Invoices must be sequentially numbered by tax number.
- In the European Union, each legal entity of your company must submit the following reports to the authorities of each country in which you perform taxable transactions:
  - The <u>VAT</u> declaration
  - The <u>European sales listing</u>
  - The <u>Intrastat declaration</u>

  The reports must contain your company's tax number in the country and must be based on the taxable transactions in the country, and the country's local tax rates.
- The tax reports submitted to the local authorities must be supported by postings in the general ledger.

For details on how tax registration in foreign countries is implemented in LN, refer to *Tax registration in a foreign country - concepts (p. 44)*.

Tax registration in a foreign country - concepts

Departments

For tax registration, the legal entity to which a department belongs is important. How a legal entity is reflected in LN depends on how you model the enterprise. You can define a legal entity as a financial company or as a <u>financial company group</u>.

A branch office is a department situated in one country that belongs to a legal entity based in another country.

For example, an enterprise with a legal entity in Denmark can have a branch office in Finland which in its turn belongs to the legal entity in Denmark. In this case, the company must have a tax number for the branch office in Finland. For transactions that are taxable in Finland, the sales office can use the tax number of the branch office in Finland because the two departments belong to the same legal entity.

Note

Departments in various countries that belong to the same legal entity can use each other's tax numbers for transactions that are taxable in the other department's country.

To support tax registration and reporting in foreign countries, two types of department are linked to the transactions:

- **The administrative department**
  The department that creates and maintains the order and which determines details such as the order number series, the price book, the rates, and various default values for the orders. The administrative department is a sales office, a purchase office, or a service department.
- **The financial department**
  The department that determines the financial company to which the transaction must be posted and which is responsible for the tax declaration in the <u>tax country</u> of the order. The financial company's home country must be the tax country of the order. The financial department is an <u>accounting office</u> of the financial company.

Note

If the financial company of the administrative department has a tax number in the tax country of the order, the financial department is the same department as the administrative department.

The financial data of the order

LN retrieves the financial details of an order or invoice such as the currency rates, various tolerances, and tax details, from the financial company of the financial department on the order header. By default, the tax country is the home country of the financial company of the financial department.

You can only change the financial department of an order header or line manually. If the financial department changes, LN changes the financial details according to the setup of this data in the financial company of the new financial department. Manually entered currency rates on the order header are overwritten and, if required, you must enter the rates again. The currency rate and rate factor of the order header apply to all the order lines.

For details about how LN handles sales quotations, sales orders and service orders that are taxable in other countries, refer to:

- *Tax registration in a foreign country - sales orders (p. 48)*.
- *Tax registration in a foreign country - service orders (p. 49)*.

Goods transfer relationships

For issues and receipts in Warehousing, LN checks the goods transfer relationship between the warehouse and the financial department of the order to determine the invoicing type of the goods transfer. If the order involves a legal entity in a foreign country, the financial department of the order is an <u>accounting office</u>.

To support tax registration in foreign countries in a multicompany environment, you can define relationships between the following types of entities:

- Warehouse and accounting office
- Accounting office and sales office
- Purchase office and accounting office
- Accounting office and accounting office

For details, refer to Internal trade relationships.

Tax registration in a foreign country - general rules

For tax registration in a foreign country, the following rules apply:

- A financial company is the smallest entity that can have a unique tax number. For every tax registration in a foreign country, you must define a financial company.
- If you do not set up tax registration in a foreign country, the financial department of an order is the same department as the administrative department.
- LN only displays the financial department on the order headers if the administrative department and the financial department of the order differ.
- You can only change the financial department on an order header or order line manually.
- For the sender's address on external documents such as invoices and communications to customers and suppliers, LN prints the address of the administrative department.
- The financial postings of an order or invoice are made in the financial company that has a tax number in the tax country of the order.
- You cannot change the tax country of an order if financial postings exist in the financial company of the current financial department.
- For the integration transaction mapping, the administrative department of orders and invoices is available as integration element. In the financial company of the tax country, you can use this integration element to distinguish the integration transactions by administrative department.
- The details of order-related and invoice-related financial integration transactions include the financial department.
- LN does not automatically generate financial transactions between the financial companies of the administrative department and the financial department of an order. If such transactions are required, you must create manual journal vouchers.
- For goods transfer, LN bases the generation of internal invoices between, for example, the warehouse and the sales office, on the goods transfer relationship between the warehouse and the *financial department* of the order.
- To generate correct Intrastat declaration and sales listing data, the financial company with a tax number in a foreign tax country must have an address in the foreign tax country.
- If your organization's legal address for matters related to business in the tax country differs from the address of the financial company in the tax country, you can enter the legal address in the Financial Departments (tctax4110m000) session.

To set up tax registration in a foreign country

For transactions taxable in foreign countries, you must create a separate financial company for tax registration in the foreign country.

Note

To set up tax registration in a foreign country and to define the goods transfer relationships between the accounting offices in the various tax countries and the warehouses, sales offices, and service departments of the logistic companies, all the involved companies must share the Departments (tcmcs065) table.

To set up tax registration in foreign tax countries, take the following steps:

1. In the Tax Parameters (tctax0100m000) session, select the **Use Tax Numbers of other Financial Companies** check box.

2. Create a financial company in each country in which you must report tax. The company's home country must be the tax country and the company's local currency must be the currency used for tax reports in the tax country.

   In each financial company, define the following:

   - In the General Company Data (tccom0102s000) session, enter your organization's tax number in the tax country in the **Tax Number of Own Company** field.
   - Define one enterprise unit.
   - Define one accounting office. For details, refer to To use an accounting office.
   - Set up tax registration for the tax country, as described in *Setting up tax registration (p. 31)*.
   - If required, set up the Intrastat report and the sales listing, as described in *EU transaction reporting (p. 97)*.

3. In the Financial Departments (tctax4110m000) session, specify for a financial company the related operational and financial companies and the accounting office in every foreign tax country. If your organization's legal address for matters related to business in the tax country differs from the financial company's address in the tax country, you can enter the legal address.

4. In the Enterprise Modeling Management module, define the required goods transfer relationships between the accounting offices and the warehouses, sales offices, and so on, of the multicompany structure.

5. For transactions that are taxable in another country, define tax code exceptions as described in To model tax exceptions.

Note

To enable you to define the goods transfer relationships between the accounting offices in the various tax countries and the warehouses, sales offices, and service departments of the logistic companies, all the involved companies must share the Departments (tcmcs065) table.

Tax registration in a foreign country - sales orders

If you create a sales quotation or a sales order, LN stores the financial department of the order on the order header. Initially, the financial department is the same as the sales office of the quotation or order and in this way, the initial <u>tax country</u> is the home country of the financial company linked to the sales office.

Next, LN determines the tax details of the first order line according to the way in which you set up tax registration. The tax details include the <u>tax country</u>.

If the tax country changes and you defined a financial department for the tax country in the Financial Departments (tctax4110m000) session, you can change the financial department on the order header to the tax country's financial department.

You can change order header details and order line details such as the delivery address and the delivery terms, however, you cannot change the tax country.

If you copy sales orders, purchase orders, or service orders, all the details including the tax data are copied. The new order has the same financial department as the original order. You cannot change the financial department.

Note

You cannot change the financial department on the order header if financial postings exist in the financial company of the current financial department This includes financial postings for commissions and rebates related to the sales order or quotation. If financial postings exist, LN displays a warning message.

Direct delivery purchase orders

For <u>direct delivery</u>, a purchase order is linked to a sales order or service order.

If the financial department and the administrative department of the purchase order differ, the financial department of the purchase order is equal to the financial department of the related sales order or service order. In this way, LN retrieves the currency rates and rate factor for the purchase order and for the related sales order or service order from the same financial company.

Commissions and rebates

For commissions and rebates, LN uses the financial data such as the currency and the currency rates of the financial company linked to the financial department of the sales order.

Sales invoices

LN creates invoices for the sales order in Invoicing in the financial company of the financial department. The details printed on the invoice include the administrative department's address and the tax number of the financial company of the financial department.

If required, you can use the **Reprint Invoices** session to print final invoices in the language of the business partner's country or of the tax country. In the **Print Invoice** field, you can select the language.

Tax registration in a foreign country - service orders

If you create a service order, LN stores the financial department of the order on the order header. Initially, the financial department is equal to the service department of the order and in this way, the initial tax country is the home country of the financial company of the service department.

LN only displays the financial department of the order if you select the **Use Tax Numbers of other Financial Companies** check box in the Tax Parameters (tctax0100m000) session.

The tax country can change in the following ways:

■ You enter or change the location address on the service order header. The **Location Address** of a service order determines the tax country.

■ LN determines the tax details of the first order line and this results in a different tax country.

If the tax countries of the service order lines differ, LN uses the following method to determine the tax country of the service invoice:

■ If the tax country changes and you defined a financial department for the tax country in the Financial Departments (tctax4110m000) session, you can change the financial department on the order header to the new tax country's financial department.

■ If the tax country of the next order line differs from the tax country of the first order line, you can change the financial department on the order header back to the service department and changes the tax country of the first order line to the tax country of the service order header.

■ The financial department of the service order header determines the tax country of all subsequent service order lines.

You can change the financial department on the order header if no financial postings exist for the order. If financial postings exist, LN displays a warning message.

The same rules apply to service orders created from a service call. The service department that owns the call does not invoice the customer and LN does not create any financial postings based on the service call.

Note

In Service, LN does not determine tax details for estimated cost lines. LN determines the tax details of the order lines when the actual lines are created if you release the service order.

The tax details of service cost types

The criteria to determine the tax details for material lines and for labor lines and cost lines differ as follows:

- **Materials**
  The tax details are based on:
  - The buy-from business partner
  - The item
  - The cost component
  - The cost type
  - Whether the VAT is based on **Services** or **Goods**
  - The warehouse
  - Whether the material is exempt from taxation
- **Labor and Costs**
  The tax details are based on:
  - The cost component
  - The cost type
  - Whether the VAT is based on **Services** or **Goods**
  - Whether the labor or cost item is exempt from taxation

As a result, the tax countries of the material lines, the labor lines, and the cost lines of a service order can differ. If you release a service order to Invoicing, LN determines the tax details for the labor lines, for the material lines, and for the cost lines, in that order.

Example of tax registration in a foreign country

For example, enterprise ABC has sites in Sweden, Denmark, and the UK. The company consists of two legal entities:

- **Denmark**
  This legal entity contains only the Denmark site
- **United Kingdom (UK)**
  This legal entity contains the sites in Sweden and the UK.

The sites in Denmark and Sweden both perform service activities in Finland which are subject to taxation in Finland.

In Finland, the company requires two tax numbers and must submit the various tax reports twice:

- For the legal entity in the UK
- For the legal entity in Denmark
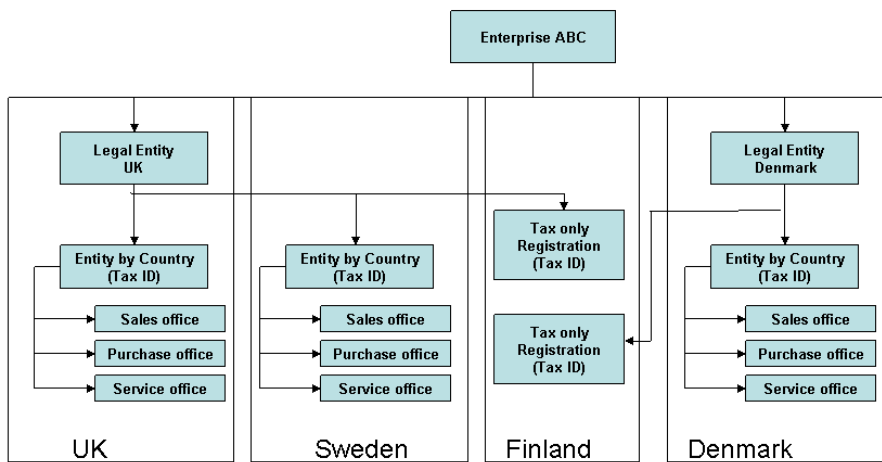
You can use the following multicompany structure for enterprise ABC.
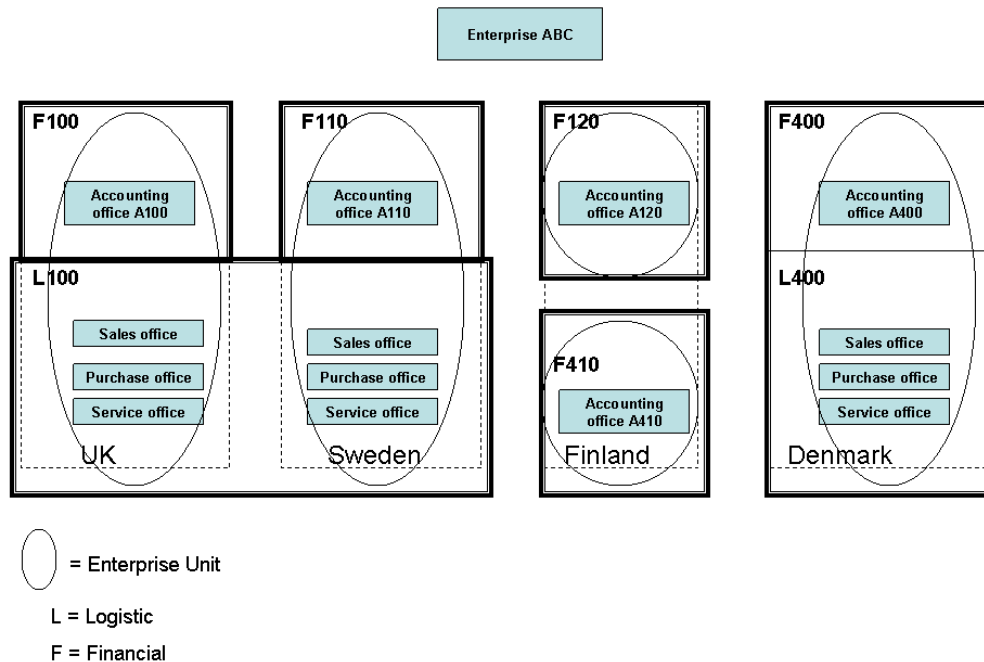
- Company 100 of type **Both** represents the legal entity in the UK
- Company 110 of type **Financial** represents the legal entity in Sweden
- Company 400 of type **Both** represents the legal entity in Denmark
- For the tax registration in Finland:
  - Company 120 of type **Financial** for transactions owned by the sites in the UK and Sweden
  - Company 410 of type **Financial** for transactions owned by the site in Denmark

Note that companies F120 and F410 are not linked to other departments through enterprise units.

If a sales office in the UK, in company L100, creates transactions that are taxable in Sweden, LN puts accounting office A110 as the financial department field on the order header. The financial details of financial company F110 apply to the order and related invoices.

If a sales office in the UK or in Sweden, in company L100, creates transactions that are taxable in Finland, LN puts accounting office A120 as the financial department field on the order header. The financial details of financial company F120 apply to the order and related invoices.

If the sales office in Denmark, in company L400, creates transactions that are taxable in Finland, LN puts accounting office A410 as the financial department field on the order header. The financial details of financial company F410 apply to the order and related invoices.

You must enter the following data in the Financial Departments (tctax4110m000) session:

Financial Company	Tax Country	Financial Department
100	Sweden	A110
100	Finland	A120
110	UK	A100
110	Finland	A120
400	Finland	A410

Chapter 5
Sales tax

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Sales tax

Destination sales tax mainly applies in North America and Canada. The tax rates are determined by the local authorities in the jurisdiction where the goods or services are received or consumed. In many cases, multiple jurisdictions have authority over the same location.

For example, the city, county, and state/province can each charge their own taxes and can each set their own rules for what is taxable and whether there are exceptions or maximum taxable amounts.

Using a tax provider application

The destination sales-tax can consist of multiple parts and multiple rates. You can use a tax provider for the tax computation.

Expense purchase tax

In North America, expense purchase tax is handled differently from the way it is handled outside North America. For details, refer to Expense purchase tax.

Sales tax codes

For sales tax, you must define tax codes for the lowest level tax jurisdiction that you must report. For example, if sales tax is levied by the city, the county, and the state, you must define tax codes for the cities. If no sales tax is levied by the city level, but county and state sales tax apply, you can define tax codes for the counties.

