Tax & Trade Customs SAP S/4 HANA

February 2021

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.

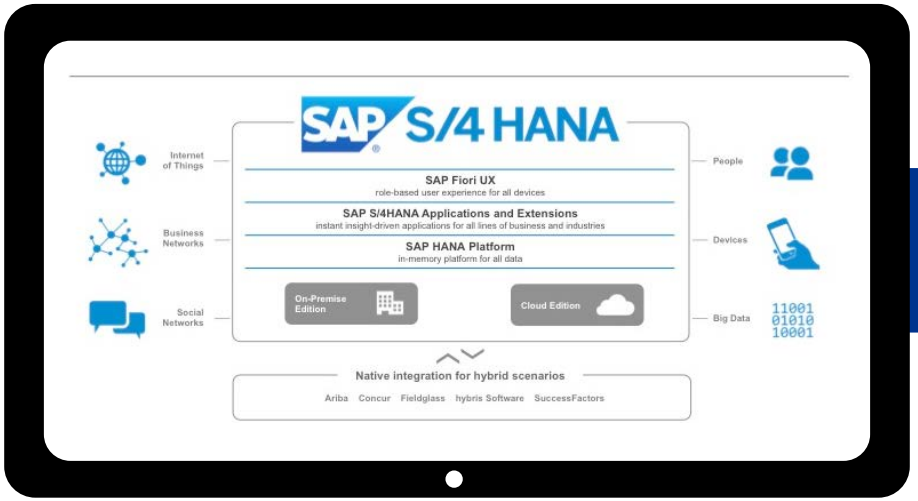
Business technology models continue to evolve, the pace of change is accelerating, and real-time insights are becoming a critical component of business success and, most importantly, business survival.

Businesses that have not yet started their digital transformation journey, should not lose any more time doing so. Business leaders are already well on their way to reaping the benefits of such a transformation.

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 will make a 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 is 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

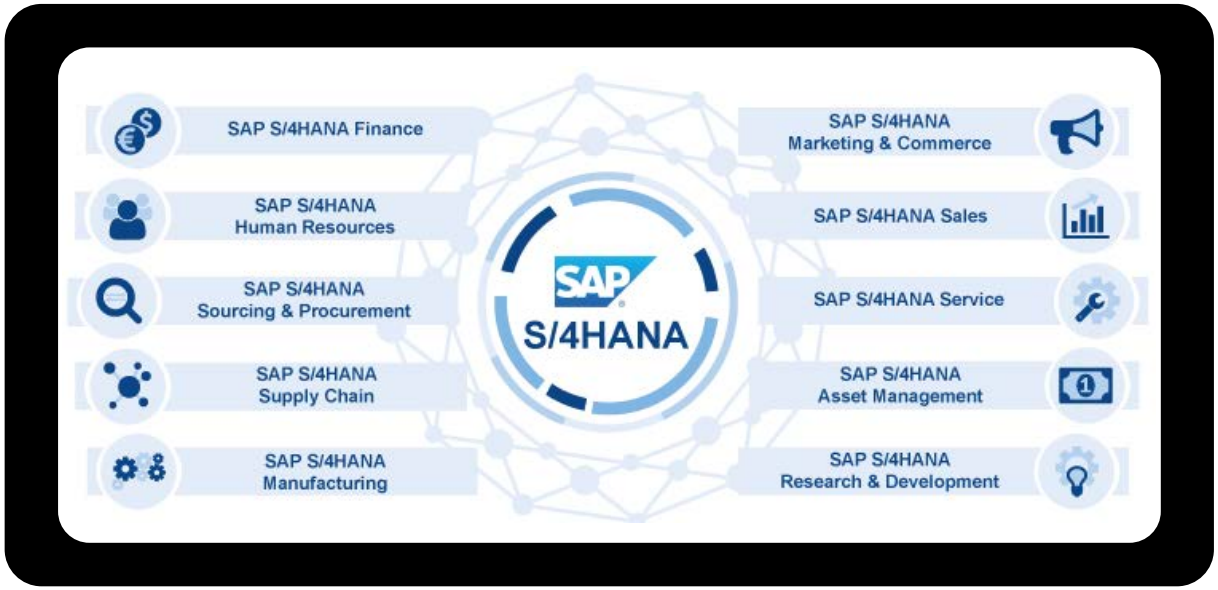
Throughout the following slides we use the term "SAP strategy" (instead of the wider term "IT/ERP strategy") in order to direct our focus on SAP users that are currently considering new developments within the SAP domain. The purpose of this presentation is to provide an assessment of S/4HANA, not to 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 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 as indirect taxation, trade & customs (among others).

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 analyses 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 (accounts receivable), AP (accounts payable) or other finance departments have to select an account and define the VAT treatment. It is therefore necessary to translate the company's entire business operation 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 jurisdiction) every month or quarter. Every month, companies should therefore have available accurate SAP data in order to report their VAT obligations properly either as a payable or a deductible. In this case, properly means the right amount of VAT, in the right taxable period, in the dedicated box of the VAT return and in the right jurisdiction.

Digitalization

Beside the ordinary VAT returns, more and more countries are introducing digital solutions in the area of VAT reporting. Increasing digitalization of compliance and reporting obligations puts further pressure on companies to have reliable VAT data that can be reported in a predefined structure, maybe even on a real time basis. Unfortunately, ERPs are not capable of handling such reportings.

Why VAT is important in SAP Strategies

ERP vs. VAT

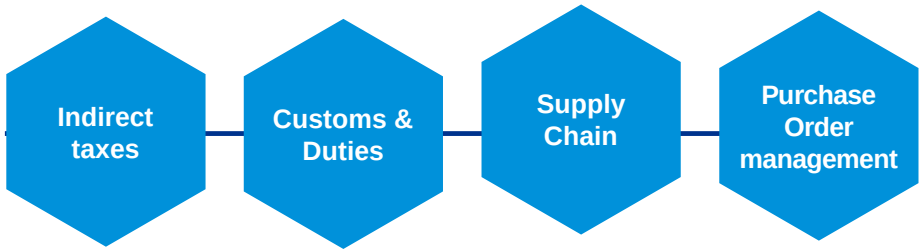
- Intercompany transactions
- Local VAT requirements
- VAT codes
- AR and AP bookings
- GL accounts
- Tax determination logic
- Business review & VAT mapping

More complex organization

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

Globalization

Companies expanding their international footprint and thus entering into different jurisdictions face new VAT challenges. SAP has a generic framework solution to cover the most typical VAT requirements, but every VAT has specific details. Without a localization strategy, your company's SAP roll-out may end up in a situation where certain local VAT regulatory requirements are not covered. Fine-tuning a solution which is beyond its shelf life is very costly and requires additional uncontrolled manual (out of the system) steps.



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 realtime view of the financial and physical truth.

Why Global Trade and Customs is important in SAP strategies

The dynamic global environment continually compels international 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, it is essential to automate Global Trade Management (GTM).

