KPMG

Tax & Trade Customs
SAP S/4 HANA

SAP S/4HANA in a nutshell

It is time to reimagine more than business processes. It is time to reimagine everything – relationships, data, markets, workforce, and more.

Business technology models continue evolving, the pace of change is accelerating, and real-time insights are becoming a critical component of business success and, most importantly, business survival.

If a business hasn't yet started its digital transformation journey, it is well behind the leaders.

A major part of digital transformation includes moving to an innovative digital core, which typically is an organization's enterprise resource planning (ERP) system. Careful planning that includes choosing a partner that can support the initiative with advanced tools, a portfolio of services, and a library of best practices and lessons learned is required to make the move easier. SAP has a suite of advanced tools that are now available and can be used by organizations to ensure a successful move to SAP S/4HANA.

S/4HANA Enterprise Management is SAP's new business suite software based on in-memory HANA database technology and positioned as the core of the "digital enterprise."

In this respect, "digital" refers to interweaving of business and IT with built-in intelligent technologies, including Artificial Intelligence (AI), machine learning, and advanced analytics, whereby IT is not only supported but can also guide your organization.
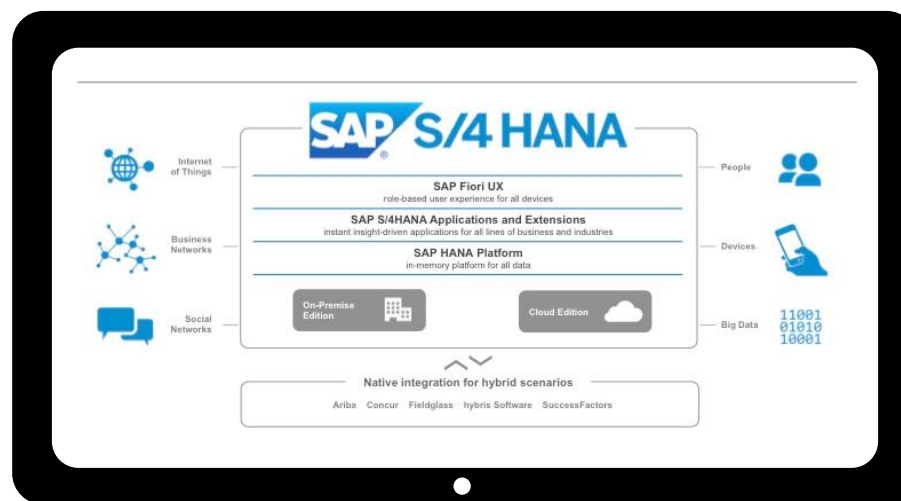
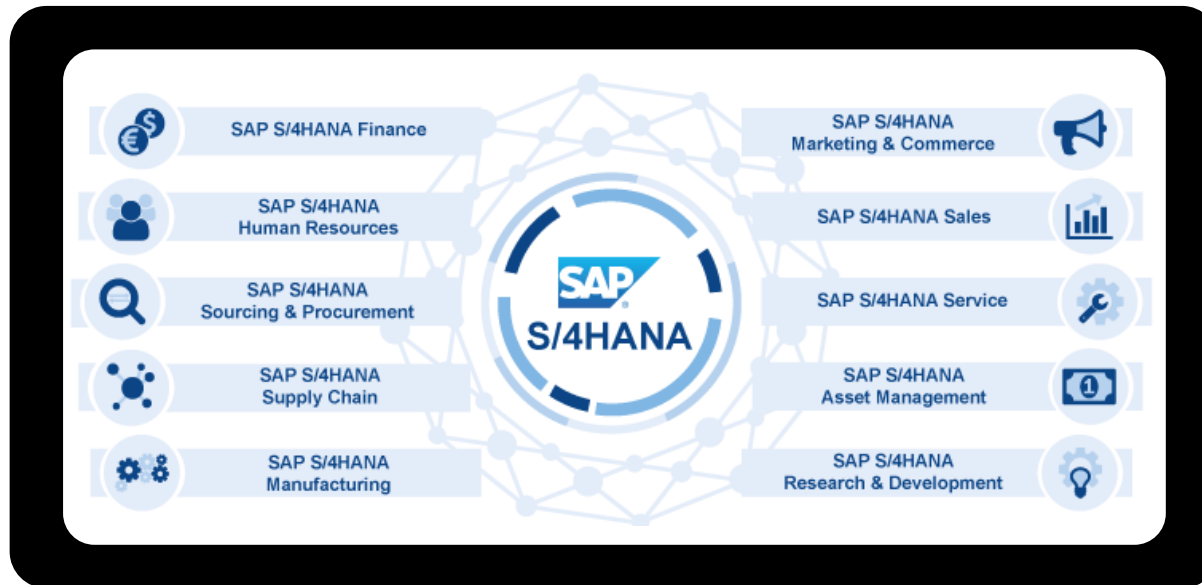**SAP S/4 HANA, the next generation business suite**