For transactions on which sales tax is levied by multiple jurisdictions, you can set up multiple tax codes.

Multiple tax codes

If a type of tax in a country consists of several parts that must be paid to different tax authorities, you must define the tax as a multiple tax code for this country. For each part, you must create a multiple tax

code line in the Multiple Tax Code Lines (tcmcs0535m000) session. LN assigns a sequence number to each line.

The tax on the multiple tax code lines can be calculated in these ways:

- **Parallel**
  Individually for each line
- **Cumulative**
  Including the tax amounts of previous lines

Next, you specify the tax rates for each multiple tax code line in the Multiple Tax Code Lines (tcmcs0535m000) session.

Determining the sales tax code

To determine the tax rates and calculate the sales tax amounts, LN uses the GEO code of the delivery address to link the tax code to a transaction. However, you cou can specify various types of sales tax exceptions and exemptions for specific transaction details and combinations of details.

To determine the tax code, LN searches for the most specific tax code defined for combinations of these transaction details:

- Country
- Business partner
- Item
- Item group
- GEO code

Because addresses determine the tax amounts, if you select the **Include Tax in BP Balances** check box in the COM Parameters (tccom0000s000) session and you use a tax provider, you must rebuild the open order balances when you change the addresses of:

- Business partners
- Logistic companies
- Departments
- Warehouses

Tax exceptions

You can define exceptions to the default tax codes for:

- Business partners, items, and so on.
- Combinations of place of origin and order acceptance location.

Tax exemptions

Transactions with specific business partners, involving specific goods, and/or with their origin or destination in certain countries or areas, can be exempt from tax. Sales invoices for transactions that are exempt from tax must have zero tax amounts.

You can set up tax exemption for sales, for purchases, and for service activities.

Tax exemptions for sales

For sold-to business partners which are exempt from tax, you must set up tax exemption, and you must specify the customer's tax exemption certificate number and a tax exemption reason. For details, refer to *To set up tax exemptions (p. 66)*.

Note

If you use a tax provider, you cannot use the tax exemption functionality for sales. In that case the tax provider takes care of the sales tax exemptions.

Tax exemptions for purchases

You can register your tax exemption certificates for purchases, including purchases with direct pay tax. Direct pay tax is a way for a buyer to directly submit a sales tax to the tax authority instead of first paying it to the supplier. To withhold tax from the invoice, you must provide your direct pay certificate number to the supplier.

In addition, you can set up a default exempt tax code for a warehouse or for all the warehouses of a logistic company. The Purchase Control sessions use this information to determine whether destination sales tax must be paid for the goods delivered at the warehouse.

Note

If you use a tax provider and you enter purchase tax exemption certificates in LN, LN passes on this information to the tax provider.

Tax exemptions for service

For service activities, you can specify that specific cost components or types of service transactions, or work related to a service contract at specific sites, is exempt from tax. You must specify a tax exemption reason.

Direct pay

Direct pay tax is a way for a buyer to directly submit a sales tax to the tax authority instead of first paying it to the supplier. To withhold tax from the invoice, you must provide your direct pay certificate number to the supplier.

In various tax exception definition sessions, you can define exceptions and exemptions for direct pay tax.

Note

If direct pay applies to an order line, the order line must have a **Shifted** tax code.

North American expense purchase tax

In North America, specific rules apply to the posting of tax on purchase invoices.

To set up expense purchase tax handling:

1. In the Tax Codes by Country (tcmcs0136s000) session, select the **Expense Purchase Tax** check box.
2. In the ACP Parameters (tfacp0100m000) session, select the **North American Purchase Expense Tax** check box and select a tax variance account and dimensions.

If you set up North American expense purchase tax handling, purchase invoices with an expense purchase tax code are handled as follows:

1. The expense tax code of the invoice is replaced with the expense tax code of the order.
2. During approval of the purchase invoice, the tax amount of the invoice is reversed and posted in the approval document.
3. The tax of each matched order line is handled and posted in the approval document.
4. Any difference between the total tax amount on the invoice, which was reversed, and the sum of the tax amounts on the matched order lines is posted to the **Tax Variance Account** that you select in the ACP Parameters (tfacp0100m000) session.

   The tax variance account is an interim account that is reversed if you process the inventory variances in Warehousing.

To use a tax provider

Use the North American tax-handling sessions to implement the interface between LN and a tax provider. LN supports the tax-provider application Vertex "O" series for Sales and Use Tax.

The tax provider computes the tax amounts and provides tax registers for auditing and tax reporting of transactions with ship-to addresses in the countries that you enter in the Countries for Destination Sales Tax (tctax6103m000) session.

When you generate the final invoices in Invoicing, the tax provider tax register is updated automatically. The tax amounts are calculated per invoice line rather than per invoice. In addition, the tax provider calculates the tax amounts for invoices created manually in the Manual Sales Invoice Data (cisli2120s000) session.

If you activate the tax-provider interface, the following LN functionality is not applied to those transactions:

- Tax exemption processing.
- Multilevel tax processing.
- Tax-rate selection and tax computation. These functions are carried out by the tax provider.

For transactions with ship-to addresses in countries other than the countries entered in the Countries for Destination Sales Tax (tctax6103m000) session, LN computes the tax in the normal way.

To start using a tax provider

If you already use LN, you can start using a tax provider:

- At month end after closing your financial period
- Before processing begins for the current period

However, it is recommended that you start using a tax provider at quarter end to facilitate tax reporting.

Note

If you cannot start using the tax provider at quarter end, you must consult the following tax registers when you file your quarterly reports:

- The LN tax registers.
- The tax-provider tax registers.

Addresses, GEO codes, and tax jurisdictions

Tax authorities have jurisdiction over sales tax in a specific area. The address's geographic area determines the tax jurisdiction and, as a result, the following:

- The amount of tax to be paid
- The tax authorities to which the tax is payable

Tax jurisdictions

The tax provider distinguishes different tax jurisdictions in the U.S. and in Canada.

U.S. sales-tax authorities

- State: the tax authority with sales-tax jurisdiction in the state
- County: the tax authority with sales-tax jurisdiction in the county
- Local: the primary tax authority with sales-tax jurisdiction in the locality (for example, in the city)
- Secondary County: the secondary tax authority with sales-tax jurisdiction in the county
- Secondary Local: the secondary tax authority with sales-tax jurisdiction in the locality

Canadian sales-tax authorities

- Goods and Services tax (GST)
- Provincial Sales Tax (PST) or Quebec Sales Tax (QST)

Tax jurisdictions and GEO codes

The tax provider identifies the tax jurisdictions by means of GEO codes. The GEO codes are assigned to the addresses, based on the following address data:

- City
- State/province
- ZIP/postal code

The tax provider also requires the address's Inside City Limits indication. The tax provider requires this data to be stored in the corresponding fields in the Addresses (tccom4130s000) session.

Vertex GEO code format

The tax provider uses a ten-digit GEO code. The GEO code consists of the following parts:

- State code (two digits)
- County code (three digits)
- City (four digits)
- Inside city limits indicator (one digit)

Tax calculation and registration through the tax provider

For sales tax , the tax amounts are calculated on order line and invoice line level.

If you use a tax provider, the tax provider calculates the tax amounts and passes the calculated tax amounts to LN for posting to the General Ledger and for the updates of the business partner order balances. LN only uses the tax code to determine the tax posting data.

Tax provider register

The tax provider calculates the tax amounts and stores the amounts in the tax provider registers, as well as other data. You can use this data to track and report the tax amounts. The tax register includes the following types of information:

- Transaction type
- Document number or invoice number
- Invoice date
- Tax amount payable to the tax jurisdiction

Registration of tax amounts

The tax provider automatically updates the tax provider register for the following transactions:

- Final invoices generated in Invoicing.

■   Manually created invoices in Accounts Receivable if they are finalized.

Note

For other financial transactions such as manually created journal entries, you must use the Tax Provider Calculation Utility (tctax6212m000) session to calculate the tax amounts and update the tax provider register.

Calculating the tax amount

If you use a tax provider, the tax provider calculates the tax for a number of transactions and documents created in LN. The tax amounts are calculated per line.

Major transactions and documents:
- Sales invoices
- Purchase contracts
- Purchase orders
- Purchase invoices
- Project bids
- Sales quotations, orders, and contracts
- Service contracts and contract quotations
- Service orders

The tax provider calculates the applicable tax amount from:
- Tax jurisdiction
- Taxable amount
- Order type, for example, **Sales Order** or **Service Order**
- Type of product sold or purchased

Note

For transactions and documents other than sales invoices created in Invoicing and Accounts Receivable, the tax provider calculates the tax amount without updating the tax provider register.

Determining the tax jurisdiction

To determine the tax jurisdiction for each order, the tax provider uses these addresses:
- **Ship-from**
- **Ship-to**
- **Administrative Ship-from**
- **Administrative Ship-to**

Sales tax on installments

If you use a tax provider, the tax withheld on sales installments is considered estimated tax. The LN tax registers and the tax provider tax registers are not updated when estimated tax is calculated.

The actual tax is recognized and registered as tax when the order is settled. Tax is registered for installment sales orders with

- Direct settlement invoices: when the goods are shipped and the invoices are generated.
- Indirect settlement invoices: when the order is closed and a final invoice is generated.

When you close an order in the Sales Order Installments (tdsls4110m000) session, LN generates a correction entry that includes the tax amount and late payment surcharge due. The tax code field is empty.

Chapter 6
To set up sales tax

6

Common prerequisites

For all types of tax, you must set up or define the following data:

- In the Implemented Software Components (tccom0100s000) session, select the **Tax** check box.
- In the Countries (tcmcs0510m000) session, define the <u>Countries</u>.
- In the General Company Data (tccom0102s000) session, the company's home country. If you select the **EU Member State** check box for the country in the Countries (tcmcs0110s000) session, LN knows that the company resides in a European Union country.
- In the Business Partner (tccom4100s000) session, define business partners with only the invoice-from and pay-to roles for the authorities to which you pay the tax or social contribution. You must select the **Collection Office** check box.
- In Financials, the ledger accounts and dimensions to which LN must post the tax amounts.

Sales tax prerequisites

For sales tax, you must set up or define the following data:

- Select the **Destination Sales Tax Applicable** check box in the COM Parameters (tccom0000s000) session.
- If you use a tax provider, follow the steps as described in *Setting up the tax-provider interface (p. 70)*.
- The <u>tax authorities</u> in each country, in the Tax Authorities (tcmcs1137m000) session.
- You can optionally group the tax authorities in tax authority groups which you define in the Tax Authority Groups (tcmcs1140m000) session.
- For destination sales tax, the <u>addresses</u> of the warehouses from which you ship the goods and the delivery addresses, in the Addresses (tccom4530m000) session.

- For destination sales tax, the <u>GEO codes</u> of the address, in the Addresses (tccom4530m000) session. If you use a <u>tax provider</u>, you must use the tax provider to generate the GEO code of each address.
- The reasons for <u>tax exemption</u>, in the Reasons (tcmcs0105m000) session.

To set up sales tax

Before you can set up the tax registration, you must define the necessary data for <u>sales tax</u>. For more information, refer to Sales tax prerequisites.

To set up sales tax

To set up sales tax, take the following steps:

1. **Parameters**
   - In the COM Parameters (tccom0000s000) session, select the **Destination Sales Tax Applicable** check box.
   - In the Countries (tcmcs0110s000) session, select the **Print Tax Exemption** check box. If the country is the tax country of an order or invoice, LN prints the certificate number on the orders and invoices.

2. **Set up the tax codes and other tax details**
   Set up the required tax codes and tax rates as described in *Setting up tax codes by country (p. 32)*. For sales tax, you must usually set up multiple tax rates.

   Define tax codes for the lowest level tax jurisdiction that you must report. For example, if sales tax is levied by the city, the county, and the state, you must define tax codes for the cities. If no sales tax is levied by the city level, but county and state sales tax apply, you can define tax codes for the counties.

   If you use a tax provider, LN only uses the tax codes to determine the ledger accounts to which the tax amounts are posted. LN sets all tax codes to singular tax during implementation of the tax-provider interface. The tax provider determines the tax rates and the jurisdictions.

3. **Assign the tax codes to the GEO codes of the destination addresses**
   If you do not use a tax provider, LN uses the GEO code of the ship-to address to determine the tax code of a transaction.

   In the Tax Codes by GEO Code (tcmcs1136m000) session, assign the tax codes to ranges of GEO codes per country.

   For tax codes used for purchases, you can set up <u>direct pay</u> tax. You must set up a direct pay tax code as tax exception as described in the next step. To print the direct pay certificate number on the purchase invoice, enter the certificate number in the **Exempt Certificate** field of the Tax Exceptions by Country (tctax1100m000) session.

4. **Define sales tax exceptions**
   Use the following sessions, as applicable:

   ■ **Tax Exceptions (tcmcs1138m000)**
   To define tax code exceptions by ship-from or ship-to business partner and item or item group.

   ■ **Tax Exceptions by Tax Location (tcmcs1139m000)**
   To define exceptions by ship-from address GEO code and order acceptance address GEO code.

   ■ **Tax Exceptions for Service Transactions (tctax1170m000)**
   To define exceptions for the GEO codes of service order delivery addresses.

   ■ **Tax Exceptions for Service Contracts (tctax1175m000)**
   To define exceptions for the GEO codes of work site addresses.

5. **Set up tax exemptions**
   For business partners or transactions that are exempt from sales tax in specific jurisdictions, you can set up exempt tax codes. For more information, refer to *To set up tax exemptions (p. 66)*.

6. **Test the tax structure**
   Use the Test Tax Structure (tcmcs1199m000) session to verify that you defined the tax codes correctly. You can enter various transaction details and GEO code address information. LN displays the most specific tax code that results from the search path through the default tax codes, tax code exceptions, and tax code exemptions.

Tax authorities

A tax authority is a government body with jurisdiction over the tax in a specific area. If you define a tax code, you can link the tax code to a tax authority.

You can use tax authority groups to group tax authorities geographically, by type of jurisdiction, or in any other way that is meaningful when you select or sort tax information for reporting purposes.

Note

Using tax authorities for reporting purposes is not restricted to American sales and use tax. You can link a tax authority to any type of tax code.

You can use tax authorities for the following purposes:

   ■ To sort tax reports by tax authority
   ■ To update all the tax rates for one tax authority

To set up tax authorities, take the following steps:

1. Optionally define tax authority groups in the Tax Authority Groups (tcmcs1140m000) session.

2. In the Tax Authorities (tcmcs1137m000) session, define the tax authorities. You can optionally assign the tax authority to a tax authority group.

3. In the Tax Codes by Country (tcmcs0136s000) session, assign tax authorities to single-level tax codes.

    In the Multiple Tax Code Lines (tcmcs0135s000) session, assign tax authorities to multiple tax code lines.

You can sort tax reports by tax authority or tax authority group when you use the following sessions:

- Print Tax Summary by Tax Authorities (tfgld8401m000).
- Print Tax Analysis (tfgld1420m000).

In the Update Tax Rates by Tax Authority (tcmcs1201m000) session, you can update the tax rates for one tax authority. LN updates all the tax codes that are linked to the specified tax authority.

To set up tax exemptions

Transactions with specific business partners, involving specific goods, and/or with their origin or destination in certain countries or areas, can be exempt from tax. Sales invoices for transactions that are exempt from tax must have zero tax amounts.

Some enterprises are exempt from destination sales tax within the jurisdiction of certain tax authorities. Invoices for sales to a customer with a valid tax exemption must have zero tax amounts. If your business is exempt from sales tax, your suppliers must not include the tax amount on their invoices.

To an organization that is exempt from tax, the tax authorities supply a tax exemption certificate. You must register the tax exemption certificate numbers of your sold-to business partners. To supply your tax exemption certificate number to your buy-from business partners, you must print the certificate number on the purchase orders.

If you have one or several direct pay certificates, you can set up the direct pay tax in the same way as tax exemptions.

Tax exemptions if you use a tax provider

The use of a tax provider has the following effect on the tax exemption setup:

- **Sales orders**
  If you use a tax provider, do not set up tax exemptions for sales orders. The tax provider takes care of the sales tax exemptions.

