SAPinsider

SAP S/4HANA - What are the tax implications?

Vicky Bradford, PwC — December 2, 2021

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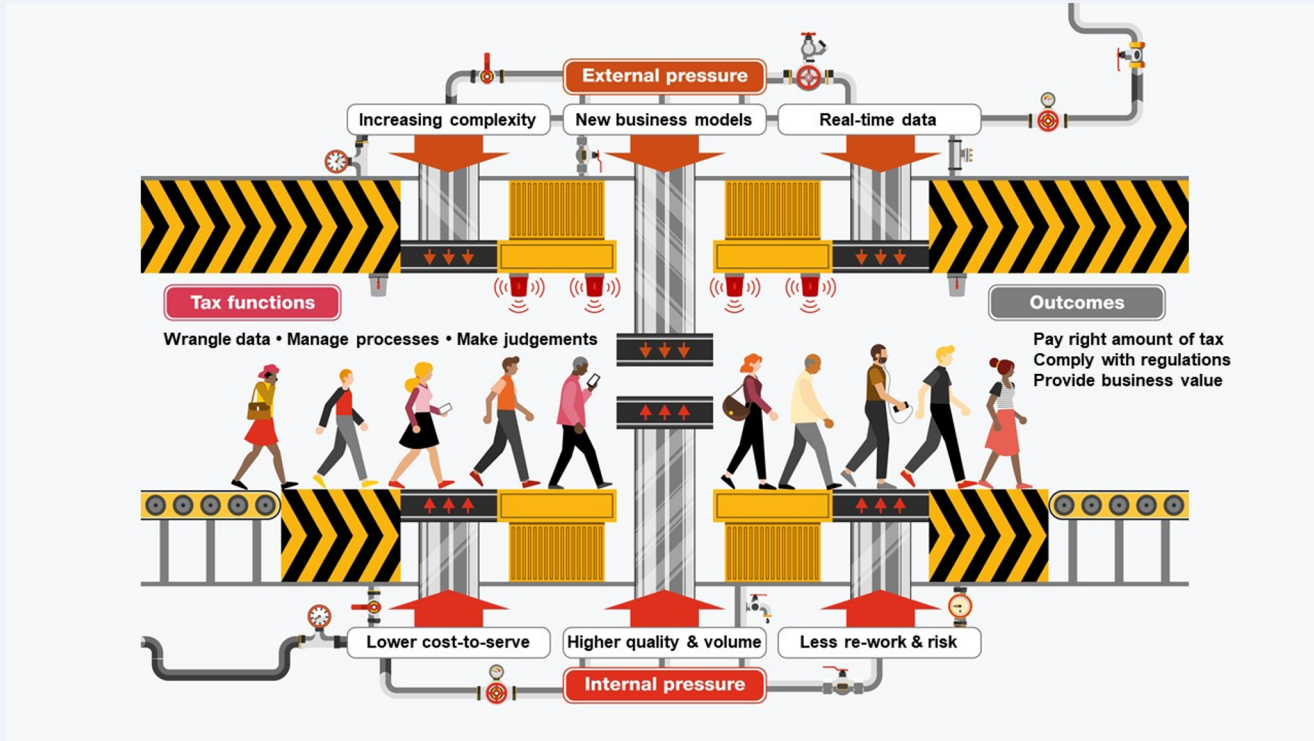**PwC UK**
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What We'll Cover

