How to Configure External T*ax Event* / *Tax Code Determination* for special use cases such e.g. a 3rd party drop-shipment process or any other special use case, which are not covered fully by the standard tax determination.

Outline

Automatic tax determination in SAP Business ByDesign for an operational document, e.g. a Sales Order, is based on the following guiding principles

1. A tax event is determined for each country where business partners involved in the operational document are located, according to their specific roles described below. For a 3rd party drop-shipment process this could result in multiple country tax determinations getting executed for each operational document.
2. The relevant roles of the business partners involved are
   2.1. The contract-from (CF) party – in our example of a sales order the legal seller
   2.2. The contract-to (CT) party – the legal buyer
   2.3. The ship-from (SF) party – e.g. in a 3rd party drop shipment process, this could be a 3rd party with a warehouse anywhere in the world
   2.4. The ship-to (ST) party – the receiver of the goods which can be the buyer party but also any other party
   2.5. Specifically for services: the service location (SL) – the place and party where a service is provided
3. Tax event determination is executed by comparing specific parameters of the operational document with a country-specific parameter set that is available either in the form of tax decision trees (offered by SAP or created by PDI) or may be configured using the external tax event determination. Depending on the parameter match the relevant tax event for the country is returned.
   3.1. If the external tax event determination functionality is scoped and a valid result is obtained, then this tax event is propagated for further processing
   3.2. If external tax event determination functionality is either not scoped or does not return a valid result, the standard determination via tax decision trees is executed, thus it is ensured that a final and valid result is always made available
4. Tax events have, amongst others, a characteristic defined by SAP that makes them “taxable” or non-taxable” tax events. The non-taxable ones across all countries are usually tax events 1 (non-taxable purchase), 200 (import scenario) and 300 (non-taxable sale).
5. Tax country determination is executed in potentially 4 steps detailed below – a country is determined as tax country if the following applies
   5.1. The tax event returned for this country is the only taxable tax event overall
   5.2. No taxable tax event has been determined and the resulting tax event is the only non-taxable tax event (e.g. we have only one country returning a non-taxable tax event)
   5.3. If none of the above are true, specific fallback solutions apply based on the parameters e.g. of the product line items or other
   5.4. The fallback tax country for a third-party deal scenario is determined as the country of the SF partner role

External Tax Event Determination for Goods and Services

The new configuration solution for external tax event determination operates within these guiding principles. Given an appropriate parameterization, any tax result desired may be obtained.

The parameters of an operational document that are relevant for the tax event determination may be inspected online by use of the tax trace functionality, the details of which may be reviewed in the help center searching for ***Tax Trace Details***.

A valid configuration entry consists of the following parameters

a) Configuration item ID – a two digit ID / key field for the configuration entry
b) Valid-for country – the country to which the respective entry applies and for which the specific tax event is to be defined
c) Tax Category – prefilled with “Product Tax”, no further tax category is presently supported
d) Tax Event Direction – two options are
    a. “Incoming” for purchasing
    b. “Outgoing” for sales
e) Valid-from / Valid-to dates – validity dates of the configuration entry, required to also validate the tax event result
f) Third-Party Deal Scenario (TPDS) indicator –to be set explicitly if the configuration entry relates to a TPDS operational document, please check the tax trace details for this
g) Tax Event – evaluation result to be propagated for further processing in case of a positive parameter match
h) Tax Code (only tax codes registered for chosen tax event are offered) – evaluation result to be propagated, the tax code does not need to be set when it is e.g. necessary to derive a tax code based on the parameters of the product line items (standard rate, reduced rate etc.) but can be used to always enforce a specific tax code in an operational document (e.g. if there are specific purchasing scenarios for which the automatic determination of a tax code with a special deductibility would be required).

During execution of a tax event determination for an operational document, the configuration entries relevant to the case are selected using parameters b)-f) and then an evaluation of the selected relevant configuration entries for the remaining parameters is executed in detail. These remaining parameters are

i. The location details of the participating relevant parties / locations. These may be defined
    a. By specifying a dedicated single country
    b. By specifying the business partner to be located within a certain region or specific area like e.g. within the European Union (EU) or outside the EU. A number of special areas are offered.
    c. If the “valid-for country” specified in b) above is the United States of America (US), a further field “Tax Jurisdiction of Bus. Part. Role” becomes available; here the tax jurisdiction to be propagated in case of a positive result may be maintained; it is preset with the CF party for an outgoing and CT party for an incoming tax event direction. Fallback rules for the case that the selected jurisdiction party role is actually not located in the US are:
        i. The system checks if one of the other business partner roles is located in the US and defaults this

    ii. If none or more than one business partner role are located in the US, a manual input in the operational document needs to be made

ii. Tax Details – these offer further specifics like tax exemption reasons per tax type related to the business partner roles for which location details with a single country have been maintained

iii. Additional parameters
    a. Product type – entry valid for a specific product type only
    b. When product type “Material” is chosen, a further indicator “Material related to Service (Order)” becomes available. This feature will check if a material product line is contained in or originates from a service order, thus materials used as e.g. replacement or spare parts from service orders may be taxed differently from normal product sales.