- **Purchase orders**
  If you use a tax provider, you can set up tax exemptions for purchase orders. LN passes on this information to the tax provider.

In the Tax Exceptions by Country (tctax1100m000) or the Tax Exceptions by Country Set (tctax1101m000) session, you can define exempt tax codes for purchase orders. and specify your company's tax exemption certificates. For every tax exemption certificate, you must specify the effective date, the expiry date, and the exempt reason.

If you use a tax provider, you can define exempt tax codes and specify tax exemption certificates for purchases by country and state/province. If you do not use a tax provider, you can specify tax-exemption certificate numbers by country and tax code.

Tax exemption details

In many countries, one or several of the following details must be printed on orders, invoices, and reports with an exempt tax code:

- **The tax exemption certificate number**
  To print tax exemption certificate numbers and direct pay certificate numbers on orders and invoices, select the **Print Tax Exemption** check box for the tax country in the Countries (tcmcs0110s000) session.

- **A reference to the tax law article**
  To print the reference to the tax law article on invoices, link the text to the tax code. For details, refer to To print tax articles on invoices.

  If you are exempt from tax, and the tax code is used on purchase orders, LN prints the text on the purchase order acknowledgements.

- **The tax exempt reason**
  The exempt reason indicates why the sold-to business partner is exempt from tax. If you specify an exempt reason in the Tax Exceptions by Country (tctax1100m000) or the Tax Exceptions by Country Set (tctax1101m000) session, LN automatically prints the reason description on the sales invoice.

Tax exemption setup methods

In the Tax Parameters (tctax0100m000) session, you must select a tax exemption setup method. Two methods are available:

- **Limited**
  Use the **Limited** method to specify the exempt tax codes for various order types for a country. For orders for which you select the **Tax Exempt** check box in the order header, LN uses the exempt tax code. For details, refer to *The Limited method to set up tax exemptions (p. 68)*.

- **Extended**
  Use the **Extended** method to set up tax exemption for specific business partners or orders with specific order details, and enter the exempt certificate number or direct pay certificate number and the exempt reason. If you use the **Extended** method, LN determines whether the exempt tax code applies to an order. For details, refer to *The Extended method to set up tax exemptions (p. 68)*.

The Limited method to set up tax exemptions

To set up tax exemptions using the **Limited** method, use the following sessions:

1. **Tax Codes by Country (tcmcs0136s000)**
   Define and approve the exempt tax codes as described in *Setting up tax codes by country (p. 32)*. The tax rate must be zero percent. If a reference to the tax law must be printed on the invoice, link a text to the tax code.

2. **Tax Handling (tctax0138m000)**
   Select the exempt tax codes for the various tax order origins.

3. **Tax Parameters (tctax0100m000)**
   Select the following details:

   - **Tax Exempt Level**
     Limited, to indicate that you defined exempt tax codes for countries.

   - **Search Order**
     Select one of the following values:

     - To include the exempt tax codes in the search path for the tax code, select **Standard** in one of the **Search Order** fields.

     - If, in addition to the tax exemptions, you define tax exceptions, you must also select **Exceptions by Country** or **Exceptions by Country Set** in a **Search Order** field.

4. Use the Test Tax Model (tctax8100m000) session to test the resulting tax code and tax country in various situations, and make the necessary adjustments.

The Extended method to set up tax exemptions

To set up tax exemptions using the **Extended** method, use the following sessions:

1. **Tax Codes by Country (tcmcs0136s000)**
   Define and approve the exempt tax codes as described in *Setting up tax codes by country (p. 32)*. The tax rate must be zero percent. To print a reference to the tax law on the invoices or purchase order acknowledgements, link a text to the tax code.

2. **Reasons (tcmcs0105m000)**
   Optionally define **Tax Exemption** reasons. If you use a tax provider, you must define tax exemption reasons. LN automatically prints the exempt reasons on the sales invoices.

3. **Company Sets (tctax0170m000)**
   Define one or a number of <u>financial company sets</u>.

4. **Companies by Company Set (tctax0171m000)**
   Add financial companies to the company set. Ensure that each financial company belongs to only one financial company set. To set up tax exemptions for a single financial company, create a company set that contains only one company.

5. For the financial company set, set up the tax exemptions in one of the following ways:

    ■ **Tax Exceptions by Country (tctax1100m000)**
    If the tax exemption applies to a specific state or province, you must use this session.

    ■ **Tax Exceptions by Country Set (tctax1101m000)**
    If the tax exemption applies to several countries, use the Tax Exceptions by Country Set (tctax1101m000) sessions.

        ■ First, in the Country Sets (tctax0120m000) session, define tax country sets and in the Countries by Country Set (tctax0121m000) session, add countries to the tax country set.

        ■ Next, run the Tax Exceptions by Country Set (tctax1101m000) session to set up tax exemptions for the country set.

6.
    Define the exemption
    In the Tax Exceptions by Country (tctax1100m000) or the Tax Exceptions by Country Set (tctax1101m000) session, enter the following details:

    ■ The sold-to or the buy-from business partner.

    ■ Select the **Exempt** check box or, in the **Exempt** field, select **Yes**, as applicable.

    ■ Enter the transaction details as applicable. If a detail is not relevant, leave the field empty.

    ■ In the **Exempt Certificate** field, you must enter the sold-to business partner's tax exemption certificate or, for purchase orders, enter your own tax exemption certificate or direct pay certificate.

    ■ In the **Exempt Reason** field, enter the reason why the sold-to business partner or your own company is exempt from sales tax.

    ■ In the **Effective Date** and **Expiry Date** fields, specify the period during which the tax exemption certificate is valid. Only one exempt reason and certificate number combination can be valid at a time. You can set up several tax exemption certificates with successive expiry dates for one exempt reason.

    ■ To set up tax exemption for **Purchase** orders for a warehouse, specify the warehouse in the **Warehouse** field. For the **Exemptions** search orders, LN first checks whether you defined an exemption for the warehouse.

    ■ If you use a tax provider, you can define exempt tax codes for purchases by country and state/province. Specify the state or province in which the goods are issued or delivered in the **State / Province from** and the **State / Province from** fields.

7. In the Tax Parameters (tctax0100m000) session, select the following details:

    ■ **Tax Exempt Level**
    Extended, to indicate that you defined exempt tax codes for specific business partners and transactions details.

    ■ **Search Order**
    Select one of the following values:

        ■ In one of the **Search Order** fields, select **Exemptions by Country** or **Exemptions by Country Set**, as applicable.

- ■ If, in addition to the tax exemptions, you define tax exceptions, you must also select **Exceptions by Country** or **Exceptions by Country Set** in a **Search Order** field.

8. Use the Test Tax Model (tctax8100m000) session to test the resulting tax code and tax country in various situations, and make the necessary adjustments.

Setting up the tax-provider interface

After the tax provider is installed on the LN server, you must set up the interface between LN and the tax provider.

To set up a tax provider:

1. Prepare the tax-provider interface implementation
2. Implement the tax-provider interface
3. Adjust the tax-provider interface setup

Step 1: Preparing the tax-provider interface implementation

Before you implement the tax-provider interface, take the following steps:

1. Use the Countries for Destination Sales Tax (tctax6103m000) session to specify the countries for which the tax provider must compute the tax amounts and keep a sales-tax register. For orders with ship-to addresses in other countries, LN computes the tax amounts.

2. Verify that existing addresses in the countries specified in step 1, have the format that is required by the tax provider. The city, state/province, and ZIP/Postal code for U.S. and Canadian addresses must be entered in the correct address fields.

3. Correct and convert the addresses with deviating formats. You can use the Address Conversion Utility for Taxation (tctax6211m000) session to correct addresses with specific deviating formats. You must correct addresses with other incorrect formats by using the Addresses (tccom4130s000) session.

4. Install the tax provider using the instructions provided by the tax-provider vendor.

5. Close the fiscal period using the Close Periods (tfgld1206m000) session.

Step 2: Implementing the tax-provider interface

To implement the tax provider interface, take the following steps:

1. Select the **Destination Sales Tax Applicable** check box in the COM Parameters (tccom0000s000) session.

2. Select the **Use Tax Provider** check box in the Tax Provider Parameters (tctax6100m000) session.

3. Select the tax provider in the Tax Provider Parameters (tctax6100m000) session. The tax provider must be Vertex's "O" series for Sales and Use Tax.

4. Define the environment variables that are specific to the tax provider, by following the installation instructions in the LN Tax User Guide.

5. Enter the countries to which the tax provider applies, in the Countries for Destination Sales Tax (tctax6103m000) session. If the ship-to business partner's address is located in one of these countries, LN does not compute the tax amounts but passes on the tax data to the tax provider. For ship-to addresses in other countries, LN computes the tax amounts.

6. Verify and assign GEO codes to existing address data by using the Address Jurisdiction Verification Utility (tctax6210m000) session.

7. Evaluate the GEO codes and redefine the codes if necessary.
    - If you use Vertex, perhaps you need to change the default selection of the **Inside City Limits** check box in the Addresses (tccom4130s000) session.
    - If more than one jurisdiction corresponds with the address data, on the appropriate menu choose **Jurisdiction** to start the GEO Codes by Address Data (tctax6105m000) session.

8. Enter your company, business partners, and product-related data in the tax provider.

9. Define the valid product categories in the Product Category (tctax6101m000) session. The product categories that you define must match the product categories defined in the tax provider.

10. Enter the matrix of item groups, items, contract types, service types, and ledger account numbers by product category, in the Product Category Tax Matrix (tctax6102m000) session.

11. Enter the **Tax Indicator** field in the Contract Types (tsctm0105m000) session in Service. This indicates the type of tax processing required for the contract type. This information is required because services and rentals can be taxed differently.

Step 3: Adjusting the tax-provider interface setup

After you have implemented the tax-provider interface, consider to make the following adjustments:
- Simplify the tax-code structure.
- Use separate tax codes for financial transactions.
- Create separate service contracts for each customer location.

Simplify the tax-code structure

If you have already used LN without a tax provider, consider to perform a reevaluation of your current tax structure in Financials. The tax provider does not require the complex tax handling implemented in LN for non-tax-provider users.

If you use a tax provider, LN uses the tax codes to determine the ledger accounts to which the various amounts are posted. LN sets all tax codes to singular tax during implementation of the tax-provider interface. The tax provider determines the tax rates and the jurisdictions.

Use separate tax codes for financial transactions

You must enter the tax amounts of financial transactions manually in the tax provider prior to filing your quarterly reports. This is because the tax amounts of financial transactions are not written to the tax-provider tax register. Use the Tax Provider Calculation Utility (tctax6212m000) session to enter these tax amounts. You can define separate tax codes for financial transactions to facilitate tracking of the tax amounts of financial transactions.

Create separate service contracts for each customer location

LN uses the location of the covered installations as the delivery address for service contracts. For correct tax calculations, you must maintain separate contracts for each customer location.

Chapter 7
1099-MISC reporting

<div style="text-align: right">**7**</div>

1099-MISC reporting

This functionality is specific for the United States.

In the United States, the Internal Revenue Service (IRS) is the government agency responsible for enforcing the tax regulations. 1099-MISC income is one of the types of revenue included, and certain supplier payments are subject to reporting under these regulations.

To set up 1099-MISC reporting

To set up 1099-MISC reporting, use the following sessions:

- **General Company Data (tccom0102s000)**
  On the <u>appropriate</u> menu, click **Payer's 1099...** to start the Payer's 1099 Details (tccom7137s000) session.
- **Payer's 1099 Details (tccom7137s000)**
  Enter your company's payers details.
- **Main Pay-to Business Partner for 1099 (tfcmg3106m000)**
  List the business partners for which you must report payments that are subject to 1099-MISC taxation. If the pay-to business partner differs from the business partner who reports the 1099-MISC income, you can use this session to link the pay-to business partner to the business partner who reports the 1099-MISC income.
- **Pay-to Business Partner (tccom4124s000)**
  On the <u>appropriate</u> menu, click **1099 Details** to start the Pay-to Business Partner 1099 Details (tccom4126s000) session.
- **Pay-to Business Partner 1099 Details (tccom4126s000)**
  Enter the business partner's 1099-MISC details.
- **1099 Box Numbers (tfcmg1115m000)**
  Define the box numbers of the 1099-MISC declaration. The box numbers are assigned by the IRS to categorize the various types of 1099-MISC income.
- **Reasons for Payment (tfcmg0130m000)**
  Define reason codes for the payments that must be reported. For each reason code, select the **Valid for1099-MISCFiling Purposes** check box.

- **Reasons for 1099 Box Numbers (tfcmg1116m000)**
  Link the reason codes to the box numbers.

To perform 1099-MISC reporting

To perform 1099-MISC reporting, use the following sessions:

- **Compose Payments Manually (tfcmg1246m000)**
  For payments that are subject to 1099-MISC taxation, in the **Reason for Payment** field, enter a reason code that is valid for 1099-MISC filing.

- **File 1099-MISC (tfcmg3204m000)**
  Use this session to generate output for filing 1099-MISC Income payment information to the IRS.

Chapter 8
Withholding tax and social contributions

8

Withholding tax and social contributions

In many countries, in specific situations, companies are legally required to retain payable income tax and/or social contribution from the payments of purchase invoices, and pay the amount directly to the tax collector's office. For example, withholding income tax and social contributions can apply to services provided by subcontracting companies, employment agencies, and self employed workers.

The withheld tax and social contribution usually consists of a fixed percentage. In some countries, different rates apply to different portions of the transaction amounts. The amounts to be withheld can consist of combinations of income taxes and social contributions. Depending on local rules, the payment is due either when the invoice is paid, or periodically. Companies must periodically submit a report to declare the amount of withheld and paid tax and social contribution.

In addition, in some countries part of the social contribution must be paid by the customer. This part of the social contribution is charged over the invoice amount and must be posted as extra costs, or company expenses.

As a result, various kinds of tax can apply to an invoice. Separate tax codes are required to calculate the amounts of withholding income tax and social contributions, and to register the tax amounts of the invoice in the tax analysis. Group tax codes are used to link a number of tax codes to a transaction.

To register and declare withholding tax and social contributions

You can apply withholding tax and social contributions in combination with value added tax (VAT) and sales tax. The set up procedure is described in *Setting up withholding tax and social contributions (p. 81)*.

If you pay the tax periodically, the procedure to set up and prepare the withholding tax and social contributions declaration is similar to the set up and preparation of value added tax declarations.

Withholding tax payable at invoice payment

If the withholding tax and social contributions is payable immediately at invoice payment, you must specify the collection office and the settlement tax code for the tax code in the Tax Codes by Country (tcmcs0136s000) session.

When you generate a tax declaration, LN does not include tax codes for which you select **At Invoice Payment**. When you pay a purchase invoice with such a tax code, LN automatically generates a standing order in Cash Management to pay the tax to the collection office.

The standing orders for withholding tax are created at the moment when the open invoice balance for the business partner is reduced.

In the Anticipated Payments/Receipts (tfcmg2504m000) session, on the appropriate menu, you can click **Withholding Tax Amounts by Payment Document**. This command starts the Withholding Tax Amounts by Payment Document (tfcmg1517m000) session, which displays the details of the generated payment documents.

In the Withholding Tax Amounts (tfcmg2503s000) session, you can view the withholding tax amounts. You can use the Tax Analysis (tfgld1520m000) session to generate a report of the tax amounts paid at invoice payment.

Withholding tax and social contributions - concepts and components

Business partner tax classification

The Business partner tax classification is way to indicate that payments of invoices from an invoice-from business partner are subject to withholding tax and social contributions, and to group business partners that have the same tax aspects for your company, for example, subcontractors, or agents.

If you set up tax exceptions, you can only select a group tax code if you use the tax classification as a selection criterion.

In the Invoice-from Business Partner (tccom4122s000) session, you can select your suppliers'tax classification.

Collection office

A collection office is an authority to which the tax or social contribution must be paid. In LN, a collection office is defined as a business partner with only the invoice-from and pay-to roles.

You can set up tax declarations for each collection office to which you must report and pay tax.

If the tax declaration and payments to the collection office are due on specific days of the month, you can define payment terms for the due dates and link the payment terms to the collection office.

