



Run Simple with VAT

Industrial Machinery and Components



VAT - The New Molecule

Financial Year 2018-19 will be a defining year for GCC. With the advent of much awaited Value Added Tax (VAT) reform. VAT is expected to have a far reaching and wide impact on business, society and general economy. Smooth transition to VAT is one of the top 3 agenda items on the Board and Management's strategy and execution list. With VAT, the past no longer holds good and future is laden with number of implementation challenges.



VAT regime is expected to bring in a significant change for Industrial Machinery and Components. It could give rise to a new Industrial Era.

Supply Chain

- Complex sourcing arrangements
- Large volume of suppliers
- Linkage to commodity Prices
- Large number of SKUs

Manufacturing

- Multi-locational manufacturing facilities
- Sub-contracting arrangements
- Complex processes incorporating both good and services

Working Capital

- Inventory management and SKU management
- Tax credit and compliance management
- Large number of inputs

Customer

- Complex customer contracting and pricing arrangements
- High level of B2B exposure

Business Model

- Impact of valuation rules changes
- Complex Business models within multiple indirect taxation regime
- Model aligned to classification and valuation, tariff incentives
- Dependency of business on investment policies



An organization needs to re-evaluate the business models, business processes and carry

out significant changes in order to sail through the VAT implementation journey smoothly

Impacted Processes/ Functions/Departments	Impact Sub-areas	Key Imperatives	SAP/4HANA Solutions
Procurement to Pay (P2P), Manufacturing	<ul style="list-style-type: none"> Consolidation of the Warehousing, Logistics and Distribution facilities Renegotiation of the transportation and logistics contracts Transition of vendors to the new tax model Business allocation to vendors Supply of raw materials/ inputs to the vendors Stock transfers between suppliers/manufacturing locations to other locations Withdrawals of area based incentives impacting cost of sourcing Investment in projects based on direct and indirect tax incentives/area based incentives Taxability of free supplies and other transactions which can be categorized as supply 	<ul style="list-style-type: none"> Comprehensive review of the existing supply chain and modelling of the required supply chain with scenario analysis Re-alignment of the procurement function Re-calibrated supply chain design Review the volume and value of interstate movement of the key inputs End to end visibility of the supply chain and cost implications at each stage Review the volume and value of interstate movement of the products Review of impact on cost of sourcing/business operations after elimination of area based incentives 	<ul style="list-style-type: none"> SAP Business Planning add-on on SAP S/4HANA SAP Predictive Analytics SAP Profitability and Cost Management SAP Net Margin Analysis on SAP S/4HANA SAP GRC - Access Control, Process Control
Order to Cash (O2C)	<ul style="list-style-type: none"> Pricing of the products Pricing under bundled products Warranty/performance guarantees component in the price of the product may attract different tax rates Withdrawals of area based incentives impacting the pricing of key products 	<ul style="list-style-type: none"> Evaluation of impact of VAT on various types of pricing arrangements Unbundling of goods and services based on applicable tax rate 	<ul style="list-style-type: none"> SAP Business Planning add-on on SAP S/4 HANA SAP Predictive Analytics SAP Profitability and Cost Management SAP Net Margin Analysis on HANA SAP CRC - Access Control, Process Control



Impacted Processes/ Functions/Departments	Impact Sub-areas	Key Imperatives	SAP S/4HANA Solutions
Record to Report (R2R)	<ul style="list-style-type: none"> Accurate recording and reporting of the tax credits Correct administration of the taxable and exempted inputs/products Generation of multiple reports and returns and timely filing 	<ul style="list-style-type: none"> Initiatives for increasing awareness of the key reporting requirements across business functions Establishment of strong internal controls for transaction capture, record, review and reporting 	<ul style="list-style-type: none"> SAP CRC - Access Control. Process Control SAP Master Data Governance SAP S/4HANA SAP Financial Closing Cockpit SAP Receivables Management SAP Disclosure & Notes Management SAP Shared Services Framework
Tax and Compliance Management	<ul style="list-style-type: none"> Upgradation of the vendor data base and tax registration details Applications of the necessary tax masters/ rules to vendors 	<ul style="list-style-type: none"> Collaboration with multiple business functions to ensure tax compliances Ensuring technology readiness Evaluate needs of state-wise registrations 	<ul style="list-style-type: none"> SAP GRC - Access Control, Process Control SAP Master Data Governance SAP TAO SAP Shared Services Framework
Working Capital Management	<ul style="list-style-type: none"> Identification, recording and efficient Utilization of the input tax credit End to end visibility of the inventory across the re-modelled supply chain Stock transfer subjected to taxation Taxability of free supplies 	<ul style="list-style-type: none"> Understanding and evaluation the working capital efficiencies due to elimination of cascading taxes 	<ul style="list-style-type: none"> SAP Cash Management on SAP S/4HANA



Impacted Processes/ Functions/Departments	Impact Sub-areas	Key Imperatives	SAP S/4HANA Solutions
Business Planning and forecasting	<ul style="list-style-type: none">• Accurate planning and management of volume• Project/job profitability assessment	<ul style="list-style-type: none">• Review of the sustainability of viable business operations based on iscal Incentives• Formulation of robust budget and operations plan incorporating the impact of VAT regime• Frequent review, monitoring and sharing insights with business to reframe operations strategy• Recording and reporting of the savings in supply chain costs• Understand, evaluate and guide business team for leveraging opportunities arises due to VAT implementation like expansion of margin, better realizations etc.• Evaluate impact of VAT on key capital investment decisions	<ul style="list-style-type: none">• SAP Business planning add-on SAP S /4HANA• SAP Predictive Analytics• SAP Profitability and Cost Management

With SAP S/4HANA, companies engaged into Industrial Machinery and Manufacturing sector will be able to analyze high volume of data on the basis of market, demand, production, inventory across various locations and compare with the post-VAT scenario. Such analysis will enable the management of the companies to capture the opportunities in disguise which will be unfolded only after the launch of the new tax regime.