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

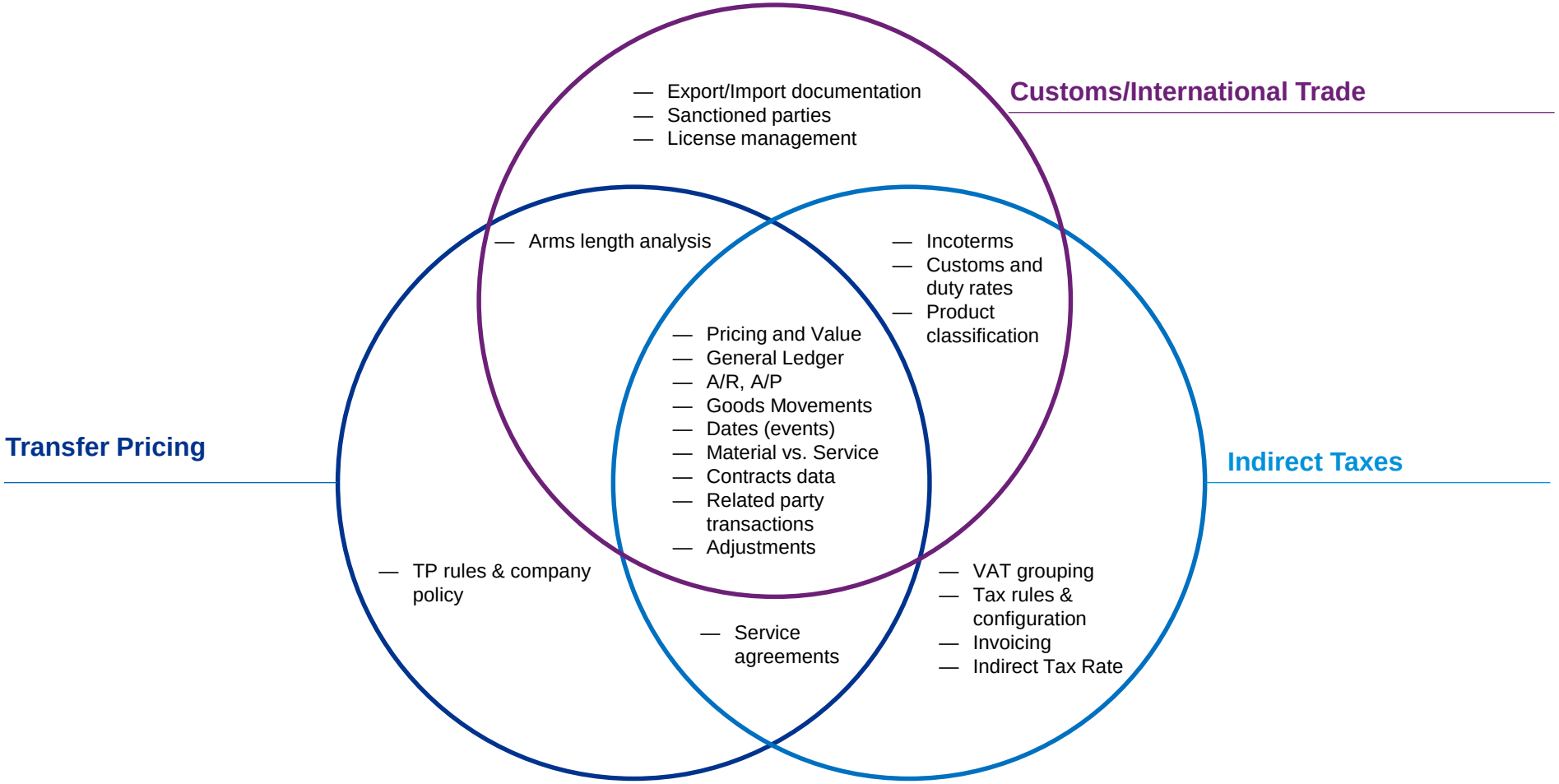
— **ensuring compliance** with local laws and regulations associated with cross-border trade

