Brexit Transition and Beyond

December 17th 2020
Disclaimer

The information in this presentation is confidential and proprietary to SAP and may not be disclosed without the permission of SAP. Except for your obligation to protect confidential information, this presentation is not subject to your license agreement or any other service or subscription agreement with SAP. SAP has no obligation to pursue any course of business outlined in this presentation or any related document, or to develop or release any functionality mentioned therein.

This presentation, or any related document and SAP’s strategy and possible future developments, products and or platforms directions and functionality are all subject to change and may be changed by SAP at any time for any reason without notice. The information in this presentation is not a commitment, promise or legal obligation to deliver any material, code or functionality. This presentation is provided without a warranty of any kind, either express or implied, including but not limited to, the implied warranties of merchantability, fitness for a particular purpose, or non-infringement. This presentation is for informational purposes and may not be incorporated into a contract. SAP assumes no responsibility for errors or omissions in this presentation, except if such damages were caused by SAP’s intentional or gross negligence.

All forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates, and they should not be relied upon in making purchasing decisions.
Introduction
BREXIT – Where are we?

September 2020
07 - Johnson releases statement underlying a trade deal with the EU
09 - UK government internal market bill released

October 2020
11 - 8th round of trade talks concludes, EU-UK Joint Committee meeting held
15 - Johnson's deadline for conclusion of negotiations
31 - Barrel's deadline for conclusion of negotiations
23-24 - European Parliament Plenary

November 2020

December 2020
10-11 - Final Council Summit
31 - End of transition period
BREXIT – Impact on Customs & International Trade

UK becomes a 3rd country.

Deactivate the EU-flag for GB in country table T005 at 24:00 CET at the last day of the transition period.
BREXIT Latest Requirements

Where to go?

Look at the SAP ONE Support Launchpad

https://launchpad.support.sap.com/#/legalchangenotification

- See the list of upcoming legal changes
- Central SAP Note (2885225) across solutions and countries
- Further SAP Notes and Knowledge Based Articles will be published and referenced within the central note.
Introduction

In a referendum held on June 23, 2016, the majority of people voted in favour of the United Kingdom leaving the European Union (EU, a union of 28 European member countries).

The subsequent process of withdrawal of the UK from the EU is commonly referred to as Brexit. The process of separation was started by the UK government invoking Article 50 of the Treaty on the European Union on March 29, 2017.

The details of the new relationship between the UK and the EU are currently under discussion and are subject to complex negotiations. According to Article 50, the process of Brexit was scheduled to conclude at the end of March 2019. Following many changes to the political situation and two General Elections the UK have now left the EU and entered the 'Transition Period'.

During the transition period the UK’s trading relationship with the EU will remain the same.

If a trade deal is ready in time, the UK’s new relationship with the EU can begin immediately after the transition. If not, the UK faces the prospect of having to trade with no agreement in force. This would mean checks and tariffs on UK goods traveling to the EU.

Changes resulting from Brexit, with potential impacts on SAP, can be expected in the areas of tax, reporting, employment rights and goods movement among many others. SAP recognizes these potential changes and is closely monitoring the situation and analyzing the impact for SAP customers and partners, primarily those using the current United Kingdom / Ireland localizations.

SAP will continue to monitor the governments negotiations and will deliver patches only for selected updates and releases at its own discretion, based on the business impact and the complexity of the implementation.

Updates that are to be supported related to Brexit will be notified using the [Announcement of Legal Changes Service](https://launchpad.support.sap.com/#/legal/changemanagement) via the SAP Support Portal in the normal way.