Throughout the following slides we use the term "SAP strategy" (instead of the wider term "IT/ERP strategy") in order to direct our focus on SAP users that are currently considering new developments within the SAP domain. The purpose of this presentation is to provide an assessment of S/4HANA, not to make a comparison between SAP and other ERP applications, but to reflect the importance of indirect taxation in an SAP environment and strategy.

Why is the change to S/4HANA important?

Replacing rigid legacy enterprise business applications is an essential step toward becoming a more agile and innovative business.

S/4HANA provides a collaborative platform that enables you to use your core ERP in combination with cloud-based applications in order to interact and integrate with external parties such as customers (such as Hybris) and suppliers (such as Ariba). It also supports a range of user interfaces (including SAP Fiori) and provides the possibility to link your machines and IoT (e.g. through HANA Cloud Platform). These cloud applications are not required for S/4HANA and can also be used in combination with your existing ECC environment.

However, S/4HANA contributes a dedicated platform to integrate and interact, thus providing a hybrid enterprise-wide solution. A key characteristic is that data is stored as much as possible at one location and that there are no separate copies for various purposes such as multiple index tables in the existing Finance module, redundant data in ERP and data warehousing. Storing the data in one location not only saves storage space; but also provides a "single source of truth," thereby reducing the risk of data inconsistency.

SAP S/4HANA Finance
SAP S/4HANA Human Resources
SAP S/4HANA Sourcing & Procurement
SAP S/4HANA Supply Chain
SAP S/4HANA Manufacturing

SAP S/4HANA Marketing & Commerce
SAP S/4HANA Sales
SAP S/4HANA Service
SAP S/4HANA Asset Management
SAP S/4HANA Research & Development

SAP launched S/4 HANA in 2015 and had planned to stop supporting predecessor SAP ERP Central Component (SAP ECC) on 31 December 2025. On 4 February 2020, SAP announced a maintenance commitment for SAP S/4HANA until the end of 2040. At the same time, SAP will provide mainstream maintenance for SAP Business Suite 7 core applications until end of 2027. This offboarding phase will be followed by optional extended maintenance until end of 2030. In short, it means that the migration to SAP S/4HANA is inevitable. In order to benefit from all features and functionalities of SAP S/4HANA available for all areas, the migration should not be focused only on pure finance and technical aspects, but should be extended to other areas, such us indirect taxation, trade & customs (among others).

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Why VAT is important in SAP Strategies?

VAT is a transactional tax

There is not a single booking (customer, vendor, inter-company) in which VAT analyzes could be simply eliminated. Regardless the complexity of the transaction, at the end, all transactions have to be booked in SAP. It means that AR (account receivable), AP (accounts payable) or other finance colleagues have to select an account and define the VAT treatment. Therefore it is required to translate the whole business operation of the company into the language of tax codes. Without that step, and without having an End-to-End (E2E) indirect tax strategy, a simple repetitive booking can end-up in a VAT risk (underpayment) or in a not ideally managed VAT balance (overpayment).

