

United States



Release 4.6C



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United States

Cross-Application Components

Financials

General Information

Sales and Use Tax

Definition

In the United States, tax on sales and purchases is known as sales and use tax. Sales and use tax is levied on the sale of tangible personal property and is imposed by tax authorities on transactions.

Most states in the United States impose a sales tax on sales of goods. As a general rule, the consumer bears the tax and the vendor merely acts as a collector for the jurisdiction. Most jurisdictions that impose [sales tax \[Page 13\]](#) also impose a complimentary [use tax \[Page 16\]](#) on the use or consumption of goods originating from another state. Transactions are generally subject to sales or use tax, but not both, and payment is generally self-imposed by the buyer or seller.

Use

In the R/3 System, you can configure your system to automate calculation and posting of sales and use tax. When posting a document, the system automatically determines the sales and use tax amounts and assigns the amounts to the appropriate accounts or retains the information for reporting.

SAP offers various [methods \[Page 25\]](#) to compute sales and use tax.

See also:

[Sales Tax \[Page 13\]](#)

[Use Tax \[Page 16\]](#)

[Self-Assessment Tax \[Page 18\]](#)

[Calculation Procedure \[Page 21\]](#)

[Jurisdiction Code \[Page 23\]](#)

[Tax Determination \[Page 24\]](#)

Sales Tax

Definition

Sales tax is levied on the sale of taxable goods and is imposed by the tax authorities on transactions that occur within a state. No sales tax is imposed for transactions originating outside the state when the seller is not present in that state.

Use

If you are a seller in an intrastate transaction, you must collect and remit sales tax to the tax authorities. If you are a purchaser in an intrastate transaction, the vendor must collect sales tax from you and remit it to the tax authorities.

When posting a document, the system automatically determines sales tax and assigns the amounts to the appropriate accounts or retains the information for reporting.

See also:

[Example: Posting Sales Tax \[Page 14\]](#)

Sales Tax - Imposed on Intrastate Sales

If Company 1 sells to Company 2, then Company 1 charges sales tax on the transaction because the sale is made intrastate.



Example: Posting Sales Tax**Example: Posting Sales Tax**

Here is an example from both the seller's and the purchaser's view of how sales tax is posted. We assume that the seller is responsible for collecting and remitting the sales tax.

Sales Tax on Sales - Seller's Books

In this example, you are the seller. You are posting a sales order or an outgoing invoice. The price you charge the customer includes sales tax. The sales tax appears as a credit in your tax liability account. You remit the collected sales tax to the tax authorities.

The 2% cash discount is not reflected in posting of the revenue document. Cash discounts are recognized if the invoice is paid within the discount period.

From
Company 3
New York

To
Company 1
California

Invoice

Machine	40
Service Parts	<u>60</u>
	100
Sales Tax	10
7% State 3% County	
	<u>110</u>

2% Cash Discount

Sales Revenue

	40
	60

Company 1

110	
-----	--

Sales Tax Accrual

	7
	3

Sales Tax on Purchases - Purchaser's Books

In this example, you are the purchaser. You are posting an incoming invoice. On the transaction the vendor charges a price that includes taxes.

The tax base amount may include or exclude cash discounts:


- Gross Posting

The cash discount is recognized at the time of payment with the original invoice being posted including the cash discount. Assuming the payment is made within the discount period, the payment program recognizes and posts the cash discount.
- Net posting

The cash discount is recognized when the invoice is posted. The anticipated cash discount is posted to a cash discount clearing account. When payment is made, the

Example: Posting Sales Tax

clearing account is cleared by posting to discount taken or lost account. An advantage is that the expense amount is lessened by the amount of the discount.

<div style="text-align: center;">  </div> <p>From Company 3 New York</p> <p>To Company 1 California</p> <p><u>Invoice</u></p> <table style="width: 100%;"> <tr> <td>Machine</td> <td style="text-align: right;">40</td> </tr> <tr> <td>Service Parts</td> <td style="text-align: right;">60</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">100</td> </tr> <tr> <td>Sales Tax</td> <td style="text-align: right;">10</td> </tr> <tr> <td>7% State 3% County</td> <td style="text-align: right; border-top: 1px solid black;">110</td> </tr> <tr> <td colspan="2" style="padding-top: 10px;">2% Cash Discount</td> </tr> </table>	Machine	40	Service Parts	60		100	Sales Tax	10	7% State 3% County	110	2% Cash Discount		<div style="text-align: center; border-bottom: 1px solid black; margin-bottom: 10px;"> Gross Posting </div> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border: 1px solid black; padding: 5px;"> <table style="width: 100%; border-collapse: collapse;"> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Cost</th> <th style="width: 50px;"></th> </tr> <tr> <td style="text-align: center;">66</td> <td></td> </tr> <tr> <td style="text-align: center;">44</td> <td></td> </tr> </table> </td> <td style="width: 50%; border: 1px solid black; padding: 5px;"> <table style="width: 100%; border-collapse: collapse;"> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Payable to Company 3</th> <th style="width: 50px;"></th> </tr> <tr> <td></td> <td style="text-align: center;">110</td> </tr> </table> </td> </tr> </table> <div style="text-align: center; margin: 10px 0;"> Net Posting <i>or</i> </div> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border: 1px solid black; padding: 5px;"> <table style="width: 100%; border-collapse: collapse;"> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Cost</th> <th style="width: 50px;"></th> </tr> <tr> <td style="text-align: center;">64.80</td> <td></td> </tr> <tr> <td style="text-align: center;">43.20</td> <td></td> </tr> </table> </td> <td style="width: 50%; border: 1px solid black; padding: 5px;"> <table style="width: 100%; border-collapse: collapse;"> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Payable to Company 3</th> <th style="width: 50px;"></th> </tr> <tr> <td></td> <td style="text-align: center;">110</td> </tr> </table> </td> </tr> </table> <div style="text-align: center; margin-top: 10px;"> <table style="width: 50%; border: 1px solid black; padding: 5px;"> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Clear Cash Discount</th> <th style="width: 50px;"></th> </tr> <tr> <td style="text-align: center;">2</td> <td></td> </tr> </table> </div>	<table style="width: 100%; border-collapse: collapse;"> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Cost</th> <th style="width: 50px;"></th> </tr> <tr> <td style="text-align: center;">66</td> <td></td> </tr> <tr> <td style="text-align: center;">44</td> <td></td> </tr> </table>	Cost		66		44		<table style="width: 100%; border-collapse: collapse;"> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Payable to Company 3</th> <th style="width: 50px;"></th> </tr> <tr> <td></td> <td style="text-align: center;">110</td> </tr> </table>	Payable to Company 3			110	<table style="width: 100%; border-collapse: collapse;"> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Cost</th> <th style="width: 50px;"></th> </tr> <tr> <td style="text-align: center;">64.80</td> <td></td> </tr> <tr> <td style="text-align: center;">43.20</td> <td></td> </tr> </table>	Cost		64.80		43.20		<table style="width: 100%; border-collapse: collapse;"> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Payable to Company 3</th> <th style="width: 50px;"></th> </tr> <tr> <td></td> <td style="text-align: center;">110</td> </tr> </table>	Payable to Company 3			110	Clear Cash Discount		2	
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Use Tax

Use Tax

Definition

Use tax is a tax imposed on the purchaser of sales originating from another state. The purchaser, not the seller, is liable to accrue and pay the use tax in the jurisdiction where the goods and services are consumed. Generally, there is an exemption from use tax for goods purchased for resale or production materials.

Use

If you purchase and consume goods from another state, the vendor does not charge tax on the invoice. Therefore, you are required to remit use tax to your local tax authority. If you sell goods to a purchaser in another state, you do not charge sales tax. The purchaser is liable to remit use tax to the tax authority where the goods are consumed.

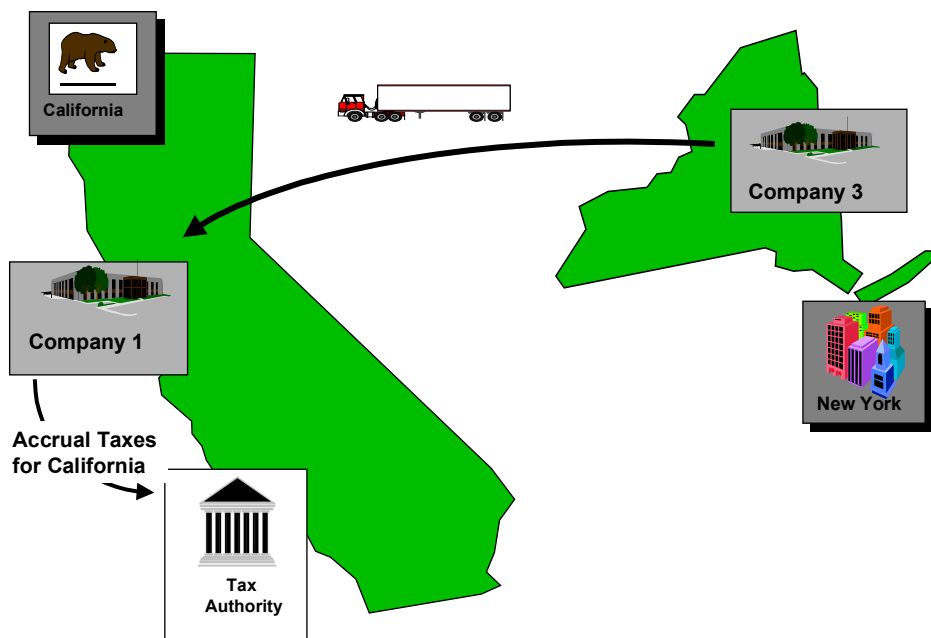
When posting a document, the system automatically determines use tax and assigns the amounts to the appropriate accounts or retains the information for reporting.

See also:

[Example: Posting Use Tax \(Self-Assessment Tax\) \[Page 20\]](#)

Use Tax - Imposed on Consumption

If Company 3 sells to Company 1, then Company 3 does not charge sales tax on the transaction. This means that Company 1 is responsible for accruing California use tax and must pay the tax directly to the state.



Self-Assessment Tax

Self-Assessment Tax

Definition

Self-Assessment tax is an extension of use tax in which companies obtain an exemption status and can pay the tax directly to the tax authorities and not to the vendor.

Use

Self-assessment tax is a common practice for large corporations. Basically, large corporations take responsibility for accruing taxes for all sales and purchases both intrastate and interstate.

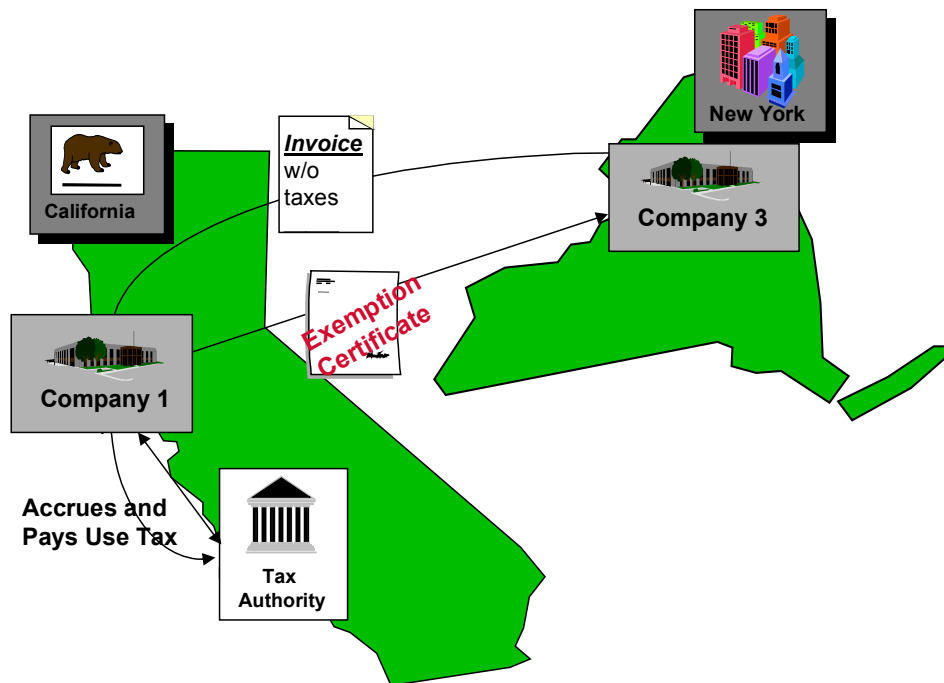
To be able to calculate self-assessment tax, a company must hold either a Direct Pay Permit or a similar exemption certificate. States that allow Direct Pay Permit issue exemption certificates to a company. In turn, the company communicates their exemption status to their vendors. This means that the vendors are not liable for taxes on transactions with the Direct Pay Permit holder.

In addition to Direct Pay Permits, there are other business scenarios in which a company is provided an exemption. For example, raw materials that will be used in a manufacturing process are typically not taxed. Some states make essential foods, such as fruits, vegetables and milk tax-exempt.

Self-Assessment Tax - Tax Accrual for Use Tax

Company 1 is a Direct Pay Permit holder and notifies the vendor, company 3, of this status. When Company 3 sells products to Company 1, it does not charge tax on the transaction due to the exemption. Instead, Company 1 accrues taxes on the transaction and remits them to the tax authorities.

Self-Assessment Tax



Example: Posting Use Tax**Example: Posting Use Tax**

Here is an example from the purchaser's view of how use tax is posted. We assume that the purchaser is responsible for remitting the use tax.

Use Tax on Purchases (Self-Assessment) - Purchaser's Books

In this example, you are the purchaser. You post an incoming invoice. The price that the seller charges does not include sales tax. Therefore, you are responsible for remitting the accrued tax to the tax authorities where you consume the goods.

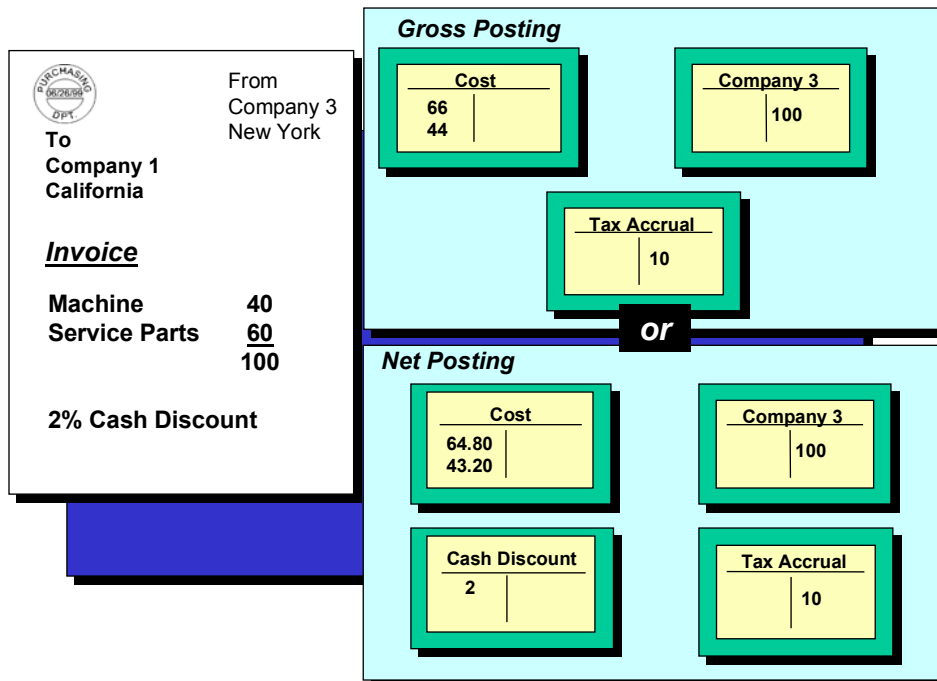
The tax base amount may include or exclude cash discounts:

- **Gross Posting**

The cash discount is recognized at the time of payment with the original invoice being posted including the cash discount. Assuming the payment is made within the discount period, the payment program recognizes and posts the cash discount.

- **Net posting**

The cash discount is recognized when the invoice is posted. The anticipated cash discount is posted to a cash discount clearing account. When payment is made, the clearing account is cleared by posting to discount taken or lost account. An advantage is that the expense amount is lessened by the amount of the discount.



Calculation Procedure

Definition

See [The Calculation Procedure \[Ext.\]](#).

Use

To calculate sales and use tax in the United States, you must assign one of the three calculation procedures, namely, TAXUSJ, TAXUS, and TAXUSX. The calculation procedure you choose depends on your specific business requirements.

When you create a company code using the template for the United States, the system automatically creates the following calculation procedures.

- TAXUS - Based on tax codes, but not jurisdiction codes (Non-jurisdiction method)
- TAXUSJ - Based on tax jurisdiction method with tax codes (Jurisdiction method)
- TAXUSX - Used in combination with third-party tax calculation packages (TAXWARE International and Vertex)

A calculation procedure is assigned by country. The relationship is that a country has only one calculation procedure but a calculation procedure can be assigned to many countries.

Tax Code

Tax Code

Definition

See [Tax Codes \[Ext.\]](#).

Use

When you create a company code using the template for the United States, the system sets up sample tax codes for the calculation procedures TAXUSJ and TAXUSX. You can either use the tax codes provided or create your own using these as samples.

Tax codes for TAXUSJ

Tax code	Description
S0	A/R Sales Tax, exempt
S1	A/R Sales Tax, taxable
I0	A/P Sales Tax, exempt
I1	A/P Sales Tax, taxable
U0	A/P Use Tax, exempt
U1	A/P Use Tax, taxable

Tax codes for TAXUSX

Tax code	Description
I0	A/P Tax Exempt
I1	A/P Sales Tax
I3	A/P Lease Tax
O0	A/R Tax Exempt
O1	A/R Sales Tax
O2	A/R Service Tax
O5	A/R Sales Tax (Product Code 9937299)
U1	A/P Self Assessment Use Tax

Tax Jurisdiction Code

Definition

The United States consists of more than 55,000 jurisdictions. A jurisdiction is the taxation authority that imposes the tax. Each jurisdiction is identified by a tax jurisdiction code. This code provides the location for the transaction to be taxed.

The tax jurisdiction code is a key, which together with the tax code and other parameters, determines the tax amount and the way in which payment of the entire tax amount is divided between different tax authorities.

The R/3 System can handle up to four jurisdiction levels for calculation procedure TAXUSJ and six jurisdiction levels for calculation procedure TAXUSX. Each jurisdiction level has its own jurisdiction code.

Use

When posting a document or calculating prices, you use jurisdiction codes in combination with tax codes to calculate tax amounts. Moreover, the jurisdiction code determines how the tax amount is divided among the different tax authorities.

If you use the tax calculation method with jurisdictions, you have two options to calculate taxes:

1. Using calculation procedure TAXUSJ, you manually enter the required jurisdiction codes and enter the corresponding tax percentages.
2. Using calculation procedure TAXUSX, you calculate taxes in an external system which contains jurisdiction codes and their corresponding percentages.

Structure

A jurisdiction structure is a freely definable 15 character field with up to four levels. A level corresponds to a tax authority such as state, country or local government.

For example, a jurisdiction code using the TAXUSJ structure has nine characters with the first two denoting the state, the next three denoting the county or parish within the state and the last four denoting the city.

- Jurisdiction of the state of Pennsylvania - PA0000000
- Jurisdiction of the county of Allegheny - PA0010000
- Jurisdiction of the city of Pittsburgh - PA0010100

Integration

Jurisdiction codes are defined for key master records. For sales transactions, the jurisdiction code is determined based on indicators on the customer and material. For purchasing transactions, the jurisdiction code is determined based on indicators on the material for simple tax scenarios.

Tax Determination

Tax Determination

Use

The system automatically determines the amount of tax and how the tax is distributed among jurisdictions. Several factors influence tax determination such as the origin and destination of goods and the material/customer taxability.

In a sales transaction, the ship-to location determines the jurisdiction code. In a purchasing transaction, the location where consumption occurs determines the jurisdiction code.

Other factors that influence the tax rate include:

- Customer taxability
Some customers such as non-profit organizations may be tax exempt.
- Material taxability
Raw materials used for manufacturing will typically be exempt while finished goods are typically taxable. Another example - race horses may have a different tax rate than farm horses.

Indicators on the customer and material master records allow you to determine taxability. These indicators are used in condition records to specify the tax code in transactions. For example, the customer and material taxability indicators are criteria in determining tax codes in a sales transaction.

Methods of Calculating Sales and Use Tax

Use

SAP offers three methods to calculate sales and use tax. You select the method according to your specific requirements. Once you choose your method, you customize the system accordingly.

Features

The three methods include:

- **Non-jurisdiction method**

With this method, you allocate percentage rates to tax codes. This method is seldom used.

- **Jurisdiction method**

With this method, you manually define the jurisdiction for every region in which you do business.

- **Jurisdiction method with external tax calculation system**

With this method, you automate tax compliance activities by using an [interface to an external tax calculation system \[Page 59\]](#).

The choice of methods is a parameter in configuring the country's global settings. Every company assigned to the country uses the same method. The parameter is called the [calculation procedure \[Page 21\]](#).