Further updates will be shared under the "United Kingdom" option of the website for [Globalization news and documents](https://launchpad.support.sap.com/#/globalization). For any further questions, please visit the [SAP Support Portal](https://launchpad.support.sap.com/).
BREXIT Central SAP Note 2885225

2885225 - BREXIT: Through the Transition Period and Beyond
Version 1 from 28.01.2020 in English

Component: XX-CSR-GB
Category: Consulting
Release Status: Released for Customer
Priority: Recommendations / Additional Info
Manual Activities: 0
Prerequisites: 0

Description | Software Components | References | Attributes | Languages
---|---|---|---|---

Symptom
The UK triggered Article 50 of the Treaty of the European Union on 29 March 2017. As set out under that treaty, the UK had two years to negotiate a Withdrawal Agreement and framework for a future relationship with the EU.

The Withdrawal Bill was passed by the UK Parliament, has received Royal Assent and became law on the 23rd January. On the 31st of January it was also ratified by the EU leaders. This means that Article 50 can no longer be revoked and the UK will leave the EU on 31st January 2020 with the withdrawal agreement.

But that will not be the end of the Brexit story. The UK will enter a transition period until 31 December 2020.

The purpose of the transition period is to enable a new wave of UK-EU negotiations to take place. These talks will determine what the future relationship will eventually look like.

This document refers to

<table>
<thead>
<tr>
<th>Number</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>2760412</td>
<td>Recommendations for Brexit in FI</td>
</tr>
</tbody>
</table>

This document is referenced by

<table>
<thead>
<tr>
<th>Number</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>2530447</td>
<td>SAP S/4HANA Cloud 2020: Release Information Note</td>
</tr>
<tr>
<td>2901936</td>
<td>SAP S/4HANA Cloud 2025: Release Information Note</td>
</tr>
<tr>
<td>2912027</td>
<td>SAP GT5: UK leaving the EU (Brexit) - recommendation for action for transitional period and time thereafter</td>
</tr>
<tr>
<td>2668257</td>
<td>SAP S/4HANA Cloud 2022: Release Information Note</td>
</tr>
<tr>
<td>2799915</td>
<td>SAP S/4HANA Cloud 1909: Release Information Note</td>
</tr>
<tr>
<td>2754859</td>
<td>Recommendations for an unregulated hard (no deal) Brexit in 50:</td>
</tr>
<tr>
<td>2654734</td>
<td>SAP S/4HANA Cloud 2018: Release Information Note</td>
</tr>
</tbody>
</table>
Guidelines are described in this central note and in specific consulting notes from different application areas that are referenced to in this note.

Coding and content changes will be delivered via hotfix implementation.
Setting a SAP Note as “Favourite”

2885225 - BREXIT: Through the Transition Period and Beyond

2885225 - BREXIT: Through the Transition Period and Beyond ★

2999933 - BREXIT: Preparation in your S/4 HANA Cloud system ★ Version 5 from 16.12.2020 in English

My SAP Notes & KBAs
I Am Interested In

New Updated Expert Search My Favorites

<table>
<thead>
<tr>
<th>SAP Component</th>
<th>SAP Component Name</th>
<th>Number</th>
<th>Title</th>
<th>Updated</th>
</tr>
</thead>
<tbody>
<tr>
<td>XX-CSC-GB</td>
<td>Great Britain</td>
<td>2885225</td>
<td>BREXIT: Through the Transition Period and Beyond</td>
<td>0</td>
</tr>
</tbody>
</table>

© 2020 SAP SE or an SAP affiliate company. All rights reserved. | PUBLIC
BREXIT – Impact on VAT (1)

Key VAT considerations:

i. Import VAT

ii. EU VAT Simplifications no longer valid

iii. Northern Ireland (NI) Protocol

iv. Reporting and administrative requirements
BREXIT – Impact on VAT (2)

i. Import VAT

• UK Postponed Accounting for Import VAT
  • Available for all UK VAT registered companies importing goods into UK from 01.01.21
  • No payment of import VAT at the border
  • VAT can be accounted for on the VAT return
  • HMRC to provide downloadable online statements every month for the postponed import VAT