VAT filing obligations

VAT returns are due (depending on the jurisdictions) every month or quarter. Companies should have available accurate date in SAP, every month, in order to properly fulfil those reporting obligations. Properly means that the right amount of VAT, in the right taxable period, in the dedicated box of the VAT return and in the right jurisdiction has to be reported, either as payable or deductible.
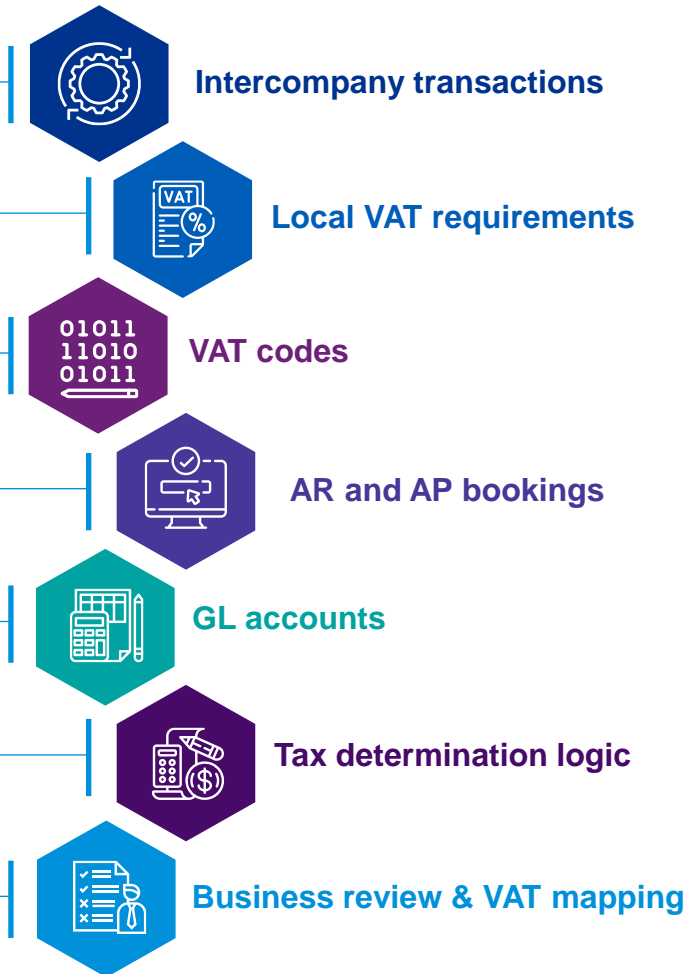
Digitalization

Beside the ordinary VAT returns, more and more countries are introducing digital solutions in the area of VAT reporting. The increasing digitalization of compliance and reporting obligations further pressure companies to have reliable VAT date to be reported in a predefined structure, even on a real time basis. The handling of such reportings out of the ERP is impossible.

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Why VAT is important in SAP Strategies?

ERP vs. VAT

- Intercompany transactions
- Local VAT requirements
- VAT codes
- AR and AP bookings
- GL accounts
- Tax determination logic
- Business review & VAT mapping

Growing organization

In our current rapid evolving world, when thousands of transactions are posted per day, the VAT department of a company is not able to control and manage indirect tax with sample checking approach or with enhanced VAT awareness within organization. The control can be easily lost without a VAT implementation strategy during migration or introduction of S/4 HANA.

Globalization

Companies expanding their international footprint, entering into different jurisdictions and face new challenges in the area of VAT. SAP has a generic framework solution to cover the most typical VAT requirements, but every VAT specific details. Without a localization strategy your company's SAP roll-out can simply ends up in a situation where certain local VAT regulatory requirements are not covered. Fine-tuning a solution which is over its „go-live" date is very costly and triggers additional uncontrolled manual (out of the system) steps.

- Indirect taxes
- Customs & Duties
- Supply Chain
- Purchase Order management
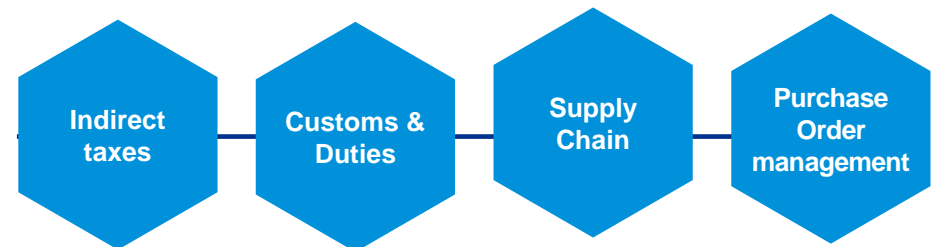
Cross functional reporting and execution tools allow companies to better manage global business processes and mitigate costs (Tax Compliance, Customs Duties, Supply Chain Costs, etc. are all interrelated). A centralized single technology platform gives businesses a real time view of the financial and physical truth.

Why Global Trade and Customs is important in SAP strategies?

The dynamic global environment continually compels global companies to adapt to new trade rules and regulations. To tackle such changes efficiently, from a cost and process perspective, and at the same time ensure compliance, Global Trade Management (GTM) through automated means is essential.

Global trade automation allows companies to intelligently standardize, automate, and control their cross-border operations and global trade functions. A holistic approach to automation puts the fundamental elements of trade/customs management on equal footing, enabling companies engaged in global trade to manage their operations effectively, efficiently and compliantly.