Every method has the same final goal of applying appropriate tax percentages to line items in SD, MM, and FI. The non-jurisdiction method establishes rates separately in these areas using tax codes while jurisdiction methods use jurisdiction codes to determine the tax rates.

In the R/3 System, you use jurisdiction codes for calculating taxes if you have transactions with business partners whose locations have many jurisdictions or if you expect that it will be the case in the future.

You can also opt to calculate taxes without jurisdiction codes. This method only applies when your business partners are located in a few jurisdictions. You simply allocate percentage rates to the different tax codes.

The jurisdiction method with an external tax calculation system is used when a company operates in many tax jurisdictions.



Once you choose your method, with or without jurisdiction codes, it is difficult to switch to another. SAP recommends that you use an external tax calculation system to avoid manual data entry that can be time-consuming.

Customizing for Jurisdiction Method

Purpose

When you use the jurisdiction method, you must customize your R/3 System accordingly.

Prerequisites

The calculation procedure for country US is TAXUSJ.

Financial Accounting

Check Calculation Procedure

Check Calculation Procedure

Use

In the activity *Check Calculation Procedure*, you check and maintain the calculation procedure settings. The calculation procedure contains the necessary specifications for the calculation and posting of sales and use tax in the United States.

Procedure

To check these settings, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Basic Settings* → *Check Calculation Procedure*.

You can also use transaction OBYZ or VK01. If you use VK01, enter **A** in *Usage* and **TX** in *Application*.

Next, you choose from the following:

- [Condition Types \[Page 29\]](#)
- [Access Sequences \[Page 31\]](#)
- [Procedures \[Page 32\]](#)

See also:

[Check Calculation Procedure \[Ext.\]](#)

[The Calculation Procedure \[Ext.\]](#)

Condition Types

Use

In Customizing for *Financial Accounting*, you check and change, if necessary, the condition types that are set up for sales and use tax.

In Customizing, you must maintain the condition types in both *Financial Accounting* and *Sales and Distribution*. Even though the condition types are found in the same table (T685), you still have different views depending on your transaction. For the menu path in *Sales and Distribution*, see [Maintain Condition Types \[Page 42\]](#).

Prerequisites

The [access sequence \[Page 31\]](#) is properly configured.

Procedure

To maintain the condition types, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Basic Settings* → *Check Calculation Procedure*. Choose *Condition Types*.

Check to see if the condition types exist. If condition types do not exist, copy T685 from client 000 by using the program RSAVGL00.



If additional taxes were set up for jurisdiction codes for another country, you need to define new condition types for these other jurisdiction codes.

The following table is a sample view of T685A showing the existing condition types.

Condition Type	Access Sequence	Description	CC	CT	CON	ME	P/M	IM
JP1E	TAXJ	A/P Sales Tax 1 Exp.	1	A	D			x
JP1I	TAXJ	A/P Sales Tax 1 Inv.	1	A	D			x
JP1U	TAXJ	A/P Sales Tax 1 Use	1	A	D	D	x	x
JP2E	TAXJ	A/P Sales Tax 2 Exp.	2	A	D			x
JP2I	TAXJ	A/P Sales Tax 2 Inv.	2	A	D			x
JP2U	TAXJ	A/P Sales Tax 2 Use	2	A	D	D	x	x
JP3E	TAXJ	A/P Sales Tax 3 Exp.	3	A	D			x
JP3I	TAXJ	A/P Sales Tax 3 Inv.	3	A	D			x
JP3U	TAXJ	A/P Sales Tax 3 Use	3	A	D	D	x	x
JP4E	TAXJ	A/P Sales Tax 4 Exp.	4	A	D			x
JP4I	TAXJ	A/P Sales Tax 4 Inv.	4	A	D			x
JP4U	TAXJ	A/P Sales Tax 4 Use	4	A	D	D	x	x

Condition Types

JR1	TAXJ	A/R Sales Tax 1	1	A	D			x
JR2	TAXJ	A/R Sales Tax 2	2	A	D			x
JR3	TAXJ	A/R Sales Tax 3	3	A	D			x
JR4	TAXJ	A/R Sales Tax 4	4	A	D			x

These fields are found in the details of the condition type.

- **CC:** Condition category (Tax jurisdiction level - 1,2,3,4)
- **CT:** Calculation type (A - percentage)
- **CON:** Condition class (D - taxes)
- **ME:** Manual entry (D - prohibited, <space> - unlimited)
- **P/M:** Plus/Minus indicator (X= Credit(-) only, A - Debit only, <space>- Both allowed)
- **IM:** Item Category

Access Sequences

Use

In Customizing for Financials, you carry out this activity to check that the access sequence TAXJ exists.

Procedure

To check the access sequence, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Basic Settings* → *Check Calculation Procedure*. You can also use transaction OBYZ or VK01. If you use VK01, enter **A** in *Usage* and **TX** in *Application*. Choose *Access sequences*.

If TAXJ does not exist, you must create it.

Result

An entry for access sequence TAXJ (US Taxes with Jurisdiction) exists in table T682.

Procedures

Procedures

Use

You use this procedure to check that calculation procedure TAXUSJ exists and conditions types have been assigned to it.

Procedure

To check the calculation procedure, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Basic Settings* → *Check Calculation Procedure*. You can also use transaction OBYZ or VK01. If you use VK01, enter **A** in *Usage* and **TX** in *Application*. Choose *Procedures*.

If calculation procedure TAXUSJ does not exist, you must create it. You can also check table T683.

All necessary entries are precustomized in client 000.

Result

The following table shows sample entries of condition types assigned in TAXUSJ.

Condition Type	Description	Account Key
	Distributed to G/L	
JP1I	A/P Sales Tax 1 Inv.	NVV
JP2I	A/P Sales Tax 2 Inv.	NVV
JP3I	A/P Sales Tax 3 Inv.	NVV
JP4I	A/P Sales Tax 4 Inv.	NVV
	Expensed	
JP1E	A/P Sales Tax 1 Exp.	VS1
JP2E	A/P Sales Tax 2 Exp.	VS2
JP3E	A/P Sales Tax 3 Exp.	VS3
JP4E	A/P Sales Tax 4 Exp.	VS4
	Self-Assessment	
JP1U	A/P Sales Tax 1 Use	MW1
JP2U	A/P Sales Tax 2 Use	MW2
JP3U	A/P Sales Tax 3 Use	MW3
JP4U	A/P Sales Tax 4 Use	MW4
	Accrued	
JR1	A/R Sales Tax 1	MW1
JR2	A/R Sales Tax 2	MW2

JR3	A/R Sales Tax 3	MW3
JR4	A/R Sales Tax 4	MW4

Assign Country to Calculation Procedure

Assign Country to Calculation Procedure

Use

You use this procedure to check that the calculation procedure TAXUSJ, which is used for sales and use tax calculation with jurisdiction method, is assigned to the United States.

Procedure

To check that TAXUSJ is assigned to US, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Basic Settings* → *Assign Country to Calculation Procedure*.

You can also access this activity in Customizing for *General Settings* by choosing *Set countries* → *Define countries*.

You can also use transaction OY01 to view details of table T005.

See also:

[Assign Country to Calculation Procedure \[Ext.\]](#)

Check and Change Settings for Tax Processing

Use

In this activity you check and, if necessary, change the settings for posting taxes. You must ensure that the account keys reflect accounts that are liabilities for taxes.

Procedure

To check that the account keys are properly configured for sales and use tax, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Basic Settings* → *Check and Change Settings for Tax Processing*.

You can also use transaction OBCN to view details of table T007B.

See also:

[Check and Change Settings for Tax Processing \[Ext.\]](#)

Specify Structure for Tax Jurisdiction Code

Specify Structure for Tax Jurisdiction Code

Use

In this activity you specify the structure of the tax jurisdiction code for calculation procedure TAXUSJ.

Procedure

To check or change the tax jurisdiction code structure, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Basic Settings* → *Specify Structure for Tax Jurisdiction Code*.

Check that the settings are as follows:

Proc.	Description	Lg	Lg	Lg	Lg	TxIn
TAXUSJ	Standard Jurisdiction Code	2	3	4		

See also:

[Specify Structure for Tax Jurisdiction Code \[Ext.\]](#)

[Tax Jurisdiction Code \[Page 23\]](#)

Define Tax Jurisdictions

Use

In this activity you define the individual tax jurisdiction codes for calculation procedure TAXUSJ. You need to do this activity because the tax jurisdiction codes required are not delivered with the country template for the United States.

Procedure

To define the tax jurisdiction codes, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Basic Settings* → *Define Tax Jurisdictions*.

You can also use transaction OBCP to view table TTXJ.

See also:

[Define Tax Jurisdictions \[Ext.\]](#)

[Tax Jurisdiction Code \[Page 23\]](#)

Define Tax Codes for Sales and Purchases

Define Tax Codes for Sales and Purchases

Use

In this activity you define the allowable combination of tax codes and tax types used in calculation procedure TAXUSJ.

Procedure

To define the tax codes, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Calculation* → *Define Tax Codes for Sales and Purchases*.

You can also use transaction FTXP to view table T007A.



When changing the tax codes, do not use SM31 because links to other tables are not maintained. Follow the menu path above or use transaction FTXP. Only display mode should be used for transaction SM31.

To create tax codes, enter the following data:

1. Enter new tax code and description.
2. Enter tax type: **A** (Output tax), **V** (Input tax)
3. Select *Check* to activate error message when calculated tax amounts differ from entered tax amounts. Deselect to activate warning message.
4. Deselect EC Code and Target tax code. These fields are not used in US jurisdictional taxes.
5. On the next screen, enter a percentage for each jurisdiction level. The total percentage for all three levels requires three entries which are added together when applied.

Example of new tax code:

<i>Tax code</i>	J9
<i>Description</i>	A/P Sales Tax - Special NJ tax status
<i>Tax type</i>	V
<i>Check</i>	Selected
<i>EC Code</i>	Deselected
<i>Target tax code</i>	Deselected

See also:

[Define Tax Codes for Sales and Purchases \[Ext.\]](#)

[Tax Code \[Page 22\]](#)

Define Tax Accounts

Use

In this activity you specify the tax accounts to which sales and use tax is posted. When posting, the system then automatically posts to the specified accounts.

Procedure

To specify the tax accounts, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Posting* → *Define Tax Accounts*.

When you want to display or change the settings, you need to enter the chart of accounts CANA.

You can also use transaction OB40 to view table T030K.

See also:

[Define Tax Accounts \[Ext.\]](#)

Maintaining Tax Category in G/L Master Records

Maintaining Tax Category in G/L Master Records

Use

In this procedure you check and change, if necessary, the *Tax category* in the master data of every G/L account used for sales and use tax. The tax category determines whether the account is used for input tax, output tax, or all tax types.

Prerequisites

The G/L accounts relevant for sales and use tax exist in chart of accounts CANA and your company code.

Procedure

To access the G/L account master data, from the SAP standard menu, choose *Accounting* → *Financial Accounting* → *General Ledger* → *Master records* → *Individual processing* → *In company code*. You can also use transaction FS03.

Enter the G/L account for which you need to maintain. Select *Control data*. On this screen you find *Tax category*. Select the appropriate tax category.

Sample G/L accounts with tax category:

G/L account	Description of G/L account	Tax category	Description of tax category
211000	A/P Reconciliation Account	*	All tax types allowed
121000	A/R Reconciliation Account	*	All tax types allowed
410000	Sales Revenue	+	Only output tax allowed
510000	Expenses/Materials Consumed	-	Only output tax allowed
216100	A/R Sales Tax (State)	>	Output tax
216110	A/R Sales Tax (County)	>	Output tax

Sales and Distribution

Maintain Condition Types

Maintain Condition Types

Use

In Customizing for *Sales and Distribution*, you check and change, if necessary, the condition types that are set up for sales and use tax.

In Customizing, you must maintain the condition types in both *Financial Accounting* and *Sales and Distribution*. Even though the condition types are found in the same table (T685), you still have different views depending on your transaction. For the menu path in *Financial Accounting*, see [Condition Types \[Page 29\]](#).

Prerequisites

The [access sequence \[Page 44\]](#) is properly configured.

Procedure

To maintain the condition types, in Customizing for *Sales and Distribution*, choose *Sales → Basic Functions → Pricing → Pricing Control → Define Condition Types*. Choose *Maintain Condition Types*.

Check to see if the condition types exist. If condition types do not exist, copy T685 from client 000 by using the program RSAVGL00.



If additional taxes were set up for jurisdiction codes for another country, you need to define new condition types for these other jurisdiction codes.

Condition Type	Access Sequence	Description	CC	CT	CON	ME	IM	R/P
JR1		A/R Sales Tax 1	1	A	D	C	x	x
JR2		A/R Sales Tax 2	2	A	D	C	x	x
JR3		A/R Sales Tax 3	3	A	D	C	x	x
JR4		A/R Sales Tax 4	4	A	D	C	x	x
UTXJ	UTX1	Sales Tax SD Interface	1	A	D	D	x	

These fields are found in the details of the condition type.

- **CC:** Condition category (Tax jurisdiction level - 1,2,3,4)
- **CT:** Calculation type (A - Percentage)
- **CON:** Condition class (D - Taxes)
- **ME:** Manual entry (C - Manual entry has priority, D - Prohibited, <space> - Unlimited)
- **IM:** Item Condition
- **R/P:** Rate can be changed

See also:

[Define Condition Types \[Ext.\]](#)

Define Access Sequences

Define Access Sequences

Use

In Customizing for Sales and Distribution, you carry out this activity to check that the access sequence UTX1, which is relevant for pricing, exists.

Procedure

To check the access sequence, in Customizing for *Sales and Distribution*, choose *Sales* → *Pricing* → *Pricing Control* → *Define Access Sequences*. You can also use transaction VK01. If you use VK01, enter **A** in *Usage* and **V** in *Application*. Choose *Access sequences*.

If UTX1 does not exist, you must create it.

Result

An entry for access sequence UTX1 exists in table T682.

See also:

[Define Access Sequences \[Ext.\]](#)

Define and Assign Pricing Procedures

Use

In *Define and Assign Pricing Procedures*, there are two activities you have to carry out for sales tax calculation, namely, *Maintain pricing procedures* and *Define pricing procedure determination*. In these activities, you check and change, if necessary, the pricing procedure and the documents related to it.

Procedure

To check the settings for the pricing procedure, in Customizing for *Sales and Distribution*, choose *Sales → Pricing → Pricing Control → Define and Assign Pricing Procedures*.

Maintain pricing procedures (Transaction V/08)

Check that the pricing procedure contains the necessary condition types for sales tax calculation. If you use the jurisdiction method, you use RVAJUS. If you are working without the jurisdiction method, you use RVAAUS.

Define pricing procedure determination (Transaction OVKK)

Check that document types are related to the pricing procedure in order for the document to calculate the correct tax.

See also:

[Define and Assign Pricing Procedures \[Ext.\]](#)

Define Tax Determination Rules

Define Tax Determination Rules

Use

In this activity, you assign condition type UTXL, which is used in sales tax calculation, to country US. You can assign more than one condition type to a country.

Procedure

To check the tax determination rules, in Customizing for *Sales and Distribution*, choose *Sales* → *Pricing* → *Taxes* → *Define Tax Determination Rules*. You can also use transaction OVK1 to maintain table TSTL.

Tax country	Name	Sequence	Tax category	Name
US	USA	1	UTXL	Tax jurisdiction code

See also:

[Define Tax Determination Rules \[Ext.\]](#)

Define Tax Relevancy of Master Records

Use

In this activity, you define the possible tax classifications for the tax category found in the customer and material master records on the billing screen.

Procedure

To check the tax classification in the customer and material master records, in Customizing for *Sales and Distribution*, choose *Sales → Pricing → Taxes → Define Tax Relevancy of Master Records*. Choose either *Customer Taxes* or *Material Taxes*.

Customer master records (Transaction OVK3/Table TSKD)

Tax category	Name	Tax classification	Description
UTXJ	Tax Jurisdiction Code	0	Exempt
UTXJ	Tax Jurisdiction Code	1	Taxable

Material master records (Transaction OVK4/Table TSKM)

Tax category	Name	Tax classification	Description
UTXJ	Tax Jurisdiction Code	0	Exempt
UTXJ	Tax Jurisdiction Code	1	Taxable

See also:

[Define Tax Relevancy Of Master Records \[Ext.\]](#)

Maintaining Material Master Records

Maintaining Material Master Records

Use

In this procedure, you determine the applicability of taxes for the material by assigning a tax classification in the material master record.

Prerequisites

You have [defined the tax relevancy of the material master record \[Page 47\]](#).

Procedure

To access the material master records, on the initial R/3 screen, choose *Logistics → Sales and Distribution → Master Data → Products → Material*. Choose from the selection the type material such as *Trading goods*, *Non-stock material*, *Other material* and so on. Choose *Change*.

Enter your material. Choose *Sales: Sales Org. 1* to check or change the tax classification for this material. If the material is taxable, choose 1. If the material is exempt, choose 0.

Maintaining Customer Master Records

Use

In this procedure, you determine the applicability of taxes for the customer by assigning a tax classification in the customer master record. Normally, retail customers are taxable and wholesale customers are exempt.

Prerequisites

You have [defined the tax relevancy of the customer master record \[Page 47\]](#).

Procedure

To access the customer master records, on the initial R/3 screen, choose *Logistics → Sales and Distribution → Master Data → Business Partner → Customer → Change → Sales and Distribution*.

Enter your customer. Choose *Billing document* to check or change the tax classification for this customer. If the customer is taxable, choose 1. If the customer is exempt, choose 0.

Condition Records

Condition Records

Purpose

To calculate sales tax, you must maintain two types of condition records:

- [Tax jurisdiction code condition records \[Page 51\]](#) (SD menu path)
- [Tax code condition records \[Page 56\]](#)

This activity in Customizing in Financials is also known as [Define Tax Codes for Sales and Purchases \[Page 56\]](#).

Maintaining Tax Jurisdiction Code Condition Records

Use

In this procedure, you maintain the tax jurisdiction code condition records that are necessary for determining the tax code. The tax code in combination with the tax jurisdiction code determines the tax rate.

The tax jurisdiction code condition record is created for condition type UTXJ and country US. For every region in which taxes are calculated, you must create a tax jurisdiction code condition record.

For each tax jurisdiction code condition record, you maintain the following:

- Region (state)
- Tax classification for material (0 or 1)
- Tax classification for customer (0 or 1)
- Tax code

Procedure

To create condition records, on the initial R/3 screen, choose *Logistics → Sales and Distribution → Master Data → Conditions → Create or Change → Taxes → Canada/USA*. You can also use transaction VK11. Enter **US** in *Country* and **UTXJ** in *Condition Type*. Enter the combinations for region, customer tax classification, material tax classification, and tax code.



Even exempt status must be assigned a tax code. The entry for the tax code contains the tax rate 0.0%.

Example

For country US and condition type UTXJ, you maintain the following entries:

Region	Tax classification for customer	Tax classification for customer	Tax code
PA	0	0	S0
PA	1	0	S0
PA	0	1	S0
PA	1	1	S1

Define Tax Codes for Sales and Purchases

Define Tax Codes for Sales and Purchases

Use

In this activity you define the allowable combination of tax codes and tax types used in calculation procedure TAXUSJ.

Procedure

To define the tax codes, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Calculation* → *Define Tax Codes for Sales and Purchases*.

You can also use transaction FTXP to view table T007A.



When changing the tax codes, do not use SM31 because links to other tables are not maintained. Follow the menu path above or use transaction FTXP. Only display mode should be used for transaction SM31.

To create tax codes, enter the following data:

6. Enter new tax code and description.
7. Enter tax type: **A** (Output tax), **V** (Input tax)
8. Select *Check* to activate error message when calculated tax amounts differ from entered tax amounts. Deselect to activate warning message.
9. Deselect EC Code and Target tax code. These fields are not used in US jurisdictional taxes.
10. On the next screen, enter a percentage for each jurisdiction level. The total percentage for all three levels requires three entries which are added together when applied.

Example of new tax code:

<i>Tax code</i>	J9
<i>Description</i>	A/P Sales Tax - Special NJ tax status
<i>Tax type</i>	V
<i>Check</i>	Selected
<i>EC Code</i>	Deselected
<i>Target tax code</i>	Deselected

See also:

[Define Tax Codes for Sales and Purchases \[Ext.\]](#)

[Tax Code \[Page 22\]](#)

Materials Management

Define Tax Jurisdictions

Define Tax Jurisdictions

Use

In this activity, you assign a jurisdiction code to a plant. By doing so, when entering a purchase order, the purchasing plant's jurisdiction code is automatically used to calculate sales tax that must be paid to the seller.

Procedure

To assign a jurisdiction code to a plant, in Customizing for *Materials Management*, choose *Purchasing* → *Environment Data* → *Define Tax Jurisdictions*. Choose the plant for which you want to assign a jurisdiction code.

Enter the corresponding jurisdiction code for the plant.

See also:

[Define Tax Jurisdictions \[Ext.\]](#)

Assigning a Jurisdiction Code to Cost Center

Use

In this procedure, you assign a jurisdiction code to a cost center to allow automatic sales and use tax calculation. When the cost center purchases goods, the corresponding jurisdiction code is then used, in combination with the tax code, in determining the sales and use tax rate.