Exclude from Withholding tax

This kind of tax code is used for invoiced expenses that are not subject to withholding tax but which must be reported to the collection office because they are related to transactions that are subject to withholding tax.

For example, a purchase invoice can contain an invoice line for labor and one for hotel expenses. The labor line is subject to VAT and income tax, and the expense is only subject to VAT. For withholding tax, the taxable amount and the tax amount are both zero. The taxable base amount of the expense for VAT must be reported to the withholding collection office as 'amount excluded'.

For this requirement, you must define a tax code with kind of tax **Exclude from Withholding**. You cannot define tax rates or posting data for such a tax code. Next, define a group tax code that contains the **Exclude from Withholding** tax code and a **VAT** tax code.

If you link the group tax code to a transaction, LN lists the taxable transaction amount as 'Amount Excluded' in the withholding tax report.

Fiscal number

A number used to identify corporate bodies as well as natural persons for income tax and social contribution registration.

Withheld income tax and social contributions must be registered with the supplier's fiscal number. Your business partners must supply you with their fiscal number. This number can differ from their tax number.

You can specify the business partner's fiscal number in the Business Partner Withholding Tax Data (tccom4127s000) session.

Tax base amount

In some cases, withholding income tax and social contributions must not always be calculated over part of the invoice amount rather than over the full amount. To calculate the tax amounts correctly, you can define a tax base formula which is the algorithm LN uses to calculate the base amount for the income tax and social contributions.

You can optionally define the tax base formulas for the various kinds of withholding income tax and social contributions in the Tax Base Value Formulas (tctax0111m000) session. If you do not define a tax base formula, LN bases the tax calculations on the net purchase order amount or the net purchase invoice amount.

To ensure that the tax base value is the same for the **Withholding Social Contribution** and the **Social Contribution (Company Expense)** component, the tax base value formula must be the same for each combination of tax country and tax category.

Tax category

A way to distinguish and/or group kinds of withholding income tax and social contributions for inquiries, reporting, and tax payment selections. For example, in Italy a number of social contributions are distinguished such as Enasarco, FIRR, ISC, SDC and INPS.

Using tax categories is optional. If you use tax categories, you can define specific tax declaration masters for each combination of:

- Tax Country

- Collection Office
- Tax Declaration Type
- Tax Category

You can perform tax analysis, tax reports, and tax payment selections by tax category.

Tax declaration master

The definition of a specific tax declaration. You must define a tax declaration master for every combination of type of tax declaration and collection office. For declarations of withholding tax and social contributions, you can define separate tax declaration masters per <u>tax category</u> if this is required.

Tax Settlement tax codes

This kind of tax code is only used to the tax declaration in the general ledger. If you pay the tax, LN links this tax code to the reversal postings of the tax amounts on the interim accounts and to the tax payments you make to the collection office. On the tax analysis reports, tax payments to the collection office are represented by the **Tax Settlement** tax code.

You cannot assign **Tax Settlement** tax codes to transactions or add them to a group tax code.

You cannot define tax rates and posting data for **Tax Settlement** tax codes.

Withholding tax postings

If you process a purchase invoice to which withholding tax applies, LN creates a sequence of postings for the various withheld income tax and social contribution amounts.

If you complete a tax declaration, LN creates the following financial postings:

1. **Submit the tax declaration**
   If you submit the tax declaration, LN creates contra postings of the tax amounts on the ledger accounts linked to the tax codes, and posts the total payable amount to the interim account for payable tax.

2. **Make the payments**
   If you process the standing order, LN creates a contra posting of the paid amount on the interim account for payable tax. If you use a different method to pay the tax or if you delete the standing order, you must create a journal entry to clear the tax interim account.

The **Tax Type** of the group tax code indicates the moment at which the tax obligation arises.

For withholding tax and social contributions, the tax type can be:

- **Normal**
  The tax obligation arises at purchase invoice registration. Payment is periodically when you pay the tax declaration.

■ **On Payments**
The tax obligation arises at purchase invoice payment. When you pay the purchase invoice, LN automatically generates a standing order in Cash Management to pay the tax to the collection office.

Chapter 9
To set up withholding tax and social contributions

9

Setting up withholding tax and social contributions

To set up withholding tax and social contributions:

1. **Set up the parameters**
   In the Implemented Software Components (tccom0100s000) session, select the **Withholding Income Tax and Social Contribution** check box.

2. **Define the tax categories**
   If you must distinguish various types of withholding tax and social contributions on your reports, define the tax categories required for your country in the Tax Categories (tctax0115m000) session.

3. **Define tax base value formulas**
   For tax categories for which the tax amounts are not based on the net goods value amounts, you can define the algorithm used to determine the tax base value. For details, refer to *To define tax base value formulas (p. 86)*.

4. **Define the tax codes**
   Define the tax codes, the tax rates, and the tax posting data as described in *Setting up tax registration (p. 31)*. These details are especially important:

   - **Kind of Tax**
     Define separate tax codes, as required, for:
       - **VAT**
       - **Withholding Income Tax**
       - **Withholding Social Contribution**
       - **Social Contribution (Company Expense)**
       - **Exclude from Withholding**
     For details, refer to Kinds of tax.

   - **Tax rates**
     If the tax consists of a single rate, define a singular tax code. If the tax consists of different rates on separate parts of the amount, define a multiple tax code. For example, you must

define a multiple tax code for social contributions to which one or more threshold amounts apply.

- **Tax Base Value Formula**
  For the tax codes for which you defined a <u>tax base value</u> formula as described in Step 3, in the Tax Codes by Country (tcmcs0136s000) session, select the tax base formula in the **Tax Base Value Formula** field. In one country, tax codes of the same tax category must have the same tax base value formula.

- **Payable periodically or at invoice payment**
  In the **Pay Tax** field of the Tax Codes by Country (tcmcs0136s000) session, select the time at which you must pay the withholding tax and social contributions to the tax authorities. If the tax is payable at invoice payment, you must enter the collection office to which you pay the withholding tax and social contributions and the <u>tax settlement</u> tax code.

  LN does not include tax codes for which you select **At Invoice Payment** in a tax declaration. If you pay a purchase invoice for which the withholding tax is payable at invoice payment, LN automatically generates a standing order to pay the tax to the collection office.

5. **Approve the tax codes**
   Before you can link the tax codes to a group tax code, in the Tax Codes by Country (tcmcs0136s000) session, you must select the **Approved** check box for each tax code.

6. **Define a group tax code**
   In the Tax Codes by Country (tcmcs0136s000) session, define a tax code and select the **Group Tax** check box to indicate that the tax code is a <u>group tax code</u>. For a group tax code, you cannot enter other tax details.

7. **Approve the group tax code**
   Before you can link the tax codes to a group tax code, in the Tax Codes by Country (tcmcs0136s000) session, you must select the **Approved** check box for the group tax code.

8. **Add the tax codes to the group tax code**
   In the Tax Codes by Country (tcmcs0536m000) session, from the <u>appropriate</u> menu, select **Tax Codes by Group**. The Tax Codes by Group Tax Code (tctax0139m000) session starts.

   In the Tax Codes by Group Tax Code (tctax0139m000) session, click **New** to add the tax codes that you defined in Step 3 to the group tax code.

   You must link one tax code of the VAT kind. The tax codes must have the **Approved** status. If you click the browse arrow of the **Tax Code** field, LN only lists tax codes that you can add to the group tax code.

9. **Set up default group tax codes for your business partners**
   Link the group tax code to the <u>tax classification</u> in one of these sessions:
   - Tax Exceptions by Country (tctax1100m000)
   - Tax Exceptions by Country Set (tctax1101m000)
   You can only select a group tax code if you enter these details:
   - The **Order Origin** must be **Purchase** or **Purchase Invoice**.
   - The **Tax Classification** field must be filled.

If you save the data, LN verifies that the group tax code contains tax codes of the kinds of tax that correspond with the selected tax classification.

In the Tax Parameters (tctax0100m000) session, select **Exceptions by Country** or **Exceptions by Country Set**, as applicable, in the **Search Sequence 1** field.

10. **Set up the business partners for withholding tax and social contributions**
    Set up the details for your business partners as described in *To set up business partners for withholding tax and social contributions (p. 84)*.

Defining business partners

You can define business partners in one of these ways:

- Enter all the business partner details in the Business Partner (tccom4100s000) session.
- Select business partner default details in the Easy Entry Business Partner (tccom4201m000) session.

In the COM Parameters (tccom0000s000) session, you can assign a default number group for business partners. Otherwise you are allowed to enter your own code manually.

Using business partner default data

To set up and use business partner default data, use these sessions:

1. **Business Partner Defaults (tccom4101m000)**
   Define sets of default details for business partners.

   If at a later date, you want to verify the details in the Business Partner (tccom4100s000) session, you can select the **To be Verified** check box. When you have verified the details or entered the remaining details, you can clear the check box.

   If you create a new set of default data, LN retrieves the initial default language from the General Company Data (tccom0102s000) session, and the currency and the exchange rate type from the Companies (tcemm1170m000) session.

2. **Easy Entry Business Partner (tccom4201m000)**
   Enter the business partner code and name.

   In the **Business Partner Role** field, select the business partner type.

   If you select **Customer**, LN uses the default details for these business partner roles:
   - **Sold To**
   - **Ship To**
   - **Invoice To**
   - **Pay By**

   The **Invoice To** and **Pay By** check boxes can only be selected if the **Financial Roles** check box is selected for the customer in the Business Partner Defaults (tccom4101m000) session.

If you select **Supplier**, LN uses the default details for these business partner roles:
- **Buy From**
- **Ship From**
- **Invoice From**
- **Pay To**

The **Invoice From** and **Pay To** check boxes can only be selected if the **Financial Roles** check box is selected for the supplier in the Business Partner Defaults (tccom4101m000) session.

If you select **No roles**, LN only uses the default details for the business partner master details.

3. Select an address and a contact. If you press Tab, LN displays the address details or the contact details in the corresponding fields.

4. Click **Create**. LN creates the business partner master data and the business partner roles. You can use the Business Partner (tccom4100s000) session to view and verify the generated details, and to enter details in the non-mandatory fields.

To set up business partners for withholding tax and social contributions

The process to set up the details for business partners of which the invoices are subject to withholding tax and social contributions consists of the following steps:

1. Define tax classifications and link the tax classifications to the business partners.
2. Link the group tax codes to the tax classifications.
3. Specify the business partner's withholding tax details.
4. In some countries, the tax collector's office publishes maximum amounts for each supplier over which you must withhold income tax and/or social contributions. If tax base amount limits apply, define the tax base amount limits.

Define tax classifications

To define tax classifications and link the tax classifications to the business partners, take the following steps:

1. In the Tax Classifications (tctax0116m000) session, define the tax classifications. For each classification, you can indicate whether withholding tax and/or social contribution applies to purchase invoices for business partners with the classification.

2. In the Invoice-from Business Partner (tccom4122s000) session, you can select your suppliers' tax classification.

Link group tax codes to the tax classifications

To link the group tax codes to the tax classifications, you must define tax code exceptions as described in *To define tax exceptions (p. 36)*.

1. In the Tax Exceptions by Country (tctax1100m000) or the Tax Exceptions by Country Set (tctax1101m000) session, enter the following data:

    ■ **Order Origin**
       Select **Purchase** for purchase orders, or select **Purchase Invoice**.
    ■ **Tax Classification**
       The tax classification.
    ■ **Tax Code**
       The group tax code for the tax classification.

       Ensure that the group tax code contains tax codes of the kinds of tax that correspond with the kinds of tax set up for the tax classification. You can only select group tax codes that you approved.

Specify the business partner's withholding tax details

The withholding tax reports, declarations, and payments must contain specific business partner details such as the business partner's fiscal number. To specify the business partner's withholding tax details, take the following steps:

1. In the Business Partners (tccom4500m000) session, double-click the business partner to start the details session.

2. Click **Invoice-from** to start the Invoice-from Business Partner (tccom4122s000) session and on the appropriate menu, click **Withholding Tax Data**. The Business Partner Withholding Tax Data (tccom4127s000) session starts.

3. Enter the various details. You must enter the business partner's fiscal number.

Define the tax base amount limits

You can define the maximum tax base amount in two ways:

1. **For a range of invoice-from business partners**
    Take the following steps:

    a. In the Income Tax & Social Contribution Limits (tctax0117m000) session, on the appropriate menu, click **Generate**. The Generate Limits of Income Tax and Social Contribution (tctax0217m000) session starts.

    b. In the Generate Limits of Income Tax and Social Contribution (tctax0217m000) session, define the tax base amount limit for a range of invoice-from business partners and one type of tax (income tax or social contribution), tax category, and tax year.

2. **For individual business partners**
    In the Income Tax & Social Contribution Limits (tctax0117m000) session, specify the tax base amount limit for each combination of:
    ■ Invoice-from business partner

- Type of tax, which can be income tax or social contribution
- Tax category
- Tax year

To define tax base value formulas

For tax categories for which the tax amounts are not based on the net purchase order amounts or the net purchase invoice amounts, you can define the algorithm used to determine the tax base amount. For example, if the tax is based on a percentage of the net amount, you must define the <u>tax base value</u> formula.

To define a tax base value formula

To define the tax base value formula, use the following sequence of sessions:

1. **Tax Base Value Variables (tctax0110m000)**
   Define the variable for the tax base value formula. You can only use alphabetic codes for the variable, for example, ABC. In the description field, indicate the type of work or services for which you define the formula.

   The **Tax Base Value Type** can only be **Goods Amount**. Therefore, you can define and use a single variable for all the tax base value formulas that you must define. However, if you must define multiple formulas, for easier reference you can define a number of variables and in the description field, indicate their use.

2. **Tax Base Value Formulas (tctax0111m000)**
   Define the tax base value formula. You can use numbers and the mathematic operators +, -, *, and /.

   To test the formula, you can select the formula and on the <u>appropriate</u> menu, click **Simulate Formula Calculations**. The Simulate Formula Calculations (tctax0211m000) session starts.

3. **Simulate Formula Calculations (tctax0211m000)**
   Test the result of the formula. Click **Fill Variables** to display the dialog box in which you can enter values for each variable of the formula in turn. If you click **Process**, LN displays the formula with these values and the calculated tax base amount.

To link the tax base value formula to a tax code

In the Tax Codes by Country (tcmcs0136s000) session, select the tax base formula in the **Tax Base Value Formula** field.

Note

If you use <u>tax categories</u>, tax codes of the same tax category within one country must have the same tax base value formula.

Example

Example of tax base value formula

For example, for social contributions that must be withheld over 80 percent of the invoice amount, you can define:

- Tax base value variable: SERV
- Tax base value variable description: Services (Low)
- Tax base value formula: SRL
- Description: Social Contribution (Low)
- Tax base value formula: 0,80 * SERV

Chapter 10
Tax declarations

Setting up a tax declaration

The process to compose a tax declaration from the tax amounts registered for the relevant tax codes includes these steps:

1. For each authority to which the tax or social contribution must be paid, define a collection office.
2. For each box on the tax declaration, define a tax position.
3. Link the tax codes related to the box to the tax position.
4. Add the tax position to the tax declaration master.

The following procedure provides detailed instructions for each step.

For the collection offices, you must define business partners with only the invoice-from and pay-to roles.

In LN, a collection office is defined as a business partner with only the invoice-from and pay-to roles.

To define a collection office:

1. In the Business Partner (tccom4100s000) session, create a business partner.
2. Define the invoice-from and the pay-to roles for the business partner.
3. In the Business Partner (tccom4100s000) session, select the **Collection Office** check box.

Before you can select the **Collection Office** check box, you must define the invoice-from and pay-to roles for the business partner. After you select this check box, you cannot define other roles.

To set up a tax declaration:

1. **Tax Position (tfgld0620m000)**
    Define a tax position for each box on the tax declaration. Type the name of each box in the **Description** field. For example, in European Union countries, the box names can be *Intracommunity Supplies* and *Shifted Tax on Services*.

2. **Tax Position (tfgld0620m000), Relations by Tax Position tab**
    Link the tax codes that contribute to the amount in a box to its tax position. If you generate the tax declaration, LN calculates the sum of the tax amounts with these tax codes and prints the resulting amount for each box.

    For each tax code, you can enter a number of selection criteria to refine the selection of the tax amounts. For example, you can select sales tax amounts or purchase tax amounts, and tax on advance payments or receipts.