- The challenges impacting the Tax Department Today
- Putting Potential into Practice - the role of the tax business integrator
    - Technology and architecture
    - Data
    - Process
    - People and organization
- What impacts a Tax Department Today
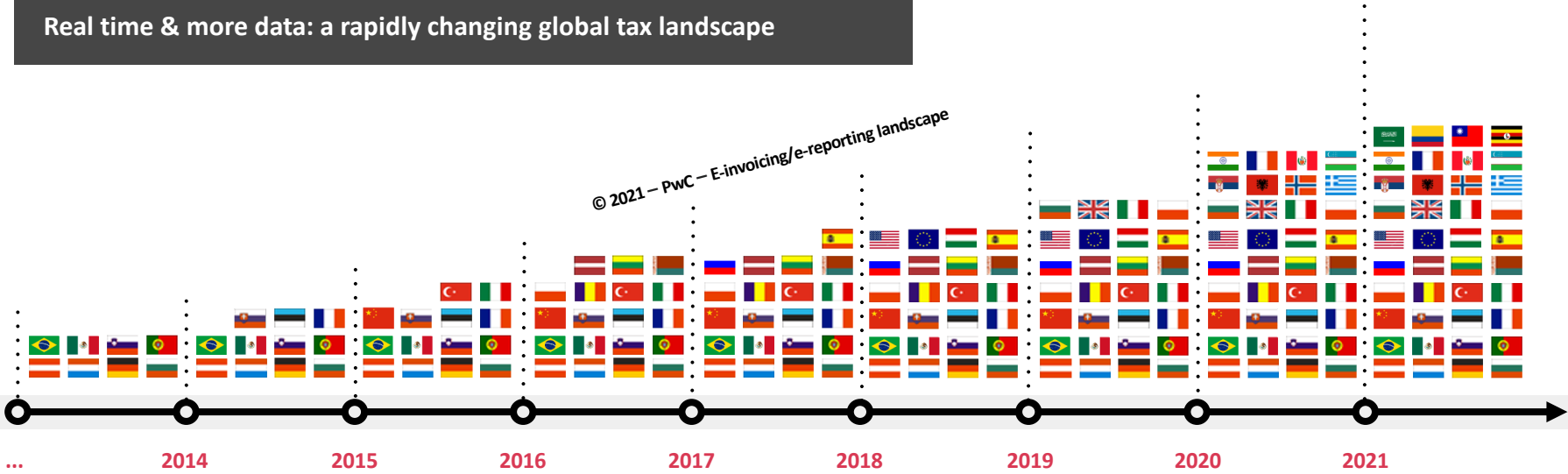
What impacts a Tax Department today?

The challenges impacting the Tax Department today?

Why should Tax have a seat at the table?

Real time & more data: a rapidly changing global tax landscape

© 2021 – PwC – E-invoicing/e-reporting landscape

...   2014   2015   2016   2017   2018   2019   2020   2021

Different measures | **On request e-audit requirements** | **Real-time reporting** | **Mandatory e-invoicing**

Putting potential into practice - The role of a tax business integrator

What is a Tax Business Integrator?

As Tax Business Integrators, we focus on 4 key areas in an SAP S/4HANA implementation

Technology and architecture

- Support and input into key design decisions
- Which SAP S/4HANA modules to use?
- What are the use cases?

People and organization

- Do you have the right skills in the team to deliver transformation
- How do you align with wider cost-based transformation and optimization initiatives?

Data

- How is data for tax is included in the master data harmonization, cleanse and migration program?
- How will you monitor the quality of data going forward?

Processes

- Developing new processes.
- Alignment with any changes to operating model.

Why use a Tax Business Integrator in an SAP S/4HANA implementation?
The Journey

1. Define the Tax vision
- Incorporating **Governance framework, operating** model, and associated **key design principles**

Global design

2. Document commercial/ tax model
- Document the commercial model by developing a **Trade Route Master**
- **Document the key design decisions**

3. Create global template
- Create the c**ommon SAP S/4HANA template** to deliver the tax vision including **tax sensitive finance process design** (O2C, P2P)

Local design

4. Capture local Tax, Legal and Statutory requirements
- Document **localization requirements** in a **requirements traceability matrix** (RTM) to track requirements through build, testing and go live

Construct

5. Fit to Standard
- Workshops to **playback design** and **identify** and **address potential gaps**
- **Validate detailed design including** tax codes and determination logic with in-country finance and **sign off**

6. Deep dives
- **Complex jurisdictions or requirements** may require **additional deep dives** with the SI to work through non-standard solutions/workarounds

Deploy

7. Training, Testing, Cutover
- Document **strategy** for tax testing
- Tax support in all levels of testing including creating **test scripts**
- Manage defects to close
- End-user training
- Cutover preparation

Go-live

8. Post go-live support
- I**dentifying, triaging, prioritizing issues** and determining path to resolution in conjunction with SI
- Support in transition to Business as Usual

Why use a Tax Business Integrator in an SAP S/4HANA implementation?
Key Benefits

Upfront structured collation of TLS requirements to avoid late changes and expensive rework

Broader experience and perspective on Key Design Decisions (e.g. native SAP S/4HANA vs external tax engine)

Linkages to territory tax SMEs to quickly collate and analyze local TLS requirements