• EU postponed import VAT accounting:
  • Some EU countries operate postponed import VAT accounting, subject to meeting certain conditions.
  • Example: In Belgium a license “ET 14000” can be requested.
BREXIT – Impact on VAT (3)

ii. EU VAT Simplifications no longer valid

Simplifications such as:

- Triangulation
- Supply and install
- Distance selling
- Consignment and call-off stock

that are currently enjoyed by GB businesses will not apply in respect of GB VAT registration numbers as from 1\textsuperscript{st} of January 2021
iii. Northern Ireland (NI) Protocol

- NI = dual status within the EU VAT, Customs Union and Single Market
  - NI follows UK’s VAT system as well as EU’s VAT system
  - NI continues to enforce the EU’s customs rules and follow its rules on product standards while the rest of the UK stops doing so
- Only valid for goods
- In place for 4 years as from 1st of January 2021
- For Northern Ireland new VAT identification numbers with prefix "XI" will be required.
iv. Reporting and administrative requirements

- Are fiscal representatives needed?
- How to validate the VAT-numbers from NI businesses through the VIES?
- What happens to Intrastat?
- What happens to ESL reporting?
- ...
Northern Ireland Protocol – technical setup in a nutshell
Northern Ireland Protocol – technical setup in a nutshell

• SAP has chosen the direction of a country + region approach for addressing the Northern Ireland protocol.

• Creating “artificial” country codes like ‘XI’ in table T005 is NOT intended.

• All applications will use a central class, which will identify Northern Ireland business by country + region (see SAP note 3000100 – technical details in class CL_UK_NI_UTIL_ABA, method CL_UK_NI_UTIL_ABA)

• There are two options for region setup: CHAR2 or CHAR3 (see SAP note 2885225). Even combinations of both would work.

• Region field is a MUST for Northern Ireland master records, but can be blank for England, Wales + Scotland.
Guidelines from Finance perspective
The intention of this note is to outline the direction of the solution as early as possible. Several changes which are mentioned in the note and shown in this presentation are still in development and not released yet. This is indicated in the text ("planned", "there will be") and also marked with an asterisk*. We will update this note regularly when the detailed notes get released.

We recommend to read the English version to avoid delays due to translation.
BREXIT – VAT enable EU related transactions after end of transition phase

After the end of the transition period new EU transactions with the UK (with the exception of the Northern Ireland protocol) will not be possible anymore.

However, in many systems postings with EU related tax codes will have be recorded after the end of transition period as subsequent changes of tax base amounts (e.g. discounts, bonuses, price reductions, etc.) might occur even several months or even years after the end of transition period (e.g. yearly bonus settlements). Another case are payments on receivables which had previously been derecognized (e.g. insolvency cases).

Therefore, we have to enable that postings with EU related tax codes are still possible even after the end of the transition period.

This also means that VAT identification numbers for UK (starting with GB) have to remain in the business partner/customer/vendor master data and company code master data for the time being (at least until the last EU related tax code posting has been posted).

For Northern Ireland new VAT identification numbers with prefix "XI" will be introduced.
BREXIT - enabling EU transactions after removing EU-Flag

The deactivation of EU-Flag for GB in country table T005 has some technical impact in FI:

In FI postings the EU relevant fields Reporting country, VAT identification number and EU triangulation only appear in EU company codes.

Furthermore identification numbers in master data can only be entered for EU countries.

SAP notes 2766031, 2770937, 2785653 enable that for GB company codes EU VAT fields still appear in posting transactions and GB VAT identification numbers can be maintained in master data.

You may deactivate this special treatment by implementing a BADI (in some months/years). We do NOT recommend to do this in 2020/2021.
BREXIT – postponed Accounting in the UK

In order to simplify customs procedures the UK has introduced a new procedure “Postponed Accounting”.