Procedure

To assign a jurisdiction code to a cost center, on the initial R/3 screen, choose *Accounting → Controlling → Cost Center Accounting → Master Data → Cost Center → Individual Processing → Change*. Enter the jurisdiction code on the address screen of the cost center.

Define Tax Codes for Sales and Purchases

Define Tax Codes for Sales and Purchases

Use

In this activity you define the allowable combination of tax codes and tax types used in calculation procedure TAXUSJ.

Procedure

To define the tax codes, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Calculation* → *Define Tax Codes for Sales and Purchases*.

You can also use transaction FTXP to view table T007A.



When changing the tax codes, do not use SM31 because links to other tables are not maintained. Follow the menu path above or use transaction FTXP. Only display mode should be used for transaction SM31.

To create tax codes, enter the following data:

11. Enter new tax code and description.
12. Enter tax type: **A** (Output tax), **V** (Input tax)
13. Select *Check* to activate error message when calculated tax amounts differ from entered tax amounts. Deselect to activate warning message.
14. Deselect EC Code and Target tax code. These fields are not used in US jurisdictional taxes.
15. On the next screen, enter a percentage for each jurisdiction level. The total percentage for all three levels requires three entries which are added together when applied.

Example of new tax code:

<i>Tax code</i>	J9
<i>Description</i>	A/P Sales Tax - Special NJ tax status
<i>Tax type</i>	V
<i>Check</i>	Selected
<i>EC Code</i>	Deselected
<i>Target tax code</i>	Deselected

See also:

[Define Tax Codes for Sales and Purchases \[Ext.\]](#)

[Tax Code \[Page 22\]](#)

Customizing for Non-Jurisdiction Method

Purpose

In this process, you configure your R/3 System to calculate sales and use tax without using tax jurisdiction codes.

Process Flow

Step 1:

Assign the calculation procedure *TAXUS* to the country *US*.

To assign *TAXUS* to *US*, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Basic Settings* → *Assign Country to Calculation Procedure*. You can also access this activity in Customizing for *General Settings* by choosing *Set countries* → *Define countries*.

See also: [Assign Country to Calculation Procedure \[Ext.\]](#)

Step 2:

Create the tax rates according by country and tax code.

To define the tax codes, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Calculation* → *Define Tax Codes for Sales and Purchases*.

See also: [Define Tax Codes for Sales and Purchases \[Ext.\]](#)

Step 3:

Verify tax by country configuration and that *US* is assigned to tax categories *UTX1*, *UTX2*, *UTX3*, and *UTX4*.

To check the tax determination rules, in Customizing for *Sales and Distribution*, choose *Sales* → *Pricing* → *Taxes* → *Define Tax Determination Rules*. You can also use transaction *OVK1* to maintain table *TSTL*.

See also: [Define Tax Determination Rules \[Ext.\]](#)

Step 4:

Verify customer tax category by checking that *UTX1*, *UTX2*, *UTX3*, and *UTX4* are assigned tax classifications (1 for taxable and 0 for exempt).

To check the tax classification in the customer and material master records, in Customizing for *Sales and Distribution*, choose *Sales* → *Pricing* → *Taxes* → *Define Tax Relevancy of Master Records*. Choose *Customer Taxes*.

See also: [Define Tax Relevancy Of Master Records \[Ext.\]](#)

Step 5:

Verify customer tax category by checking that *UTX1*, *UTX2*, *UTX3*, and *UTX4* are assigned tax classifications (1 for taxable and 0 for exempt).

To check the tax classification in the customer and material master records, in Customizing for *Sales and Distribution*, choose *Sales* → *Pricing* → *Taxes* → *Define Tax Relevancy of Master Records*. Choose *Material Taxes*.

Customizing for Non-Jurisdiction Method

See also: [Define Tax Relevancy Of Master Records \[Ext.\]](#)

Tax Interface System

Purpose

SAP provides a tax interface system that is capable of passing required data to an external tax system which determines tax jurisdictions, calculates taxes and then returns these calculated results back to SAP. This occurs during master data address maintenance to retrieve the appropriate tax jurisdiction code and during order and invoice processing in FI, MM, and SD to retrieve tax rates and tax amounts. The tax interface system also updates the third party's software files with the appropriate tax information for legal reporting purposes.

Implementation Considerations

In order for the tax interface system to work with an external tax package, the third party software package and the appropriate version of SAP's certified tax partner's API (Application Programming Interface) must be installed at the customer site.

After the installation, you must establish communication between R/3 and the external tax package. Communication between R/3 and the third party tax package is established using SAP RFC (Remote Function Call) and SAP tRFC (Transactional RFC). Although the configuration within SAP in setting up the RFC call may seem straight forward, difficulties in getting the communication to work during initial setup often arise. It is therefore recommended that the customer have an experienced Basis person to assist with this initial setup.

Features

For SAP's Release 3.0B to 4.5B, the tax interface system unit of communication with the external tax system is a line item. This method is called **Tax Per Item**.

From SAP's Release 4.6A and later, the tax interface system unit of communication is a document. This method is called **Tax Per Document**.

The main new features of the tax interface system for Release 4.6 are:

- Maximum Tax Per Document handling capability
- New communication structures with the external tax system:
 - Separate structures for header, item and jurisdiction level
 - Strict distinction between input and output fields
- SAP tax data is no longer incomplete when forced update to the external audit file
- Real-time update of the external system tax audit file (ultimate usability of the update programs is a deleted update program)
- Version Management: monitoring the current external tax system API version being used

Constraints

SAP is under no obligation to install third party software, or their corresponding certified API. This is the full responsibility of the third party software vendor. If during the installation of the third party's API, problems have been detected with SAP's RFC libraries, these problems should be directed to and resolved by SAP. SAP will assist customers with communication setup and testing from within SAP as well as application configuration upon customer request. This will only be done after the third party's standard software, as well as their software needed to

Tax Interface System

communicate with SAP has been properly installed and tested. Any problems customers have with installing third party software should be directed to and resolved by the appropriate software vendor.

SAP is under no obligation to provide consulting, setup, or maintenance of a third party software package. If customers have post installation questions, problems, or maintenance issues which pertain specifically to the third party's software package, then these questions should be directed to and resolved by the appropriate software vendor.

SAP is also under no obligation to provide post implementation consulting for third party software packages.

Basic Concepts

In R/3, the US sales and use tax calculation is executed within the SD, MM and FI modules.

Two important standard procedures are used as the base for tax calculation in R/3:

- Pricing procedure: RVAXUS (SD)
- Tax calculation procedure: TAXUSX (SD, MM and FI)

Both standard procedures are delivered by SAP.

See also:

[Tax Calculation Process in SD \[Page 62\]](#)

[Tax Calculation Process in MM and FI \[Page 64\]](#)

[Tax Accounts \[Page 65\]](#)

Tax Calculation Process in SD

Tax Calculation Process in SD

Purpose

The purpose of the tax calculation process in SD is to apply appropriate tax rates and amounts to line items during creation of invoices and sales orders. These rates and amounts are generated by the external tax calculation system.

Process Flow

SD requires that sales orders and invoices reflect the tax applicability of each item and compute the total tax due on each line item within the sales document. Appropriate tax amounts and tax rates are determined for both orders and invoices.

Several parameters influence the tax amounts and tax rates determination. The most important ones include:

- Delivering country (origin)
- Tax class of the ship-to partner
- Tax class of the material being shipped
- Tax calculation date
- Jurisdiction code from ship-to-party (customer)
- Jurisdiction code from ship-from address (plant)
- Point-of-order acceptance
- Point-of-order origin



SAP defaults the ship-from jurisdiction maintained on the plant as the point-of-order acceptance, and defaults the ship-to jurisdiction maintained on the customer as the point-of-order origin. Order acceptance jurisdiction and order origin jurisdiction can be changed using the provided tax interface system user exit.

Jurisdiction codes are automatically retrieved from the external tax package during creation or change of a customer master record or a plant. This occurs after the address information has been entered on the master data.

SD uses the country, customer tax indicator, and material tax indicator to read the tax condition records. During pricing execution in sales order processing, the system exits the *normal* pricing upon recognizing a condition type 1 (delivered UTXJ). The tax condition records are then read using the country and tax code maintained in the pricing condition record.

The tax procedure TAXUSX and the SD pricing procedure RVAXUS contain condition formulas (300 - 306 or 500, 510, 301 - 306 for document Max Tax calculation) which invoke the tax interface system. Once the tax interface system is invoked, a communication structure with header and items data is filled with the necessary information needed by our partners' tax package to calculate taxes. This communication structure is then passed to our partner's API via an RFC (Remote Function Call).

The partner's API passes this data to its tax calculation package. The appropriate tax is calculated and returned back to the partner's API and then to the tax interface system. These tax

Tax Calculation Process in SD

amounts and rates are applied to the SD document item's pricing at each of up to six levels of jurisdiction denoted by the condition types (XR1 - XR6).

Tax Calculation Process in MM and FI

Purpose

In the tax calculation process in MM and FI, the sales or use tax can be computed by the system for each line item of the purchase order or invoice. Therefore, a ship-to tax jurisdiction code must be maintained, because the system requires information as to where taxes are being charged.

Process Flow

This ship-to tax jurisdiction code can reside on the plant, cost center, asset master, internal order, or project (WBS). If no jurisdiction code is maintained on the asset, order, or project, then the jurisdiction code of the responsible cost center maintained on the asset, order, or project defaults into the purchase order or invoice verification document at the time of document creation. This jurisdiction code is used as the ship-to destination.

In addition to the ship-to destination, taxability is also influenced by the ship-from destination. A jurisdiction code can be maintained in the vendor master record. This jurisdiction code is used as the ship-from tax destination.

Jurisdiction codes are automatically retrieved from the external tax package during creation or change of a plant, cost center, or vendor master record. This occurs after the address information has been entered on the master data. For an asset, internal order, and project, you can select F4 on the jurisdiction code field to return a list of valid jurisdictions from the external tax system.

MM and FI use country and tax code to read the tax condition records. The tax calculation procedure TAXUSX contains condition formulas (300 - 306, 311-316) which invoke the tax interface system. Once the tax interface system is invoked, a communication structure is populated with the necessary data needed by our partner tax packages to calculate taxes.

This communication structure is passed to our tax partner's API through the RFC (Remote Function Call). The tax partner's API passes this data to its tax calculation package, which in return passes the tax data back to its API. The tax partner's API then passes this information back to tax interface system onward to MM and FI.

Tax amounts and statistical rates apply to each of up to six levels of jurisdiction denoted by the condition types: XP1E - XP6E, XP1I - XP6I, and XP1U - XP6U.

Tax Accounts

Definition

See [Tax Accounts \[Ext.\]](#).

Use

Each G/L account and cost element has a tax category field with a variety of settings. Output tax is for SD/AR and input tax is for MM/AP. Blank is used for accounts not applicable like cash or accumulated depreciation accounts. Typical accounts designated as requiring output taxes include revenue accounts and trade receivables. Input taxes required is found on trade accounts payable and primary cost elements that are normally taxable, such as small tools and material consumed. In the US, component inventory is not taxable but in Canada, it is usually partially taxable (GST).

Configuring the Communication

Configuring the Communication

Purpose

To establish communication between R/3 and external tax calculation system, you must carry out the necessary configuration.

Process Flow

To configure the communication, you must [define a physical destination \[Page 67\]](#) and then [test the connection \[Page 68\]](#).

Define Physical Destination

Use

Communication between R/3 and a sales/use tax package are established using RFC (Remote Function Call). You must create an RFC destination that specifies the type of communication and the directory path in which the tax package executable or shell scripts program is installed. You must set up the RFC destination as a TCP/IP communication protocol. The destination is user-defined.



This setup is frequently an area of concern. An understanding of the directory path is of utmost importance.


Procedure

1. To define a physical destination, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings → Taxes on Sales/Purchases → Basic Settings → External Tax Calculation → Define Physical Destination*.
2. Choose *Create*.
3. Select and enter a logical name for the RFC Destination, for example, *VERTEX* or *TAXWARE*.
4. Enter *T* (Start an external program via TCP/IP) for *Connection type*.
5. Enter a short description text and choose enter.
6. Define the directory path.


This is the directory path in which the tax package executable or shell script program is installed.

There are two recommended methods to define the directory path:

- SAP and Tax Software Package reside on the same server

If R/3 and the external tax package are to reside on the same server, choose *Application Server* to select as the program location. In the field *Program*, specify the external tax package's executable or shell script program, along with the directory path in which it was installed. Choose .

- SAP and Tax Software Package reside on different servers

If R/3 and the external tax package were to reside on different servers, then this is an explicit communication setup. Choose *Explicit host*. In the field *Program*, specify the external tax package's executable or shell script program along with the directory path in which it was installed. In the field *Target Host*, enter the host name of the server where the external tax package resides. Choose .

7. If necessary, set up the correct SAP gateway host and gateway service.

Test Connection

Test Connection

Use

After you [define a physical destination \[Page 67\]](#), you must test the connection between R/3 and the external tax system.

Procedure

1. In *Define Physical Destination* in Customizing, select your connection.
2. Choose *Test Connection*.

If you encounter any errors, verify that the following conditions are true:

- The connection type is TCP/IP.
- Program location and host name are correctly specified.
- The directory path and the name of the executable program are correct.
- The gateway host and service name is correctly specified.
- The external tax package has been installed correctly and is the correct version.
- The external tax package's API for the R/3 tax interface is installed correctly and is the correct version.
- The R/3 RFC libraries are the correct version.
- The correct permissions are set for the user account.
- The user has read/write authority.



If this test fails, stop the installation. This test must be successful in order for R/3 to communicate with the external tax package.

Testing the Tax Data Retrieval in the External Tax System

Purpose

To ensure that the communication is properly configured, you must test the tax data retrieval in the external tax system.

Process Flow

In order to test the external tax system, dummy RFC-enabled function modules were created in R/3 to simulate the external tax RFC functions. The RFC-enabled function modules can be tested with the R/3 Function Builder Test Utility.

You can test the following:

- [Jurisdiction code determination \[Page 70\]](#)
- [Tax calculation \[Page 73\]](#)
- [Tax update \[Page 79\]](#)
- [Tax forced update \[Page 83\]](#)





It is imperative to perform these tests and check its results before continuing with further configuration. These tests may also be useful to resolve customer problems.



Test Jurisdiction Code Determination

Test Jurisdiction Code Determination

Procedure

1. To test jurisdiction code determination, from the *SAP R/3* screen, choose *Tools* → *ABAP Workbench* → *Development* → *Function Builder Transaction*. You can also use transaction SE37.
2. Enter function module RFC_DETERMINE_JURISDICTION.
3. Choose . You can also choose *Function Builder* → *Test* → *Test Function Builder* (F8).
4. Specify the RFC destination name as defined in the field *RFC target system* ([Define Physical Destination \[Page 67\]](#)). You must use uppercase letters when entering the destination name.
5. Choose *Import* to access the import parameters. Double-click LOCATION_DATA. A dialog box appears for entering test data. To facilitate entry of test data, choose *Single entry* (Shift+F7). A second dialog box appears for entering test data. Here, the input parameters are placed vertically to facilitate scrolling.
6. [Import Parameters for Test Jurisdiction Code Determination \[Page 71\]](#)
7. After entering the test data, choose *Enter* and  to return to the *Function Builder*.



You can save your test data by choosing . A dialog box appears. Enter a descriptive short text and choose  again. You can retrieve the test data saved by choosing *Test data directory* (Ctrl+Shift+F6). Modifying and saving existing test data creates new test data. *Test data directory* contents are client-independent.

8. Choose *Execute*.
9. To view the results, double-click LOCATION_RESULTS under *Tables*. To view messages, double-click LOCATION_ERR under *Export*.
10. [Output Parameters for Test Jurisdiction Code Determination \[Page 72\]](#)

Import Parameters for Test Jurisdiction Code Determination

Import Parameters for Test Jurisdiction Code Determination

Structure: LOCATION_DATA

Parameter	Definition	Example
COUNTRY	Country	US
STATE	US state or CA province (In R/3, it is called <i>Region</i>).	FL
COUNTY	In R/3, it is called <i>District</i> .	Blank
CITY	City	Miami
ZIPCODE	In R/3, it is called <i>Postal code</i> .	33186
TXJCD_L1	1 st length of Jurisdiction Code	Blank or 02 (Vertex) Blank or 02 (Taxware)
TXJCD_L2	2 nd length of Jurisdiction Code	Blank or 03 (Vertex) Blank or 05 (Taxware)
TXJCD_L3	3 rd length of Jurisdiction Code	Blank or 04 (Vertex) Blank or 02 (Taxware)
TXJCD_L4	4 th length of Jurisdiction Code	Blank or 01 (Vertex) Blank or 00 (Taxware)



It is recommended to enter at least STATE and ZIPCODE for a successful jurisdiction code determination.

Output Parameters for Test Jurisdiction Code Determination


Output Parameters for Test Jurisdiction Code Determination

Table: LOCATION_RESULTS


Parameter	Definition	Example
TXJCD	Tax Jurisdiction Code	It depends on the external tax system.
OUT OF_CITY	In and Out City flag	

Test Tax Calculation



Procedure

11. To test tax calculation, from the *SAP R/3* screen, choose *Tools* → *ABAP Workbench* → *Development* → *Function Builder Transaction*. You can also use transaction SE37.
12. Enter function module RFC_CALCULATE_TAXES_DOC.
13. Choose . You can also choose *Function Builder* → *Test* → *Test Function Builder* (F8).
14. Specify the RFC destination name as defined in the field *RFC target system* ([Define Physical Destination \[Page 67\]](#)). You must use uppercase letters when entering the destination name.
15. Double-click I_SAP_CONTROL_DATA, I_TAX_CAL_HEAD_IN, which is located under *Import*. Double-click I_TAX_CAL_ITEM_IN, which is located under *Tables*.

Each time, a dialog box appears for entering test data. To facilitate entry of test data, choose *Single entry* (Shift+F7). A second dialog box appears for entering test data. Here, the input parameters are placed vertically to facilitate scrolling.

16. [Import Parameters for Test Tax Calculation \[Page 74\]](#)
17. After entering the test data, choose *Enter* and  to return to the *Function Builder*.



You can save your test data by choosing . A dialog box appears. Enter a descriptive short text and choose  again. You can retrieve the test data saved by choosing *Test data directory* (Ctrl+Shift+F6). Modifying and saving existing test data creates new test data. *Test data directory* contents are client-independent.

18. Choose *Execute*.
19. To view the results, double-click O_TAX_CAL_ITEM_OUT, O_TAX_CAL_JUR_LEVEL_OUT under *Tables*. To view messages, double-click O_EXT_CONTROL_DATA, O_COM_ERR_DOC under *Export*.
20. [Output Parameters for Test Tax Calculation \[Page 77\]](#)

Import Parameters for Test Tax Calculation

Import Parameters for Test Tax Calculation

Structure: I_SAP_CONTROL_DATA (SAP Control info)

Parameter	Definition	Example
APP_SERVER	SAP Application Server	us01d1
SAP_VERSION	SAP Release	46B
INTERF_VERSION	SAP Tax Interface Version	TAXDOC00

Structure: I_TAX_CAL_HEAD_IN (Document header input info)

Parameter	Definition	Example
SYST_NAME	Logical R/3 system name	DEV
CLIENT	Client number	800
COMP_CODE	Company Code	US01
DOC_NUMBER	Document number	0090007640 or blank
CURRENCY	Document currency during tax calculation	USD
CURR_DEC	Number of decimal places for currency	002
TXJCD_L1 ...L4	Length of the nth part of the tax jurisdiction code	(02, 03, 04, 01) - Vertex (02, 05, 02, 00) – Taxware
TAX_PER_ITEM	Tax calculation is done by line item (1)	x (SD only) or blank (SD, MM, FI)
NR_LINE_ITEMS	Total number of lines in the external tax document (2)	000001, 000002, or 000003, etc.

- Each line item will be treated separately for tax calculation. Therefore, Max Tax rules across multiple lines in the same document will not be applied. For Release 4.6x, this flag should be set when dealing with MM/FI transactions.
- Total number of entries in table I_TAX_CAL_ITEM_IN.

Table: I_TAX_CAL_ITEM_IN (Item input info)



Create at least one record in input table: I_TAX_CAL_ITEM_IN. Copying and then modifying existing entries creates new records: Position the cursor on an existing record then choose *Double line* or Ctrl+F12. After the record has been duplicated, double-click the record to be modified.

Parameter	Definition	Example
ITEM_NO	External tax document item number	000001, 000002, 000003, etc.