Combing global mindset with local content

Proven methodology and accelerators to meeting deployment timetable

Ability to scale up/scale down resource over life of project

Minimize distractions for in house tax from other value added activities

BI influence to police and minimize requested variations from standard template

Linkage to other inflight planning strategies

Ability to leverage global learnings across multiple implementation waves

Technology and architecture
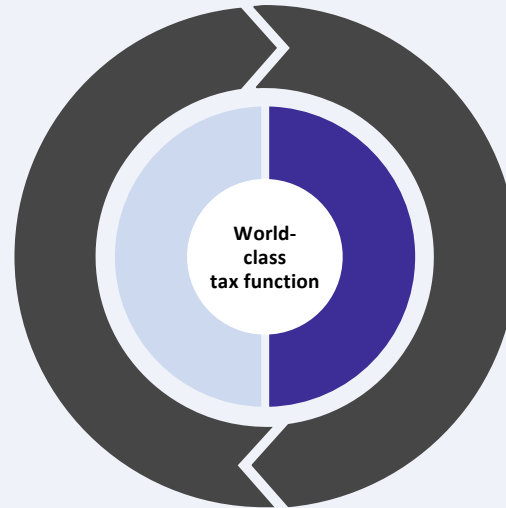
Implementing the right way...

Standing up the technology

Upstream process design

Requirements gathering

Understanding granularity of data needed

Integrations points with other areas of Finance

World-class tax function

Keeping the technology fit for purpose

Continued monitoring

Meaningful analytics

Return level controls

Technology managed services

Change management action plan

Making key design decisions

Understand the as is

Current state assessment, pain points, opportunities and linkages with wider finance and IT strategy.

Gathering insights across the various teams enabled by technology to ensure right solution right problem and an appropriate cost to value ratio.
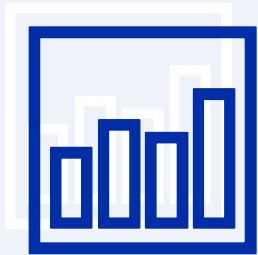
Document key design decisions

Using findings from the as is analysis, run interactive and iterative workshops to categories and priorities Options Analysis and Key Design Decisions.

Future proof design

The iterative process will deliver a future proofed tax data and technology strategy recognizing the non-static nature of the landscape
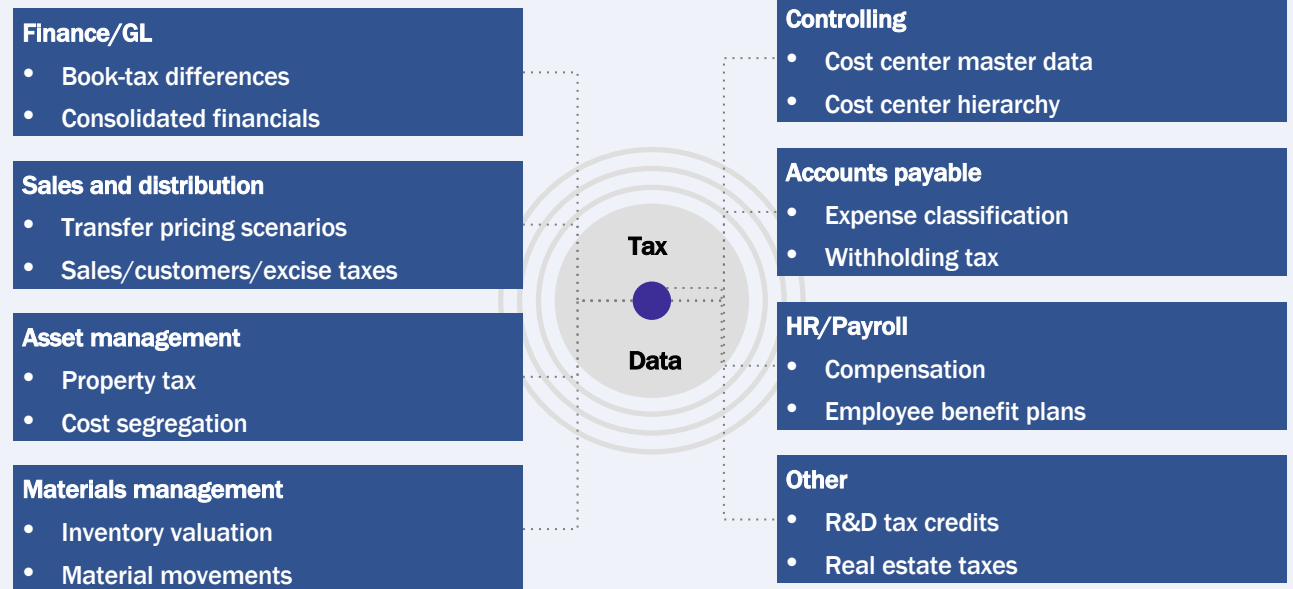
Data