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

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

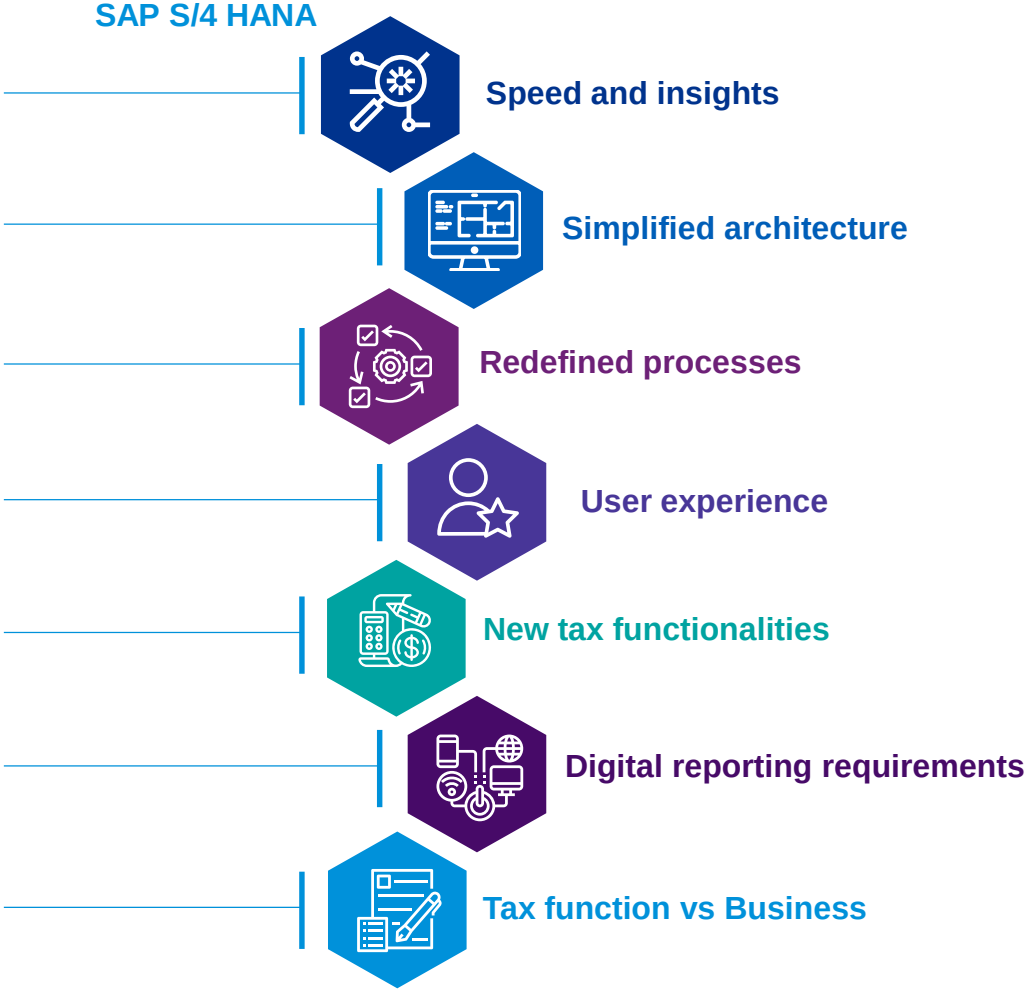
KPMG capabilities include in-depth SAP GTS implementation experience in key industries, in different sectors, as well as experience with automated trade management in adherence with trade regulations in more than 80 countries around the globe.

Common Data, Different Users



The main benefits of SAP S/4 HANA

SAP S/4 HANA



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, columnar database significant reduction in data footprint

— Master Data concept friendlier to indirect tax concerns

Redefined processes

— Real-time advanced analytics

— Embedded AI technology

— Core modules for logistics (supply chain), financial planning and accounting, customer and vendor management