Companies that select SAP and its foreign trade functionalities (Global Trade Services – GTS) as their GTM system have the opportunity to define a solution that integrates with their extended supply chain and other tax functions, supports their unique organizational needs and provides the ability to import to and export from any country in the world.
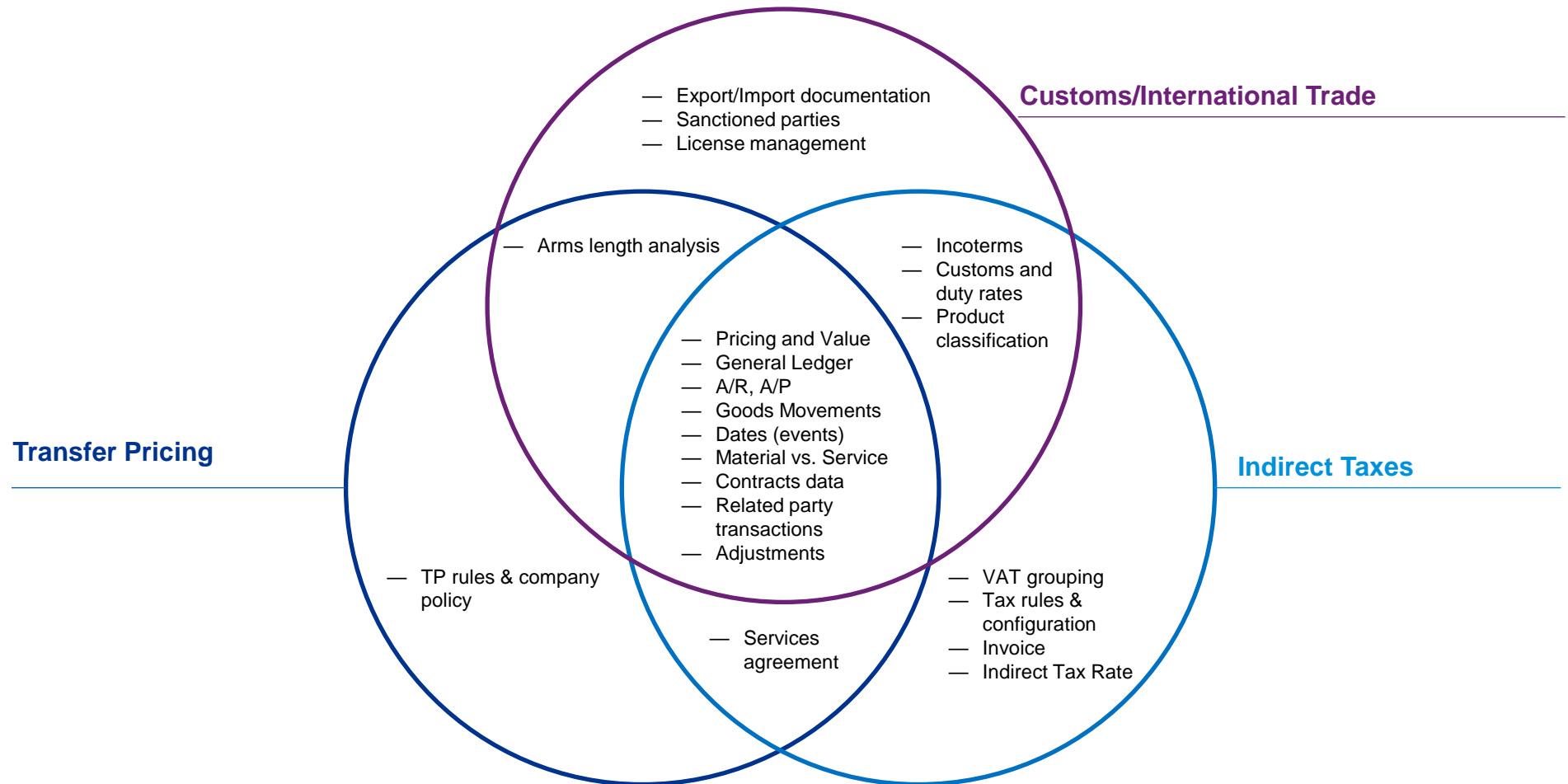
How we can support you

KPMG can assist companies to define GTM system and process design, while addressing global trade requirements that apply to import and export operations on a global scale.

We work with clients to deliver value and efficiency for their business, including:

— **establishing** and maintaining efficient cross-border operations keeping costs down to maintain strategic advantage

— **ensuring compliance** with local laws and regulations associated with cross-border trade

— **customizing** trade processes and controls to a business unit, company, or industry

— **mitigating** risk issues related to conducting cross-border business

KPMG capabilities include deep SAP GTS implementation experience in key industries, in different sectors, as well as experience with automated trade management in adherence with trade regulations in more than 80 countries around the globe.