Tax sensitive business data

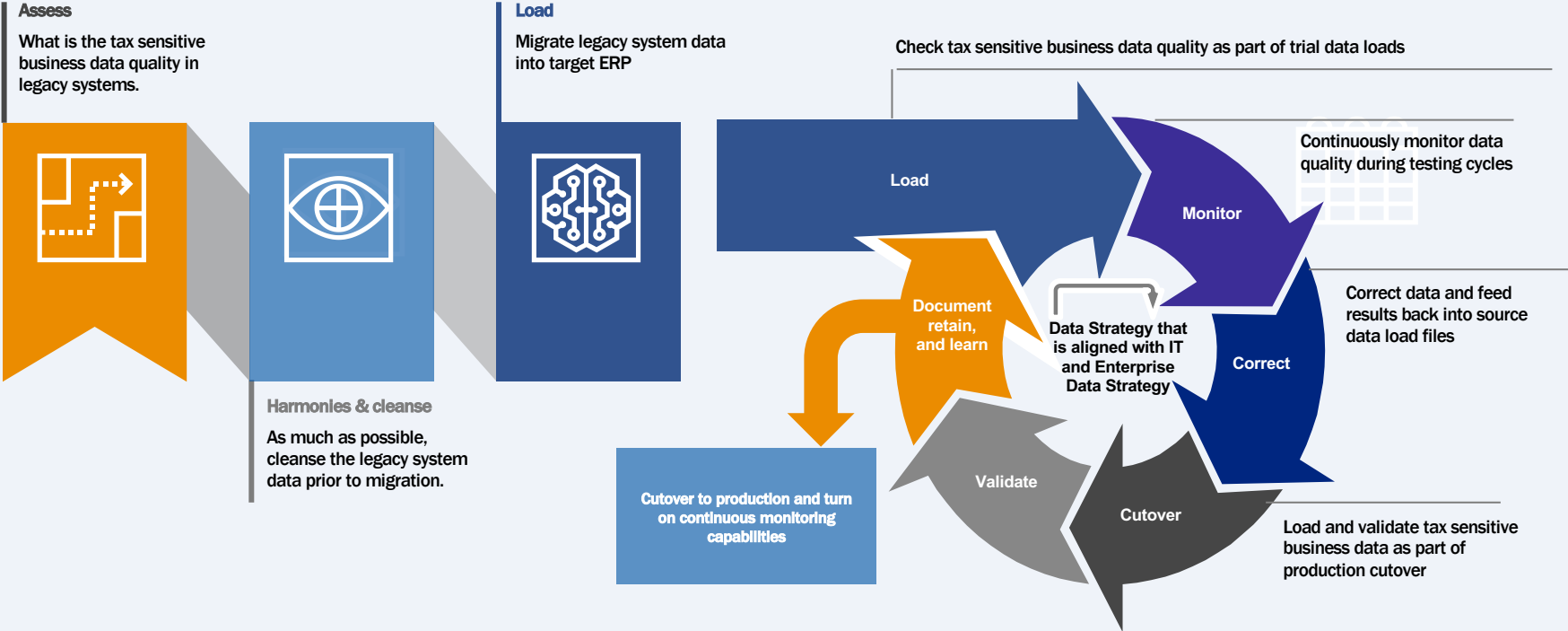Today's Tax Functions live and die by the quality of their ERP data

Global trends such as Tax Authority e-Comms require agile, alternative and sophisticated data analytics capability to ensure real time compliance does not prevent the business from operating.

The data required for tax reporting is broad and can be found in almost all functional areas of an ERP system.