For information about configuration see SAP note 2996657.
Northern Ireland protocol – master data changes

- New parameter in additional data for company code (table T001Z) planned*

- New parameter/field for XI VAT number, stored separately from other VAT IDs*
  - Business partner:
  - Customer/vendor master:

  If field Tax Number 6 is not available for entry after you have implemented SAP note 2998897 (some follow-up notes for IDocs and other topics will be released soon)*, please adjust customizing:

  IMG path: Financial Accounting (New) > Accounts Receivable and Accounts Payable > Customer Accounts/Vendor Accounts > Master Data > Preparations for Creating Customer/Vendor Master Data > Define Account Groups with Screen Layout (Customers/Vendors): In General Data – Control: set radio button for „Tax Number 6“ at least to „optional entry“ for all relevant account groups. If the field still is not available for data entry please also check IMG activity: Define Screen Layout per Activity (Customers/Vendors).
In FI Transaction the system does not have the information to decide automatically about the right VAT identification Number. We will enable all transactions in FI to allow the user to derive/enter the “XI” VAT identification number.

After the code changes are implemented, in FI Transactions like FB01 you have following changes:

- No default for “Reporting Country” (EGMLD) anymore if the customer is located in Northern Ireland
- No default for the “VAT identification Number” anymore if the customer is located in Northern Ireland
- If the customer is located in Northern Ireland, the user needs to decide and fill the “Reporting Country”
  - If the user enters “XI”, then the VAT identification number starting with XI* is derived and posted.
  - If the user enters “GB”, then the VAT identification number starting with GB* is derived and posted.
- In case of CPD customers: If you enter Country “GB”, the system will do the consistency checks for GB, but allows to enter a VAT identification Number starting with “XI”
FI Transactions
- Some Examples
Current derivation Logic in the Accounting Interface

For postings into FI via accounting interface it is normally expected that all VAT relevant data (VAT code, VAT ID, triangulation flag) is already filled by the caller.

But there is a fallback when VAT identification number is derived in the accounting interface:

- the company code country (T001-LAND1) is an EU country or ‘GB’ (SAP note 2766031) AND
- the VAT identification number is not filled by the sender AND
- the document contains a customer item (KOART = ‘D’) AND
- the customer country is different from company code country
- the document is not from SD (GLVOR = ‘SD00’)

the VAT ID is derived from customer master record.

Now a new issue comes up:
Which VAT ID should be used for Northern Ireland customers?
The accounting interface would need a (reliable) tax fulfilment data for a reliable decision in this case.
Current VAT ID derivation logic in the Accounting Interface

All Preconditions* fulfilled?

- NO
  - NO
    - NO
      - Preconditions*:
        - the company code country (T001-LAND1) is an EU country or ‘GB’ (special treatment introduced by SAP note 2766031) AND
        - the document contains a customer item (KOART = ‘D’) AND
        - the customer country is different from company code country AND
        - the document is NOT from SD (GLVOR ≠ ‘SD00’)
    - NO
      - YES
    - NO
      - YES

VAT ID (STCEG) filled?

- NO
  - NO
  - YES
    - YES
      - Derivation of VAT ID from customer master (KNA1-STCEG)
      - No change in accounting interface
      - Exit
    - NO

But this would always derive ‘GB’ VAT ID
NEW Derivation Logic in the Accounting Interface

ALL Preconditions* fulfilled?

VAT ID (STCEG) filled?

Customer is located in NI?

Services (cannot be ‘XI’)

Goods (* GB* or ‘XI’?)

Derivation of VAT ID from customer master (KNA1-STCEG)

STOP

No reliable derivation possible => New error message FF880 (Deactivation possible, but STCEG would be empty)

No change in accounting interface

Exit
**New VAT ID Derivation Logic in the Accounting Interface**

For postings into FI via accounting interface it is normally expected that all VAT relevant data (VAT code, VAT ID, triangulation flag) is already filled by the caller.

But there is a fallback when VAT identification number is derived in the accounting interface: When
- the company code country (T001-LAND1) is an EU country or ‘GB’ (SAP note 2766031) AND
- the VAT identification number is not filled by the sender AND
- the document contains a customer item (KOART = ‘D’) AND
- the customer country is different from company code country AND
- the document is not from SD (GLVOR = ‘SD00’)

the VAT ID is derived from customer master record.