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Common Data Different Users

Customs/International Trade

- Export/Import documentation
- Sanctioned parties
- License management

- Arms length analysis

- Incoterms
- Customs and duty rates
- Product classification

Transfer Pricing

Indirect Taxes

- Pricing and Value
- General Ledger
- A/R, A/P
- Goods Movements
- Dates (events)
- Material vs. Service
- Contracts data
- Related party transactions
- Adjustments

- TP rules & company policy

- VAT grouping
- Tax rules & configuration
- Invoice
- Indirect Tax Rate

- Services agreement

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SAP S/4 HANA main benefits

SAP S/4 HANA

Speed and insights

Simplified architecture

Redefined processes

User experience

New Tax functionalities

Digital reporting requirements

Tax function vs Business

Speed and Insights
— business process transformations with intelligent automation
— HANA is an in-memory database that offers real-time processing speeds and a dramatically simplified data model.

Simplified architecture
— Due to in-memory, columar database significant reduction in data footprint
— More indirect tax friendly Master Data concept

Redefined processes
— Real-time advanced analytics
— Embedded AI technology
— Core logistic (supply chain), financial planning and accounting, customer and vendor management modules

User experience
— Streamlined data display
— Simplified data handling

New Tax Functionalities
— SAP Advanced Tax Compliance Reporting
— SAP Tax Audit function
— SAP Tax Risk Monitor
— Global Trade Services (GTS)

Digital Reporting Requirements
— Embedded SAF-T, real-time reporting functionalities
— Intrastat reporting
— Additional country specific local reporting requirements

Tax Function vs Business
— Efficiently supporting the indirect tax determination

SAP S/4 HANA main benefits

… Risk reduction

- Advance tax quality assurance through improved tax discovery
- Standardization of individual processes
- Reduction of manual work steps
- Reduction of (manual) interfaces to external indirect tax systems (so-called isolated tax solutions)
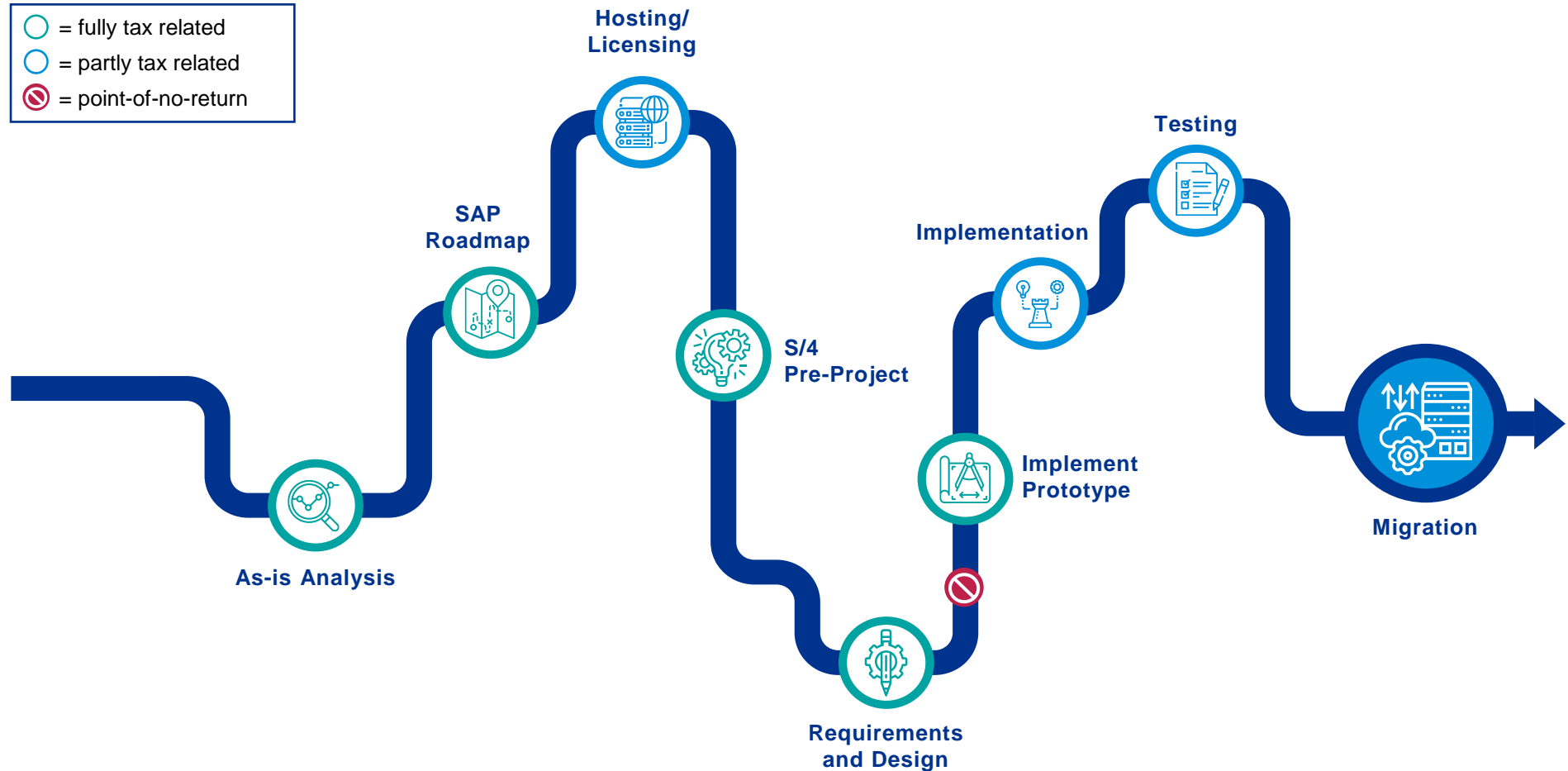- Prompt, automated identification and correction of incorrect entries