Import Parameters for Test Tax Calculation

POS_NO	Item position number in document	000010, 000020, 000030, etc.
GROUP_ID	Set position number in document (1)	000010, 000040, etc. or blank
COUNTRY	Departure country	US
DIVISION	SAP Business Area	0001
MATNR	Material number	MAT01
PROD_CODE	Material product code defined in the external system	XXX or blank
GROUP_PROD_CODE	Set product code. This is the common product code of the set sub-items	YYY or blank
QUANTITY	Item quantity (2)	' 2000 ' (two)
UNIT	Item selling/buying unit	ST (pieces)
APAR_IND	Input or Output tax indicator	A – output tax or A/R V – input tax or A/P
TAX_TYPE	Tax type or category	0 – Sales Tax 1 – Consumer Use Tax 2 – Service Tax 3 – Rental/Lease Tax
EXEMP_IND	Non-taxable transaction control indicator	Blank or 0 – External system decides (3) 1 – Taxable (4) 2 – Non-taxable (5)
TAX_DATE	Transaction date for tax calculation	19991009
TXJCD_ST	Ship-to jurisdiction code	
TXJCD_SF	Ship-from jurisdiction code	
TXJCD_POA	Jurisdiction code for Point of Order Acceptance	
TXJCD_POO	Jurisdiction code for Point of Order Origin	
AMOUNT	Tax base amount (6)	' 300000 ' (three thousand)
GROSS_AMOUNT	Gross tax base amount (7)	' 300000 ' (three thousand)
FREIGHT_AM	Item freight amount	' 1500 ' (fifteen)

Import Parameters for Test Tax Calculation

EXEMPT_AMT	Exempt amount	Blank
ACCNT_NO	Customer/Vendor account number	CUST01
ACCNT_CLS	Account class	Blank
COST_OBJECT	Cost object where the goods are consumed	Cost Center or blank
PTP_IND	Indicator: Point of Title Passage	Blank
EXCERTIF	Customer exempt certification defined in SAP (8)	It is recommended to leave this field blank
EXREASON	Exempt reason defined in SAP (9)	It is recommended to leave this field blank
USER_DATA	User-specific data to be passed to external tax system	It is sent during tax calculation for validation purposes only

1. Set is an item composed of sub-items. When a Set is entered in the order, its components appear as its sub-items. Each sub-item has as its higher-level item position number the same GROUP_ID.
2. The quantity field has an implied 3 decimal places. When entering the quantity, three additional zeros must be added. Last character is reserved for the sign: space means positive. For example: ' 10000 ' is actually 10.000.
3. External system decides if transaction is non-taxable vs. taxable. External system's taxability decision engine is used.
4. External system assumes transaction is taxable. Therefore, external system's taxability decision engine is ignored and tax rates are based solely on jurisdiction codes.
5. Call to external tax system is bypassed during tax calculation. SAP imposes zero rates and zero amounts.
6. When entering a taxable amount, add two additional zeros to take into consideration two decimal places. Last character represents the sign: ' ' or '+' for positive values and '-' for negative values. For example, ' 10000 ' is actually 100.00.
7. This field is currently defaulted with AMOUNT.
8. If this field is blank, a possible exempt certification defined for the customer is checked in the external system.
9. It is recommended to fill this field for reporting purposes only and not to use it for tax calculation.

Output Parameters for Test Tax Calculation

Output Parameters for Test Tax Calculation

Structure: O_EXT_CONTROL_DATA (External System Control Info)

Parameter	Definition	Example
API_VERSION	External system API version	
SYST_VERSION	External system version	
DB_VERSION	Ext. system rate data file version	

Structure: O_COM_ERR_DOC (External System Error Info)

Parameter	Definition	Example
RETCODE	<> 0 if error in at least one item or header	
ERROR_LINE	First line item number which contains error (if any)	
ERRCODE	External system specific error code	
ERRMSG	Error message	

Table: O_TAX_CAL_ITEM_OUT (Tax results for item)

Parameter	Definition	Example
ITEM_NO	External tax document item number (1)	000001, 000002, 000003, etc.
TXJCD_IND	Jurisdiction indicator used for tax calculation	
TAXPCOV	Total item tax percentage rate	
TAXAMOV	Total item tax amount	
EXMATFLAG	Reason Code for material exemption	
EXCUSFLG	Reason Code for customer tax exemption	
EXT_EXCERTIF	Ship-to exemption certificate number defined in External tax system	
EXT_EXREASON	Reason Code for tax exemption defined in External tax system	
NR_JUR_LEVELS	Total number of tax lines by jurisdiction level for each item (2)	

1. It corresponds with the input parameter I_TAX_CAL_ITEM_IN-ITEM_NO
2. Total number of entries in table O_TAX_CAL_JUR_LEVEL_OUT. External system may not return a jurisdiction level if all fields are empty and the percentage is zero.

Table: O_TAX_CAL_JUR_LEVEL_OUT (Tax results by jurisdiction level for item)


Output Parameters for Test Tax Calculation

Parameter	Definition	Example
ITEM_NO	External tax document item number (1)	000001, 000002, 000003, etc
TXJLV	Jurisdiction Level	1 – State 2 – County 3 – City 4 – District 5 – Secondary City 6 – Secondary District
TAXPCT	Actual tax percentage by level	
TAXAMT	Actual tax amount by level	
TAXBAS	Actual tax base amount per level if different than TAXAMT	
EXAMT	Exempt amount by level	
EXCODE	Exempt Code by level	


1. It corresponds with the input parameter I_TAX_CAL_ITEM_IN-ITEM_NO

Test Tax Update



Procedure

21. To test tax update, from the *SAP R/3* screen, choose *Tools* → *ABAP Workbench* → *Development* → *Function Builder Transaction*. You can also use transaction SE37.
22. Enter function module RFC_UPDATE_TAXES_DOC.
23. Choose . You can also choose *Function Builder* → *Test* → *Test Function Builder* (F8).
24. Specify the RFC destination name as defined in the field *RFC target system* ([Define Physical Destination \[Page 67\]](#)). You must use uppercase letters when entering the destination name.
25. Double-click I_SAP_CONTROL_DATA, I_TAX_UPD_HEAD_IN, which is located under *Import*. Double-click I_TAX_UPD_ITEM_IN, which is located under *Tables*.

Each time, a dialog box appears for entering test data. To facilitate entry of test data, choose *Single entry* (Shift+F7). A second dialog box appears for entering test data. Here, the input parameters are placed vertically to facilitate scrolling.

26. [Import Parameters for Test Tax Update \[Page 80\]](#)
27. After entering the test data, choose *Enter* and  to return to the *Function Builder*.



You can save your test data by choosing . A dialog box appears. Enter a descriptive short text and choose  again. You can retrieve the test data saved by choosing *Test data directory* (Ctrl+Shift+F6). Modifying and saving existing test data creates new test data. *Test data directory* contents are client-independent.

28. Choose *Execute*.
29. To view the results, double-click O_EXT_CONTROL_DATA, O_COM_ERR_DOC under *Export*.
30. [Output Parameters for Test Tax Update \[Page 82\]](#)

Import Parameters for Test Tax Update

Import Parameters for Test Tax Update

Structure: I_SAP_CONTROL_DATA (SAP Control info)

Same structure as defined in [Import Parameters for Test Tax Calculation \[Page 74\]](#).

Structure: I_TAX_UPD_HEAD_IN (Document header input info)

Includes same parameters and parameter definitions from structure I_TAX_CAL_HEAD_IN defined in [Import Parameters for Test Tax Calculation \[Page 74\]](#) [\[Page 74\]](#) **except** for:

Parameter	Definition	Example
DOC_NUMBER	Document number	0090007640 (<i>it should not be blank</i>)
TAX_PER_ITEM	Tax calculation is done by line item (1)	X (SD only) or blank (SD, MM, FI)
NR_LINE_ITEMS	Total number of lines in the external tax document to be updated (2)	000001, 000112 or 00006, etc.

1. Despite the fact that the entire document is being updated, each line item may have been treated separately during tax calculation. Therefore, Max Tax rules across multiple items in the same document were not applied. Thus, external tax system should take this into consideration during the update. For Release 4.6, this flag should be set when dealing with MM/FI transactions.
2. Total number of entries in table I_TAX_UPD_ITEM_IN.

Table: I_TAX_UPD_ITEM_IN (Item input info to be updated)

Include all parameters from structure I_TAX_CAL_ITEM_IN in [Import Parameters for Test Tax Calculation \[Page 74\]](#) **plus** the following additional parameters:

Parameter	Definition	Example
REP_DATE	Reporting date	Posting date or accounting document date
CREDIT_IND	Debit/Credit transaction indicator	‘ ‘ or 0 – SAP Tax liability account is credited 1 – SAP Tax liability account is debited
STORE_CODE	Store Code for reporting purposes ONLY	
USER_REPT_DATA	User specific data for reporting purposes ONLY	



Create at least one record in input table: I_TAX_UPD_ITEM_IN. Copying and modifying existing entries creates new records: Position the cursor on an existing

Import Parameters for Test Tax Update

record then choose *Double line* or Ctrl+F12. After the record has been duplicated, double-click the record to be modified.

Output Parameters for Test Tax Update

Output Parameters for Test Tax Update

Structure: O_EXT_CONTROL_DATA (External System Control Info)


Same structure defined in [Output Parameters for Test Tax Calculation \[Page 77\]](#).

Structure: O_COM_ERR_DOC (External System Error Info)


Same structure defined in [Output Parameters for Test Tax Calculation \[Page 77\]](#).

Test Tax Forced Update



Procedure

31. To test tax update, from the *SAP R/3* screen, choose *Tools* → *ABAP Workbench* → *Development* → *Function Builder Transaction*. You can also use transaction SE37.
32. Enter function module RFC_FORCE_TAXES_DOC.
33. Choose . You can also choose *Function Builder* → *Test* → *Test Function Builder* (F8).
34. Specify the RFC destination name as defined in the field *RFC target system* ([Define Physical Destination \[Page 67\]](#)). You must use uppercase letters when entering the destination name.
35. Double-click I_SAP_CONTROL_DATA, I_TAX_FRC_HEAD_IN, which is located under *Import*. Double-click I_TAX_FRC_ITEM_IN, I_TAX_FRC_JUR_LEVEL_IN, which is located under *Tables*.

Each time, a dialog box appears for entering test data. To facilitate entry of test data, choose *Single entry* (Shift+F7). A second dialog box appears for entering test data. Here, the input parameters are placed vertically to facilitate scrolling.

36. [Import Parameters for Test Tax Forced Update \[Page 84\]](#)
37. After entering the test data, choose *Enter* and  to return to the *Function Builder*.



You can save your test data by choosing . A dialog box appears. Enter a descriptive short text and choose  again. You can retrieve the test data saved by choosing *Test data directory* (Ctrl+Shift+F6). Modifying and saving existing test data creates new test data. *Test data directory* contents are client-independent.

38. Choose *Execute*.
39. To view the results, double-click O_EXT_CONTROL_DATA, O_COM_ERR_DOC under *Export*.
40. [Output Parameters for Test Tax Forced Update \[Page 85\]](#)

Import Parameters for Test Tax Forced Update

Import Parameters for Test Tax Forced Update

Structure: I_SAP_CONTROL_DATA (SAP Control info)

Same structure as defined in [Import Parameters for Test Tax Calculation \[Page 74\]](#).

Structure: I_TAX_FRC_HEAD_IN (Document header info to be forced update)

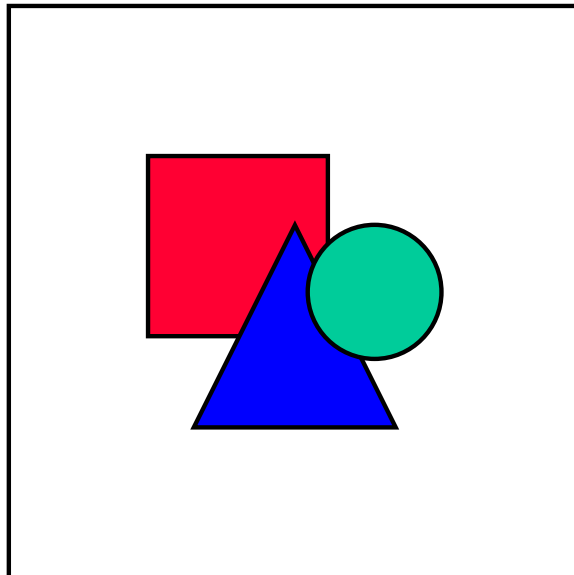
Includes same parameters and parameter definitions from structure I_TAX_UPD_HEAD_IN defined in [Import Parameters for Test Tax Update \[Page 80\]](#).

Table: I_TAX_FRC_ITEM_IN (Item info to be forced update)

Include all parameters from structure I_TAX_UPD_ITEM_IN in [Import Parameters for Test Tax Update \[Page 80\]](#) *plus* the parameters from structure O_TAX_CAL_ITEM_OUT in [Output Parameters for Test Tax Calculation \[Page 77\]](#).

Table: I_TAX_FRC_JUR_LEVEL_IN (Tax info by jurisdiction level for item)

Include all parameters from structure O_TAX_CAL_JUR_LEVEL_OUT in [Output Parameters for Test Tax Calculation \[Page 77\]](#).



Create at least one record in input table: I_TAX_FRC_ITEM_IN and the correspondent records in table: I_TAX_FRC_JUR_LEVEL_IN. Copying and then modifying existent entries creates new records: Position the cursor on an existent record then choose *Double line* or Ctrl+F12. After the record has been duplicated, double-click the record to be modified.

Output Parameters for Test Tax Forced Update

Structure: O_EXT_CONTROL_DATA (External System Control Info)

Same structure as defined in [Output Parameters for Test Tax Calculation \[Page 77\]](#).

Structure: O_COM_ERR_DOC (External System Error Info)

Same structure as defined in [Output Parameters for Test Tax Calculation \[Page 77\]](#).

Activating the Tax Interface System

Activating the Tax Interface System

Purpose

You must activate the tax interface system.

Process Flow

You must carry out two activities in Customizing:

- [Assign Country to Calculation Procedure \[Page 87\]](#)
- [Activate External Tax Calculation \[Page 88\]](#)

Assign Country to Calculation Procedure

Use

In R/3, tax calculation/posting processing is defined by a tax calculation procedure.

The tax calculation procedure TAXUSX is used to handle US sales and use tax calculation and postings. TAXUSX uses an external tax system to retrieve tax rates and tax amounts. TAXUSX is delivered in R/3 as [a standard tax calculation procedure along with all necessary condition types \[Page 120\]](#). To execute a tax calculation procedure, you must assign it first to a country.

Procedure

To assign country US to tax calculation procedure TAXUSX, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Basic Settings* → *Assign Country to Calculation Procedure* (Transaction OBBG).

You can also access this activity in Customizing for *General Settings* by choosing *Set countries* → *Define countries* (Transaction OY01).

In this activity, you maintain table T005.



Each country can only have one tax calculation procedure.

During a particular R/3 business transaction, the tax calculation procedure assigned to the company code country (MM/FI) or the country of the plant's company code (SD) is executed.

Activate External Tax Calculation

Activate External Tax Calculation

Use

To define how the tax calculation procedure TAXUSX accesses the external tax system, the external system ID, the RFC destination and the tax interface version need to be assigned.

Procedure

In Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Basic Settings* → *External Tax Calculation* → *Activate External Tax Calculation* (Table TTXD).

External Tax System ID (ExID)

Define an ID for the active external tax system, such as T (Taxware) or V (Vertex).

In R/3, populating this field has the following consequence:

Tax calculation takes place using an external system. Therefore, when maintaining tax codes, the system does not ask for a jurisdiction code. The required jurisdiction codes are automatically determined by the external tax system during master record creation/change. These jurisdiction codes are passed to the external tax system through the tax interface system, which is then called by the tax calculation procedure TAXUSX.

RFC Destination

The logical destination name for the [RFC destination \[Page 67\]](#) defines the path for the external tax system API executable file.



In Customizing, the activity *Define Logical Destination* and, therefore, the table TTXC is no longer relevant for configuration.

Interface Version (Int. Version)

The current SAP API interface version is TAXDOC00.

The tax interface version is the specific SAP API version used by the external tax system for communicating with R/3. Each new SAP API version comes with new functions and usually corresponds to an R/3 release. It is advisable that the external tax system supports the latest version. After you have installed the latest version of the external tax system API, you must set this field accordingly.



As of Release 4.6A, SAP does **not support** any interface version earlier than TAXDOC00.

Configuring the External Tax Document

Purpose

The external tax document is the entity name for tax relevant information for one particular document. This information is to be updated into the external audit register file for legal reporting purposes.

Process Flow

An external tax document is created when an SD, MM or FI document is successfully posted to accounting.

To configure the external tax document, you must carry out the following activities:

- [Define Number Ranges for External Tax Documents \[Page 90\]](#)
- [Activate External Tax Document \[Page 91\]](#)

Define Number Ranges for External Tax Documents

Define Number Ranges for External Tax Documents

Procedure

1. In Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Basic Settings* → *External Tax Calculation* → *Define Number Ranges for External Tax Documents* (Transaction OBETX).
2. Choose *Change Intervals*.
3. If entry does not exist, add an entry with number range *01* by choosing *Insert Interval* (Shift+F1).



Number range *01* is the only number range used.

4. Enter 000000000001 for the lower limit and 999999999999 for the upper limit.
5. Initialize the external tax document numbering by entering 1 for current number.



The number range *01* should be internal. Therefore, **do not set** the external number range flag.



The numbers are buffered. Therefore, gaps can occur.

Activate External Tax Document

Use

The **Activ** flag determines if an external tax document can be updated into the external tax audit file for legal reporting purposes. This flag is read during the SD, MM and/or FI document posting process.



If this flag is not set, the tax information is lost and there is no external tax document updated to the external audit file.

Procedure

In Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Basic Settings* → *External Tax Calculation* → *Activate External Updating* (Table TRWCA).

See also:

[Update of the External Tax System Audit File \[Page 129\]](#)

[Displaying Documents Sent to the External System \[Page 133\]](#)

Specify Structure for Tax Jurisdiction Code

Specify Structure for Tax Jurisdiction Code

Use

In Customizing, the activity *Specify Structure for Tax Jurisdiction Code* is required by the SAP tax calculation engine. SAP tax calculation engine requires information on how a jurisdiction code is structured as well as if tax should be calculated/posted by line item.

Although this has no meaning for external tax calculation, it influences the relevant input data passed to the tax interface system for tax calculation and postings.

Procedure

1. In Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Basic Settings* → *Specify Structure for Tax Jurisdiction Code*. You can also use transaction OBCO (Table TTXD).

2. Add entry TAXUSX.

For *Taxware*, enter 2,5,2 or for *Vertex*, enter 2,3,4,1.

3. Select *Txln* which indicates taxes determined by line item

When this indicator is set, taxes are calculated on a line-by-line basis within the MM and FI application. This is necessary in order to pass on material specific data such as *material number* and *quantity* as well as to make sure that the taxes can be reported on a line item basis. A cumulative tax amount based on the combination of tax code and jurisdiction does not apply here.



If the taxes are entered *manually* in the transaction, then *calculate tax* is deactivated and the check is performed on a cumulative basis regardless of the determine taxes by line item indicator.

Customizing Master Data Tax Indicators in SD

Purpose

To automatically derive tax codes from material and customer master records, you must customize the tax classification.

Process Flow

Tax codes contain properties that are relevant for correct tax calculation within the external tax system. First, the *tax category* needs to be defined for the country, followed by the configuration of possible tax classifications for customer and material master records. Finally, the allowed tax classifications can be entered in the master records.

You must carry out the following activities:

- [Defining the Tax Category by Departure Country \(SD\) \[Page 94\]](#)
- [Configuring the Customer Master Data \(SD\) \[Page 95\]](#)
- [Configuring the Material Master Data \(SD\) \[Page 96\]](#)

Defining the Tax Category by Departure Country (SD)

Defining the Tax Category by Departure Country (SD)

Use

A tax category must be defined by departure country. Allowable departure country is the plant's country and/or the company code's country.

The tax category allows entry of the tax classification indicator in the [customer master data \[Page 95\]](#) and [material master data \[Page 96\]](#).

The tax category displayed in the customer master record depends on:

- Customer sales organization's company code country
- Country of each plant assigned to that sales organization

The tax category displayed in the material master record depends on:

- Material sales organization's company code country
- Country of each plant assigned to that sales organization

Procedure

In Customizing for *Sales and Distribution*, choose *Basic functions* → *Taxes* → *Define Tax Determination Rules*. You can also use transaction OVK1 (Table TSTL).

Tax category UTXJ must be maintained using a sequence of 1 for the US.

Tax category CTXJ must be maintained using a sequence of 1 for Canada.



You should not maintain more than one tax category for US and for Canada. Therefore, you should delete entries UTX2, CTX2, UTX3, CTX3 to suppress them from display on the customer/material master taxes view.

Configuring Customer Master Data (SD)

Use

You must define the possible tax classifications for the tax category that appear in the customer master data on the billing screen.

The customer tax classification indicator is used as a key in automatically determining the tax code within SD. A tax code can be customized to bypass the external tax system for tax calculation and force tax exemption in SAP by returning zero tax rates and zero tax amounts.

Therefore, the tax classification is used by R/3 internally to indicate whether the customer is exempt from sales tax payment. If all tax exemption handling were done by the external tax system, then the tax classification indicator on the customer is set to taxable. Alternatively, if for some customer master records, tax exemption handling is done in SAP, then the tax classification indicator on those customer master records is set to exempt from sales tax payment.