    The tax codes linked to the tax position must all have the same value for the **Amounts Entered in Financials** field, which can be **Gross** or **Net**.

3. **Tax Declaration Master (tfgld1620m000)**
    Define a tax declaration master for each combination of type of tax declaration and collection office. For declarations of withholding tax and social contributions, you can define separate tax declaration masters for the various tax categories.

    The setup procedure differs for tax declarations that you submit manually and that you submit automatically.

    -   **For manual submission**
        For every box on the tax declaration, click New on the Tax Positions by Tax Declaration Master tab. The Tax Positions by Tax Declaration Master (tfgld1121m000) details session starts. Select the tax position that corresponds with the box on the tax declaration.

    -   **For automatic transfer**
        Follow the instructions described in *Automatic transfer of tax declarations (p. 125)*.
        If you save the details, LN validates the data, for example, all the tax codes of a tax position must be defined for the tax country of the declaration master.

After you define a tax declaration master, you can periodically prepare the required tax declarations as described in *Processing tax declarations (p. 90)*.

If the tax declaration and payments to the collection office are due on specific days of the month, you can define payment terms for the due dates in the Payment Terms (tcmcs0113s000) session. Link the payment terms to the collection office in the Invoice-from Business Partner (tccom4122s000) session.

Processing tax declarations

After you define a tax declaration master, you can periodically prepare and submit the required tax declarations.

To process a tax declaration:

1. *To prepare a tax declaration (p. 91)*
    Create the tax declaration header and select the tax records that must be submitted. If the selection is correct, approve the declaration.

2. ***To submit tax declarations (p. 92)***
   Send the declaration to the authorities, automatically or manually.

3. ***Tax analysis (p. 93)***
   For your own use, you can print various reports for tax analysis.

4. ***Paying the tax declaration (p. 94)***
   Pay the tax to the tax collection office. LN can automatically create a <u>standing order</u> for the payments.

5. ***To archive and delete tax declarations (p. 95)***
   If a tax period is closed, you can archive the tax declarations of the period and delete them from the operational companies. You cannot delete tax declaration masters.

To prepare a tax declaration

The process to prepare the tax declaration consists of the following steps:

Step 1: Create the tax declaration

To create the tax declaration, take the following steps:

1. Create the tax declaration in one of the following ways:

   - **Based on the tax declaration master.**
     You must prepare the first tax declaration of a specific type based on the tax declaration master.

     Take the following steps:

     a. In the Tax Declaration Master (tfgld1620m000) session, display the appropriate tax declaration master.

     b. On the <u>appropriate</u> menu, click **Tax Declarations**. The Tax Declarations (tfgld1625m000) session starts.

   - **Based on the previous tax declaration**
     For subsequent tax declarations, you can copy the previous declaration and change such details as the tax period and the payment reference.

     take the following steps:

     a. In the Tax Declarations (tfgld1625m000) session, display an existing declaration of the appropriate type.

     b. Click **Duplicate**. The Tax Declarations (tfgld1625m000) session starts.

2. Enter the correct data in the following fields:
   - **Tax Year**
   - **Tax Period**
   - **Payment Reference**

Ensure that the details in the remaining fields are correct, and save the data. LN sets the tax declaration status to **Created**.

Step 2: Select the tax records

To add tax records to the tax declaration, take the following steps:

1. On the appropriate menu of the Tax Declarations (tfgld1625m000) session, click **Select Tax Declaration Lines**. The Select Tax Declaration Lines (tfgld1226m000) session starts.

2. Indicate whether you want to select the tax records by tax period or by due date and enter the corresponding range of periods or dates. The range must be within the specified tax year. If you must submit the declaration periodically, select the **Tax Period** check box, and if you must submit the declaration on or before a specific date, select the **Due Date** check box.

3. Click **Select**. You must enter a device for the error report. LN adds the selected records from the Tax Analysis (tfgld110) table to the tax declaration and sets the tax declaration status to **Selected**.

   For each taxable transaction, two lines are created:
   - One line for the tax amount
   - One line for the net transaction amount

4. In the Tax Declarations (tfgld1625m000) session, view the generated list of taxable transactions, the total tax base amount, and the total tax amount. The only adjustment you can make is to remove records.

   If you prepared a tax declaration XML file for automatic transfer, on the appropriate menu you can click **Show file**. LN displays the generated tax declaration XML file.

5. If you want to remove a taxable transaction, select the line that displays the **Tax Amount** and click Delete. LN removes both lines of the transaction and updates the tax base amount and the total tax amount.

Step 3: Approve the tax declaration

Before you can further process the tax declaration, you must approve the declaration. If the correct selection of taxable transactions is selected for the tax declaration, on the appropriate menu, click **Approve**. LN sets the tax declaration status to **Approved**.

Continue with *To submit tax declarations (p. 92)*.

To submit tax declarations

You must submit the tax declaration in the way requested by the tax authorities, for example, by sending a printed report or through the electronic transmission of the declaration file.

In some situations, LN can automatically transfer the declaration to the tax authorities. For details, refer to *Automatic transfer of tax declarations (p. 125)*.

In all other situations, you must prepare the tax declaration in the requested form and send it to the tax authorities.

To indicate that you have submitted the tax declaration, display the tax declaration in the Tax Declarations (tfgld1625m000) session, and on the appropriate menu, click **Submit Tax Declaration**.

LN performs the following actions:

- Creates the financial postings for submission of the tax declaration as described in *Value added tax (VAT) postings (p. 28)* and *Withholding tax postings (p. 78)*.
- Creates a standing order for the payable amount, if you selected the **Generate Standing Order** check box in the Tax Declaration Master (tfgld1620m000) session.
- Sets the tax declaration status to **Submitted**.

Continue with *Paying the tax declaration (p. 94)*.

Tax analysis

To print the tax declaration

To calculate and print the amounts for your tax declaration, use the Tax Analysis (tfgld1520m000) sessions. Click Print, and select one of the following reports:

- Tax analysis
- Tax analysis by invoice-from business partner
- Tax analysis by invoice-to business partner
- Tax report by tax position
- Tax report by tax position and country group
- Yearly tax report (business partners)
- Tax summary by tax authorities
- Tax exemption analysis

Note

On the tax analysis reports, tax payments to the collection office are represented by the **Tax Settlement** tax code.

Continue with *Paying the tax declaration (p. 94)*.

Other tax reports

You can use the following sessions to print other required reports:

- **Print Statement of Withheld Income Tax & Social Contribution (tfgld1436m000)**
  A statement of withheld taxes and social contributions that you must periodically supply to each business partner. The business partner needs this statement to complete the income

tax declaration for personal income tax and to claim the already withheld amounts. In addition, you can use this report for internal audits.

- **Print Future Income Tax & Social Contribution Liabilities (tfacp2403m000)**
A report that shows future tax liabilities resulting from tax codes for withholding tax with the tax type **On Payments**. These types of tax liabilities are not yet reflected in the general ledger because the payments are not yet due.

- **Print Tax Transactions for Interim Revenue on Sales Invoices (tfgld1433m000)**
To facilitate tax auditing, you can print a report of the revenues and the tax lines in the Finalized Transactions (tfgld106) table. For details, refer to Sales orders - interim revenue reconciliation.

Paying the tax declaration

If you set up automatic payment of the tax declaration, LN creates a standing order for the amount payable. To make the actual payment, you must process the standing order. Depending on the payment method, during the process LN first sets the tax declaration status to **Sent to Bank** and finally to **Paid**.

Alternatively, you can create a journal voucher to pay the tax manually.

Depending on the payment method, during the process LN first sets the tax declaration status to **Sent to Bank** and finally to **Paid**.

> **Note**
>
> If you do not pay the tax by a standing order, you must manually create journal entries to clear the tax interim accounts and set the tax declaration status to **Manually Paid**.

You cannot change the standing order, however, you can delete the standing order.

If you delete the standing order

If you delete the standing order, you must take the following into account:

- LN does not reverse the postings created for the submitted declaration. The status of the declaration remains **Submitted** and removes the standing order number from the declaration.
- You cannot automatically recreate a standing order after deletion.
- You must manually pay the tax amounts and create a journal entry to clear the tax interim account. For your won information, you can set the tax declaration status to **Manually Paid**.

Continue with *To archive and delete tax declarations (p. 95)*.

To archive and delete tax declarations

If a tax period has been closed, you can archive the tax declarations of that period and delete the declarations from the operational companies. You can only archive and/or delete tax declarations that have the status **Paid** or **Manually Paid**.

You can also archive the tax declaration masters, however, you cannot delete tax declaration masters.

To archive and/or delete tax declarations and to archive tax declaration masters, use the Archive / Delete Tax Declarations (tfgld1225m000) session.

In addition, you can archive and/or delete the tax transactions from the Tax Analysis (tfgld110) table in the Archive / Delete Tax Transactions (tfgld6207m000) session.

Chapter 11
Intrastat declaration and sales listing

11

EU transaction reporting

If your organization is based in a European Union (EU) member country, you must report your transactions with other EU member countries. Usually, you must submit monthly reports to the tax authorities that monitor the intercommunity transactions and intercommunity movement of goods.

You must submit these reports:

- The <u>Intrastat declaration</u> of import/export statistics.
- The <u>Sales listing</u>.

Companies in Belgium and Luxemburg must also submit a <u>Belgian Balance of Payments report</u>. The Belgian Balance of Payments report data describes how to set up the master data for the Belgian Balance of Payments report.

You can set up LN to collect the data for these reports and to generate the reports.

You use the sessions of the Taxation module to perform the following:

- Specify the different VAT rates. For details, refer to *Defining default tax codes (p. 35)*.
- Set up and generate the <u>Intrastat declaration</u>. For details, refer to *EU Intrastat reporting (p. 98)*.
- Set up and generate the <u>sales listing</u>. For details, refer to *Setting up the intracommunity listing (p. 108)*.

In all EU countries, for the <u>European sales listing</u> and the <u>Intrastat report</u>, foreign currency amounts must be converted to the local currency amounts, which are often in euros. If specific currency rates must be used to generate the report, for example, the currency rates used by the Central Bank, you can define these currency rates as described in *To use the external exchange rate type (p. 97)*.

To use the external exchange rate type

The amounts on the sales listing and the Intrastat declaration must usually be reported in the company's local currency.

When you process the invoices and orders in Invoicing LN converts the amounts to the local currency by using the exchange rate type of the transaction.

For the amounts on the sales listing and the Intrastat report, the rules for the currency rates to be used can differ between the countries. In some countries, you can use your own company rates and in other countries, you must use specific exchange rates, for example, the rates used by the European Central Bank.

For the sales listing and the Intrastat declaration, you can generate the amounts to be reported in two ways simultaneously:

- As internal values for your own audits, using the transaction exchange rates. These amounts can be used to match the sales listing or the Intrastat declaration to your sales and purchase accounts.
- As declaration values using the external exchange rates prescribed, for example, by the central bank. These amounts are included on the reports.

To calculate the amounts using the external exchange rate, take the following steps:

1. Define an exchange rate type for the external exchange rates and define the exchange rates between the transaction currencies and the reporting currency for this exchange rate type. Use the currency rates prescribed by your central bank or other authority. For details, refer to To define currency rates.

2. In the Companies (tcemm1170m000) session, you can optionally select the default external exchange rate type for the company.

3. In the Process Intrastat Transactions (tccom7271m000) session or the Process Intracommunity Listing (tccom7270m000) session, select the **Recalculate Amounts with Declarant Exchange Rates** check box.

4. Select the external exchange rate type in the **Declarant Exchange Rate Type** field. By default, LN displays the external exchange rate that you entered in the Companies (tcemm1170m000) session.

5. LN recalculates the invoice values and the statistical values in the local currency using the external rates of the invoice dates or order dates and prints the recalculated values on the reports. You can view these values as well as the internal values in the Sales Listing (tccom7170s000) session and the Intrastat Transactions (tccom7171m000) session.

EU Intrastat reporting

In LN, you can generate the EU Intrastat declaration and supply it to the Intrastat authorities by means of an external Intrastat provider program or directly in the format of an Instat/XML file.

You can add or correct import/export-statistics data manually before you generate the output file. For more information, refer to *Intrastat provider programs (p. 103)*.

Collecting the Intrastat declaration data

For the <u>Intrastat declaration</u>, the tax authorities provide you with a list of:

- The goods on which you must report.
- The commodity codes of the goods.
- For some commodity codes, the <u>supplementary unit</u> you must use for the reported quantities.

Common requirements exist for all EU countries as well as country-specific requirements. Most of the data can be retrieved from LN and you must configure some extra data by defining extra Intrastat info sets.

The data that exists in LN is collected from the various LN packages through Warehousing.

LN collects the data from all orders that result in the shipment or receipt of items to which you have linked a commodity code, to EU member countries that are different from the country of your company's address.

If prices are changed after the registration of receipts or deliveries, the logged Intrastat data is corrected directly by Procurement, Sales, Service, or Financials.

If the price of an order line changes after the receipt or issue of the goods, or invoice differences occur in the Accounts Payable module, the logged Intrastat data is updated. If a price change applies to multiple Intrastat lines, the difference amount is split over the lines. For example, if a sales order line results in multiple deliveries, multiple Intrastat lines are generated.

Difference amounts caused by matching of an invoice to a purchase order line can also apply to multiple Intrastat lines. In this case, the difference amount is split over the Intrastat lines proportionally to the line amounts. Note that already processed Intrastat lines and lines with an internal price are not updated.

If prices are changed or invoice differences occur, these sessions update the logged Intrastat data:

- Change Price and Discounts after Receipt (tdpur4122m000)
- Change Prices and Discounts after Delivery (tdsls4122m000)
- Purchase Invoice Entry (tfacp2600m000), during invoice matching
- Match/Approve Purchase Invoices (tfacp2107m000)
- Service Order Actual Material Costs (tssoc2121m000)
- Part Lines (tsmsc1110m000)

The value of the goods is logged in the transaction currencies. When you export the Intrastat data, LN converts the amounts to the local currency using the exchange rates of the invoice date or order date. LN applies the transaction exchange-rate or the external exchange-rate as described in *To use the external exchange rate type (p. 97)*. Unless the country is in a currency transition state, the local currency is the euro. If LN cannot find the exchange rates, LN exports the amounts in the transaction currency and places the transaction currency in the Currency field.

In most countries, transactions of which the quantity and/or the value is zero must not be reported.

In the Intrastat Parameters (tccom7100s000) session, you can select the required logging method for transactions concerning cost items and service items. For example, you can specify whether the transactions must always be logged, or only if a commodity code is present.

In some countries, the Intrastat declaration must include the province or area from which the goods were exported. To provide this information, LN includes the **State/Province** field of the ship-from address in the Intrastat data.

Extra Intrastat information sets

Intrastat data that cannot be retrieved from LN can be supplied by defining extra Intrastat information sets. For example, you must define the *Nature of Transaction A* attribute as an extra Intrastat info field. This field usually has the value 1 to indicate "All transactions involving actual change".

You can define up to 15 extra info set fields.

You can define a default extra Intrastat information set for each ship-to business partner and ship-from business partner. When you create a sales order line, a purchase order line, or a project, you can use the default value or you can select a separate extra Intrastat information set for the order line.

To set up extra Intrastat information sets, you must use the Extra Intrastat Info Definition (tccom7104m000) session to define the number of fields and the field length, and then use the Extra Intrastat Info (tccom7505m000) session to define the values of the fields.

As the required number of fields and the length of each field can differ in each country, you can define the extra Intrastat information sets per country. For each field, you can specify the default value.

Correcting Intrastat transaction data and calculations

In the Intrastat Transactions (tccom7171m000) session, you can view the recorded data. You can supply missing data and make any necessary corrections, for example, to the quantity, the goods flow, and the nature of the transaction.

As you can set up only one default delivery terms or Incoterm code for a business partner and for an order type, it is possible that you need to correct the Incoterm code of some transactions.

The Intrastat data must reflect the actual transaction data as they are recorded in Warehousing and Financials. Therefore, you cannot change the data related to the quantity or the invoice value. For corrections to this data, you must duplicate the record to be corrected and create a new **Manual Correction** transaction. In addition, manually entered transactions that do not originate from LN are made visible in the Intrastat declaration by the **Manual Transaction** order origin.