… Efficiency increase/cost saving

- Reduction of manual work steps
- Reduction of manual analysis activities as well as rework in indirect tax determination
- Automatic provision/use of indirect tax marks
- Reduced effort for reporting and declaration purposes through automation of declaration and reporting processes
- Standardization of individual processes
- Early involvement of the tax and T&C departments by integrating tax and T&C related aspects into business processes

… Transparency & indirect tax optimisation potential

- Extended evaluation options (speed & level of detail) through harmonized HANA database and simultaneous enrichment of indirect tax-relevant information
- Revealing overarching relationships and direct tax potential
- Real-time data analyses

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Milestones in the S/4 HANA implementation

= fully tax related
= partly tax related
= point-of-no-return

Hosting/ Licensing

SAP Roadmap

S/4 Pre-Project

Testing

Implementation

As-is Analysis

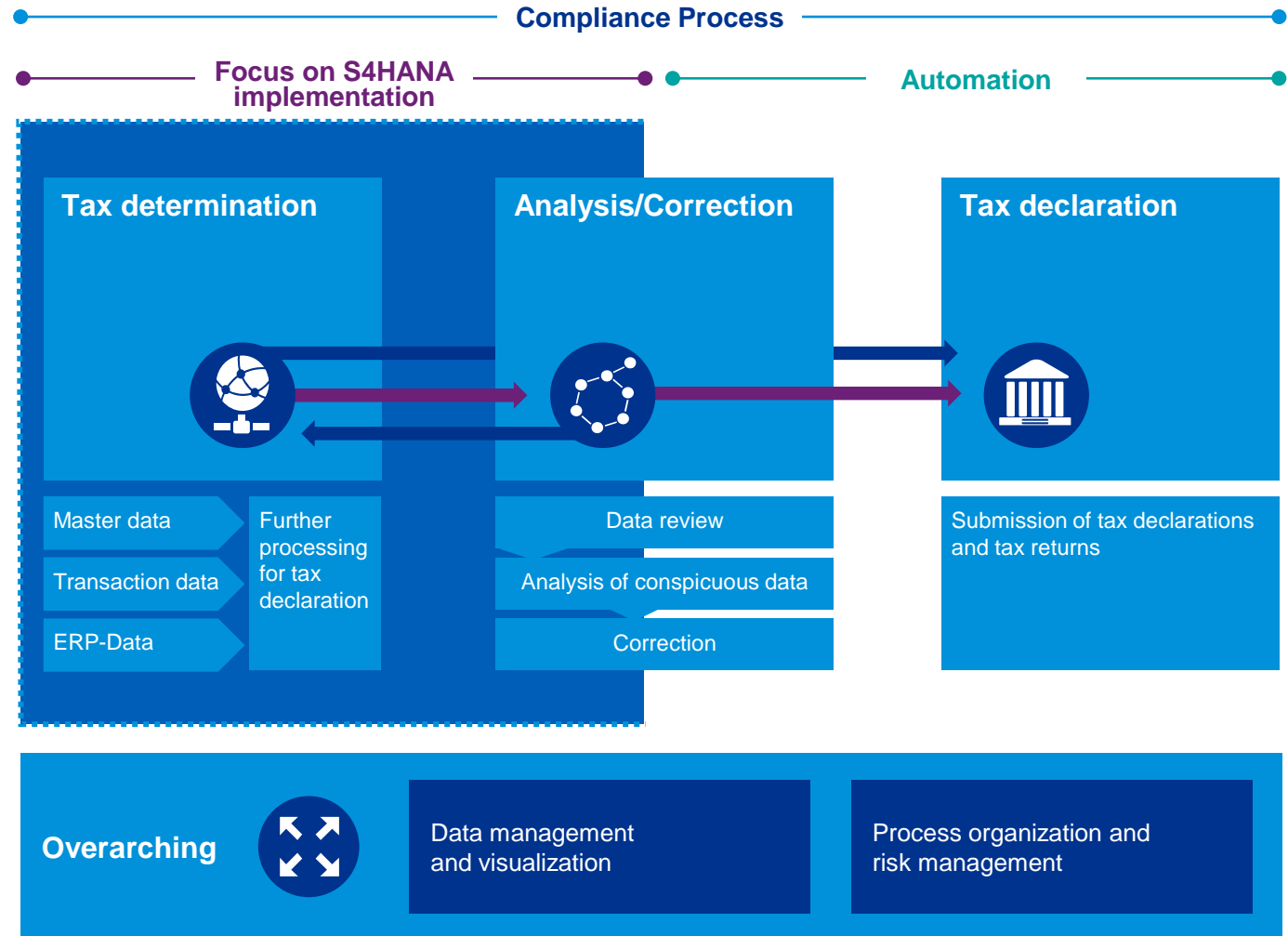Implement Prototype

Migration

Requirements and Design

9

Treatment of indirect tax issues in business processes

Tax activities can basically be divided and considered in three phases:

1. Data collection and tax determination

2. Analysis and correction of tax relevant data

3. Execution of control messages

Traditionally, the core of tax compliance activities is tax type related and focused on short-term analysis and correction and the execution of tax returns.

The purpose of an SAP implementation is to support a quality-assured tax return that can be created with as little manual effort as possible by shifting the core activities forward into phases 1 and 2 in a process-oriented manner.

Compliance Process

Focus on S4HANA implementation

Automation

Tax determination

Analysis/Correction

Tax declaration

Master data

Transaction data

ERP-Data

Further processing for tax declaration

Data review

Analysis of conspicuous data

Correction

Submission of tax declarations and tax returns

Overarching

Data management and visualization

Process organization and risk management

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Global Trade Management (GTM) and it's value

Master data management

— Product Master Management