Finance/GL
- Book-tax differences
- Consolidated financials

Sales and distribution
- Transfer pricing scenarios
- Sales/customers/excise taxes

Asset management
- Property tax
- Cost segregation

Materials management
- Inventory valuation
- Material movements

Tax Data

Controlling
- Cost center master data
- Cost center hierarchy

Accounts payable
- Expense classification
- Withholding tax

HR/Payroll
- Compensation
- Employee benefit plans

Other
- R&D tax credits
- Real estate taxes

SAP S/4HANA tax data strategy

Migrating legacy transaction and master data from multiple sources into a single global instance of SAP S/4HANA can cause significant delivery and post go-live challenges that affect cash flow and business processes. Implementing an SAP S/4HANA tax data strategy helps identify problems in legacy data, fix the data problems in the ERP and ensure post go-live tax data problems do not have a material impact on finances and business activities

Assess

What is the tax sensitive business data quality in legacy systems.

Harmonies & cleanse

As much as possible, cleanse the legacy system data prior to migration.

Load

Migrate legacy system data into target ERP

Check tax sensitive business data quality as part of trial data loads

Load

Monitor

Continuously monitor data quality during testing cycles

Document retain, and learn

Data Strategy that is aligned with IT and Enterprise Data Strategy

Correct

Correct data and feed results back into source data load files

Cutover to production and turn on continuous monitoring capabilities

Validate

Cutover

Load and validate tax sensitive business data as part of production cutover
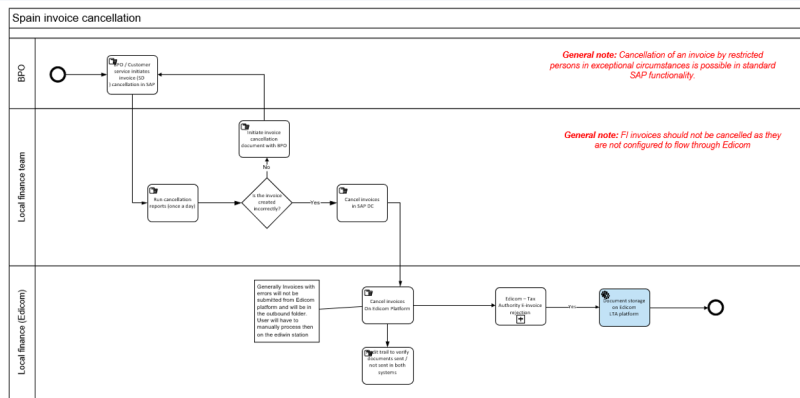
Processes

SAP S/4HANA enabled processes NT + OP = EOP

New Technology + Old Process = Expensive Old Process

The implementation of the SAP S/4HANA gives rise to the opportunity to review existing processes to take advantage of the system functionality.

In our experience a move to a more standardized global template can bring increased transparency and supports a design objective of reducing cost to service through enabling the use of lower cost service center resources.