Procedure

1. In Customizing for *Sales and Distribution*, choose *Basic Functions* → *Taxes* → *Define Tax Relevancy of Master Records*. Choose *Customer Taxes*. You can also use transaction OVK3 (Table TSKD).

Customer tax classification indicators are defined based upon tax category UTXJ for the US and CTXJ for Canada.

2. Create the allowed customer tax classifications.



You create the entry 0 for tax exempt and 1 for taxable.

Configuring Material Master Data (SD)

Configuring Material Master Data (SD)

Use

You must define the possible tax classifications for the tax category that appear in the material master data on the billing screen.

The A/R material tax classification indicator is used as a key in automatically determining the tax code within SD. Multiple tax classifications may need to be set up for special tax rules and regulations based on material. These tax classification indicators are user-defined and point to user-defined tax codes.

Procedure

In Customizing for *Sales and Distribution*, choose *Basic Functions* → *Taxes* → *Define Tax Relevancy of Master Records*. Choose *Material Taxes*. You can also use transaction OVK4 (Table TSKM).

A/R material tax classification indicators are defined based upon tax category UTXJ for the US and tax category CTXJ for Canada.



For example, you can configure the following:

Tax classification	Description	Tax Code
0	Exempt material/service	O0
1	Standard product	O1
2	Service	O2
3	Rental/lease	O3
4	Taxware product code 12000 for consulting services	O4
5	User-defined product code of 9937299	O5

Customizing Master Data Tax Indicators in MM

Purpose

Tax codes can be automatically derived from material, plant and account assignment for purchasing transactions. As with SD master data configuration, you must maintain tax classification indicators to determine the tax codes.

You can overwrite the tax code in the item details in the purchase order and the invoice verification document.

Process Flow

You must carry out the following activities:

- [Configuring the Material Master Data \(MM\) \[Page 98\]](#)
- [Defining Tax Indicators for Plant \(MM\) \[Page 99\]](#)
- [Assigning Tax Indicators to Plant \(MM\) \[Page 100\]](#)
- [Defining Tax Indicators for Account Assignment \(MM\) \[Page 101\]](#)
- [Assigning Tax Indicators for Account Assignments \(MM\) \[Page 102\]](#)

Configuring Material Master Data (MM)

Configuring Material Master Data (MM)

Use

You must define the possible tax classifications for the tax category that appear in the material master data on the purchasing screen.

The A/P material tax classification indicator is used as a key to automatically determine the tax code within purchasing. Multiple tax classifications may need to be set up for special tax rules and regulations based on material. These tax classification indicators are user-defined and point to user-defined tax codes.

Procedure

In Customizing for *Materials Management*, choose *Purchasing* → *Taxes* → *Set Tax Indicator for Material*. You can also use transaction OMKK (Table TMKM1).



For example, you can configure the following:

Tax classification	Description	Tax code
0	Exempt material/service	I0
1	Standard product	I1
2	Service	I2
3	Rental/lease	I3
4	A/P consumer use tax	U1
5	Taxware product code 52000 for insurance	I4
6	User-defined product code of 9937299	I5

Defining Tax Indicators for Plant (MM)

Procedure

1. In Customizing for *Materials Management*, choose *Purchasing* → *Taxes* → *Set Tax Indicator for Plant*. You can also use transaction OMKM (Table TMKW1).
2. Define the MM plant tax classification indicators.

Assigning Tax Indicators to Plant (MM)

Assigning Tax Indicators to Plant (MM)

Procedure

3. In Customizing for *Materials Management*, choose *Purchasing* → *Taxes* → *Assign Tax Indicators for Plants*. You can also use transaction OMKN (Table T001W).
4. Assign a plant tax classification indicator to US plants.



This activity is not mandatory. It is only necessary if the plant is used to automatically determine the tax code on MM documents.

Defining Tax Indicators for Account Assignment (MM)

Procedure

5. In Customizing for *Materials Management*, choose *Purchasing* → *Taxes* → *Set Tax Indicator for Account Assignment*. You can also use transaction OMKL (Table TMKK1).
6. Define the MM account assignment tax classification indicators.

Assigning Tax Indicators for Account Assignments (MM)

Assigning Tax Indicators for Account Assignments (MM)

Procedure

7. In Customizing for *Materials Management*, choose *Purchasing* → *Taxes* → *Assign Tax Indicators for Account Assignments*. You can also use transaction OMKO (Table T163KS).
8. Assign a tax classification indicator to account assignments.



This activity is not mandatory. It is only necessary if account assignments are used to automatically determine the tax code on MM documents.

Maintaining Master Data in SD

Purpose

Sales and use tax calculation requires location information to properly determine where consumption of tangible personal property occurs. This information is in the form of tax jurisdiction codes and is stored on the master records. A tax classification indicator is also stored on some master records. The customer master jurisdiction (representing the ship-to location) and the taxability indicator assist in determining the tax. The plant master record contains a tax jurisdiction code identifying the ship-from location. The material master record has a material tax classification indicator that along with the customer tax classification indicator automatically determine the tax code.

Process Flow

You must carry out the following activities:

- [Maintaining Customer Master Data \(SD\) \[Page 104\]](#)
 - [Maintaining Customer Master Jurisdiction Code \[Page 105\]](#)
 - [Maintaining Customer Tax Indicator \[Page 106\]](#)
- [Maintaining Material Master Tax Indicator \(SD\) \[Page 107\]](#)
- [Maintaining Plant Master Jurisdiction Code \(SD\) \[Page 108\]](#)

Maintaining Customer Master Data (SD)**Maintaining Customer Master Data (SD)****Procedure**

You must carry out the following activities:

- [Maintaining Customer Tax Jurisdiction Code \[Page 105\]](#)
- [Maintaining Customer Tax Indicator \[Page 106\]](#)

Maintaining Customer Master Jurisdiction Code

Use

The customer tax jurisdiction code is automatically determined and displayed on the address data screen as well as on the control data screen. The jurisdiction code determination occurs when the address information is input into the customer master address screen.

The minimum address data that must be entered for this to occur is the country (U.S. or Canada), the postal code (zip code) and the region (state or province). If multiple jurisdiction codes are associated with this minimum data, a pop-up window displays all choices by state, county and city. The user must then choose the appropriate jurisdiction code. If the district (county) is available to be sent to the third party system, the result could be a specific jurisdiction being returned. However, misspellings do not return any jurisdiction codes. A pop-up window informs the user when the jurisdiction code has been updated.

When loading master data by batch input, no automatic determination of the appropriate jurisdiction code can be made if multiple jurisdiction codes are returned and the jurisdiction code is not be updated within the master record. User intervention is required to correct those records that fail update during batch processing. The exact jurisdiction code returned depends on the external tax system.

If tax jurisdiction code is determined using F4 on the field, the resulted tax jurisdiction code is checked against the address data for consistency.

Procedure

1. To enter the customer tax jurisdiction code in the customer master record, from the SAP R/3 screen, choose *Logistics → Sales and Distribution → Master Data → Business Partners → Customers → Create/Change → Complete*. You can also use transactions V-03/V-09 to create a customer (*Complete*) or VD02/XD02 to change a customer (*Complete*).
2. Choose screens *Address* and *Control data*.



Messages can be displayed as a result of the tax jurisdiction determination process. For example: if jurisdiction code cannot be determined due to misspellings or due to multiple jurisdiction codes returned in batch input.

These messages can behave as an error, warning or information message. It depends on the customizing set up.

To customize the messages, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings → Tax on Sales/Purchases → Basic Settings → Change Message Control for Taxes*.

Maintaining Customer Tax Indicator

Prerequisites

The customer tax classification indicators have been created in [Configuring Customer Master Data \(SD\) \[Page 95\]](#).

Procedure

Tax Indicator in Customer Master Record

To enter the customer tax indicator in the customer master record, from the SAP R/3 screen, choose *Logistics → Sales and Distribution → Master Data → Business Partners → Customers → Create/Change → Complete*. You can also use transactions V-03/V-09 to create a customer (*Complete*) or VD02/XD02 to change a customer (*Complete*).

Choose *Address*, *Control data* and *Billing*.



The customer tax classification indicator can be overwritten during sales order entry.

Tax Indicator in Sales Order

To enter the customer tax classification indicator during the sales order entry, from the SAP R/3 screen, choose *Logistics → Sales and Distribution → Sales → Order/Inquiry/Quotation → Create/Change*.

In the sales order, select the line item, then choose *Goto → Item → Billing*. Enter the desired indicator in the field *Alt. tax classific.*

You can also use the following transactions:

Sales	To create	To change
Order	VA01	VA02
Inquiry	VA11	VA12
Quotation	VA21	VA22

Maintaining Material Master Tax Indicator (SD)

Prerequisites

The material tax classification indicators have been created in [Configuring Material Master Data \(SD\) \[Page 96\]](#).

Procedure

Tax Indicator in Material Master Record

To enter the material tax classification indicator in the material master record, from the SAP R/3 screen, choose *Logistics → Sales and Distribution → Master Data → Products → Materials* (select one such as *Trading Goods*) → *Create/Change*. Choose *Select View → Sales: Sales Organization*. You can also use transaction MM01 to create or MM02 to change.



You can also overwrite the material tax classification indicator during sales order entry.

Tax Indicator in Sales Order

To enter the material tax classification indicator during the sales order entry, from the SAP R/3 screen, choose *Logistics → Sales and Distribution → Sales → Order/Inquiry/Quotation → Create/Change*.

In the sales order, select the line item, then choose *Goto → Item → Billing*. Enter the desired indicator in the field *Tax classification*.

You can also use the following transactions:

Sales	To create	To change
Order	VA01	VA02
Inquiry	VA11	VA12
Quotation	VA21	VA22

Maintaining Plant Master Jurisdiction Code (SD)

Maintaining Plant Master Jurisdiction Code (SD)

Use

The jurisdiction code relevant to a plant's location must be maintained on the plant master record. This code provides the external tax system with the ship-from location for A/R and the ship-to location in A/P.



The plant tax jurisdiction code is automatically determined and displayed on the plant address data screen.

The jurisdiction code determination for a plant works the same as a customer jurisdiction code determination.



It is important to maintain the jurisdiction codes for all the plants located in the US and Canada.

Procedure

1. In Customizing for *Materials Management*, choose *Purchasing* → *Environment Data* → *Define Tax Jurisdiction*. You can also use transaction OX10.
2. Select the plant and choose  for *Details*.
3. To access the plant address screen, choose .
4. After you save the plant jurisdiction code, the address information is updated into the plant's detailed information.



As of Release 4.6B, transaction OMGJ is no longer relevant for plant jurisdiction code determination and has been replaced by transaction OX10.

Maintaining Master Data in MM

Use

You must maintain master data in MM to provide ship-to and ship-from location information for procurement of goods and services within the MM and FI modules.

The **ship-to location** represents where the consumption of goods and services occurs for sales and use tax calculations.

The **ship-from location** is required to correctly calculate sales and use tax in certain jurisdictions.

Additionally, the **tax classification** of the material must be maintained. This provides the taxability determination for the purchasing of goods and services.

Procedure

You must carry out the following steps:

- [Maintaining Plant Master Jurisdiction Code \(MM\) \[Page 110\]](#)
- [Maintaining Cost Center Master Jurisdiction Code \(MM\) \[Page 111\]](#)
- [Maintaining Vendor Master Jurisdiction Code \(MM\) \[Page 112\]](#)
- [Maintaining Material Master Tax Indicator \(MM\) \[Page 113\]](#)

Maintaining Plant Master Jurisdiction Code (MM)

Maintaining Plant Master Jurisdiction Code (MM)

Use

You can assign a jurisdiction code to a plant. The jurisdiction code represents the ship-to location.

Procedure

This setup is the same as in [Maintaining Plant Master Jurisdiction Code \(SD\) \[Page 108\]](#).

Maintaining Cost Center Master Jurisdiction Code (MM)

Use

You can assign a jurisdiction code to a cost center. The jurisdiction code represents the ship-to location.

Procedure

5. From the SAP R/3 screen, choose *Accounting* → *Controlling* → *Cost Center Accounting* → *Master Data* → *Cost Centers* → *Individual Processing* → *Create/Change*. You can also use transaction KS01 to create or KS02 to change.
6. To maintain the jurisdiction code, choose *Address*.

Maintaining Vendor Master Jurisdiction Code (MM)

Maintaining Vendor Master Jurisdiction Code (MM)

Use

You can assign a jurisdiction code to a vendor. The jurisdiction code represents the ship-from location.

The jurisdiction code determination for a vendor works the same as a customer jurisdiction code determination described in [Maintaining Customer Master Jurisdiction Code \[Page 105\]](#).

Procedure

7. From the SAP R/3 screen, choose *Logistics → Materials Management → Purchasing → Master Data → Vendor → Purchasing → Create/Change*. You can also use transaction MK01 to create or MK02 to change.
8. To maintain the jurisdiction code, choose *Address* or *Control Data*.

Maintaining Material Master Tax Indicator (MM)

Use

The tax classification indicator on the material master provides the taxability of the material for every purchasing transaction. This indicator and the ship-to/ship-from jurisdictions provide the information necessary to calculate the sales or use tax.

Prerequisites

The material tax classification indicators have been created in [Configuring Material Master Data \(MM\) \[Page 98\]](#).

Procedure

1. To enter the material tax classification indicator in the material master record, from the SAP R/3 screen, choose *Logistics → Sales and Distribution → Master Data → Products → Materials* (select one such as *Trading Goods*) → *Create/Change*. You can also use transaction MM01 to create or MM02 to change.
2. Choose *Select View → Purchasing*.
3. Enter data as required in the field *Tax ind. f. material*.

Pricing Procedure and Condition Technique

Definition

See [pricing procedure \[Ext.\]](#) and [condition technique \[Ext.\]](#).

Use

Within the SAP business transactions, sales and use tax calculations make use of the pricing procedure and condition technique.

A pricing procedure consists of several condition types. If a condition type is activated during the pricing procedure execution, the condition type returns an amount back such as material price, discount, surcharge, freight, tax amount and so on. In turn, the amounts returned can be part of the total item sales price depending on the how the condition types are customized.

There are several ways to activate a condition type within a pricing procedure. One approach is using condition records. The parameters of a condition record are defined in the access sequence for the condition type. When the condition record is read, it usually returns a value for its condition type in the pricing procedure. This value can be defined during the condition record maintenance or determined using condition value formula configured in the pricing procedure.

Tax Calculation in SD

Purpose

You can automate SD tax calculation in R/3 and the external tax system.

Process Flow

In SD document transactions, tax calculation is processed within the pricing procedure.

To trigger US tax calculation using an external tax system, at least three conditions must be met:

1. Condition types UTXJ, XR1, XR2, XR3, XR4, XR5 and XR6 exist in the customer pricing procedure.
2. UTXJ has the condition value formula 300 and XR1 - XR6 the condition value formulas 301 - 306, respectively.
3. UTXJ must be active in the customer pricing procedure during the SD document transaction.

Conditions 1 and 2 are met using the standard pricing procedure RVAXUS delivered by SAP. The pricing procedure RVAXUS can be used as a template for US tax calculation using an external tax system (RVAXUS is defined in transaction V/08).

Condition 3 is met if, during the pricing procedure execution, a condition record is found for UTXJ. Therefore, condition records for UTXJ have to be maintained.

Maintaining SD Condition Records

Maintaining SD Condition Records

Use

Since the parameters for maintaining UTXJ condition records depend on its access sequence, you must assign the access sequence UTX1 to UTXJ (defined in transaction V/06).

Access UTX1 is delivered with three access numbers:

Access Number	Condition Table	Parameters
8	78	Departure Country / Destination Country (Export)
10	40	Country/State/Customer Classif.1/Material Classification 1
20	2	Domestic Taxes (Country/ Customer Classif.1/Material Classification 1)

If access number 20 (condition table 2) is not available for access sequence UTX1, you must add it by using transaction V/07.

It is sufficient to create condition records for the access number 20 (condition table 2) by maintaining the following parameters:

- Plant Delivery Country
- Customer tax classification
- Material tax classification

Therefore, it is necessary to create a condition record for all customer tax classification and material tax classification combinations being used. These combinations must matched to the corresponding tax code. The SD tax codes are equivalent to those set up in FI. The tax code properties, the jurisdiction code of the ship-to address of the customer, the jurisdiction code of the ship-from address of the plant, the taxable amount, and other fields are passed to external tax system.

Procedure

1. To create condition records in SD, from the SAP R/3 screen, choose *Logistics → Sales and Distribution → Master Data → Conditions → Prices → Taxes → Create/Change*. You can also use transaction VK11 to create or VK12 to change.
2. To maintain US condition records, select the condition type UTXJ or to maintain Canadian condition records, select CTXJ.



Delivery country	Customer tax classification	Material tax classification	Rate	Tax Code
US	1 (taxable)	1 (taxable)	100%	O1
US	1 (taxable)	0 (non-taxable)	100%	O0
US	0 (exempt)	1 (taxable)	100%	O0
US	0 (exempt)	0 (non-taxable)	100%	O0

Configuring Tax Per Document (Max Tax)

Configuring Tax Per Document (Max Tax)

Use

As of Release 4.6B, the **Tax Per Document** method is available. This method is important to allow Max Tax calculation rules across multiple items to be applied to an SD document. Tax Per Document is also important for performance reasons, because the RFC call to the external tax system occurs once for the entire document instead of numerous times for each line item.

To make full use of the Tax Per Document method, the correct configuration set up is required in SD.

Procedure

The SAP standard delivered pricing procedure RVAXUD is used instead of RVAXUS.

In RVAXUD, the condition type UTXJ is replaced by 2 other condition types:

- UTXD - differs from UTXJ for being a group condition
- UTXE - differs from UTXJ for being a group condition and for having no access sequence

As condition type UTXD has UTXJ as reference condition type, there is no need to maintain condition records for UTXD. The UTXJ condition records is used for UTXD as well.

Since condition type UTXE does not have an access sequence, it is always active in the pricing procedure during SD document transactions.

Notice that UTXD has condition value formula 500 (instead of 300) and UTXE has condition value formula 510.

During condition value formula 500, all document items are collected and stored. After the tax relevant data is stored for all items, it is passed to the external tax system for tax calculation. External tax system can eventually execute Max Tax calculation rules across multiple items. The tax results from the external system are distributed back to the corresponding item through the condition value formula 510.

The condition value formulas 500 and 510 are able to operate accordingly because UTXD and UTXE are group conditions.



RVAXUD should be used across entire SD business transactions. Partial use of both pricing procedures, RVAXUD and RVAXUS, may lead to inconsistent tax calculation and reporting.

SAP does not support the incorrect use of both pricing procedures RVAXUD and RVAXUS.

Tax Calculation in MM and FI

Purpose

For MM and FI transactions, tax calculation uses a tax calculation procedure instead of a pricing procedure. The tax calculation procedure applies the condition technique.

Process Flow

The main aspects of tax calculation procedures include:

- Every condition type in a tax calculation procedure has the same access sequence MWST.
- Access sequence MWST has 2 parameters: country and tax code.
- The tax condition records for each condition type is created through the [FI condition record maintenance \[Page 124\]](#).
- The FI tax condition records are based on the tax code and are created in central configuration for tax code condition records. The tax codes are used in A/R sales and use tax, A/P sales tax and A/P self-assessment/use tax.
- For MM and FI document transactions, the company code's country and the tax code entered forms the FI tax condition records for the country tax procedure.
- For MM, if the tax code is not entered manually, an automatic tax code determination is necessary. Configuration set up for [automatic tax code determination in MM \[Page 144\]](#).
- The tax calculation procedure also determines the G/L (tax liability) accounts to which the tax amounts are to be posted to accounting. A correct configuration set up is required for automatic [G/L account determination \[Page 145\]](#).

The standard tax calculation procedure delivered by SAP for tax calculation using external tax system is TAXUSX.

The tax calculation procedure TAXUSX is configured to call the tax interface system through the Condition Value Formulas: 300 - 306. The tax interface system passes tax relevant information to the external tax system such as tax code properties, ship-to and ship-from jurisdiction codes, and taxable amount and returns the tax amounts and tax rates from the external tax system back to the transaction.

Tax Calculation Procedure in SD

Use

During SD document transactions, tax calculation procedure TAXUSX is only relevant to determine the tax liability accounts for output sales tax. Notice that in pricing procedure RVAXUS, the condition types XR1 - XR6 carry the tax rates and tax amounts - resulted from the external tax system calculation - which is posted to tax G/L accounts. However, the [tax accounts \[Page 126\]](#) are not specified in the pricing procedure but rather in the tax calculation procedure.



Tax codes are the link between pricing procedure and tax calculation procedure.

As mentioned in [Maintaining SD Condition Records \[Page 116\]](#), the SD tax codes are equivalent to those set up in FI. When the tax code is automatically determined in SD through UTXJ condition records, it and the departure country are used to read the appropriate tax condition record maintained in FI (see [Creating Tax Codes \[Page 121\]](#)).

The condition records for XR1 - XR6 in SD pricing procedure are activated through the activation of the same condition records in FI tax calculation procedure. Therefore, the condition type names have to coincide in both the SD pricing procedure and FI tax calculation procedure.