— Vendor Solicitation
— Business Partner Screening
— Origin management

Compliance management
(import/export control)

— License Determination/Management
— Embargo Screening
— Deemed Exports
— End-Use Management
— Document Management
— Logistic Partner Connectivity and Collaboration
— Customs Connectivity

Customs management
(import/export control)

— Admissibility Review
— Landed Cost Management
— Document Management
— Pre-Entry Verification
— Broker Connectivity
— Customs Entry Management
— Post-Entry Actions
— Customs Connectivity

Duty management

— Preferential origin Determination/Management (Free Trade Agreements)
— Customs Warehouse Management
— (Other) Customs Regimes Management

Value

- ✓ **Minimize Manual Processes/Manage By Exception**
- ✓ **Centralized and Standardized Data Management**
- ✓ **Mitigate Compliance Risk, Penalties and Fines**

- ✓ **Decreases Broker/Forward Fees**
- ✓ **Decreases Detention Fees**
- ✓ **Lower Cost of Goods Sold (COGS)**
- ✓ **Increase Cycle Times**
- ✓ **Accelerates Order to Cash Process**

- ✓ **Lower on Hand Inventory Requirements**
- ✓ **Reduce Duties Paid**
- ✓ **Customer Experience**
- ✓ **Centralized Reporting that reflex the regulatory, supply chain and end to end business reality**

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The right approach

KPMG with its global network of technology consultants, Indirect Tax and Trade & Customs specialists, SAP specialists and industry experts can guide you through a successful integration of S/4HANA securing indirect tax and customs law requirements into your company's systems and processes with a holistic approach.

Indirect Tax and Trade & Customs departments should be part of every SAP S/4HANA implementation and/or migration at an early stage to ensure that potential benefits are not missed. We at KPMG help you to build proper global VAT and International Trade processes in the digital age and discuss with you how to make the best use of SAP S/4HANA in the field of indirect tax functionalities.

Nowadays, tax departments are entirely dependent on the capabilities of the underlying SAP (or other ERP) systems for the preparation of VAT/GST returns. A wrong coding, an inaccurately defined tax determination logic or a low quality business partner database can lead to VAT and financial risks.