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

— Efficient support when determining indirect tax

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

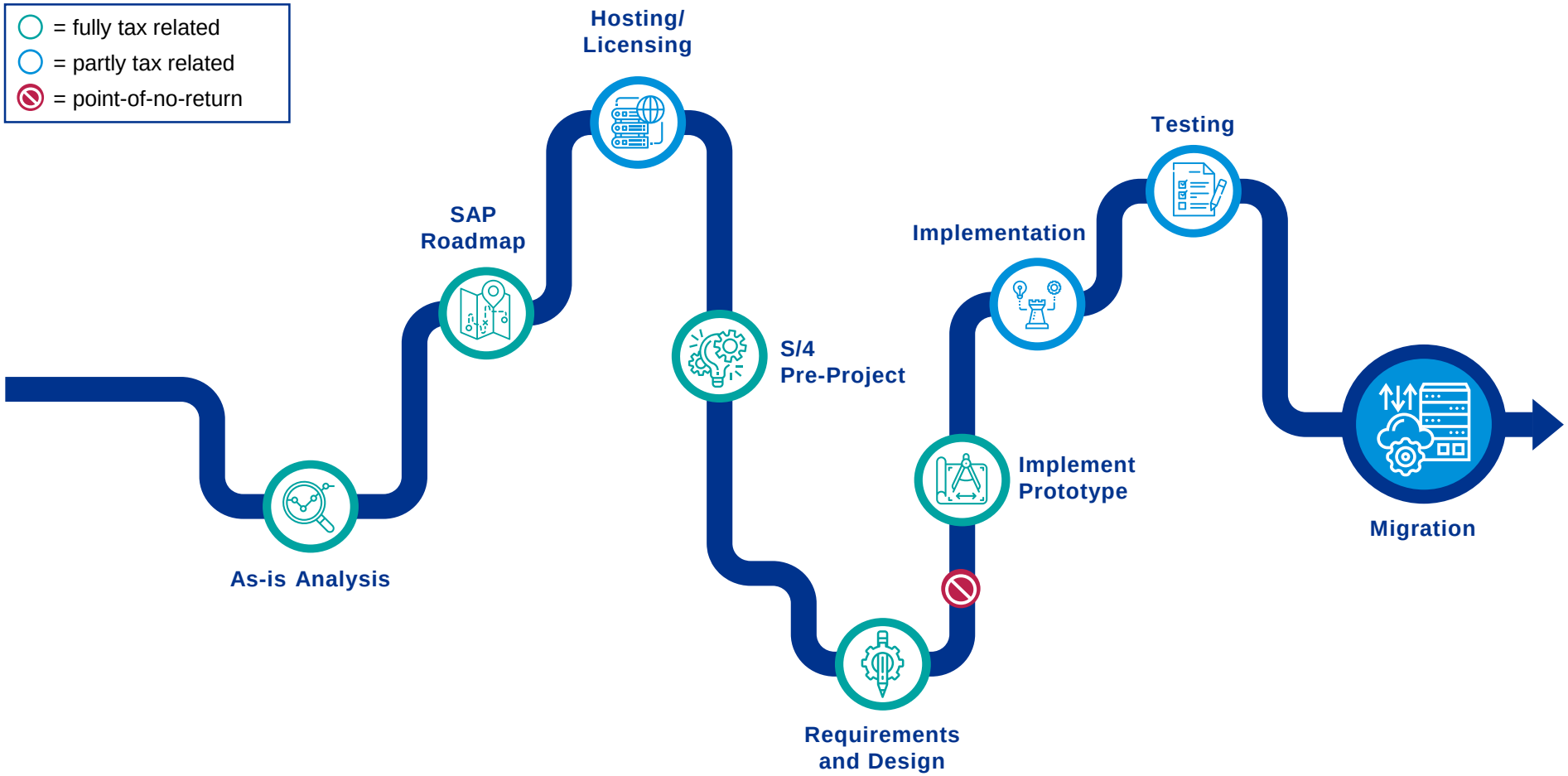
… Efficiency increase/cost saving

- 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 optimization potential

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

Milestones in the S/4 HANA implementation



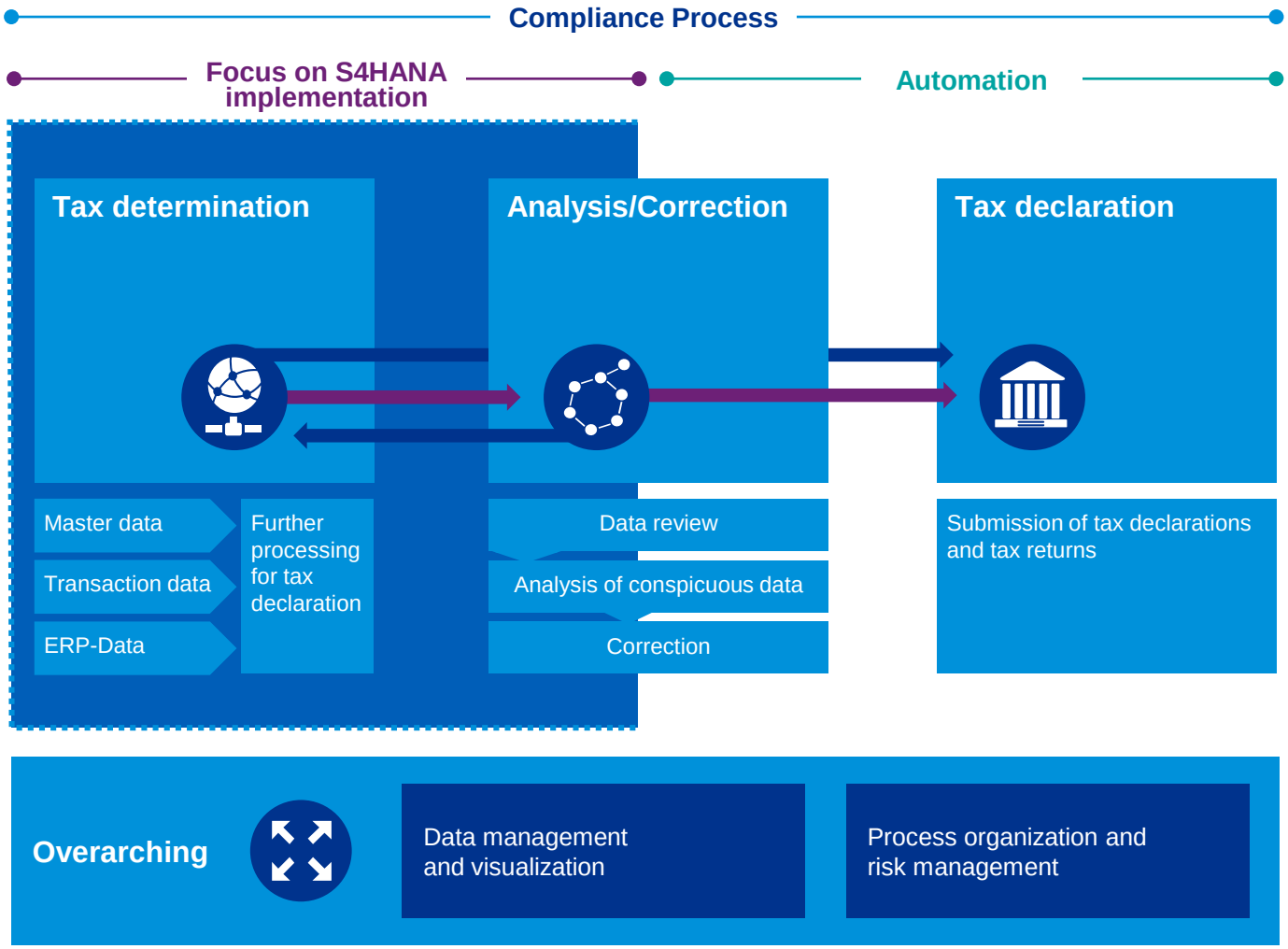
Treatment of indirect tax issues in business processes

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 related to the type of tax and focuses on short-term analysis and correction and the execution of tax returns.

From a VAT point of view, 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.



Global Trade Management (GTM) and its 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**
- ✓ **Reduced duties paid**
- ✓ **Improved customer experience**
- ✓ **Centralized reporting that reflects the regulatory, supply chain and end-to-end business reality**

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, making sure that indirect tax and customs law requirements are integrated into your company's systems and processes holistically.

Indirect Tax and Trade & Customs departments should be part of every SAP S/4HANA implementation and/or migration project 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 when it comes to 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 a company's 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 an indirect tax perspective, the following items should be considered during integration

- VAT knowledge management (legislative overview and localization)
- Automation of Indirect Tax determination (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 analyses)
- VAT account reconciliation
- Supply chain structure overview (considering „plant abroad" activation)
- Analyses of inter-company transactions, inventory management, foreign-exchange logic
- Translation of various VAT simplifications into IT language (among others drop shipments, point of entry, triangulation, ancillary nature, service vs goods, domestic reverse charge, VAT exemptions, pro-rata input VAT 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

Analysis of the status quo

- 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 this 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 based on the concrete specifications (e.g. VAT code structure, customs classification) that also considers local rules
- Engaging with other business and technology stakeholders to secure an E2E process chain design
- Analyzing stop-gaps and benchmarking with industry best practices. Defining future processes for all identified gaps.

Implementation

- Introduction of a prototype
- Migration of GL accounts, organization structures, trading flows, source data, tax and customs relevant workflows
- Testing of indirect tax and customs scenarios in the new SAP system
- Management of the indirect tax and customs (global trade) team's cutover to the new system
- Implementation of updates and enhancements into new tax modules
- Mitigation of operational and compliance risks of new technology

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.

KPMG has 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 on:

— **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

— Having knowledge of all of the major ERP applications, allowing us to **efficiently incorporate** the data needed for tax compliance and planning the design and configuration of the system

— Providing **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 have 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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