Configuring Tax Codes

To set up a tax code, you must do the following:

- [Maintaining Tax Code Properties \[Page 122\]](#)
- [Maintaining Tax Code Condition Records \[Page 124\]](#)
- [Maintaining Tax Accounts for Tax Codes \[Page 126\]](#)

Here are templates of the most common types of tax codes that can be created for US sales and use tax:

- **I1 – Sales input taxes:** used mainly during Purchase Orders, Invoice Verification and Accounts Payable
- **I0 – Sales exemption input taxes:** used mainly during Purchase Orders, Invoice Verifications and Accounts Payable for (ship-to location and/or material) exempt transactions
- **O1 – Sales output taxes:** used mainly during Sales Orders, Billings and Accounts Receivable
- **O0 – Sales exemption output taxes:** used mainly during Sales Orders, Billings and Accounts Receivable for (customer and/or material) exempt transactions
- **U1 – Use input taxes:** used mainly during Purchase Orders, Invoice Verifications and Accounts Payable



The above tax code names are just SAP convention names. Users can also create new tax codes, if necessary, such as for different product codes.

Maintaining Tax Code Properties

Maintaining Tax Code Properties

Use

You maintain tax code properties during the creation of tax codes in order to define it as input/output tax, sales/use tax, and so on.

Procedure

1. In Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Calculation* → *Define Tax Codes for Sales and Purchases*. You can also use transaction FTXP.
2. When creating a new tax code condition record, a pop-up window is displayed after a country is specified. In this pop-up window, you maintain tax code properties. These properties are stored in T007A under the key fields tax calculation procedure (KALSM) and tax code (MWSKZ).



Do not use transaction SM31 (update) to maintain T007A because links to other tables will not be properly maintained. SM31 may only be used to view table T007A.

Table T007A stores the allowable combination of tax procedure with tax code and tax type. This table is checked when condition records for tax codes are created. The properties define each tax code and must be maintained.

You maintain the following properties:

- **Tax code** - position identifier and description field
- **Tax type** - V - input (A/P, MM) or A – output (A/R, SD)
- **Check** - error message indicator for calculated versus entered tax amounts – *Blank* means a *warning* message is returned or *setting* the radio button means an *error* is returned
- **EC code** - not relevant for tax interface system
- **Target tax code** - not relevant for tax interface system
- **Relevant to tax**

Blank or *O* - external system decides if transaction is non-taxable vs. taxable. It is recommended that the external system's taxability decision engine is used.

1 - External system assumes transaction is taxable. Therefore, external system's taxability decision engine is ignored and tax rates are based solely on jurisdiction codes.

2 - Call to external tax system is bypassed during tax calculation. SAP imposes zero rates and zero amounts.

- **Tax category**

Blank or *0* – normal Sales Tax

1 - Consumer Use Tax (for A/P self-assessment tax)

2 - Service Tax

3 - Rental/Lease Tax

Maintaining Tax Code Properties

- **Product code** - used to map to external tax system's product code in conjunction with product code table TTXP.

Maintaining Tax Code Condition Records

Maintaining Tax Code Condition Records

Procedure

In Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Calculation* → *Define Tax Codes for Sales and Purchases*. You can also use transaction FTXP.

Tax code condition records are stored in condition table A003. The plant's country (SD) or the company code's country (MM) along with the tax code, which was automatically determined from the SD/MM condition records, are used to read the tax condition records stored in table A003. The tax code also be entered and changed manually in both MM and FI.

To create the tax code condition record, enter tax percentage rates in the six fields provided as follows:

I1 and I0 Tax Codes

Tax Code	Condition Type	Tax percent. Rate
I1 and I0	XP1I	100
I1 and I0	XP2I	100
I1 and I0	XP3I	100
I1 and I0	XP4I	100
I1 and I0	XP5I	100
I1 and I0	XP6I	100

O1 and O0 Tax Codes

Tax Code	Condition Type	Tax percent. Rate
O1 and O0	XR1	100
O1 and O0	XR2	100
O1 and O0	XR3	100
O1 and O0	XR4	100
O1 and O0	XR5	100
O1 and O0	XR6	100

U1 Tax Code

Tax Code	Condition Type	Tax percent. Rate
U1	XP1I	100
U1	XP2I	100
U1	XP3I	100
U1	XP4I	100
U1	XP5I	100

Maintaining Tax Code Condition Records

U1	XP6I	100
U1	XP1U	100-
U1	XP2U	100-
U1	XP3U	100-
U1	XP4U	100-
U1	XP5U	100-
U1	XP6U	100-



Tax codes I0 and O0 have the same settings as its correspondent tax codes I1 and O1. The only difference is the *Relevant to tax* indicator set up that is part of the [tax code properties \[Page 122\]](#). The *Relevant to tax* indicator must be set to 2 – External system is not called and tax rates and tax amounts are force to zero. Here, R/3 determines the exemption handling. If the external tax system is used for exemption handling, the indicator must be blank or 0.

For tax codes, which indicate use tax or self-assessment tax such as U1, the condition types XP1I - XP6I (marked with 100-) creates the credit entry to tax liability accounts and the condition types XP1U - XP6U (marked with 100) records the offset entry for the tax to the expense/inventory accounts.

Maintaining Tax Accounts for Tax Codes

Maintaining Tax Accounts for Tax Codes

Use

The tax calculation procedure also determines the G/L (tax liability) accounts to which the tax amounts are to be posted to accounting.

Three interconnected concepts are used in the tax calculation procedure to determine the desired G/L (tax liability) accounts per tax code:

- Accounting key
- Process key
- Transaction key

Procedure

Each condition type amount, which is calculated during the tax procedure execution, can be posted to the desired G/L account. This is accomplished by the *accounting key*, which is assigned for each relevant condition type in the tax procedure TAXUSX. Check for each tax code the corresponding accounting key for all *active* condition types using transaction FTXP.

Accounting key is equal to process key.

The *process key* defines through the *posting indicator* if a tax liability account can be assigned for a tax code or if tax amounts are to be distributed to the expense items.

In Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Basic Settings* → *Check and Change Settings for Tax Processing*. You can also use transaction OBCN. You maintain the table T007B.

You set the posting indicator to '2' (separate line item) for process keys for condition types XP1E - XP6E, XP1U - XP6U and XR1 - XR6. You set the posting indicator to '3' (distribute to relevant expense/revenue items) for process keys for condition types XP1I - XP6I.



Only the process keys, which have the posting indicator unequal to '3', are also transaction keys.

The *transaction key* defines the **tax liability account** and **posting keys** for line items that are created automatically during posting to accounting.

Transaction keys (or account keys) are defined for each chart of accounts.

In Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Posting* → *Define Tax Accounts*. You can also use transaction OB40. You maintain the table T030K.

Verify that the transaction keys (or account keys) used, for example, VS1 - VS4 and MW1 - MW4 are defined. Confirm that account keys, such as NVV with a posting indicator of '3', where the original account on the document line is to be charged, do not exist. This allows the system to book tax expense to the same account as the tax base.

You have to set up the following:

- Rules (tax liability account is the same for all tax codes or it differs per tax code)

Maintaining Tax Accounts for Tax Codes

- G/L or Cost Element account assignment (liability or expense)
- Posting keys such as 40 or 50

Set Dummy Jurisdiction Code for Non-Tax Transactions

Set Dummy Jurisdiction Code for Non-Tax Transactions

Use

Good receipt and goods issue transactions are non-sales/use tax relevant transactions. However, due to design reasons, the tax code and jurisdiction code are required. Therefore, you can assign exempt tax codes and dummy jurisdiction codes that have no influence in tax calculation.

Procedure

1. In Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Posting* → *Allocate Tax Codes for Non-Taxable Transactions*. You can also use transaction OBCL.
2. Enter I0 for input tax, O0 for output tax and XX00000000 for dummy jurisdiction code for the relevant company codes using TAXUSX.

Update of the External Tax System Audit File

In addition to tax calculation, the external tax system is responsible for tax reporting. The tax data, which is comprised in the external tax document, is ready for reporting when the accounting document is saved from the invoice or credit memo. Therefore, we update the external audit file immediately when the accounting document is saved. The technique used for making a real time update possible is the Transactional RFC (tRFC).

Posting Taxes with the Accounting Document

Posting Taxes with the Accounting Document

Currently, there are the following scenarios in R/3 where taxes are posted together with the accounting document.

- In **SD**, the billing document is released to accounting and saved.
- In **MM-LIV (Logistics Invoice Verification)**, the logistics invoice is saved and posted to accounting.
- In **MM-IV (Old Invoice Verification)**, the accounting document is created directly from the logistics data.
- In **MM-ERS (Evaluated Receipt Settlement)**, During the ERS-run, the logistics invoice is created automatically based on the information of the goods received and then posted to accounting.
- In **FI-AP**, the vendor invoice is manually posted to G/L accounts.
- In **FI-AR**, the customer invoice is manually posted to G/L accounts.



In the US, taxes are not calculated or posted during the goods receipt or goods issue.



If there are no taxes posted to a separate tax liability account for an invoice, there is no update to the external audit file. Additionally, for free-of-charge deliveries, in which no accounting document is created, there are no taxes updated to the external audit file.

Normal Update and Forced Update

When the accounting document is created, all tax information, which is to be updated to the external system, is first checked for inconsistencies.

A recalculation is performed to make sure that no invalid jurisdiction codes are posted. If this is the case, an error occurs and the accounting document cannot be posted. The second purpose of the recalculation is to check if the input data for the audit file generates the same tax amounts as posted in the General Ledger. If the tax amounts are different, the tax data is *forced* to the external system. The taxes are always forced to the external system when the document (invoice) currency is different from the local (company) currency. Only if there are no inconsistencies in the tax amounts, a *normal* update take place. This is normally the case.



In releases prior to 4.6, a forced update could lead to a summarized and incomplete update of the tax audit file. However, now during a forced update, the parameters such as ship-from jurisdiction codes and product codes are sent to the external system for update.

Monitoring the Transactional RFC

Monitoring the Transactional RFC

In order to update the external audit file immediately when saving the accounting document, the Transactional RFC is used. When the document is being updated, the function RFC_UPDATE_TAXES_DOC is invoked in background task. In the case of a forced update, the tRFC used is RFC_FORCE_TAXES_DOC.

However, the actual call to the external system only takes place if the R/3 database was successfully updated. If there is an error during the COMMIT WORK, the external system is not called.



It is possible that the update RFC results in an error, for example, when the connection is broken, or there is no more disk space to store the data. The status of the update calls can be monitored with the tRFC monitor (transaction SM58) using the destination name. Calls that were successfully updated are automatically removed from the list. Therefore, if you do not have any entries in the list, every call was successfully updated to the external system.

For performance reasons, the tRFC calls are serialized using the *tRFC Queue*. In addition to SM58, the status of the last tRFC call not yet updated to the external system can be monitored with the qRFC monitor (SMQ1). As before, if you do not have any entries in the list, every call was successfully updated to the external system.

Displaying Documents Sent to the External System

Use

In R/3, you can list the external tax documents (the tax audit data for an invoice) updated to the external system. Report RFYTXDISPLAY for further analyzing.

Features

For every document the following information is available:

- The status of the update and the error message if applicable
- Whether the document was *forced* and, if so, why
- The date and user who updated the document
 - Due to the online update, this is equal to the creation date and user of the corresponding accounting document.
- The corresponding accounting document and from there the original invoice
- An overview of the tax data updated to the external system

Displaying the Status List

Displaying the Status List

Use

Report RFYTXDISPLAY shows the status for a list of documents.

Procedure

Execute report RFYTXDISPLAY.

Example

Status	Reference Document	Date and User	Text
Green	BKPF 1800000022 USXV1999	06.08.1999 DEBRUYN G	Updated to external system
Green	VBRK 90007687	08.04.1999 OEII	Forced to external system
Possible reason for force: The document currency and the G/L currency differ			
Red	BKPF 1900000067 USXV1999	26.08.1999 DEBRUYN G	Error occurred in update
Error message: doc: 1900000067; 1234 No more disk space			
Yellow	BKPF 1900000068 USXV1999	10.09.1999 DEBRUYN G	Scheduled in tRFC queue for update

Displaying the Tax Data in a Document

Use

With RFYTXDISPLAY, you can also display the tax data sent to the external system. You can configure a display variant to select certain fields and filter data from a certain document. It is possible to feed this data to a spreadsheet and do further analysis.



The tax data shown is not meant for legal reporting directly. This is the responsibility of the external system. In addition, some data such as the Exempt Certificate may be in the audit file of the external system but not show up on the display taxes screen.

Procedure

Execute RFYTXDISPLAY.

Example

The tax data for some selected fields could look like this on the spreadsheet:

Tax item	Tx	Jur. level	Material	Tax Date	Jur. Shipto	Jur. Shipfr	Account number	Cred	G/L Account	LC tax amount	Rate
000010	O1	1	Mat. 123	19990714	CA04120601	CA08131201	Cust. 1	1	175001	12.00	6.00
000010	O1	2	Mat. 123	19990714	CA04120601	CA08131201	Cust. 1	1	175002	2.50	1.25
000010	O1	3	Mat. 123	19990714	CA04120601	CA08131201	Cust. 1	1	175003	0.00	0.00
000010	O1	4	Mat. 123	19990714	CA04120601	CA08131201	Cust. 1	1	175004	0.00	0.00
000010	O1	5	Mat. 123	19990714	CA04120601	CA08131201	Cust. 1	1	175004	0.00	0.00
000010	O1	6	Mat. 123	19990714	CA04120601	CA08131201	Cust. 1	1	175004	0.00	0.00

User Exit

Use

Due to the complexities of American tax rules and regulations, which seem to vary based on everything from type of industry to business practice, a user exit has been provided in the tax interface programming logic. Customer user exits are provided by SAP to handle customer-specific modifications.

A customer user exit is essentially a function module using a unique naming convention, in which set import and export parameters are defined to limit the data that can be manipulated. This is to protect certain data from being changed. This function module is attached to an enhancement that may contain other function modules. A user exit should only be used if the possibilities for customizing or application-specific user exits are inadequate.

Features

The user exit delivered in the tax interface programming logic is FYTX0002.

See also:

- [Setting Up Enhancement FYTX0002 \[Page 137\]](#)
- [How to Use Enhancement FYTX0002 \[Page 138\]](#)
- [Examples Using the User Exit \[Page 140\]](#)

Setting Up Enhancement FYTX0002

Use

The SAP enhancement FYTX0002 can be viewed with transaction SMOD and consists of the following components:

1. Function module EXIT_SAPLFYTX_USER_001
2. Include structure CI_TAX_INPUT_USER

In function module EXIT_SAPLFYTX_USER_001 you can fill or change some fields for the external system. The include structure CI_TAX_INPUT_USER can be used to pass additional fields from the pricing structures to the user exit.



For customers who upgrade from a release prior to 4.6: The old user exit of enhancement FYTX0001 (containing the COM_TAX fields) is still executed before calling the new user exit. However, new fields are not included. In addition, only those fields of COM_TAX in structure TAX_ALLOWED_FIELDS can be changed. By doing so, fields like COM_TAX-TAXBAS1 can be no longer misused.

Procedure

To install the user exit, you must complete the following steps:

1. With transaction CMOD - define a project, for example ZTAXDOC0, and assign the enhancement FYTX0002 to this project.
2. With transaction SE37 - display function module EXIT_SAPLFYTX_USER_001. Double-click on ZXFYTU03 to create the program that contains the custom changes.
3. With transaction SE11 - add to the custom structure CI_TAX_INPUT_USER additional fields from pricing that are not yet included in the input parameters of the function module.
4. Activate the project with transaction CMOD.

Using Enhancement FYTX0002

Using Enhancement FYTX0002

With transaction SE37, you can display the function module EXIT_SAPLFYTX_USER_001, which has the following input parameters:

- I_T007A: Tax Code information
- I_TTXD: Additional information on interface version
- I_TAX_HEADER_INPUT: Item-independent input data for taxes
- I_TAX_ITEM_INPUT: Item-dependent input data for taxes
- I_INPUT_USER: Includes the fields from CI_TAX_INPUT_USER

In the alternate condition type formulas FV64A500 (SD - tax per document) and FV64A300 (FI, MM, SD tax per item), these input parameters are populated based on the pricing structures KOMP, KOMK and XKOMV.



The input parameters cannot be changed. Any modification immediately results in a syntax error. Or, if changed, a run-time error occurs at the time of execution.

Those fields of the input parameters that can be changed inside the function module are included in the *changing* parameter CH_USER_CHANGED_FIELDS (of type TAX_ALLOWED_FIELDS). Some fields in TAX_ALLOWED_FIELDS may already have a default value assigned to it before the user exit is called.

The structure TAX_ALLOWED_FIELDS has the following fields that can be changed:

Field name	Default value taken from	Comments
GROUP_ID	KOMP-UEPOS	
DIVISION	KOMK-GSBER	
PROD_CODE	T007A- PROCD	Or TTXP-XPRCD if exists
GROUP_PROD_CODE		Filled in user exit
QUANTITY	KOMP-MGMLE	
UNIT	KOMP-VRKME	
TXJCD_SF	T001W-TXJCD or LFA1-TXJCD	Depends on MWART
TXJCD_POA	TXJCD_SF	
TXJCD_POO	TXJCD_ST	Can be changed to TXJCD_SF in user exit
FREIGHT_AM		Included in AMOUNT
EXEMPT_AMT		Filled in user exit
ACCNT_NO	KOMK-KUNWE or LIFNR	Depends on MWART
ACCNT_CLS		Filled in user exit
COST_OBJECT		Filled in user exit

Using Enhancement FYTX0002

PTP_IND		Filled in user exit
EXCERTIF		Filled in user exit
EXREASON		Filled in user exit
USER_DATE		Filled in user exit
STORE_CODE		Only sent during the update
USER_REPT_DATA		Only sent during the update

Examples of User Exit

Examples of User Exit

In our examples, additional fields from KOMP and KOMK are needed that are not standard with the I_TAX_HEADER_INPUT and I_TAX_ITEM_INPUT parameters of the user exit. Therefore, the following fields must be added to CI_TAX_USER_INPUT:

- VKORG as in KOMK-VKORG
- KDGRP as in KOMK-KDGRP

Those fields are populated automatically from KOMK.

An example of the user exit:

```
*-----*
* INCLUDE ZXFYTU03 *
```

```
if i_t007a-mwart = 'A'.           " Accounts Receivable
```

***----Division code (Example 1: Based on sales organization)**

```
ch_user_changed_fields-division = i_input_user-vkorg.
```

***----Division code (Example 2: Based on company code)**

```
ch_user_changed_fields-division = i_tax_header_input-comp_code.
```

***----Tax Exemption Reason Code (Example: taken from customer group)**

```
if sy-subrc = 0.
ch_user_changed_fields-exreason = i_input_user-kdgrp.
" Customer group(Sales)
endif.
```

***----Tax Exemption Reason Code (Example 2: taken from tax code)**

```
ch_user_changed_fields-exreason = i_t007a-mwskz.
```

***----Product Code (Example 2: defined product field exists in mara)**

```
data: matkl type mara-matkl,
xprcd type ttxp-xprcd.
select single matkl from mara into matkl
where matnr = i_tax_item_input-matnr.
```

Examples of User Exit

```

if sy-subrc = 0.
  select single xprcd from ttxp into xprcd
    where xextn = 'A'
    and   procd = matkl.  " Material Group
  if sy-subrc = 0.
ch_user_changed_fields-prod_code = xprcd.
    endif.
  endif.

endif.

```

Handling Freight

Handling Freight

Use

The freight amount is included in the tax base amount. However, in some jurisdictions, the freight amount has a separate taxability. Therefore, the freight amount must be addressed separately.

Features

You can handle the freight using one of the following methods:

Freight included on the line item

The freight is passed to the external system by populating the field FREIGHT. The freight amount is always included in the base amount.

An example with freight using the user exit:

1. In the customer pricing procedure, such as RVADUS, enter 4 in the subtotal field of the freight condition type (for example HD00).
2. In the customer structure CI_TAX_USER_INPUT, add the field KZWI4 as in KOMP-KZWI4.
3. In the user exit, add the code CH_USER_CHANGED_FIELDS-FREIGHT = I_INPUT_USER-KZWI4.



If the document currency differs from the company code currency, the freight amount is not mentioned separately in the update of the external system. Only the amount field (already includes the freight amount) and the tax amounts are converted.

Freight on a separate line item

A separate line item with a *freight material* is added to the document that contains the freight amount. The product code can be used, for example using the tax code, to indicate that this item represents the freight amount.

Handling the Group Product Code for Tax Per Document

Use

In some US states, there is a maximum tax per invoice or per set of components. To send information about the group material during pricing configuration on the component level, the field GROUP_PROD_CODE can be used.

```
data: matkl type mara-matkl,
      xprcd type ttxp-xprcd.
      select single matkl from mara into matkl
      where matnr = i_tax_item_input-upmat.
      if sy-subrc = 0.
        select single xprcd from ttxp into xprcd
        where xextn = 'V'
        and   procd = matkl. " Material Group
        if sy-subrc = 0.
          ch_user_changed_fields-group_prod_code = xprcd.
        endif.
      endif.
```



By default the field GROUP_ID already indicates that this item is a component of a set. All components of the same set already have the same group_id and is defaulted with the higher-level item number.