An SAP (ERP) implementation or migration is a unique milestone in the companies' life and thus a single, unrepeatable opportunity for tax departments to improve control over tax data, manage potential risks and enhance efficiency of tax processes. Working together with your finance department the Indirect tax experts of KPMG can help you navigate through such a significant change.

**From indirect tax perspectives the following items should be considered during integration**

— VAT knowledge management (legislative overview and localization)

— Indirect Tax determination automation (depending on the business landscape either with an SAP solution, SAP add-on technology or with an external tax engine) covering the establishment of a company wide standardized VAT code map

— Indirect Tax Compliance, reporting and archiving (including VAT/GST returns, domestic ledgers, EU Sales Listings and other statistical reportings like Intrastat); SAF-T and real-time reportings, VAT ID validation

— Analytics for VAT reporting and for business finance support (e.g. Cash-flow analyzes)

— VAT account reconciliation

— Supply Chain Structure overview (considering „plant abroad" activation)

— Analyzes of inter-company transactions, inventory management, foreign exchange logic

— Translating several VAT simplifications into IT language (among others drop shipments, point of entry, triangulation, ancillary nature, service vs goods, domestic revere charge, VAT exemption, input VAT pro-rata calculation, place and time of supply, VAT rate usage)

— VAT registration strategy (considering B2C e-commerce impacts)

— Quality review of Trade master data (e.g. classification of products)

— Preferential origin management

— Compliance management (e.g. Sanctioned Party List and Embargo screenings, Import/Export license management)

The right approach

As-is-Analyze

— Deciding about the indirect tax and customs/global trade strategy (e.g. with SAP embedded tax functions, with SAP add-on solution or with an external tax engine as an own instance)

— Tailoring indirect tax strategy to the Company's future business vision (go to market business model, direct tax location strategy)

— Analyzing current indirect tax and customs operations

— Mapping data sources and targets across the indirect tax and customs lifecycle

— Developing a target operating model and roadmap

— Defining indirect tax and customs, global trade requirements for the new SAP system and present/translate it into a language that non-tax/customs people can also understand.
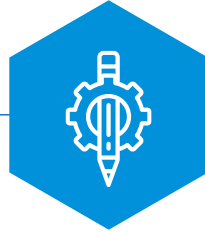
Design phase

— Identifying indirect tax, customs processes and incorporate the requirements into the planned SAP design

— Developing indirect tax and customs functionality in the new SAP system with the concrete specifications (e.g. VAT code structure, customs classification) that considers local rules as well

— Engaging with other business and technology Stakeholders to secure an E2E process chain design

— Fit-Gap-Analyzes and benchmarking with industry best practice. Definition of To-Be-Process for all identified Gap.

Implementation

— Introduction of a Prototype

— Migration of GL accounts, organization structures, trading flows, source data, tax and customs relevant workflows

— Testing indirect tax and customs scenarios in the new SAP system

— Managing the indirect tax and customs (global trade) team's cutover to the new system

— Making updates and enhancements to new tax modules

— Mitigating operational and compliance risks of new technology

The benefit from our ERP implementation experience

Our Indirect Tax Technology Services team can help bridge the gap between Tax/Trade Customs and IT departments during an ERP implementation or upgrade, efficiently identifying areas where tax can bring value to an overall ERP project.

We also have the knowledge and experience to efficiently incorporate indirect tax & trade customs requirements without adversely impacting the planned design. An ERP implementation, like the migration into S4/HANA is a unique milestone in a company's life and thus a one-off, unrepeatable opportunity for tax departments. The extra effort of including the tax department in such a project is well compensated by the resulting benefits. KPMG's indirect tax technology service (ITTS) practice has dedicated ERP professionals with in-depth experience and knowledge with:

— **Understanding** how to include the tax department when implementing a new ERP and other financial reporting applications to improve accuracy and performance

— **Analyzing** existing business models, transaction flows and their VAT/Customs treatment to set-up a proper End-to-End indirect tax reporting process within ERP systems

— All of the major ERP applications to **efficiently incorporate** the data needed for tax compliance and planning the design and configuration of the system

— **Automation** and **visualization** of key working steps related to indirect tax and data analytics to improve tax departments' internal compliance control capabilities

— Helping to **maximize** the use of data already collected by the organization to enable streamlined and automated processes across the indirect tax lifecycle

— **Implementing** archiving strategies and software to satisfy tax record retention requirements

KPMG's experienced service experts gathered their knowledge over years inside and outside our organization. With the combination of in-house and consultancy experience of our colleagues and a clear passion for our Tax Technology Services we are the right partner to support you in this unique milestone in your company's life.

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