Note

Negative values are not allowed for the Intrastat declaration. For example, to correct an Intrastat **(-) Issue** transaction with a quantity of 500 because the actual quantity was 450, you must manually create a **(+) Receipt** transaction of 50.

Correcting the invoice values

In some countries, the invoice value must be corrected, for example, to exclude the freight costs. It is also possible that goods that are *Free of Charge* have an invoice value of 0, but a statistical value of

1000 EUR. As the value of 1000 EUR cannot be based on the LN data, you must enter this value in IDEP. Some IDEP versions provide 'Statistical Rules' to recalculate invoice values automatically.

Calculating the quantity in the supplementary unit

In the Commodity Codes (tcmcs0128m000) session, for some types of items you must define supplementary unit. For example, the supplementary unit for recording tape is meters. If you import or export recording tape, you must report the weight and the number of meters. The supplementary unit for tiles is m2. If you import or export tiles, you must report the weight and the number of square meters.

The **Quantity per Reporting Unit** field in the Commodity Codes (tcmcs0128m000) session indicates the multiples of the supplementary unit in which you must report the shipped quantities. For example, if the supplementary unit is liters and the quantity per unit is 10, each time you ship 10 liters of the item the quantity for the Intrastat declaration increases by one.

For details, refer to The supplementary unit.

The Intrastat data and the sales listing data

In some countries, auditors use the sales listing to check the Intrastat declaration data. However, in a number of aspects the Intrastat declaration data must be more detailed than the sales listing data. For example, the sales listing reports the goods values as a total per sold-to business partner, and the Intrastat declaration data include the goods values, the quantities, the commodity codes, and the transaction details.

Mapping the data

Some LN field values must be translated to the corresponding values required for the Intrastat declaration. For example, in some countries the various 3-character Incoterm codes are compressed by type and represented by a single character code.

For these types of translations, in the Intrastat Mapping Scheme (tccom7120m000) session, you can define the Intrastat mapping scheme to translate specific LN field values to the required values for the Intrastat declaration.

Preparing the export data

In the Process Intrastat Transactions (tccom7271m000) session, you can select the range of data to be exported by a number of criteria.

The following rules apply:

■   If you select a range of offices (departments), the departments must all belong to enterprise units that are linked to the same financial company. This is to avoid that the Intrastat data of different financial companies is mixed.

- In many countries, separate Intrastat declarations are required for the import flow and the export flow. To export the data for one flow, in the **Flow** field, select either **(+) Receipt** or **(-) Issue**.
- LN logs the Intrastat amounts in the transaction currencies. When you export the data from LN to the external Intrastat application, the amounts are converted to the local currency using the currency rates that are valid at the transaction time and date. If no currency rate can be found, the export file contains the transaction currency and the amount in the transaction currency. For information purposes, the invoice value is also displayed in the local currency.

When you export the Intrastat data, the amounts are converted to the company's local currency. If you must make the Intrastat declaration in euros and the company's local currency is other than euro, you can convert the amounts to euros in the IDEP application.

The export file

To transfer the Intrastat data to the Intrastat provider program, you can export the data from LN to a file which you can import into the Intrastat application, or into Excel to create an Excel sheet if required. For a better performance, the Intrastat export file is first saved on the server and you can transfer it to the client.

You can create the following types of files:

- ASCII Comma Separated Values (CSV) file.
- ASCII Positional file as required for IRIS.
- An Instat/XML file.

Refer to *The Intrastat data (p. 103)* for details.

A positional file must not be compressed. The separator of a positional file can be comma or space.

If you create a CSV file for IDEP, use the .csv extension to indicate the file type. If you want to process the file with Microsoft Excel, you can import the file as an Excel (.xls) file. Use the delimiter character for the column separation. You can generate a file header which in Excel results in a header row with column names.

The EU Intrastat declarations in a multifinancial company structure

The EU Intrastat declaration requirements and the external application that can be used to generate the EU Intrastat declaration differ for the various European countries. Therefore, you must set up the EU Intrastat declaration data per country.

All the enterprise units of the departments that submit their Intrastat declaration in one tax return must belong to the same financial company because the financial company has the tax number and the country. In a multifinancial company structure, if you set up the EU Intrastat declaration data you can enter the financial company to which the data applies. If you do not specify a company number, the data applies to all the financial companies for which you do not define company-specific data.

Intrastat provider programs

You can use an external program to generate the Intrastat reports. You can use the Process Intrastat Transactions (tccom7271m000) session to generate a sequential file that contains the required data and import the file into the external program.

The local authorities in each European Union (EU) member state provide you with the requirements for the report. You use the external program to define the report layout.

You must supply the external program with information about the layout of the sequential file. See also *The Intrastat data (p. 103)*. The sequential file that LN creates can contain the maximum number of fields that are used in the EU.

Most Intrastat applications check the data and provide the possibility to correct the data. However, the LN EU Intrastat solution helps you to set up the Intrastat declaration data in such a way that making manual corrections afterwards is usually not needed.

For example, at the time when this is written you can use one of the following programs:

- IDEP/CN8 (Intrastat Data Entry Package), used in many European countries.
- CBS-IRIS (Interactive Registration of International Trade Statistics), used in The Netherlands.
- IDES, used in Germany.
- Excel, used in the UK.

You can obtain these programs free of charge and install them on your PC.

The Intrastat data

To make all the information available for IDEP, LN exports the following data to the CSV ASCII file. Non-mandatory fields are marked with *.

Field name in LN	Field name in IDEP
Flow	Flow
Transaction Date	Date
Commodity Code	CN8 Goods Code
Item	PSI Code
Item Description	PSI Code Description
Invoice Value in Local Currency	Invoice Value Euro
Statistical Value in Local Currency	Statistical Invoice Value
Currency	Currency
Supplementary Unit Quantity	Nr Supply Units
Weight	Weight
Mode of Transport	Mode of Transport
Delivery Terms	Incoterms
Business Partner Country	Partner Country
Business Partner VAT Number	Partner VAT Number
Home State/Province *	National Region, Department, Bundesland etc.
Country of Origin *	Country of Origin
Reference *	Reference
Reserved 1-3 *	
Quantity **	
Inventory Unit **	

ASIS (Additional Statistical Information Sets) fields 1-15	Additional Statistical Information Sets fields 1-15

* Not mandatory.

** Only if you select the **Squeeze Field** check box in the Process Intrastat Transactions (tccom7271m000) session.

Extra Intrastat information in Warehouse Management

The Extra Intrastat info is used to provide additional information for intrastat transactions. The extra intrastat info code must be linked to the warehouse order lines to support the information that is strongly related to the type of business. Example: additional information for normal sales, sales returns, or repairs.

The intrastat data that you specify in the **Extra Intrastat Info** field is not present in LN. The extra intrastat info code can be linked to:

- Departments
- Warehouses
- Warehousing order type

The value in the **Extra Intrastat Info** field is retrieved from the originating order line when warehouse orders are generated from packages such as Sales, Procurement, and Service.

The value of the **Extra Intrastat Info** field in the Inbound Order Lines (whinh2110m000) session or an Outbound Order Lines (whinh2120m000) session is defaulted in the following order from:

1. The originating order line or originating package.
2. The Departments (tcmcs0565m000) session or the Warehouses (whwmd2500m000) session.
3. The Warehousing Order Types (whinh0110m000) session.

To set up the EU Intrastat declaration

Prerequisites

LN can correctly log Intrastat data in companies with a single currency system or a dependent currency system. The company's home country must be an EU member country.

To set up LN to collect the data for the EU Intrastat declaration, take the following steps:

1. In the General Company Data (tccom0102s000) session, enter your company's own VAT number in the **Tax Number of Own Company** field.

2. In the Implemented Software Components (tccom0100s000) session, select the **EU Statistical Reporting** check box. If this check box is cleared, you cannot set up the Intrastat declaration data. From the moment when you save this data, LN logs the transaction data that is required to generate the EU Intrastat declaration.

3. In the Countries (tcmcs0510m000) session, supply the country's ISO country code and select the **EU Member State** check box for each country that is a member of the European Union (EU).

4. If departments or provinces must appear on the Intrastat declaration, you can define the departments or provinces of each country in the States/Provinces (tcmcs1143m000) session.

5. In the Commodity Codes (tcmcs0128m000) session, enter the commodity codes or CN-8 codes of the goods on which you must report. The tax authorities provide you with a list of the CN-8 codes that are relevant in your country.

6. In the Commodity Codes (tcmcs0128m000) session, you must also define the supplementary unit for each commodity for which this is required. The **Quantity per Reporting Unit** field is a conversion factor. For example, if the supplementary unit is liter and you report the quantities in multiples of 10 liters, enter 10 in this field. The tax authorities provide you with a list of the supplementary units that you must use. In most cases, this field must be 1 (one).

7. If specific currency rates must be used to generate the report, define these currency rates as described in *To use the external exchange rate type (p. 97)*.

8. In the Item - General Defaults (tcibd0102s000) session or the Items - General (tcibd0501m000) session of the Item Base Data module, assign the commodity codes to the items and specify each item's weight in kilograms for the Intrastat declaration.

9. For each business partner in an EU member country, enter the tax identification number in the Tax Numbers by Business Partner (tctax4100m000) session.

10. In the Extra Intrastat Info Definition (tccom7104m000) session, set up the extra Intrastat information set fields required for your types of business and for each field, specify the field length.

11. In the Extra Intrastat Info (tccom7505m000) session, define the extra Intrastat information sets required for your types of business. For each type of field, you must enter the value and a value description. You can need to set up a number of extra Intrastat information sets for the various goods flows in your type of business.

12. In the Intrastat Mapping Scheme (tccom7120m000) session, translate the LN field values to the corresponding values required for the Intrastat declaration.

13. Repeat steps 7 to 9 for every country that is covered by the logistic company. On sales order lines and purchase order lines, by default LN uses the extra Intrastat information set that you set up for the country of the sales office or the purchase office. On warehouse order lines, by default LN uses the extra Intrastat information set that you set up for the country of the warehouse. You can overwrite the default extra Intrastat information set on the order lines if you wish.

14. Do one of the following as required:
    - In the Departments (tcmcs0165s000) session, specify the default extra Intrastat information set for sales offices and purchase offices. If you link a warehouse to the sales office or

purchase office, the extra Intrastat information set becomes the default extra Intrastat information set for orders created by the office.

- In the Warehousing Order Types (whinh0110m000) session, link Intrastat information to <u>inventory transaction types</u>. In this case, leave the **Extra Intrastat Info** field in the Departments (tcmcs0165s000) session empty.

15. In the Warehouses (tcmcs0103s000) session, you can select the default extra Intrastat information set for warehouse tranfer orders.

16. In the Intrastat Parameters (tccom7100s000) session, select the required logging method for cost items and service items, and enter the number of decimals, the fraction separator used, and the rounding method for the values and the amounts on the Intrastat declaration. As this data can differ between the various EU countries, in a multifinancial company structure, you must repeat this step for the financial companies in different countries.

To export the Intrastat data

To view the EU Intrastat declaration data and to export the data to the Intrastat declaration application that you use, take the following steps:

1. In the Intrastat Transactions (tccom7171m000) session, view the recorded data. You can supply missing data and make any corrections that are necessary. For corrections to the financial data, you must duplicate the record to be corrected and create a new **Manual Correction** transaction.

2. In the Process Intrastat Transactions (tccom7271m000) session, select the ranges of data to be exported to the Intrastat declaration application that you use. If you select a range of offices (departments), the departments must all belong enterprise units that are linked to the same financial company. This is to avoid that the Intrastat data of different financial companies is mixed.

   You must also select the type of export file, which can be one of the following:
   - An XML file that you can directly transfer to the Intrastat collection center
   - A sequential IDEP file.
   - A sequential IRIS file.
   To transfer an XML file, in the Intrastat Parameters (tccom7100s000) session you must have entered the **INSTAT/XML Party Definition** details according to your local instructions for transfer of the Intrastat declaration.

3. In many countries, separate Intrastat declarations are required for the import (Receipt) flow and the export (Issue) flow. To export the data for one flow, select the same flow in the **Flow From** and **To** fields. Next, repeat step 2 and this time, select the other flow.

Setting up the intracommunity listing

LN collects the data from the sales invoices that you send to business partners with addresses in EU member countries that are different from the country of your company's address.

To set up LN to collect the sales-listing data, use the following sequence of sessions:

1. **Implemented Software Components (tccom0100s000)**
   Select the **EU Sales Listing** check box.

2. **General Company Data (tccom0102s000)**
   Enter your company's own VAT number in the **Tax Number of Own Company** field.

3. **Countries (tcmcs0510m000)**
   Select the **EU Member State** check box when you define a country that is a member of the European Union (EU), .

4. **Tax Numbers by Business Partner (tctax4100m000)**
   Enter the tax identification number of each business partner in an EU member country.

5. **Intracommunity Listing Declaration Periods by Tax Period (tccom7103m000)**
   Define the periods for which you must submit the sales listing and map the periods to the tax periods defined for the financial company.

6. **Sales Listing Declaration Layout (tccom7101m000)**
   Define or adapt the layout of the sales listing XML file. If you generate a comma-separated (CSV) file, you must also use this session to define the required fields.

Collecting the sales listing data

To transfer the data to the sales listing:

1. In the Invoice-to Business Partner Open Entries (tfacr2520m000) session, select a line and on the appropriate menu, click **Sales Listing Data**. The Sales Listing Data (tfacr1113s000) session starts.

2. In the Sales Listing Data (tfacr1113s000) session, click **Save** to transfer the data of the selected open entry.

Each invoice results in one line of the sales listing. In the Sales Listing (tccom7170s000) session, you can add or correct sales-listing data manually before you generate the report. For example, you must select the **Subcontracting** check box for the sales-listing lines to which this applies.

Generating the intracommunity listing

To generate the intracommunity listing:

Step 1:

From the <u>appropriate</u> menu in the Invoice-to Business Partner Open Entries (tfacr2520m000) session in Financials, start the Sales Listing Data (tfacr1113s000) session to transfer the open invoice data to the sales listing.

Step 2:

Optionally, use the Sales Listing (tccom7570m000) session to:

- Display the reported amounts by invoice, date, business partner, and transaction type.
- Enter or correct invoices that must be included in the sales listing but are not recorded, or are recorded incorrectly, in Invoicing.
- Select the **Subcontracting** check box, where this is required.

Step 3:

Use the Process Intracommunity Listing (tccom7270m000) session to generate the sales listing. You can optionally generate a partial sales listing. You can create:

- An XML file for automatic transfer
- A sequential comma-separated file
- A printed report

Subcontracting indicator

LN cannot set the subcontracting indicator that is required for the sales listing, on the invoices. You must do this yourself in the Sales Listing (tccom7170s000) session.

Generating the next intracommunity listing

You can generate the next intracommunity listing in two ways:

- In the Process Intracommunity Listing (tccom7270m000) session, clear the **Including Processed Lines** check box. LN includes only the invoices that have not yet been processed in the sales listing.
- Enter the declaration period in the Process Intracommunity Listing (tccom7270m000) session to generate the sales listing of a specific period.

  If you enter a period for which you already generated the sales listing, LN automatically generates correction entries for that period. You can only generate corrections for the most

recent period for which you generate the sales listing. LN does not retain the sales listing details of older periods.

Updating the sales listing

If applicable, use the Update Deductions in Sales Listing (tctax7200m000) session to update discount, late payment surcharge, or payment differences (subtracted on payment of an invoice) in the sales listing.

The layout of the sales-listing file

The sales listing sequential file has the following default layout:

Field	Start position	Length
Tax number	1	20
Goods value (local currency)	21	14
Subcontracting indicator	35	1

Chapter 12
No tax

12

No-tax tax codes

LN cannot create, finalize, and post transactions if no tax code is available. Consequently, you must define a tax code for transactions that are not subject to taxation. To define the tax code for non-taxable transactions, select the **Tax Code for No Tax** check box in the Tax Codes by Country (tcmcs0136s000) session.

Zero rate tax codes

Taxable transactions on which no tax must be paid are considered as transactions with a zero tax rate rather than as non-taxable transactions. For such transactions, you must set up tax codes with zero rates.

