

Oracle's new Tax Reporting Ledger - A well-kept secret

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The following paper documents some of the considerations regarding the use of the financial tax register for a complex multi-country European Oracle implementation.

Executive Summary

This proposed reporting solution combines a number of complex requirements for VAT and Intra-Stat Reporting as well as reconciliation for external (trade) and internal (inter-company) invoices into a single solution. The proposed design will immediately fill some of the reporting gaps for the immediate go-live countries, especially with regards to Intra-Stat reporting. However, in its final form this design will eliminate the current situation of multiple, often disconnected and customized reports, manual solutions and country specific work-arounds that exposes a continual compliance risk for our enterprise, especially when implementing the new business model of principal, selling entities and contract manufacturers.

A single data repository will contain all relevant data elements and transactions for a group of related reports which all MUST be reconciled with each other. We believe it is not advisable to allow separate data sources for each report, since this will immediately create the possibility of inconsistencies. We believe the following reporting areas should be grouped in this single repository:

1. VAT and Intra-Stat Reporting of SELLING ENTITIES, PRINCIPAL, and other entities: This will include a number of country specific reports (5-10) per country that may be transmitted to the authorities electronically or be used a source documents to file the required reports manually.
2. VAT and Intra-Stat audit reports (transaction listing) and reconciliation reports. The VAT reconciliations between SELLING ENTITIES s and PRINCIPAL are of special importance.
3. Inter-Company audit and reconciliation reports should be done from the same repository in order to provide fully auditable sales, IC, and transfer pricing reconciliations.
4. Various exception reports on VAT, Intercompany processing, intercompany pricing and possible other areas.

Other reports potentially pulled from the same data elements are

- Customer shipped not billed

- Intercompany shipped not billed
- Missing VAT Codes or VAT registration numbers

Our design has evolved through several phases of investigation, prototyping and testing. We are suggesting using the Oracle Tax Register functionality as the central repository and have determined this to be preferable over the initially proposed data warehouse solution. The proposed technical configurations and customizations fall potentially into two categories:

- Adjustments to data capturing within the Oracle application to support the central tax repository solution.
- Adjustments to the Oracle standard extraction process
- Reporting formats and publication either through Cognos, the Oracle Tax Register Report writer, or other reporting tools.

Requirements

- **Intra-Stat Reporting - General:** This EU wide requirement mandates a monthly or quarterly reporting on all goods movements between EU countries. "Intrastat is the system for collecting statistics on the physical trade in goods (i.e. the actual movement of goods) between the Member States of the European Union (EC). It has been in operation since the beginning of the Single Market on 1 January 1993 and replaced customs declarations as the source of trade statistics within the EC. The requirements of Intrastat are similar in all Member States of the EC." (From HMC&E Web-Site UK)
- **Intra-Stat – Specifics:** The specifications for these reports are very detailed and specific, including commodity code, weight, specific value calculations, mode of transport etc. Goods movements are to be reported under various categories of movement, sale, repair, return, outside processing, temporary storage etc. Detail requirements vary from country to country. Submission formats also are not synchronized. All EU countries allow electronic submission. However, there are many variations in submission formats – and even within one country often multiple formats are available.
- **Intra-Stat to VAT Reconciliation:** Intra-Stat reporting audits have become more frequent in many countries and are often used to validate the submission of VAT reports. The audit proof reconciliation between intra-stat and VAT reports is therefore a key component of the requirement for the NBM Oracle implementation.
- **VAT Reporting:** The VAT reporting requirements are generally known and currently fulfilled with various standard and customized reports. The detail requirements will be outlined in amendments to these functional specifications as our solution progresses from the initial phase concentrating on Intra-Stat.
- **IC VAT and Intra-Stat Reconciliation:** Each entity needs to reconcile the VAT and Intra-Stat reports regarding their respective inter-company transactions and balances. This is an external reporting requirement, especially with regards to the new business model. But it is also – maybe even primarily – an internal requirement: inter-company reconciliation is a

key component of the internal audit and monthly close process.

Oracle Functionality:

11I Intra-Stat Reporting Functionality

Oracle applications have never provided a robust Intra-Stat reporting tool. Unfortunately this has not changed with release 11I. Oracle's Intra-Stat reporting is deficient in two perspectives:

- a) It requires extensive additional setups within the inventory module, does not integrate well between OPM and Discrete Inventories, and forces the users to perform additional steps with all EU goods transactions.
- b) It is not integrated with the Oracle VAT reporting, but uses different data sources: financial transaction date for VAT, inventory movements for Intra-Stat. This inherently gives rise to continual reconciliation problems due to timing and value differences. In addition, adjustments, reversals etc. are reporting in inconsistent fashion.

