



Run Simple with VAT

Professional Services Industry



VAT - The New Beginning

Financial Year 2018-19 will be the 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.

On account of applied taxes on services, it is expected that the services are going to be expensive. Companies with significant level of revenue from services e.g. technology companies, consulting firms, professionals across various domains. commercial leasing, hotel management will be impacted on account of higher incidence of tax on the ultimate consumer. The customer's discretionary spending will be affected in the short term, till that time savings on account of lower taxes on goods will be compensated by higher taxes on services spend.

Business needs to rethink their business models, evaluate the product mix, assess the contribution of revenue from services and products and formulate customer contracts. VAT is expected to have a positive impact on the costs side. a result of elimination of multiple levies: however, on the flip side services including technology services, with multi- locational deliver centers may need to provide separate invoice to every customer. Cost of key technology equipment including electronics is expected to increase. With ability to manage, administer and report high value and volume of data. SAP S/4HANA will enable businesses to formulate robust product structuring strategies.



Over 50% of the GDP comprises of Services Sector and the VAT regime is expected to bring in significant change in the entire taxation of services in GCC.

Value Chain

- Elimination of cascading effect of taxes on account services being eligible for tax credit

Operations

- Classification of services and applicability of services
- Decentralization v/s Centralization of operations

Business Model

- Business model may need a revision considering the supply rules
- Destination based taxation v/s Origin based

Working Capital

- Ability to avail input credit across all range of goods and services

Customer

- Impact on inflation

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 S/4HANA Solutions
procurement to pay (pap), Service Operations	<ul style="list-style-type: none"> • Procurement of Services and Goods, bundled contracts and administration of differential rates • Impact on outsourcing arrangements located across multiple states • Reverse charge on input services 	<ul style="list-style-type: none"> • Evaluate the supply rule and assess the applicability of taxes across different services • Evaluate needs of self and vendor registration across GCC where the services are being offered 	<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"> • Valuation of the services • pricing arrangement with the customers • Unbundling of the combined offerings of goods and service to customer • Implications on the long term supply of services arrangements • Determination of applicability of tax on services by smaller players 	<ul style="list-style-type: none"> • Detailed evaluation of the end to end order to cash process for determination of tax liability and timing of discharge 	<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



Impacted Processes/ Functions/Departments	Impact Sub-areas	Key Imperatives	SAP S/4HANA Solutions
Record to Report (R2R)	<ul style="list-style-type: none"> • Identification, Records and Reporting of Input Tax credit • Identification, recording and reporting of output tax liability 	<ul style="list-style-type: none"> • Review of the chart of accounts and spend categories to identify availability of input tax credit • Categorization of the services based on tax rates applicable and linkage in input services for tax liability computation 	<ul style="list-style-type: none"> • SAP GRC-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"> • Centralized tax management and administration v/s Decentralized/State wise administration • Requirements of registration across different states • Upgradation of the vendor data based and tax registration details • Applications of the necessary tax masters/ rules to vendors • Correlation of input tax to the output tax liability for GCC 	<ul style="list-style-type: none"> • Collaboration with multiple business functions to ensure tax compliances • Ensuring technology readiness • Evaluate applicability of reverse charge on input services 	<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"> • Utilization of input tax credit available across goods and services for discharge of tax liability on output services 	<ul style="list-style-type: none"> • Correct codification of the goods and services eligible for the input tax credit 	<ul style="list-style-type: none"> • SAP Cash Management on SAP S/4HANA



With SAP S/4HANA, companies engaged into Services sector will be able to analyze the needs for carrying out changes to the service delivery model 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.