Tax exemption can apply, for example, for the following reasons:
- The goods or services are not taxable.
- The goods transfer to or from specific countries is not taxable
- The transactions are related to service operations in specific situations.
- The business partner holds an exempt certificate.

Usually, if no tax is levied on a transaction, some additional information, such as a reference to the tax law that states the exception, or the business partner's tax exemption certificate number, must be printed on the invoice. Depending on the type of tax, you can use a reason code linked to the tax code or you can link a text to the tax code to contain this information.

Deactivating tax functionality

LN cannot create orders and invoices without a tax code. If you do not want to use the LN tax functionality, you must still define one tax code, for which you do not define tax rates.

To deactivate tax functionality:

1.   In the Implemented Software Components (tccom0100s000) session, *clear* the **Tax** check box.

2.   In the Tax Codes (tcmcs0137m000) session, define a tax code.

3.   In the Tax Codes by Country (tcmcs0136s000) session, link the tax code to the home country of your financial company and select the **Tax Code for No Tax** check box. You cannot define tax rates and posting data for the No Tax tax code.

4.   In the Tax Handling (tctax0138m000) session, select the tax code in the **Tax Code for No Tax** field and clear all the check boxes of the various kinds of transactions, to disable the related tax code fields.

Appendix A
Sales tax - address hierarchy

A

Address hierarchy for sales tax calculations

Address hierarchy

The following tables indicate the hierarchical order LN uses to determine the addresses:

- Address hierarchy by order type for Service, Sales, and Procurement
- Address hierarchy by Financials sessions
- Additional information hierarchy

Address hierarchy by order type for Service and Distribution

The following table indicates by order type, for Service, Sales, and Procurement, the hierarchical order LN uses to determine the addresses.

Type of Order	Ship-from	Ship-to	Administrative Ship-from	Administrative Ship-to
Sales Order **Sales Quotation**	Warehouse (ship-pable item)	Specific delivery address (line) Delivery address code (line) Specific delivery address (header) Delivery address code (header)	Company	Sold-to Address
Sales Order **Sales Quotation**	Company (non-shippable item)	Customer	Company	Sold-to Address

Sales Installment	Company	Specific delivery address (header) Delivery address code (header) Customer	Company	Sold-to Address
Purchase Order	Supplier	Specific delivery address (line) Specific delivery address (header)	Specific postal address (header)	Specific postal address (header)
Purchase Order	Supplier	Delivery address code (header)	Postal address code (header)	Postal address code (header)
Purchase Order	Supplier	Company	Supplier	Supplier
Service Contract	Company	Specific work site address (location) Delivery address code (Customer's location) Customer	Company	Specific work site address (location) Delivery address code (Customer's location) Customer
Service Order	Warehouse (shippable item)	Specific delivery address (header) Delivery address code (header) Specific delivery address (order's location) Delivery address code (order's location)	Company	Specific delivery address (header) Delivery address code (header) Specific delivery address (order's location) Delivery address code (order's location)
Service Order	Company (non-shippable item)	Customer	Company	Customer

Address hierarchy by Financials session, for Accounts Payable

For the following group of Financials sessions, this table indicates the hierarchical order LN uses to determine the addresses:

- Purchase Invoice Entry (tfacp2600m000)
- Tax Transactions (tfacp1112m000)
- Transactions (tfgld1102m300)
- Purchase-Invoice Corrections (tfacp2110s000)

-	Ship-from	Ship-to	Administrative Ship-from	Administrative Ship-to
1	One-time supplier address	Company	One-time supplier address	One-time supplier address
2	Supplier	Supplier	Supplier	Supplier

Address hierarchy by Financials session, for Accounts Receivable

For the following group of Financials sessions, this table indicates the hierarchical order LN uses to determine the addresses:

- Sales Invoices (tfacr1110s000)
- Transactions (tfgld1102m300)
- Sales Invoice Corrections (tfacr2110s000)
- Manual Sales Invoicing Data (cisli2520m000)

-	Ship-from	Ship-to	Administrative Ship-from	Administrative Ship-to
1	Company	Ship-to Address	Company	Sold-to Address
2	-	-	-	-

Address hierarchy by Financials session, for Cash Management

For the applicable groups of Financials sessions, the tables indicate the hierarchical order LN uses to determine the addresses.

- Posting Data of Standing Orders/Stand-Alone Pmt (tfcmg1515m000)
- Payment Advice (tfcmg1609m000)
- Select Invoices for Payment (tfcmg1220m000)

-	Ship-from	Ship-to	Administrative Ship-from	Administrative Ship-to
1	One-time supplier address	Company	One-time supplier address	One-time supplier address
2	Supplier	-	Supplier	Supplier

- ■ Bank Transactions (tfcmg2500m000)
- ■ Assign Unallocated to Advance Payments/Receipts (tfcmg2108s000)

For advance receipts:

-	Ship-from	Ship-to	Administrative Ship-from	Administrative Ship-to
1	Company	One-time supplier address	Company	Company
2	Supplier	-	-	-

For advance payments:

-	Ship-from	Ship-to	Administrative Ship-from	Administrative Ship-to
1	One-time supplier address	One-time supplier address	One-time supplier address	One-time supplier address
2	Supplier	-	Supplier	Supplier

- ■ Anticipated Payments (Details) (tfcmg2116s000)

Ship-from	Ship-to	Administrative Ship-from	Administrative Ship-to
Supplier	Company	Supplier	Supplier

■ Anticipated Receipts (Details) (tfcmg2117s000)

Ship-from	Ship-to	Administrative Ship-from	Administrative Ship-to
Company	Customer	Company	Company

■ Cash Management Transactions (Anticipated Payments) (tfcmg2140s000)

For advance payments:

Ship-from	Ship-to	Administrative Ship-from	Administrative Ship-to
Supplier	Company	Supplier	Supplier

For other transactions:

Ship-from	Ship-to	Administrative Ship-from	Administrative Ship-to
Company	Customer	Company	Company

■ Direct Debit Advices (tfcmg4509m000)

For purchase invoices and purchase credit invoices:

Ship-from	Ship-to	Administrative Ship-from	Administrative Ship-to
Customer's supplier	Company	Customer's supplier	Customer's supplier

For other transactions:

Ship-from	Ship-to	Administrative Ship-from	Administrative Ship-to
Company	Customer	Company	Company

- Transactions (tfgld1102m300)
- Journal Voucher Documents (tfgld0618m000)
- Create Transactions from Template (tfgld1204s000)

Ship-from	Ship-to	Administrative Ship-from	Administrative Ship-to
Company	Company	Company	Company

Additional information hierarchy

The following table indicates, by order type or transaction type, the hierarchical order LN uses to determine the value of the additional information that the tax provider needs for the tax calculations.

Transaction Type	Order Type	Product Category	Point of Title Passage
Sales Order	Sales	Item Code Item Group Item Code (VERTEX)	Delivery Terms
Sales Installment	Sales	Installment Item Code Item Group Item Code (VERTEX)	Delivery Terms
Service Order	Service	Item Code Item Group Item Code (VERTEX)	Default Parameter
Service Contract	Contract	Contract Type	Default Parameter
Purchase Order	Purchase	Item Code Item Group Item Code (VERTEX)	Delivery Terms
Financial Transactions	Sales	Ledger Account	Default trans. parameter

Appendix B
Tax parameters

B

Tax parameters - overview

This table lists the various parameters and other tax setup data for the following types of tax registration and reporting:

- Sales tax
- Value added tax and consumer tax
- Tax registration in a foreign country
- Expensed purchase tax
- Withholding tax and social contributions

Common tax parameters

Type of tax	Session	Parameters
Value added tax EU tax reporting	Implemented Software Components (tccom0100s000)	**EU Statistical Reporting** **EU Sales Listing** **Withholding Income Tax and Social Contribution** **DAS 2 Reporting**
Value added tax EU tax reporting	General Company Data (tccom0102s000)	**Tax Number of Own Company** **Fiscal Identification**
Value added tax Destination sales Tax	COM Parameters (tccom0000s000)	**Destination Sales Tax Applicable** **Include Tax in BP Balances**

Value added tax Destination sales Tax	Countries (tcmcs0110s000)	**Print Tax by Tax Authority** **Print Line Tax** **Print Tax Exemption** **Check on Bank Account No.** **Tax**
Tax provider for sales tax	Tax Provider Parameters (tc-tax6100m000)	**Use Tax Provider**
Intrastat declaration	Intrastat Parameters (tc-com7100s000)	Define the details for the Intrastat report
All tax types	Tax Parameters (tctax0100m000)	Define the parameters that apply to each kind of tax setup.
Tax registration in a foreign country	Tax Parameters (tctax0100m000)	**Use Tax Numbers of other Financial Companies** **Allow Simplified Triangulation between Own Entities**
All tax types	Items - Sales (tdisa0501m000) Item - Sales Defaults (tdisa0102s000)	**Tax Code** The sales item tax code.
All tax types	Items - Purchase (tdipu0101m000) Items - Purchase Defaults (tdipu0102m000)	**Tax Code** The purchase item tax code.
All tax types	Payment Terms (tcmcs0113s000)	**Discount Including Tax** **Tax After Discount** Indicate how tax and discount amounts are calculated.

General tax parameters in Financials

Functionality	Session	Parameters

All tax types	Group Company Parameters (tfgld0101s000)	**Number of Tax Periods**
All tax types	Chart of Accounts (tfgld0508m000)	**Default Tax Code** The default tax code for transactions posted to the account
All tax types	ACR Parameters (tfacr0100s000)	**Level of Tax Calculation** Calculate tax on invoice header level or on individual invoice lines. Important for sales tax if a maximum taxable amount per invoice exists.
All tax types	ACP Parameters (tfacp0100m000)	**Level of Tax Calculation** **Tax Code** **North American Purchase Expense Tax** **Tax Variance Account**
All tax types	CMG Parameters (tfcmg0100s000)	**Adjust Tax for Deductions** **Calculate Tax on Advance Payments/Receipts** **Minimum Amount for Tax Calculation**
Tax parameters in Invoicing		
All tax types	Invoicing Parameters (cis-li0100m000)	**Tax Date** **Tax Period Derived From** **Log Intrastat for Manual Sales**

Appendix C
Automatic transfer of tax declarations

<div style="text-align:right">**C**</div>

Automatic transfer of tax declarations

In some countries, you must send the tax declaration to the collection office by electronic transmission of the declaration file. You can set up LN to generate an electronic tax declaration file.

LN supports the following customized electronic tax declaration files for specific countries:

- **Portugal**
  An ASCII declaration file for a combined VAT declaration and Sales Listing, which adheres to the electronic VAT declaration requirements defined by the authorities in Portugal. You can process the ASCII file further with the Portuguese VAT declaration HTML application (IVA.html). For more information, refer to *Electronic VAT and Sales Listing declaration for Portugal (p. 127)*.

- **Germany**
  An ASCII declaration file that adheres to the electronic VAT declaration requirements defined by the authorities in Germany, more specifically, the 'Vorsteueranmeldung' which is part of the 'Elster' electronic VAT declaration. For more information, refer to *The electronic VAT declaration for Germany (p. 125)*.

The electronic VAT declaration for Germany

This functionality is specific for Germany.

You can set up, prepare, and process the electronic VAT declaration required in Germany. The result of this procedure is an ASCII declaration file that adheres to the electronic VAT declaration requirements defined by the authorities in Germany, more specifically, the 'Vorsteueranmeldung' which is part of the 'Elster' electronic VAT declaration.

Important!

The VAT must have been finally declared up to and including the period that precedes the first period of the combined declaration. Otherwise, not-yet-declared data from previous periods can be included in the declaration.

The selected VAT declaration lines

If you use the **Select Tax Declaration Lines** command in the Tax Declarations (tfgld1625m000) session to add the VAT declaration lines automatically to the VAT declaration, LN sets the status of the selected finalized tax transactions to **Selected for Declaration**, and enters the tax declaration ID in the **Tax Declaration Number** field of the tax transaction in the Tax Analysis (tfgld110) table.

If you submit the VAT declaration in the Tax Declarations (tfgld1625m000) session, LN sets the status of the finalized tax transactions that are included in the declaration to **Submitted**.

To set up electronic VAT declaration

This functionality is specific for Germany.

To set up the master data for the tax declaration, take the following steps:

1. In the Tax Declaration Master (tfgld1620m000) session, create the VAT declaration master. Enter the file name and the path of the ASCII file.

2. On the Tax Positions by Tax Declaration Master tab, on the appropriate menu, click **Initialize**. LN creates the declaration layout. For each field to be entered, LN creates a separate line. For some lines, default values are available. In other fields, you must enter a value.

   You must especially create tax positions for the VAT declaration amount fields that are applicable to your business. A tax position groups the tax codes that contribute to a specific declaration amount and links the tax codes to the box on the tax declaration.

3. In the Tax Positions (tfgld0120m000) session, create the required tax positions, and the links to the tax codes by country. Next, select the tax positions in the VAT declaration lines on the Tax Positions by Tax Declaration Master tab of the Tax Declaration Master (tfgld1620m000) session.

4. To complete the VAT declaration master, supply the required tag contents. For each VAT declaration master line for which the **User-defined Tag Content** checkbox is selected, you must manually enter a fixed tag content in the Tax Positions by Tax Declaration Master (tfgld1121m000) session.

   Among other tags, mandatory tags are the following:
   - 'Landesnummer'
   - 'Steuernummer'
   - 'Finanzamt'
   - The name and the address data of the 'Absender' (the sender) and the 'Datenlieferant' (the declarant).

   Important! If the 'Steuernummer' field is left empty, LN uses the **Fiscal Identification** from the General Company Data (tccom0102s000) session.

   Leave all other fields in the Tax Positions by Tax Declaration Master (tfgld1121m000) session unchanged, except if other changes are required for changed formats and so on.

To prepare the electronic VAT declaration for Germany

This functionality is specific for Germany.

To prepare the VAT declaration, take the following steps:

1. In the Tax Declaration Master (tfgld1620m000) session, on the <u>appropriate</u> menu, click **Tax Declarations** to start the Tax Declarations (tfgld1625m000) session.

2. To approve the VAT declaration, in the Tax Declarations (tfgld1625m000) session, on the <u>appropriate</u> menu, click **Approve**.

3. To transfer the VAT declaration, in the Tax Declarations (tfgld1625m000) session, on the <u>appropriate</u> menu, click **Transfer Tax Declaration**. LN starts an external application as a background process, that produces a print preview, and sends the data to the German tax authorities.

4. If errors occur, LN sets the declaration status to **Error**. You can correct the errors and re-transfer the declaration.

5. To submit the VAT declaration, in the Tax Declarations (tfgld1625m000) session, on the <u>appropriate</u> menu, click **Submit Tax Declaration**.

6. Next, you can submit the created ASCII file to the tax authorities. You must have entered the file name and the path in the tax declaration master header in the Tax Declaration Master (tfgld1620m000) session.

7. To reprint the VAT declaration without recalculating the declared amounts, in the Tax Declarations (tfgld1625m000) session, on the <u>appropriate</u> menu, click **Show file**.

Electronic VAT and Sales Listing declaration for Portugal

This functionality is specific for Portugal.

You can set up, prepare, and process the combined electronic VAT and European Sales Listing (ESL) declaration required in Portugal. The result of this procedure is an ASCII declaration file that adheres to the electronic VAT declaration requirements defined by the authorities in Portugal.

Important!

Both the ESL and the VAT must have been finally declared up to and including the period that precedes the first period of the combined declaration. Otherwise, not-yet-declared data from previous periods can be included in the declaration.

For periods for which you generate the combined declaration, you must always select the **Simulate** check box in the Process Intracommunity Listing (tccom7270m000) session. Otherwise, the already processed sales listing data is excluded from the VAT declaration, which results in an incorrect declaration.

Selected VAT declaration lines

If you use the **Select Tax Declaration Lines** command in the Tax Declarations (tfgld1625m000) session to add the VAT declaration lines automatically to the VAT declaration, LN sets the status of the selected finalized tax transactions to **Selected for Declaration**, and enters the tax declaration ID in the **Tax Declaration Number** field of the tax transaction in the Tax Analysis (tfgld110) table.