11I Financial Tax Reporting Ledger Functionality:

The Financial Tax Register functionality is a new feature in Release 11I. It provides a tax reporting data warehouse within the Oracle Application. It includes automated extracts from AR, AP, and GL into special reporting tables. The extracts are registered, updated and validated. The reporting from these tables can be done using an Oracle report writer or through third party tools – such as Cognos. Oracle provides a standard report layout within the AR, AP, and GL modules. Oracle also provides a reporting tool – which may be used for simple VAT or Intra-Stat submissions. More information can be found in the Oracle AR TAX manual.

The tax register tables are vast (more than 600 columns) and may easily be used to store additional information, as required for Intra-Stat.

Oracle will continue to expand the tax reporting ledger functionality as one of its "enterprise" functions.

Cognos Options: We discussed our approach in relationship to the use of COGNOS reporting several times. The options we discussed are:

- A) Extract from Oracle into Cognos data base either with Noetix or with custom SQL script
- B) Extract from Oracle into data warehouse either with Noetix or with custom SQL script

A data warehouse outside of COGNOS seemed to all of us the preferred solution for the following reasons:

- Cognos tool is designed for complex analytical reporting, not transaction reconciliations and audit
- Data volume will very high (800-1,500,000 transaction lines per month – estimate)
- Data retention requirements (7-10 years)

The latter requirements will quickly overwhelm the Cognos instance.

Conclusion: Upon additional investigation we have found the Oracle Tax Reporting Ledger to be a promising solution for the “single financial reporting repository” and should be used as the basis for the all external transaction and tax reports. It will provide an inherently reconciled “single source of truth”. Here the finance teams agreements in this discussion:

- a. “Upon further testing and validation of data in the EUS instance we concluded that VAT data from AR and AP seemed to be completely available. A number of data elements needed for Intra-Stat are missing, especially those relating to the item: Commodity Code, Weight, No. of Units, and Country of Origin. Using Noetix we succeeded in linking a number of those data elements into the reporting output. We feel confident that the additional data elements can be accessed also.
- b. We will build the Intra-Stat Report with the agreed upon concept of a consolidated reporting repository which guarantees VAT to Intra-Stat reconciliation. “

Solution Outline:

Data Extract from Oracle Applications Modules to Tax Register

Oracle provides standard extract functionality for relevant data from AR, AP, and GL. We will use the transaction distribution detail extraction option to generate line item tax and intra-stat reporting and reconciliation. This extract functionality has been validated. Some additional technical assistance will be needed for a few remaining issues regarding the extraction functionality.

Enhance Oracle Tax Reporting Ledger with additional Data Elements

We have identified a few required data elements which are not included in the standard reporting ledger. These are:

- Item Commodity Code (for purchase and sales/shipment transactions)
- Weight of Item per Unit of measure (for purchase and sales/shipment transactions)
- Country of Origin (for purchase and sales/shipment transactions)
- Ship-From Warehouse and Country (for sales/shipments)
- Ship-to Country and Customer (for intercompany sales/shipments)
- Customer Sales Order Number (for intercompany transactions)

Three options seem to be available to include any missing data elements:

- a) Enhance the extract scripts, i.e. customize the extracts.
- b) Add the missing data elements to the transactions into columns that are extracted by Oracle standard functions.
- c) Add the missing data elements when generating the report through extension of the views back into the Oracle application modules.

After further analysis we suggest to follow option b).

- Option a) may interfere with the complex Oracle extract routine. This may pose a risk to the reliability of the repository and Oracle's support.
- For Option b) we can use the existing extensions and customizations (form personalization and interface pre-processors in AR and AP) to extract and insert additional data elements into available attribute columns. The tax register itself will contain all necessary data for all reporting and thus provide a complete source for reporting, audits and data retention.
- Option c) will also not interfere with Oracle standard functions. However, it would complicate the reporting, since it needs to create views to data outside of the tax repository. This may contradict our intention to create a 'single source of truth' and possibly complicate audit and data retention procedures.

Reporting for Intra-Stat and VAT/Intra Stat Reconciliation

The reporting formats and requirements are documented in a separate excel spreadsheet. For each field to be reported we have identified the data elements and are validating the definitions. Initial reports can be done either through the Oracle report writer functionality, through Cognos or other reporting tools. Eventually it is suggested to produce a complete set of reports through Cognos which can be adjusted for each country's requirements and published via the internet.

About the author:

Celantra Systems provides international program management services with a strong focus on multi-org, inter-company, and global compliance and implementation issues. Celantra Systems also offers specialized software tools to augment application functionality in global implementations. Celantra's consulting and technical services can add valuable impact in the integration of Oracle Apps with boundary systems such as SAP, People Soft, trade and customs compliance systems and others. Former and current clients include Xerox, Tektronix, British Telecom, Assa Abloy, Yahoo, Texas Instruments, PPG, Dionex, GE Medical, GE Power, Cree Corp. and others. Hans Kolbe has managed and advised software implementation projects for over 16, global projects for over 9 years. His extensive knowledge on Oracle applications is combined with a formal background as a German attorney, trained in international and comparative law.