> "
>
> *Steam-powered factories had to be arranged on the logic of the driveshaft. Electricity meant you could organize factories on the logic of a production line.*
>
> *To take advantage of electricity, factory owners had to think in a very different way*
>
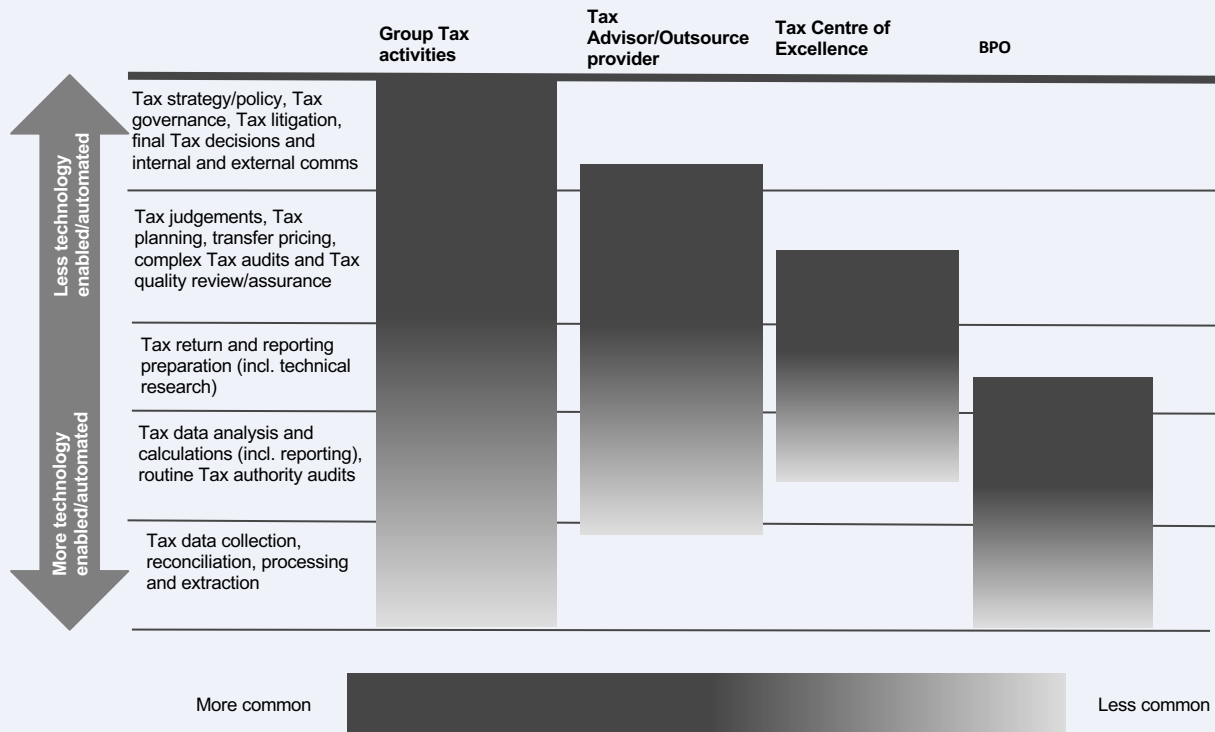> Tim Hartford - Building the agile business through digital transformation
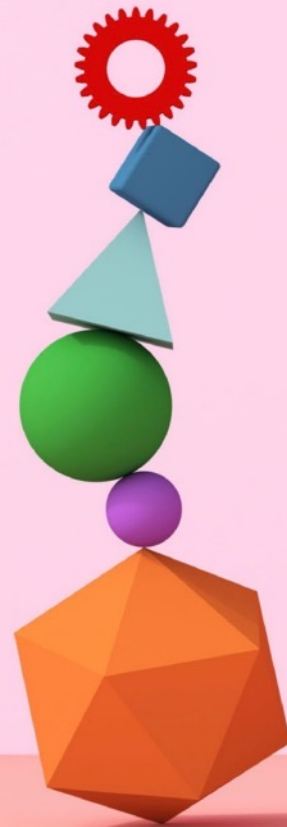
People and Organization

People and Organization

Is your SAP S/4HANA template consistent with?

- Wider cost-based transformation initiatives running in parallel?

- Key design principles that have been established for the target tax operating model, see below examples:
  - Standardization at scale
  - Right resource for right task
  - Reduce cost to serve

Columns: Group Tax activities | Tax Advisor/Outsource provider | Tax Centre of Excellence | BPO

Less technology enabled/automated ↑ / More technology enabled/automated ↓

- Tax strategy/policy, Tax governance, Tax litigation, final Tax decisions and internal and external comms
- Tax judgements, Tax planning, transfer pricing, complex Tax audits and Tax quality review/assurance
- Tax return and reporting preparation (incl. technical research)
- Tax data analysis and calculations (incl. reporting), routine Tax authority audits
- Tax data collection, reconciliation, processing and extraction

More common —— Less common

Wrap Up

Key Points to Take Home

- Assess your current state through the 4 key lenses

- Define your SAP S/4HANA vision and design principles for Tax

- Document your requirements (across all taxes and markets)

- Ensure tax is represented at Design Authority

- Business led, not technology led (the role of the tax business integrator)

Where to Find More Information

[The role of the Tax Business Integrator](#)

PwC UK website describing the role of the tax business integrator in

[Tax Business Integration - Carrots and Sticks](#)

Blog describing the importance of a tax business integrator

[What do tax functions need to think about before an ERP implementation?](#)

Blog setting out 5 key actions that tax functions should take prior to an ERP implementation

[SAP Advanced Compliance Reporting and Document Compliance](#)

Webcast recording with PwC & SAP on how SAP ACR and Document Compliance can enhance tax reporting

[Continuous Tax Data Quality Monitoring using SAP Tax Compliance](#)

Webcast recording with PwC & SAP on the use case for SAP Tax Compliance

[International Trade and SAP S/4HANA](#)

Webcast recording with PwC & SAP on International Trade and SAP S/4HANA

THANK YOU

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