Now some additional logic is added:
When the customer is located in Northern Ireland,

- **GB** VAT ID is derived when all VAT codes in the document are NOT FOR GOODS transactions (technical identified by T007A-EGKRZ values 2, 4, 5, B, T or U)
- If VAT codes for goods are included no derivation is possible as accounting interface does not know if this is a new transaction under the Northern Ireland protocol or a subsequent change of an EU transaction with GB VAT ID prior 31.12.2020. System will raise Error message. Error message can be deactivated in customizing but then entering VAT identification number in postprocessing of such documents will be required.
Postings – postprocessing for VAT ID

- In cases when not VAT ID could be automatically determined the user can update the right VAT identification number after the document is posted with the document change transaction FB02.
- For mass changes a new report RF_VAT_REGNO_UPDATE will be provided.
According to Article 264 of EU VAT Directive subsequent changes in tax base amounts (e.g. payments with discount, bonuses, etc.) must be reported in EU sales list. This means that “GB” records must be reported in EU sales list even after the end of the transition period (likely negative amounts).

But we observe a contradictory communication by tax authorities in some countries that they do not want to have “GB” records in EU sales list after the end of the transition period. SAP note 2778393 provides a new select option for recapitulative statement so customers can remove these records by setting the selection to unequal "GB**".

The derivation logic for the VAR identification number changed for Northern Ireland protocol:
When you mark ”Read VAT Reg. No from Master“ the new parameter “Read XI VAT No” becomes relevant: It controls if the XI* VAT identification number or the GB* VAT identification number is used in the report

New Parameter “Display XI VAT No”
When you mark “Display XI VAT No”, then the XI* VAT identification Number from the Company Code Parameter “XIVATN” is used in the EC Sales list header to identify the tax payer.
BREXIT – Withholding tax

As the Parent Subsidiary Directive and the Interest and Royalties Directive will no longer be applicable after the end of the transition period some transactions might become relevant for withholding tax.

Therefore, please check your transactions with UK companies (dividends and interest or royalty payments for licenses in particular) in regards of withholding tax.

The treatment in detail might differ for each country as double taxation agreements between each country and the UK will become relevant. Ask your business partners for exception certificates early and apply exception certificates yourself if required.

Changes in withholding tax treatment will become effective after the end of the transition period. Keep in mind that withholding tax in Europe is usually due at payment so it might be necessary to add withholding tax data in open items after 31.12.2020.
Guidelines from Sales perspective
BREXIT – Taxes in Sales

Our Mission

Enable all Sales business processes to continue to run in a legally compliant manner:

• Locally - in the UK (region-based / Northern Ireland (NI) Protocol)

• Globally - between EU countries and the UK (region-based / Northern Ireland (NI) Protocol) as well as between non-EU counties and the UK

Key considerations for Taxes in Sales

• Parameters of Taxes in Sales

• Tax amount determination
BREXIT – Solution Approach for Parameters of Taxes in Sales

- Is GB tax departure country? Is plant located in NI?
- Is GB tax destination country? Is Ship-to-party located in NI?
- Is the service rendered date before or after end of transition phase?
- Is it a supply of physical goods or services?
- What is the correct VAT registration number?
BREXIT – Solution Approach for Tax amount determination

- Identify Northern Ireland using region codes
- Distinguish between physical goods and services (services are not part of Northern Ireland Protocol)
- Classify Sales business process as relevant for domestic or export tax
- Identify Sales business process between EU and Northern Ireland as intra-community supply (depending on region, time, VAT registration number and product type)

- Use condition technique of pricing solution:
  - condition tables with region of plant and region of customer
  - access sequences
  - pricing requirement routines
  - conditions records
BREXIT – Suggested Preparations for Taxes in Sales