With the exception of the parameter “Third-Party Deal”, which is evaluated explicitly during comparison of the configuration entry parameters with the operational document parameters, all other parameters

1) Can either be set and will then be evaluated explicitly. A positive match of one parameter will result in the evaluation of the next parameter until all parameters of the respective entry are evaluated. A negative match of a parameter will invalidate the entire configuration entry for the given use case.
2) Or can be left initial and will be treated as unspecific wild card entries. The priority of an entry with e.g. 5 wild card parameters is lower than for an entry with only 2 wild card entries in the final determination of the most relevant result for a use case.

A specific combination of parameters represented by an entry may exist only once, the system will check for duplicate entries to ensure that any result obtained is unique. It is thus possible to build a hierarchy of configuration entries for a country if many different use cases are to be covered, the one with highest priority being the one where all parameters are maintained explicitly, the one with lowest priority being the one where only parameters b)-f) are defined.

During execution of a tax event determination for an operational document, the system will thus evaluate all applicable configuration entries for each country according to the criteria laid out and – when positive matches have been obtained - determine the most relevant one according to the specificity of the entry (related to the wild card count and the party location details).

The tax event maintained for the most relevant entry as well as the tax code (if maintained) is then propagated as the final result of the tax event determination for the respective country. For country United States of America, the maintained tax jurisdiction is also returned.

How to obtain the desired tax result / tax country for your use case

Given the example of a third-party drop shipment scenario involving business partners in three different countries A, B and C and multiple operational documents like a sales and purchase order, customer and supplier invoice to be created for the respective parties, how do you proceed to obtain the desired result for taxation in the respective documents ??

I. Scope the external tax determination functionality without creating any entries in the configuration at first, this will already propagate the relevant parameters from the operational documents to the tax trace during tax determination

II. Create the source documents like sales / purchase order and check the result of tax determination, in this case derived from the evaluation of the tax decision trees. If the result obtained is not the desired one, the configuration is required to address the special use case. Activate the tax trace functionality in the operational document and check the parameters
III. Create the necessary configuration entries based on the parameters from the tax trace for the operational document, rerun the tax determination for the operational document and check the result, adapt the entries as required

As outlined in the guiding principles above, the tax event determination is executed for all three countries in our example and the tax country is determined in the post processing of the tax event determination according to the priorities defined in guiding principle 5. Thus, if e.g. country B is required to be the tax country for the operational document, it is necessary that the tax events for countries A and C are returned as non-taxable tax events. Country B will then be determined as the tax country if

a. Either the tax event returned for country B is the only taxable tax event
b. Or the tax event for country B is non-taxable and a corresponding tax code is provided.

Setting up the configuration entries for our example use case, thus two possibilities now exist with release 1702

i. For a given parameter set in the operational document, three individual entries need to be created for countries A, B and C respectively with the same / similar parameter set such that the entry evaluation routine will determine the three entries as the relevant result entries. The tax events for countries A and C need to be set to non-taxable tax events and the tax event for country B as required. This set of 3 entries needs to be created for every use case / operational document if none of the already existing entries apply.
ii. New with release 1702 is the indicator "Enforce country as tax country" in the configuration entry. In our example, only one entry is now required for country B using the parameter set based on the operational document tax trace with the desired tax event / tax code combination as end result and the indicator set to true. Upon execution of the tax determination for all three countries, the system will execute the following steps
    a. When evaluating for country B, the system will retrieve the entry and – in case of a positive match with highest priority – return the tax event / tax code as the final result for country B
    b. When evaluating for countries A and C, the system will not retrieve an entry for the dedicated countries since none have been maintained. It will however check if entries for any of the three countries A, B and C exists where the indicator "Enforce country as tax country" is set. In our case it will retrieve the one entry for country B. The evaluation of the parameters in this entry will again result in a positive match and the system will return non-taxable tax events for countries A and C since they are different from country B for which the entry is maintained Thus the need for the creation of multiple entries for the same scenario is greatly reduced.

The specific feature to automatically return non-taxable tax events for countries A or C is however only active if no further configuration entries exist for countries A or C dedicatedly. If some exist, these and only these will be evaluated.

External Tax Determination for Goods and Services

Version: [redacted] Business Option: **Cash Flow Management: Tax Management: Tax on Goods and Services: External Tax Determination for Goods and Services**

Save and Close | Save | Close

You can create and edit parameters for the external determination of incoming and outgoing tax events for product tax.

Add Row | Delete

* Config... Item ID	Description	* Valid-for Country	Enforce country as tax country	* Tax Category	* Tax Event Direction	* Valid From	* Valid To	* Tax Event
Z1	Aaaa	KR - South Korea		1 - Product Tax	1 - Outgoing	17.01.2017	31.01.2017	300 - Non-Taxable Sale
Z3	Bbbb	US - United States		1 - Product Tax	2 - Incoming	01.01.2017	31.01.2017	11 - Use Tax (Direct Pay Permit)

Details Product Tax Event Determination

Location Details

Ship-From:	1 - Single Country	CA - Canada
Ship-To:	2 - European Union	
Contract-From Party:	1 - Single Country	US - United States
Contract-To Party:		
Service Location:		
Tax Jurisdiction of Bus. Part. Role:	CT - Contract-to Party	

Additional Parameters

Product Type:	1 - Material
Material relates to Service (Order):	
Third-Party Deal:	✓

Tax Details

Ship-From:	2 - HST	3 - Non Taxable Product
Ship-To:		
Contract-From Party:		
Contract-To Party:		
Service Location:		

Tax Code Details

Use dedicated Tax Code: