EY Solution for SAP Tax Compliance

Keep your tax compliance on track
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Digital tax administration evolution: continual change
Rapid digitization of tax administrations

Given the complex and evolving nature of tax legislation, responsibility for tax matters within the organization traditionally has sat with subject matter experts in the tax function. In response to the globalization and transformation of business models and the widespread use of technology, the approach taken by companies to managing tax is rapidly changing.

As a recent survey conducted by EY shows, in more than 70% of the world’s largest economies, tax administrations are harnessing the power of technology through the use of electronic audits and targeted analysis of information contained within ERP systems. Taxpayers must be prepared to meet the challenges posed by this transformation in tax authority approach if they wish to avoid business disruption, tax risk and unplanned tax charges.

Indirect taxes such as value-added tax (VAT) and goods and services tax (GST) have proven a popular source of tax revenue generation for governments worldwide. While direct tax rates have fallen in many countries, VAT and GST rates have increased. Given this changing environment, it has become more critical than ever to manage indirect taxes with a view to optimizing cash flow and reducing risk.

- Targeted digital submissions with audit capabilities in tax invoices, auditing, etc.
- Strong focus on VAT digitization; growing use of SAF-T or similar standards; data submission upon audit commencement
- Strong focus on near real-time submission of financial and accounting data
- Investing in advanced analytics capabilities, IT and talent

Source: Research on Digital Tax Administration conducted by EY
Most tax compliance solutions download business data for just part of the business and execute tax rule checks only once per quarter, when the tax declaration has already been completed. Processes for defining, scheduling and executing compliance checks, and for reporting results and analysing compliance issues are barely automated.

Manual processes are required to identify compliance requirements, trigger and execute mitigation tasks, track and remediate compliance problems and report results.

Based on the generic process of continual tax monitoring and risk management, SAP Tax Compliance provides an holistic approach with predefined automated or semi-automated steps to establish a tax control system.

Having a single source of data and applying dynamic exception reporting and tax risk management provides valuable insight into understanding a company’s VAT position and assists with making better, more informed, decisions.
SAP Tax Compliance management cycle
SAP Tax Compliance delivers a complete cycle covering the detection and investigation of tax issues and can help reduce compliance issues in tax processes going forward. Automating tax-checking processes with a unified, standardized set of rules reduces time and effort and allows anomalies to be identified more accurately.

Checks can be grouped centrally into scenarios based on predefined fields – such as line of business, geographic location, timing and tax type. The solution does not only identify compliance issues and detect error-prone postings with a variety of check routines, but also covers indirect tax supply chain management and helps with managing indirect tax cash flow.

Furthermore, SAP Tax Compliance provides context-rich information for each alert, enabling improved transparency, traceability and auditability of data for the use of the tax function. Mitigation actions are triggered semi-automatically, including mitigation status and documentation. Tax compliance reporting completes the cycle of SAP Tax Compliance management, leveraging the tax function to the next level of indirect tax automation and risk management.

The ability to be close to activities of the business through the effective use of data, even if they are located at disparate places, becomes increasingly important in order to centralize and standardize VAT processes in shared service environments without losing oversight and control of VAT and GST compliance.

The solution provides the ability to view and analyze country or sector-specific data, and drill down to individual tests and transactional data. This enables you to manage compliance, focus on major cost drivers and develop an indirect tax strategy on a local and global basis.
Tax Compliance data flow
1. Connect data sources

2. Manage and optimize checks
   Examples:
   - Master data related checks
   - Transaction data related checks
   - Special checks, such as “chain transactions”

3. Receive and validate exceptions

4. Take corrective actions

   - Workflow
   - Manage tasks
   - Status
   - Collaborate

   - Routing

   - Notifications
   - Integrated dashboard

   - Check source system
EY Business Package for SAP Tax Compliance
The **EY Solution** for SAP Tax Compliance is an integrated and robust solution that allows companies to deploy SAP Tax Compliance software in an easily manageable and time-saving way.

The solution includes:

- End-to-end technical implementation
- Data & Integration Models reflecting the tax relevant business processes
- Client-specific adaption of EY propriety ready-to-use SAP Tax Compliance algorithms
- Worklists and remediation templates
- Change management

By deploying the EY Business Package for SAP Tax Compliance you can benefit from tax analytics leading practice and build an operational and effective tax control framework.

The solution contains a particular carefully designed data model, which is the result of years of tax data analytics and SAP HANA experience of our team. It cannot only yield in an improved performance and reduced resource consumption; the solution also allows easy enhancement of algorithms, either as a part of EY’s holistic implementation approach, or at a later stage.

**Our Interdisciplinary Team**

Successful SAP Tax Compliance projects require the interplay of people from different disciplines, combining business and technical know-how, but also experience in risk and controls and a clear understanding of how to extract insights out of mass data as well as digital audit approaches of tax administrations.

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**EY Business Package**

<table>
<thead>
<tr>
<th>Assessment of infrastructure and hardware</th>
<th>Tax risk assessment</th>
<th>Creation of tax compliance scenarios for risk areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific adjustments of data model</td>
<td>Implementation of check routines</td>
<td>SAP Tax Compliance workflow and reporting</td>
</tr>
<tr>
<td>Technical setup of SAP Tax Compliance environment</td>
<td>Customizing of dashboards and cockpits</td>
<td>User training and documentation</td>
</tr>
</tbody>
</table>

**Our Approach & Methodology**

The EY methodology for SAP Tax Compliance implementation provides a clearly structured, yet very agile and flexible framework for successful projects, based on our experience of implementing SAP GRC (Governance, Risk and Compliance) products as well as SAP HANA solutions. We are convinced that our methodology is a clear differentiator compared to other less specialized approaches.

**Global Center of Excellence for SAP HANA Solutions**

EY established a Global Center of Excellence for SAP HANA Solutions (CoE) located in Germany, to provide quality assurance in all engagements and to bring continuous innovation. The CoE team was part of the first deployment of SAP Tax Compliance when working for SAP SE and it is responsible for the first implementation worldwide.
Indirect tax data analytic areas

On the basis of EY’s leading position in tax risk assessments using our tax risk assessment database, we support our clients in detailed analyses of tax risks. Based on the outcome, EY is in the perfect position to support with effective deployment of SAP Tax Compliance. For indirect tax, the EY Business Package includes 90 proven algorithms to analyze and manage your indirect tax relevant data in your SAP system. Furthermore, based on this comprehensive set of content, we regularly develop further specific check routines for our clients and thus are continually increasing the applicable exception reports to reduce your indirect tax risk. Beside indirect tax-related content, the EY Business Package can cover SAP Tax Compliance solutions for other taxes, such as withholding tax, wage tax, and business tax, as well as personal and corporate income tax, excise duties and customs duties.

VAT analytic areas (excerpt)

<table>
<thead>
<tr>
<th>Purchases</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returns, imports, input VAT deduction, reverse charge</td>
<td>Goods consignment flows, service flows, work supplies, VAT exemptions</td>
</tr>
<tr>
<td>Customer master data</td>
<td>Finance processes</td>
</tr>
<tr>
<td>VAT-ID check, foreign registrations</td>
<td>Prepayments, tax rates, foreign VAT</td>
</tr>
<tr>
<td>Material master data</td>
<td>Intrastat</td>
</tr>
<tr>
<td>Reduced rate goods</td>
<td>Value deviations</td>
</tr>
</tbody>
</table>
Sample 1: VAT supply chain checks

Effectively monitoring the VAT supply chain data means monitoring what matters for indirect tax. EY’s set of check routines covers the operational processes so that the tax function is closely connected to the business and has the means in place to provide value instead of being caught up with collecting information.

![Diagram of VAT supply chain checks]

- Do we apply the VAT regulations for chain transactions correctly, e.g., the Euro Tyre Holding BV judgment of the CJEU?
- What would the financial impact be if we fail to comply with these regulations?

Sample 2: VAT account reconciliation checks and dashboards

Performing a reconciliation of account balances is a source of extensive manual work in many finance and tax departments. Lowering the level of control is no option, but automation provides the opportunity of gaining insights at the press of a button and being alerted automatically – only when issues that matter occur. EY’s Business Package identifies issues automatically – and the SAP Tax Compliance functionality automatically identifies issues such as the entering of suspicious documents in source systems, with the ability for the tax function simply to click to view the suspicious document, without the need to undertake a separate process. This enables the automated routing of tasks to resolve tax issues.
Contact

**Belgium**
Matthias Penninck  
Tel: +32 9 242 5257  
Email: matthias.penninck@be.ey.com

**France**
Gwenaelle Bernier  
Tel: +33 2 5117 5031 or +33 1 5561 1531  
Email: gwenaelle.bernier@ey-avocats.com

**FSO**
Adrian Hextall  
Tel: +44 20 7951 1642  
Email: ahextall@uk.ey.com

**Germany, Switzerland, Austria**
André Hengst  
Tel: +49 30 25471 22754  
Email: andre.hengst@de.ey.com

**Hungary**
Tamas Vekasi  
Tel: +3614518220  
Email: tamas.vekasi@hu.ey.com

**India**
Sameer Prakash  
Tel: +91 124 443 2210  
Email: sameer.prakash@in.ey.com

**Netherlands**
Folkert Gaarlandt  
Tel: +31 88 40 70559  
Email: folkert.gaarlandt@nl.ey.com

**Northern Europe**
Øystein Arff Gulseth  
Tel: +47 24 00 24 00  
Email: oystein.arff.gulseth@no.ey.com

**Poland**
Dorota Pokrop  
Tel: +48 225 577 339  
Email: dorota.pokrop@pl.ey.com

**UK and Ireland**
Chris K Lewis  
Tel: +44 1189 281411  
Email: clewis1@uk.ey.com

**EY Global Center of Excellence for SAP HANA Applications**
Carolina Macri  
Tel: +49 6196 996 20527  
Email: carolina.macri@de.ey.com  
Stefan Schaffer  
Tel: +49 6196 996 23595  
Email: stefan.schaffer@de.ey.com
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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