Maintaining Condition Records in MM

Maintaining Condition Records in MM

Use

A tax condition record can also be created in MM. Even though this is not required, it is necessary for automatic determination of the tax code.

Procedure

Condition Type Maintenance

The MM tax condition record is based on the condition type NAVS and access sequence 0003.

To define conditions types, in Customizing for *Logistics*, choose *Materials Management* → *Purchasing* → *Conditions* → *Define Price Determination Process* → *Define condition types*. You can also use transaction M/06.

Select condition type NAVS and assign access sequence 0003 to it. This step is only necessary for automatic determination of the tax code. Tax codes can be entered or changed manually in MM processing.

Condition Record Maintenance

To maintain condition records, from the SAP R/3 screen, choose *Logistics* → *Materials Management* → *Purchasing* → *Master Data* → *Taxes* → *Create/Change*. You can also use transaction MEK1 to create or MEK2 to change.

Select the condition type NAVS and choose the desired *Key Combination*. The material classification indicators based on Import and Region is hard-coded.

IMPORT (TAXIL):

- **0** – Domestic purchase
- **1** – Intercompany purchase
- **2** – EC intercompany purchase

REGION (TAXIR):

- **0** – Intrastate purchase
- **1** – Interstate purchase

Enter the appropriate indicators depending on the *Key Combination* chosen and associate them with the corresponding tax code created in FI.

G/L Tax Account Maintenance

Use

If a G/L account is set up to be tax relevant, then tax amounts must be present in a financial transaction in order to create a financial document. To make a revenue account tax relevant, enter an output tax indicator in the tax category field in the G/L account master record. When posting a customer invoice to FI, the system determines if tax line items are in the invoice. If no tax line items exist, a financial document cannot be created. Output tax indicators are used for accounts receivable (FI) and sales (SD) and input tax indicators are used for accounts payable (FI) and purchases (MM).

Procedure

To access the G/L account master data, from the SAP R/3 screen, choose *Accounting* → *Financial Accounting* → *General Ledger* → *Master records* → *Individual processing* → *In company code*. You can also use transaction FS01 (create), FS02 (change), or FS03 (display).

Enter the G/L account for which you need to maintain. Select *Control data*. On this screen you find *Tax category*. Select the appropriate tax category.

For the accounts in the prior step (T030K), review the account definition and Tax Category field in the account master records that are used for tax liabilities. The input or output determination is very important. Next, consider the asset accounts for nontaxable purchases of inventory. Additionally, consider the set of accounts and primary cost elements that correspond to the NVV account key. The Tax Category is *Input* or *blank*. Review the revenue accounts used in SD.

The sales and use tax calculation procedure for MM/FI allows the charge (debit) for taxes to post to a separate account. This is typically titled *sales tax expense clearing*. As delivered, the G/L accounts corresponding to *expense to separate accounts* (XP1E - XP6E) are clearing accounts. Most users do not utilize this posting, instead, they choose to record taxes in the same account as the charge; using the account key with rules like NVV. Liability accounts for A/P sales and use tax liability and A/R sales tax liability (XP1U - XP6U and XR1 - XR6) need to be defined. The G/L accounts corresponding to the account keys need to be set up appropriately.

Example

Sample G/L accounts with tax category:

G/L account	Description of G/L account	Tax category	Description of tax category
160000	A/P Reconciliation Account	*	All tax types allowed
140000	A/R Reconciliation Account	*	All tax types allowed
800000	Sales Revenue	+	Only output tax allowed
410000	Expenses/Materials Consumed	-	Only input tax allowed
175001	A/R Sales Tax (State)	>	Output tax
175002	A/R Sales Tax (County)	>	Output tax
154010	A/P Use Tax	<	Input tax

G/L Tax Account Maintenance

Calculate Taxes on Net Amount from Cash Discount

Use

For US sales and use tax, the rules for determining the tax base amount (net or gross from cash discount) depend on the respective state laws.

In R/3, base amount determination is controlled based on the company code or ship-to state jurisdiction code. However, for those state jurisdiction codes for which the settings were specified, the company code settings do not have any effect.

Procedure

Based on Company Code

In Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Calculation* → *Specify Base Amount*. You can also use transaction OB69.

Choose the appropriate company code and activate.

Based on State Jurisdiction Code

In Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Basic Settings* → *Define Tax Jurisdictions*. You can also use transaction OBCP. Enter tax calculation procedure TAXUSX.

Within the *Define Tax Jurisdictions* transaction, it is necessary to maintain the highest-level jurisdiction code, which represents the state. Taxes on net base amount *TxN* and discount on net amount *DiN* are set with this transaction.



It is important to realize that R/3 **does not** allow posting of a document if jurisdiction settings are different per line item. For example, a line item containing a New Jersey jurisdiction which has a calculation setting based on gross amount and a line item containing an Illinois jurisdiction which has a calculation setting based on net amount cannot exist in the same document. All line items must be set to calculate taxes using the same base, net or gross. This rule also applies to calculating discounts.

Calculate Discount on Net Amount

Calculate Discount on Net Amount

Use

For US sales and use tax, the rules for determining the tax base amount - net or gross from cash discount – depends on the respective state laws.

In R/3, base amount determination is controlled based on the Company Code or Ship-to State jurisdiction code. However, for those state jurisdiction codes for which the settings were specified, the company code settings do not have any effect.

Procedure

Based on Company Code

To calculate discounts without considering tax, in Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Calculation* → *Specify Base Amount*. You can also use transaction OB70.

Set the cash discount base amount to net value excluding taxes based on company code. This functionality only works in conjunction with setting the tax jurisdiction to calculate taxes on net base amount as well.

Based on State Jurisdiction Code

In Customizing for *Financial Accounting*, choose *Financial Accounting Global Settings* → *Tax on Sales/Purchases* → *Basic Settings* → *Define Tax Jurisdictions*. You can also use transaction OBCP. Enter tax calculation procedure TAXUSX.

Within the *Define Tax Jurisdictions* transaction, it is necessary to maintain the highest-level jurisdiction code, which represents the state. Taxes on net base amount *TxN* and discount on net amount *DiN* are set with this transaction. This works only after transaction OB69 has been performed for the company code.



It is important to realize that R/3 **does not** allow posting of a document if jurisdiction settings are different per line item. For example, a line item containing a New Jersey jurisdiction which has a calculation setting based on gross amount and a line item containing an Illinois jurisdiction which has a calculation setting based on net amount cannot exist in the same document. All line items must be set to calculate taxes using the same base, net or gross. This rule also applies to calculating discounts.

Tax-Only Adjustments

Use

Tax-only debits and credits are generally accumulated over time and may not correspond to a single invoice. This standard R/3 functionality is not specific to the tax interface.

Features

A/R Customer Invoice

In a typical customer invoice, the customer account is debited the total sales amount including tax. The revenue account is credited with the revenue amount and tax liability accounts are credited with the tax. If this is a tax-exempt transaction, taxes must now be adjusted. A customer credit must be created to adjust the tax amounts, which were billed to the customer. The total tax amount is credited to the customer account using posting key 11 and the individual tax amounts are debited to the various tax liability accounts using posting key 40. Since taxes are determined automatically, a tax base amount must be provided to calculate the tax. The taxable amount with a tax code of O1 is entered as a debit (posting key 40) to the revenue account so that the tax amounts can be calculated and debited to the appropriate tax accounts. This causes an out-of-balance condition, which is corrected by re-entering the taxable amount with a tax code of O0 as a credit (posting key 50) to the revenue account. This procedure adjusts the taxes.

A/P Vendor Invoice

If a vendor charges sales tax, the amount credited to the vendor account is the taxable amount and the tax with posting key 31 and the taxable amount including the tax is debited to the cost account using posting key 40 with a tax code of I1. If the vendor should not have collected tax, then the tax amount must be debited to the vendor account using posting key 21 and the cost account must be credited with the tax amount using posting key I0. Since taxes are calculated automatically, a credit amount equal to the tax base must be posted to the cost account (posting key 50) using a tax code of I1. To offset this credit, an amount equal to the tax base amount would be debited to the cost account (posting key 40) using a tax exempt code of I0.

Withholding Tax

Withholding Tax

Definition

See [Withholding Tax \[Ext.\]](#).

Use

In the United States, invoice recipients are sometimes required to collect withholding tax on behalf of certain vendors, such as self-employed people or non-resident foreigners. However, normally, invoice recipients need only to report withholding taxes and do not have to collect and pay withholding taxes. In this common case, the vendor is liable for paying the tax amount to the IRS.

Withholding tax amounts must be reported to the IRS at regular intervals and a statement is also sent periodically to the vendor. Companies submit annual statements of withholding tax amounts to the vendors and the IRS by using the pre-printed forms 1099 Misc and 1042. With the R/3 System, you can create both the 1099 Misc and 1042 reports.



If you withhold taxes at both state and federal level, you are required to use the extended withholding tax functions.

Taxpayer Identification Number (TIN)

Definition

A taxpayer identification number (TIN) uniquely identifies recipients whose income is connected with a U.S. trade or business.

Use

You must submit the taxpayer identification number with your tax returns. If you do not know the recipient's number, you can request it from the IRS using Form W-9, *Request for Taxpayer Identification Number and Certification*. With this form, you can also certify that the number furnished is correct.

The taxpayer identification number is a social security number (SSN) or an individual taxpayer identification number (ITIN) in the case of an individual and an employer identification number (EIN) in all other cases.

Integration

You maintain the taxpayer identification number in the customers' and vendors' master data. If it is a social security number, you maintain it in *Tax code 1*. If it is a corporate identification, you maintain it in *Tax code 2*.

Withholding Tax Code

Withholding Tax Code

Definition

See [Withholding Tax Codes \[Ext.\]](#).

Use

You use the withholding tax codes to specify the tax rates, the tax base and any exemptions that apply. By doing so, you can report to the IRS your outgoing payments and withheld taxes for 1099 Misc and 1042 vendors.

When you create a company code using the template for the United States, the system sets up some of the necessary withholding tax codes used in 1099 Misc reporting. For 1042 reporting, you must create your own entries.

See also:

[Withholding Tax Codes for 1099 Misc Reporting \[Page 153\]](#)

[Withholding Tax Codes for 1042 Reporting \[Page 155\]](#)

Withholding Tax Codes for 1099 Misc Reporting

Withholding Tax Codes for 1099 Misc Reporting

Definition

See [Withholding Tax Code \[Page 152\]](#).

Use

When you create a company code using the template for the United States, the system sets up most of the withholding tax codes used in 1099 Misc reporting:

WT Code	Description
01	Rents
02	Royalties
03	Prizes, awards
04	Federal income tax withheld
05	Fishing boat proceeds
06	Medical and health care payments
07	Nonemployee compensation
08	Substitute payments (dividends/interest)
09	Payer made direct sales of \$5000 or more
10	Crop insurance proceeds
11	State income tax withheld

There are some situations in which you must manually create withholding tax codes:

Creating New Withholding Tax Codes 3A, 3B, and 3C

Due to recent changes in 1099 Misc, you must create three new withholding tax codes, which are not delivered in the template:

3A	Crop insurance
3B	Excess golden parachute
3C	Gross proceeds to an attorney

Creating New Withholding Tax Codes for Calculation and Posting

Additionally, you may have to define new withholding tax codes which enable withholding tax posting. You are usually only required to report, but not pay, the withholding tax amounts to the IRS. However in some situations, in addition to reporting, you must calculate, post, and pay the withholding tax on behalf of your 1099 vendor. To do this, you must define new withholding tax codes.

You create the new withholding tax codes using the following information:

Field	Entry
-------	-------

Withholding Tax Codes for 1099 Misc Reporting

<i>W.tax code</i>	F1, F2, F3, F5, F6, F7, F8, F9, or F0 (excluding 04 and 11)
<i>Percentage subject to tax</i>	100
<i>Net base for tax contributions</i>	Select box
<i>Withholding tax rate</i>	31 (or the current tax rate)
<i>Posting with payment</i>	Select box

Withholding Tax Codes for 1042 Reporting

Definition

See [Withholding Tax Code \[Page 152\]](#).

Use

When you use the template for the United States, the system sets up withholding tax codes used in 1099 reporting, but not for 1042 reporting. Therefore, in Customizing, you must manually create withholding tax codes for 1042.

To create a withholding tax code for a foreign vendor, you must ensure that there is a corresponding formula. Therefore, it involves two steps:

- Define/Check withholding tax code
- Define/Check formula

Example

You want to customize your system to enable withholding tax postings for a 1042 vendor for which no formula has been created.

You define withholding tax code 42 using the following information:

- Select *Withholding tax formula* under *According to the special procedure*.
- Select *Posting with Payment* under *Withholding tax posting*.

Next, you must define the corresponding formula using the following information:

Field	Value
Country	US
Currency	USD
Withholding tax code	42
Withholding tax country	XX (may differ from vendor master record)
To base amount	999,999,999.00 (amount up to which is used as deduction)
Withholding tax	31%
Decreased reduction of base amount	999,999,999.00 (amount by which base amount is reduced if <i>exemption authorization</i> exists on vendor master record)

Recipient Type

Recipient Type

Definition

See [Extended Withholding Tax: Customer/Vendor Master Data \[Ext.\]](#).

Use

You enter the recipient type in the vendor master record only if you are required to submit report 1042. The recipient type is automatically entered into the *income code* field on 1042.

When you create a company code using the template for the United States, the system creates the following recipient types:

Recipient Types for the United States

01	Individual
02	Corporation
03	Partnership
04	Fiduciary
05	Nominee
06	Government or int.organization
07	'Tax exempt' organization
08	Private foundation
09	Artist or athlete
19	Other
20	Type of recipient unknown

Withholding Tax Data in the Vendor Master Record

Use

To use the withholding tax functions, you must specify certain withholding tax data in the vendor master record.

Prerequisites

Vendor master records exist in the system and are not classified as one-time vendors.

Procedure

On the Vendor Master screen, you must enter data in the following fields:

Taxpayer Identification Number (TIN)

Enter the [taxpayer identification number \[Page 151\]](#) in either field *tax code 1* or *tax code 2*. If the number is a social security number (SSN) or an individual taxpayer identification number (ITIN), you enter it in *tax code 1*. If it is an employer identification number (EIN), you enter it *tax code 2*.

Withholding Tax Code

Enter the withholding tax code.

Withholding Tax Type

Enter the withholding tax type if you use the extended withholding tax functions.

Withholding Tax Country

Enter the country code for withholding tax.

Recipient Type

Enter the recipient type only if you are using the report 1042.

Customizing Withholding Tax

Customizing Withholding Tax

To use the withholding tax functions, you must customize your system. You can manually customize your system or use the standard template for the United States. The template contains most, but not all, of the customizing settings necessary for calculating and reporting withholding tax. In addition to the template, you must do some additional customizing.

Basic Settings

When you create a company code using the template for United States, the system creates sample [recipient types \[Page 156\]](#) and defines the withholding tax countries needed for 1042 reporting.

Calculation

Depending on your requirements, you may need to further customize your system by creating additional withholding tax codes:

- [Withholding Tax Codes for 1099 Misc Reporting \[Page 153\]](#)
Due to changes in 1099 Misc, you must manually create three new withholding tax codes.
- [Withholding Tax Codes for 1042 Reporting \[Page 155\]](#)
If you are required to submit Form 1042, you must define new withholding tax codes. There are no withholding tax codes delivered in the template for 1042 reporting.

Postings

Here you check to see if the withholding tax accounts have been maintained according the chart of accounts CANA.

You also check the *Document Entry Screen Variant* which is found in the company code global parameters. The value for this field is 2.

Reporting

Only payments to 1099 vendors above a certain amount must be reported to the IRS. Each state can individually set this minimum amount. In the template, the minimum amounts are provided, but must be checked. In Customizing for *Financial Accounting Global Settings*, you can check the standard settings by choosing *Withholding Tax* → *Withholding Tax* → *Reporting* → *Maintain Minimum Amounts for 1099 Form*.

Withholding Tax Reporting

Postcard Printout of 1099 Vendor Addresses

Postcard Printout of 1099 Vendor Addresses

Use

The report *Postcard Printout of 1099 Vendor Addresses for Tax Code Request* has the following functions:

1. The report lists every vendor master which contain a valid withholding tax code between 01 and 11. Additionally, the list includes the vendor's taxpayer identification number and telephone number so the user can call the vendor to confirm the number. Vendors without a withholding tax code are not included in the output.
2. The report also lists every vendor master record in which the taxpayer identification number is missing or incorrect. Possible errors include:
 - Invalid withholding tax code (only numbers between 01 and 11 are valid)
 - Invalid format for taxpayer identification number
 - Omitted taxpayer identification number
 - More than one taxpayer identification number entered for one vendor
3. The report allows you to print the address of a 1099 vendor on a preprinted postcard (W-9). The postcard is sent to the vendor to request the correct taxpayer identification number.

Activities

To access the report, on the initial R/3 screen, choose *Accounting → Financial accounting → Accounts payable → Withholding tax → USA → Postcard Printout of 1099 Vendor Addresses for Tax Code Request*.

See also:

Report documentation for RFKQSU00

1099 Listings

Use

The report *1099 Listings* provides output in a list format of payments to 1099 vendors.

Features

Depending on your entries on the selection screen, the report generates different views:

1. Federal tax reporting
 - Detail listing of federal taxable amounts
 - Summary of federal tax reporting by account
 - Summary of federal tax reporting by 1099 category
 - Federal non-taxable amount (1099 Misc)
2. State tax reporting
 - State taxable amounts (1099 Misc)
 - State non-taxable amounts (1099 Misc)
3. Independent of selection
 - List of every account independent of taxability status
 - Indication of whether items are open or cleared

Activities

To access the report, on the initial R/3 screen, choose *Accounting* → *Financial accounting* → *Accounts payable* → *Withholding tax* → *USA* → *1099 Listings*.

Depending on the view you want, select either one or a combination of the following choices:

- Federal tax reporting
- State tax reporting
- List per document

See also:

Report documentation for RFKQSU20

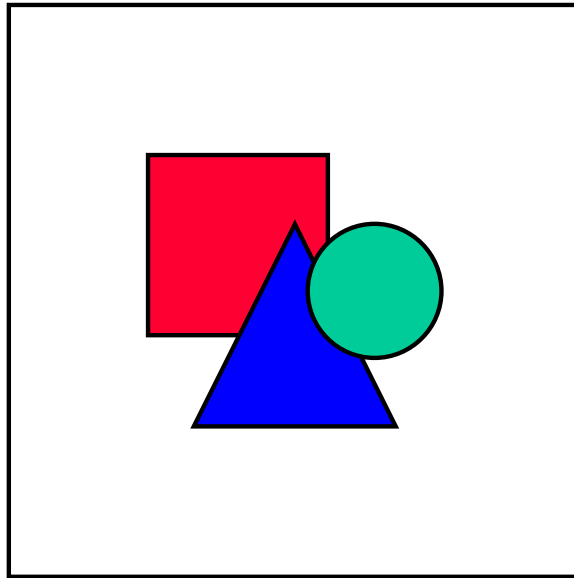
1099 MISC Form, Tape Reporting

1099 MISC Form, Tape Reporting

Use

According to American law, you must annually report your payments to 1099 vendors to the Internal Revenue Service. With the R/3 System, you can fulfill this requirement by using report *1099 MISC Form, Tape Reporting*.

This report allows you to print out withholding tax data on official preprinted 1099 Misc forms. Alternatively, you can create a file (tape) for 1099 Misc reporting.



The report can also create output for state withholding tax. If you need to report withholding tax to the state, you must use the extended withholding tax functions.

Activities

To access the report, on the initial R/3 screen, choose *Accounting → Financial accounting → Accounts payable → Withholding tax → USA → 1099 MISC Form, Tape Reporting*.

You must enter data in the following fields:

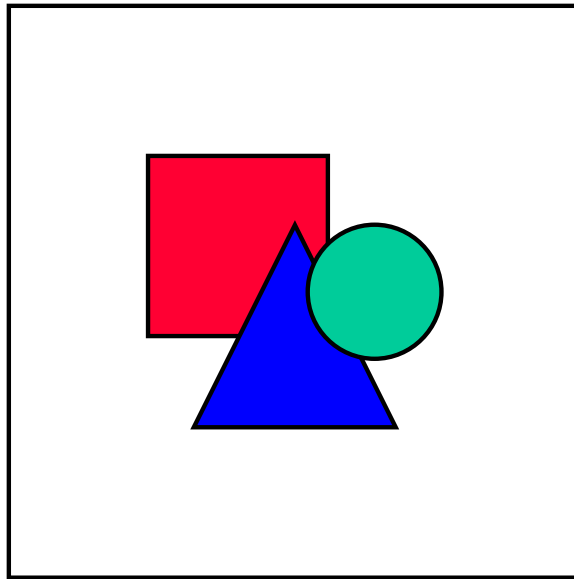
- *Company code*
- *Clearing date from and to*
- *Tape/file name*

Enter a predefined Unix directory and file name to store the output. You can download the output to a diskette or tape for the IRS.