If you submit the VAT declaration in the Tax Declarations (tfgld1625m000) session, LN sets the status of the finalized tax transactions that are included in the declaration to **Submitted**.

Selected sales listing lines

For simulated as well as final VAT declarations, LN selects the sales listing lines for which the **Processed** check box is cleared in the Sales Listing (tccom7570m000) session.

For sales listing lines that are included in a final VAT declaration, LN selects the **Processed** check box and enters the tax declaration ID in the **Tax Declaration Number** field of the sales listing line in the Sales Listing Data (tccom700) table.

If you reprint the VAT declaration, LN selects the sales listing lines that have the same tax declaration ID as the VAT declaration for which you request the reprint.

To set up electronic VAT and European Sales Listing declaration

This functionality is specific for Portugal.

To set up the master data for the tax declaration, take the following steps:

1. In the Tax Declaration Master (tfgld1620m000) session, create the VAT declaration master. Enter the file name and the path of the ASCII file.

2. On the Tax Positions by Tax Declaration Master tab, on the appropriate menu, click **Initialize**. LN creates the declaration layout. For each field to be entered, LN creates a separate line. For some lines, default values are available. In other fields, you must enter a value.

    You must especially create tax positions for the VAT declaration amount fields that are applicable to your business. A tax position groups the tax codes that contribute to a specific declaration amount and links the tax codes to the box on the tax declaration.

3. In the Tax Positions (tfgld0120m000) session, create the required tax positions, and the links to the tax codes by country. Next, select the tax positions in the VAT declaration lines on the Tax Positions by Tax Declaration Master tab of the Tax Declaration Master (tfgld1620m000) session.

4. To complete the VAT declaration master, supply the required tag contents. For each VAT declaration master line for which the **User-defined Tag Content** checkbox is selected, you

must manually enter a fixed tag content in the Tax Positions by Tax Declaration Master (tfgld1121m000) session.

Leave all other fields in the Tax Positions by Tax Declaration Master (tfgld1121m000) session unchanged, except if other changes are required for changed formats and so on.

To prepare the electronic VAT and European Sales Listing declaration

This functionality is specific for Portugal.

To prepare the combined tax and sales listing declaration, take the following steps:

1. In the Process Intracommunity Listing (tccom7270m000) session, simulate generation of the sales listing. Enter the following details:

   ■ Select the **Simulate** check box

   ■ Clear the **Recalculate Amounts with Declarant Exchange Rates** check box

   ■ Leave the **Declaring Exchange Rate Type** field empty

   You must leave the **Declaring Exchange Rate Type** field empty because otherwise, LN recalculates the sales listing amounts, which can cause a mismatch with the net amounts declared for intra-community sales in the VAT declaration part. This can result in a blocking error.

2. In the Tax Declaration Master (tfgld1620m000) session, on the appropriate menu, click **Tax Declarations** to start the Tax Declarations (tfgld1625m000) session.

3. On the appropriate menu of the Tax Declarations (tfgld1625m000) session, click **Select Tax Declaration Lines**. LN automatically adds the VAT declaration lines to the VAT declaration.

4. In the Tax Declarations (tfgld1625m000) session, on the appropriate menu, click **Show file** to create a non-final VAT declaration ASCII file. The ASCII file is displayed in a Microsoft Notepad window. Save the file, and then open the same file in the Portuguese VAT declaration HTML application (IVA.html).

5. If the VAT declaration HTML application detects errors in the manually entered fields, you can correct these on the Tax Positions by Tax Declaration Master of the Tax Declaration Master (tfgld1620m000) session. You can correct errors in VAT numbers on the sales listing in the Sales Listing (tccom7570m000) session.

6. Repeat Steps 3 to 5 until the HTML application does not detect any blocking errors.

7. To approve the VAT declaration, in the Tax Declarations (tfgld1625m000) session, on the appropriate menu, click **Approve**.

8. To transfer the VAT declaration, in the Tax Declarations (tfgld1625m000) session, on the appropriate menu, click **Transfer Tax Declaration**.

9. To submit the VAT declaration, in the Tax Declarations (tfgld1625m000) session, on the appropriate menu, click **Submit Tax Declaration**.

10. Submit the created ASCII file to the tax authorities. You must have entered the file name and the path in the tax declaration master header in the Tax Declaration Master (tfgld1620m000) session.

11. To reprint the VAT/ESL declaration without recalculating the declared amounts, in the Tax Declarations (tfgld1625m000) session, on the appropriate menu, click **Show file**.

Appendix D
Glossary

D

ABC transaction

See: *triangular trade (p. 139)*

accounting office

A department that a financial company uses to group financial data on a more detailed level than by enterprise unit.

You can typically use accounting offices to group the following types of financial data:
- Manually entered sales invoices
- Trade notes
- Business partner financial data

In a financial company you can link an accounting office to the following business partner roles:
- Invoice-to business partner
- Pay-by business partner
- Invoice-from business partner
- Pay-to business partner

Additional statistical information set

See: *Extra Intrastat info (p. 134)*

address

A full set of addressing details, which include the postal address, access numbers for telephone, fax, and telex, e-mail and Internet address, identification for taxation purposes, and routing information.

advance payment/receipt

A paid or received amount, which cannot be allocated to an invoice or any other document. After an invoice has been created, the advance payment or receipt can be allocated to it. Unlike an unallocated payment/receipt, you can calculate tax on a advance payment/receipt.

affiliated company

A separate logistic company that acts as a business partner to your logistic company. You must define the sold-to role and the buy-from role for an affiliated company business-partner.

For example, an affiliated company can represent affiliated enterprises and sites of your enterprise in other countries.

anticipated payment

A payment that is not entirely executed yet, or is on its way to be executed.

These anticipated payments can be created:

- Automatically, for example when a check is generated by the automatic payment procedure.
- Manually, for example, when a check is written.

Antonym: anticipated receipt

anticipated receipt

appropriate menu

Commands are distributed across the **Views**, **References**, and **Actions** menus, or displayed as buttons. In previous LN and Web UI releases, these commands are located in the *Specific* menu.

Belgian Balance of Payments report

A report that companies in Belgium and Luxembourg must submit to the National Bank of Belgium (NBB). The report lists the total amount of assets and liabilities that result from foreign sales and purchase transactions with other countries.

collection office

The authority to which the tax or social contribution must be paid. In LN, a collection office is defined as a business partner with only the invoice-from and pay-to roles.

country

Countries are the national states where your suppliers and customers are located. For each country you can define the country code, international dialing, telex, and fax codes.

Countries are part of the data that you must set up for tax reporting. In addition, items can be grouped and selected according to their country of origin.

destination sales tax

Sales tax regulations in North America and Canada. The tax rates are determined by the local authorities in the jurisdiction where the goods or services are received or consumed. In many cases, tax must be paid to multiple jurisdictions with authority over the same location.

direct delivery

The process in which a seller orders goods from a buy-from business partner, who must also deliver the goods directly to the sold-to business partner. By means of a purchase order that is linked to a sales order or a service order, the buy-from business partner delivers the goods directly to the sold-to business partner. The goods are not delivered from your own warehouse, so Warehousing is not involved.

In a Vendor Managed Inventory (VMI) setup, a direct delivery is achieved by creating a purchase order for the customer warehouse.

A seller can decide for a direct delivery because:

- There is a shortage of available stock.
- The ordered quantity cannot be delivered in time.
- The ordered quantity cannot be transported by your company.
- Costs and time are saved.

direct pay

A way for a buyer to directly submit a sales tax to the tax authority instead of first paying it to the supplier. To withhold tax from the invoice, you must provide your direct pay certificate number to the supplier.

Note
If direct pay applies to an order line, the order line must have a shifted tax code.

domestic tax

Tax rates applied to transactions that for taxation purposes are considered as transactions within a single country.

EU country

The country is a member of the European Union.

export tax

A tax, other than destination sales tax, that is levied on goods exported from the tax country. For European Union (EU) member countries, export tax applies to goods exported to non-EU countries.

Extra Intrastat info

Statistical import/export data that is not available as standard information in LN, but which is required on the sales listing or the Intrastat declaration by some of the EU member states.

You can add up to 15 data fields to the Intrastat statistical data by defining them as extra Intrastat information set. You can assign the extra Intrastat information sets to warehouse order lines.

Synonym: Additional statistical information set

financial company set

A set of financial companies for which you can set up specific tax data and/or generate reports such as the Intrastat declaration at a time. A financial company set can contain one or multiple financial companies.

fiscal number

A number used to identify corporate bodies as well as natural persons for income tax and social contribution registration.

GEO code

The code used together with or instead of address information such as the city, state/province, and postal code to identify a taxing jurisdiction.

The tax provider determines the GEO code based upon the address information entered and the county and city selected.

goods transfer

The relationship that contains the information that is needed to transfer goods between two entities or between two enterprise units.

group company

A financial company to which a number of other financial companies is linked.

A group company is used to centrally:

- Process the corporate and administrative accounting
- Accumulate data for consolidated financial reporting from the group's financial companies
- Perform central cash management processes such as payments and direct debit

group tax code

A tax code that represents multiple individual tax codes. If more than one tax code applies to a transaction, you can link a group tax code to the transaction.

For example, a group tax code can contain tax codes for:
- Value added tax
- Withholding income tax
- Withholding social contribution

ICT purchase VAT

See: *intracommunity transactions purchase VAT (p. 135)*

ICT sales VAT

See: *intracommunity transactions sales VAT (p. 135)*

IDEP

Abbreviation of *Intrastat Data Entry Package*. A third party application for the generation of EU Intrastat declarations. You can set up IDEP to generate the Intrastat declaration from the Intrastat data that you export from LN.

import/export

The shipping or delivery of goods across national boundaries.

import tax

A tax, other than destination sales tax, that is levied on goods imported into the tax country. For European Union (EU) member countries, import tax applies to goods imported from non-EU countries.

Incoterm codes

A set of codes representing international delivery terms rules for the uniform interpretation of common contract clauses in export/import transactions, developed and issued by the International Chamber of Commerce (ICC) in Paris.

intracommunity transactions purchase VAT

The VAT that is levied on purchase transactions between EU countries.

Synonym: ICT purchase VAT

intracommunity transactions sales VAT

The VAT that is levied on sales transactions between EU countries.

Synonym: ICT sales VAT

Intrastat declaration

A statistics report on the physical goods flows between the member states of the European Union (EU). The information about the nature, origin, and extent of the goods flows must be reported regularly with an EU Intrastat declaration.

These statistics must be reported regularly with an EU Intrastat declaration. The EU Intrastat declaration is required by the national tax authorities in the framework of the European Common Market since 1993 (EC '93).

inventory transaction type

A classification that is used to indicate the type of inventory movement.

The following inventory transaction types are available:

- **Issue**
  From warehouse to other entity than warehouse.
- **Receipt**
  From other entity than warehouse to warehouse.
- **Transfer**
  From one warehouse to another.
- **WIP Transfer**
  From one costing work center to another.

own goods movement

Goods transfer within your own enterprise, for example, between warehouses and/or work centers.

payment terms

Agreements about the way in which invoices are paid.

The payment terms include:

- The period within which invoices must be paid.
- The discount granted if an invoice is paid within a given period

The payment terms allow you to calculate:

- The date on which the payment is due
- The date on which the discount periods expire
- The discount amount

point of title passage

The point at which the legal ownership changes. At this point, the risk passes from the seller to the buyer.

sales listing

A list with information about the origin, value, etc., of invoices.

Companies established in European Union (EU) countries are obliged to use this document to make a tax declaration for their goods transactions within the EU.

LN bases the sales listing on the financial transactions that result from export transactions when the related invoices are processed.

stamp tax

A type of tax that is imposed on trade notes. Stamp tax consists of a fixed amount instead of a percentage. Depending on the country of your company, if you issue trade notes you can be obliged to pay stamp tax on the trade note.

In some countries, such as Spain and Japan, to pay the stamp tax, you must stick a stamp on the trade note document. In other countries, to pay the stamp tax, you must buy an official form for the trade note.

standing order

An order to which no invoices are linked, for example, recurring payments.

supplementary unit

An extra unit in which the quantity of goods must be reported for the EU Intrastat declaration. The main reporting unit is kilogram in all cases. For some goods, a reporting unit must be used such as pairs (of shoes and so on), liters, head or pieces (for cattle), or square meters. Quantities of goods to which kilograms do not apply are only reported in the supplementary unit.

tax authority

A government body with jurisdiction over the sales taxes in a specific area. You can set up tax authorities and tax authority groups for tax reporting purposes.

tax base value

The value that LN uses to calculate the tax amounts.

Usually, the tax base value is the net order amount or the net invoice amount. However, for types of tax such as social contributions that can be charged on a part of the invoice amount, the tax base value can be a percentage of the net amount.

tax category

A way to distinguish and/or group types of tax for inquiries, reporting, and tax payment selections. For example, for social contributions the categories *Unemployment* and *Medical insurance* can be required.

tax classification

An attribute of order headers and order lines that you can use to define tax exceptions for the transaction. LN retrieves the default tax classification from the invoice-from and invoice-to business partners.

For example, you can use the tax classification to indicate:

- That payments to an invoice-from business partner are subject to withholding tax and social contributions
- To group business partners that have the same tax aspects for your company, for example, subcontractors, or agents
- That the tax must be paid in a country other than the sales office or service office's home country

tax code

A code that identifies the tax rate and which determines how LN calculates and registers tax amounts.

tax code exception

A set of transaction details for which you define a tax code and/or tax country and business partner tax country other than the values that result from the standard tax code derivation.

tax codes by country

Definition of the country-specific tax data, for example, the type of tax (single or multiple), the collection office, the tax rates, and any text that must be printed on invoices to which a specific kind of tax applies.

tax country

The country in which the tax must be paid and/or reported. The tax country can be different from the country where the goods are issued or delivered.

tax country group

A group of countries that have the same tax relation to the company's home country.

tax exemption

Being exempt from tax. Transactions with specific business partners, involving specific goods, and/or with their origin or destination in certain countries or areas, can be exempt from tax. Sales invoices for transactions that are exempt from tax must have zero tax amounts.

Some enterprises are exempt from sales tax within the jurisdiction of certain tax authorities. Invoices for sales to a customer with a valid tax exemption must have zero tax amounts. If you are exempt from sales tax, your suppliers must not include the tax amount on their invoices.

tax exemption certificate

A certificate issued by a tax authority to a specific business, exempting them from sales tax within the tax authority's jurisdiction. When you purchase goods or services, you must provide the certificate number to your supplier to authorize them not to collect the tax.

tax number

A number used to identify legal persons or businesses. The tax authorities assign the tax numbers to the registered businesses. Your business partners must provide you with their tax number. Business partners without a tax number are considered to be private persons.

tax position

Represents a box on the tax declaration form. To link the tax codes that contribute to the amount in a box to its tax position, you define relations by tax position. To add the box to the tax declaration, link the tax position to the declaration master.

tax provider

A third party application that facilitates the computation of tax for US and Canadian taxes.

tax settlement

LN links a tax code of this kind to the reversal postings of the tax amounts on the interim accounts when you pay the tax, and to the tax payments you make to the collection office.

trade note

Generic term for payment instruments such as bank drafts, checks, promissory notes, and bills of exchange. Trade notes can be used instead of cash payments if credit is extended to the customer. A trade note can replace the invoice. Because trade notes are negotiable, they can also be used as a credit instrument, for example, for discounting and endorsing.

Trade notes can exist on paper and on magnetic supports, according to local business practices and banking standards.

triangular trade

Within the Europan Union, triangular trade refers to supplies of goods involving three parties of which at least two reside in EU member states, if one party ships the goods to the customer and another party invoices the customer for the goods. The goods are usually delivered to the customer as a direct delivery.

Synonym: ABC transaction

VAT

Acronym for value-added tax; the indirect percentage tax levied on products or services at various stages of production and distribution.

warehousing order type

A code that identifies the type of a warehousing order. The default warehousing procedure that you link to a warehousing order type determines how the warehousing orders to which the order type is allocated are processed in the warehouse, although you can modify the default procedure for individual warehousing orders or order lines.

withholding income tax

Tax for which the supplier is liable and which the payer of a purchase invoice withholds on the payment and pays directly to the tax authorities.

The term "withholding tax" generally refers to withholding income tax and social contributions.

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