- Name, address, and taxpayer identification number fields about company code

The values from these fields are derived from the report selection screen and not from the company code's global parameters.

1099 MISC Form, Tape Reporting



The default values for the vendor's name, address, and taxpayer identification number in the 1099 Misc report come from the vendor master record.

See also:

Report documentation for RFKQSU30

1042 Reporting

1042 Reporting

Use

According to law, you must annually report your withheld taxes on certain income of foreign vendors or foreign non-employees to the Internal Revenue Service. With the R/3 System, you can fulfill this requirement by using report *1042 Reporting*. This report allows you to print out withholding tax data on official preprinted 1042 forms.

In the US, companies are usually required to withhold income taxes by deducting a portion, approximately 31%, of the payment to the vendor. You pay the withheld portion to the IRS. If there are any differences between actual taxes due and taxes withheld, then the IRS contacts the 1042 vendor directly for an adjustment.

You can submit Form 1042 to the IRS in the following formats:

- Preprinted forms
- Data file

Activities

To access the report, on the initial R/3 screen, choose *Accounting* → *Financial accounting* → *Accounts payable* → *Withholding tax* → *USA* → *1042 Reporting*.

The values for your company's name, address, and taxpayer identification number are derived from the company code's global parameters.

The default values in the 1042 report for the vendor's name, address, and taxpayer identification number come from the vendor master record.

See also:

Report documentation for RFKQSU40

General Ledger Accounting

Chart of Accounts

Chart of Accounts

Definition

See [Chart of accounts \[Ext.\]](#).

Use

In the United States, you use chart of accounts CANA. This chart of accounts is delivered with the standard R/3 System and is also valid for Canada.

Structure

Every account supplied in chart of accounts CANA contains six digits.

Cost of Sales Accounting Method

Use

In the United States, you prepare your profit and loss statement using the cost of sales accounting method. The cost of sales accounting method matches the sales for the reporting period to the production costs of these sales.

To capture the matching principle in the R/3 System, you assign your periodic operational expenses to functional areas such as production, administration, and sales and distribution. The expenses and sales, which are not assigned to functional areas, are directly transferred to the profit and loss statement.

Therefore, the system must determine a functional area for certain expenses. The functional area can be retrieved from the master record of the G/L account, cost center, or the cost center category. Moreover, you can also directly enter the functional area when posting. The system uses the substitution to check the values and make a replacement if necessary. In the substitution, the cost center category, which is found in the cost center master data, is used to determine a functional area.

Prerequisites

If you only use Financial Accounting, you must transfer the necessary controlling data from your external application to your R/3 System by using additional account assignments.

Features

The R/3 System is delivered with precustomized settings that allow the cost of sales accounting method. These delivered settings include sample functional areas, cost center data, and a substitution rule.

Functional Areas

Functional Area	Description
0100	Production
0300	Sales and Distribution
0400	Administration
0500	Research and Development
0980	Costing-based costs

Cost Center Data

The following cost centers and cost center areas are precustomized in the system:

Cost center	Description	Cost center area	Cost center category	Description
10100	Sales	101	V	Sales
20100	Marketing	201	V	Sales
30100	Production	301	F	Production

Cost of Sales Accounting Method

40100	Finance	401	W	Administration
40200	Human Resources	402	W	Administration
90100	Assessments	901	H	

Substitution

The substitution *01-UKV* for cost of sales accounting is precustomized. When you create a company code using the template for the United States, the system assigns *01-UKV* to the company code.

Activities

The customizing settings for cost of sales accounting are delivered only as an example. You can use these settings as a template for your own configuration. In Customizing for *Financial Accounting Global Settings*, choose *Company Code* → *Cost of Sales Accounting*.

Financial Statements

Use

In the United States, you prepare your balance sheet and profit and loss statement according to certain guidelines. To adhere to these guidelines, you can use sample reports which are precustomized in the R/3 System.

The sample report for the profit and loss statement calculates using the [cost of sales accounting method \[Page 167\]](#).



You can only use the sample reports if the chart of accounts *CANA* is assigned to your company code.

Activities

Checking the Sample Reports

To check the report, on the initial R/3 screen, choose *Accounting* → *Financial accounting* → *Special purpose ledger* → *Tools* → *Report Painter* → *Report* → *Display*.

Enter the following data:

<i>Library</i>	0F1
<i>Report</i>	0F-BSNA (balance sheet) 0F-PLNA (profit and loss statement)

Running the Sample Reports

To execute the report, on the initial R/3 screen, choose *Accounting* → *Financial accounting* → *Special purpose ledger* → *Tools* → *Report Painter* → *Report Writer* → *Report Group* → *Execute*.

Enter the following data:

<i>Report</i>	0FNA
---------------	------

Accounts Payable and Accounts Receivable

Accounts Payable and Accounts Receivable

Minority Indicator

Definition

A field in the vendor master record that determines the minority group to which the vendor belongs. The minority indicator is only relevant in the United States.

Use

You use the minority indicator for reporting purposes only. You enter the minority indicator in the field *Minority indic.* found in the vendor master data.

You can freely define the values for the minority indicator. You maintain your own values in Customizing for *Financial Accounting*, under *Accounts Receivable and Accounts Payable* → *Vendor Accounts* → *Master Records* → *Preparations for Creating Vendor Master Records* → *Define Minority Indicators*.

See also:

[Define Minority Indicators \[Ext.\]](#)

United States - Asset Accounting

Acquisition of Leased Assets

Purpose

The "acquisition of a leased asset" is considered for our purposes to be the entry of the leased asset in the FI-AA System. This does not necessarily mean that the leased asset must be capitalized. You can enter a leased asset simply to manage purely statistical data. You handle the leased asset as a master record, with no values in the book or tax depreciation areas.

Posting the acquisition of a leased asset may be necessary for one of the following reasons:

- You have received a new leased asset (goods receipt).
- You need to change the way bookkeeping is handled for a leased asset due to a change in the conditions of the lease.
- You need to post a leased asset to a new asset master record due to a transfer.

Process Flow

Before posting the acquisition of the leased asset, you must determine the bookkeeping method to be used, either:

- Capitalization of the leased asset to fixed assets, with the present value of the future lease payments and depreciation of the present value (capital lease)
- Statistical management of the leased asset (no capitalization), and direct posting of the lease payments as rental expense in the profit and loss statement (operating lease)

Procedures

[Posting the Acquisition of Leased Assets \(Capital Lease\) \[Ext.\]](#)

[Posting the Acquisition of Leased Assets \(Operating Lease\) \[Ext.\]](#)

Capital Lease Procedure (USA)

Capital Lease Procedure (USA)

Use

In the USA, businesses are legally required to capitalize leased assets under certain circumstances. The system provides comprehensive functions for this purpose. For more information, see [Leased Assets \[Ext.\]](#).

Standard Depreciation Areas: USA

Use

SAP delivers country-specific charts of depreciation, which contain the most commonly used depreciation areas. You can adopt these areas in your active chart of depreciation and you can expand your chart of depreciation by adding your own user-specific depreciation areas.

The following depreciation areas are supplied in the standard chart of depreciation for the USA.

Features

Book

This is the leading area for financial reporting. All documents should be posted to this area.

Federal Tax

- Primary Federal Tax Book
This area is used to calculate normal federal tax depreciation using either ACRS or MACRS.
- Alternative Minimum Tax
This area is used to calculate the depreciation amount to be used to determine the tax preference items in accordance with the Alternative Minimum Tax regulation.
- Adjusted Current Earnings
This area is used to determine the tax adjustments in accordance with the Adjusted Current Earnings regulation.
- Corporate Earnings and Profits

Derived Depreciation Areas

- Difference between Book and Primary Federal
- Difference between Primary Federal and Alternative Minimum
- Difference between Primary Federal and Adjusted Current Earnings
- Difference between Primary Federal and Corporate Earnings and Profits

Miscellaneous Areas

- Cost-accounting depreciation
This area manages asset values for cost-accounting purposes. The result is a net book value below zero and a calculation of cost-accounting interest..
- Consolidated Balance Sheet in the Local Currency
If a company is part of a group, which has its own guidelines for the valuation of its fixed assets.
- Consolidated Balance Sheet in the Group Currency

Standard Depreciation Areas: USA

This area will be needed if a company belongs to a group, which evaluates in a different currency.

- State Tax (SMACRS)

This area is used to calculate depreciation for those states that do not accept Federal or Book Depreciation.

Depreciation at Class Level ADR (USA)

Use

You can use group assets in order to meet the requirements for depreciation at the asset class level according to ADR regulations. Create a group asset (sub-number) for the respective vintage year, and assign all the appropriate assets to this group asset. (Refer to [Group Assets \[Ext.\]](#)). You also need to make the following settings in Customizing:

- Specify the depreciation areas in which you want to manage group assets. The indicator for this is found in FI-AA Customizing under *Valuation → Group Assets*.
- If you choose to manage group assets as separate asset classes (with their own account allocation), you need to create these asset classes. Set the indicator in these asset classes that specifies they can only be used for group assets.
- Specify the accounting method to be used for asset retirements. You make this specification in the Customizing definition of the transaction types for asset retirements (*Transactions → Retirements → Define transaction types for retirement*). Also see [Posting Gain/Loss \[Ext.\]](#).

Permanent Impairment of Fixed Assets (USA)

Permanent Impairment of Fixed Assets (USA)

Use

In the United States, the current accounting guidelines (GAAP) permit you to reduce the base value of a fixed asset if there is a permanent impairment of its value. Generally, this reduction of the asset value is shown separately from the original acquisition and production costs, and is depreciated over the remaining life of the asset.

Features

In order to carry out the necessary tasks in the system, you can use the same functions that are used for showing investment support on the liabilities side of the balance sheet (see [Special Valuation \[Ext.\]](#)). These system functions make it possible for you to manage the reduction in value in a separate depreciation area, in which it can be depreciated. Define this depreciation area with the following characteristics (under *Valuation*):

- Post assets in general ledger realtime
- Management of positive and negative book values
- **Is not** a derived depreciation area
- Area type: “investment support on liabilities side”
- **No** takeover of APC values from another depreciation area
- Mandatory takeover of depreciation terms from area 01

If depreciation area 01 uses a depreciation key that depreciates the net book value over the remaining useful life, the value reduction will also be depreciated over the remaining useful life of the asset. In that case, it is not necessary to change the remaining useful life manually.

- Periodic posting of depreciation (under: *Depreciation* → *Post depreciation to the general ledger*).
- Indicator set for “depreciation area manages investment support” (under *Special Valuation* → *Investment support*).

Transaction Types

You use separate transaction types for posting the value reduction. Define these transaction types in FI-AA Customizing (*Special Valuation* → *Investment Support* → *Check transaction types for investment support measures*). The key for these transaction types always begins with capital letter “I” (for example, I01). Please be aware that these transaction types post only to depreciation areas that are defined for managing value reductions.

You can create the value reduction as a “support measure” in FI-AA Customizing (*Define investment support measures*). If you do, the system automatically creates the necessary transaction type.

Tax Jurisdiction Code (USA)

Use

The tax jurisdiction code is used in the United States for determining tax rates. The tax jurisdiction code defines the tax authority to which taxes must be paid. The determining location is the location to which the asset was delivered. You enter this code in the asset master record under time-dependent data.

Features

When you post using a tax calculation table, the system enters the tax jurisdiction code in the FI document. For asset postings, the system determines the tax jurisdiction code based on the logic below:

1. It first looks for the tax jurisdiction code in the asset master record.
2. If it is not in the asset master record, the system takes the tax jurisdiction code from the cost center entered in the asset master record.
3. If neither the asset master record nor the cost center contain a tax jurisdiction code, the system takes the tax jurisdiction code from the company code to which the asset belongs.

Procedure 3 is intended for instances when taxes on sales/purchases do not apply to the business transaction.

Reports

Using sort versions and the offset procedure, it is possible to use the tax jurisdiction code as a sort criterion for reporting. For more information, see [General Functions of Standard Reports \[Ext.\]](#) and [Sort Versions \[Ext.\]](#)



For more information on tax jurisdiction codes, see the FI Implementation Guide (*Company code → Taxes on sales/purchases*).

Mid-Quarter Convention (USA)

Mid-Quarter Convention (USA)


Use


There are certain tax laws (mid-quarter convention) in the United States that require you to calculate depreciation on the basis of half-periods. When the fiscal year version in the FI General Ledger corresponds to the calendar year (12 periods), you can meet this requirement **without** using a different fiscal year variant in Asset Accounting.

For more information, see [Fiscal Years and Periods for Asset Accounting \[Ext.\]](#)

Subsequent Changes to Period Control

It is sometimes necessary, according to American financial reporting requirements, to use the mid-quarter convention. This convention might require you to change the control of the start of depreciation in the last quarter of the fiscal year, for acquisitions in the current fiscal year.

 If you change period control from mid-year to mid-quarter, you have to change to all assets that were created with the old depreciation start date. This can be done individually or using mass change.

 The system helps you to comply with the mid-quarter convention by means of a standard report. For more information, see [Preparations for Closing \[Ext.\]](#).


There are two ways of reflecting the requirements of the mid-quarter convention in the system:

- Depreciation key with time-dependent period control
- Depreciation key and sub-number per acquisition year

Depreciation key with time-dependent period control

Set the *Period control according to fiscal years* indicator in the Customizing definition of the depreciation key you want to use (*Depreciation* → *Valuation Methods* → *Period Control* → *Define Time-Dependent Period Controls*). These keys then no longer use the period control of your depreciation key. Instead they use period controls that you specify, which are dependent on time and company code. You can define your own specific period controls for these depreciation keys

- Per company code
- Per fiscal year and
- Per transaction type category
- Change the time-dependent period control in these depreciation keys (in the application menu: *Environment* → *Current Settings*).
- Start the program for the re-calculation of depreciation for the affected company codes.

 Note that the system uses an across-the-board treatment for retirements of the following years when you use this method. This means that the system does not check whether the asset acquisition was in a year that used the mid-quarter convention or in a year with normal period control. Regardless, the system always uses the period control entered in the depreciation key for the retirement.

Mid-Quarter Convention (USA)

Depreciation key and sub-number per acquisition year

In order to avoid this across-the-board treatment, you can define a special mid-quarter depreciation key, and then work with asset numbers per acquisition year. Make the following settings:

- Define a special mid-quarter depreciation key. Set the following:
 - In the depreciation key, set the *Acquisition only in the capitalization year* indicator. This ensures that the acquisitions in following years have to be managed on asset sub-numbers. As a result, the information about whether the acquisition year is a year with mid-quarter depreciation is not lost.
 - In the depreciation key (or in the period methods assigned to it), set period control for acquisitions and retirements at mid-quarter.
- Manage a separate sub-number for each acquisition year.
- Enter this special depreciation key in the asset main numbers and asset sub-numbers that were acquired in this year. You can use a mass change to enter this depreciation key.

Reports for the USA

Reports for the USA

Use

A series of reports is available to meet the specific reporting needs of the United States. For more information, see [Taxes \[Ext.\]](#) and [Preparations for Closing \[Ext.\]](#).

Bank Accounting

Check Management

Check Management

Use

A common payment method in the United States is paying by check. In the R/3 System, the check management functionality helps you to manage both pre-numbered checks and those checks with allocated numbers from your own number ranges.

To print checks according to American standards, use SAPScript form F110_PRENUM_CHK.

See also:

[Check Management \[Ext.\]](#)

[Payment Methods \[Ext.\]](#)

Lockbox

Purpose

Lockbox is a service offered by American banks in which banks collect and process customer payments to reduce processing time. The R/3 System can handle both lockbox file formats offered by banks, namely, BAI and BAI2.

Process Flow

A company can create accounts called 'lockbox' accounts at its bank (or banks) that act as payment collection accounts for customer payments. The company then informs their customers that all open item payments for their accounts must be submitted to one of the established bank lockbox accounts. The bank collects these payments along with the customers' remittance information that indicates what open items the customer payments intend to clear. Data entry clerks at the bank manually enter the information into an electronic file for transmission to the company to which the lockbox account belongs. These files are typically transferred nightly to the various lockbox owners (companies). The files adhere to one of two standard banking industry transmission formats (BAI and BAI2), both of which are supported in the R/3 System.

BAI and BAI2 formats differ in their level of information detail. BAI does not separate out the incoming check line items by invoice subtotal reference. Conversely, BAI2 splits the check total into separate invoice references and associated payment amounts. As a result, your 'hit rate' percentage of payment-invoice matching from each transmission is likely to be higher when using BAI2 rather than BAI formats.

See also:

[Importing Lockbox Data \[Page 186\]](#)

[Postprocessing Lockbox Data \[Page 187\]](#)

[Define control parameters \[Ext.\]](#)

[Define Posting Data \[Ext.\]](#)

Importing Lockbox Data

Importing Lockbox Data

Use

Lockboxes are a procedure used mainly in the USA to enable checks to be deposited more quickly. The checks the bank sends to you are entered as credits by the bank, and the information entered is sent to the payee using File Transfer. The lockbox files must be formatted per the BAI standard format.

Under certain circumstances, the bank transmits a data carrier to the payee several times a day; the carrier bears the important check information.

From this data carrier, postings are then generated for accounts receivable and G/L accounting.

Lockbox service has the following advantages for the payee:

- Better liquidity, thanks to faster collection, depositing, and crediting of checks
- Reduced processing workload

Procedure

To import lockbox data, proceed as follows:

1. Choose *Incomings* → *Lockbox* → *Import*.
You reach the initial screen.
2. Specify the path and file name of the lockbox file.
3. Specify the import options.
4. Choose *Program* → *Execute*.

Postprocessing Lockbox Data

Use

You can use transaction FLB1 to select checks by lockbox number, status, and/or batch number, and then postprocess them.

As part of postprocessing, you branch to payment advice maintenance, where you can add, change, or delete clearing information. You can use "Reason codes" to classify deductions; you can then post a deduction to the G/L account or as a remaining item in the customer account.

Once you have changed the payment advice, you can try to post it again. To this end, you can choose from the following modes:

- *No screens*
- *Defective screens only*
- *Display all screens*

Procedure

To postprocess lockbox data, proceed as follows:

1. Choose *Incomings* → *Lockbox* → *Postprocess*.

You reach the initial screen.

2. In the initial screen, enter a check selection and the posting parameters.

Travel Management

Country Version for United States of America (USA)

Use

The *Travel Expenses* application component of *R/3 Travel Management* has been adapted to conform with the statutory and business requirements of the United States of America.

Features

In particular, the country version for the United States of America (USA) takes the following special aspects of travel expenses into account.

- **Settlement methods**

- [Actual Expenses/Receipt Settlement \[Ext.\]](#)

- [Meals & Incidental Expenses \[Ext.\]](#) (meals only)

- [High-Low Substantiation Method \[Ext.\]](#)

- **Other**

- For travel expenses using individual receipts only, you can use the especially developed [weekly report entry scenario \[Ext.\]](#) with which you can enter individual receipts quickly and efficiently.

- For calculating taxes, a connection to external tax calculation systems (Taxware, Vertex) has been established.

Real Estate Management

Tax Calculation via Jurisdiction Code

Purpose

Integration of the calculation (based on location) of taxes in the Real Estate Management component.

Taxes can be calculated on a local level and not just on a national level as is the case in the USA or Canada

This extension is based on the financial accounting component where the location is coded in the form of the **jurisdiction code** for the purposes of tax calculation. In the jurisdiction codes the definition of the tax percentage rate can also be time dependent.



You find additional information about the types of tax collection in the documentation for the Financial Accounting (FI) component: [Types of tax collection \[Ext.\]](#).

You can assign jurisdiction codes to the following objects:

- Real Estate Management objects (business entity, property, building, rental unit)
- Lease-out
- Management contract

Prerequisites

In the **Financial Accounting Customizing**, you implement the corresponding **activities for the sales tax**:




- **Internal tax accounting (in the R/3 System):**
Manual maintenance of the percentage rates for each jurisdiction code or
- **External tax calculation:**
Management of percentage rates for each jurisdiction code via RFC (Remote Function Call) with external companies (Vertex, Taxware etc.).

Process Flow

1. Set the method of tax accounting in the Financial Accounting Customizing
2. Maintain the jurisdiction codes in the required master records in RE:

Real Estate objects	Lease-out	Management contract
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Tax Calculation via Jurisdiction Code

 <p>The assignment of the codes is based on a hierarchical concept: If there is no jurisdiction code for an object (e.g. rental unit), the code of the superior object is used (e.g. the code of the building; if this is not available the business entity is used)</p>	<p>You can set a jurisdiction code for each condition type, if required.</p>  <p>If this code is not entered, the rental unit or the superior object is used for the calculating the code.</p>	<p>You can maintain two codes for each fee type for management contracts:</p> <ul style="list-style-type: none">• One for posting to customer accounts• One for posting to vendor accounts in the object company code.  <p>Pay attention to the F1 Help for the indicator <i>NFA</i> of the fee type.</p>
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Result

The taxes are calculated according to the percentage rates per jurisdiction code for every commercial operation that involves taxes.

Human Resources