- Check SAP rollout activities (regularly updated), e.g. how-to guidance, implementation notes etc.
- Populate region code in master data records of customers located in Northern Ireland
- Populate region code in data of plants located in Northern Ireland
- Keep GB VAT registration number and add new XI VAT registration number in customer master data where needed
- Check of tax classification in material master record - different tax classifications are needed for physical goods and services
- Creation of necessary pricing requirements, condition tables, access sequences and condition records
Guidelines for GTS
BREXIT and Northern Ireland Protocol

**Brexit**
- Changes prepared, done and delivered for the past No-Deal deadlines
- No substantial new changes, existing changes extended after the end of transition period
- SAP GTS Central SAP Note (2912027)

**Northern Ireland Protocol**
- New topic with new challenges
- If no plant in Northern Ireland it has limited impact in SAP GTS
- SAP GTS Central SAP Note (2998666)
Customs Declarations under NIP

** Movements between EU and Northern Ireland
  - No Import or Export declaration required *
  - Country code XI for Northern Ireland if relevant

** Movements from Great Britain to Northern Ireland
  - Import declaration with UK CDS or
  - Import declaration with UK TSS (temporary)

** Movements from Northern Ireland to Great Britain
  - Export declaration with UK CDS for limited scenarios (CPEI, CITES…)

** Movements between Rest of the World and Northern Ireland
  - Import or Export declaration with UK CHIEF or
  - Import or Export declaration with UK CDS

* Licenses still required based on German customs
German Customs Declarations for NI

- **No Import or Export declaration required** for movements between Germany and Northern Ireland
  - Adjustment of Plug-In logic with note 2998656

- **Country Code XI as Prefix for EORI**
  - Relevant for NCTS and EMCS in EU & UK
  - Relevant for Export and Import in EU
  - Adjustment available with note 3001247

- **Country Code XI as country of destination and country of departure**
  - Replacement depending on region of NI in relevant partner
  - Adjustment available with note 3000737

- **Country Code XI as part of the route**
  - Replacement supported for starting and ending country

* Guidance on the Use of GB and XI codes (Annex B): “[…]for the identifier of the registering Member State the GEONOM code is used”
Notes for Customs Declarations under NIP

- 3000116 - Use of country code XI as part of the Northern Ireland Protocol
- 3003914 - enhancements for the incompleteness checks - for all procedures and countries (II)
- 3004093 - Customs office upload

- 3000737 - Use of country code XI in Germany
- 3000397 - DE ATLAS 9.0/AES 2.4: Adjustments to the incompleteness checks due to Brexit
- 3001778 - Use of country code XI in Spain
- 3002991 - Use of country code XI in Belgium
- 3001169 - Use of country code XI in Austria
- 3001168 - Use of country code XI in France
- 3001778 - Use of country code XI in Spain
- 3001192 - Use of country code XI in the Netherlands
- 3001779 - Use of country code XI in Sweden
- 3001355 - Use of country code XI in Denmark
Introducing a new UK Tariff schema

With the EU-Exit UK is not going to use EU Taric codes any longer. Therefore a new UK Tariff system was introduced. From 01.01.2021 these tariff codes will start to differ.

- Existing classification may be copied to the new tariff schema as long as they are identical
- Usage of reference schema to minimize classification efforts
- For Import declarations to Northern Ireland materials have to classified for both tariff systems (UK & EU)

2766699 - UK leaving the EU (Brexit) – recommended actions for the classification and content upload areas
Requirements for Intrastat reporting after the end of transition period under the Northern Ireland Protocol
  - Goods movements between the EU and Northern Ireland must be reported in EU countries and the UK
  - Imports into Great Britain from the EU must be reported in the UK

Intrastat reporting in SAP GTS with feeder systems SAP S/4HANA and SAP ECC
  - SAP S/4HANA: SAP Notes 2753338, 2874323, 2875339, and 2976216 must be implemented before 1\textsuperscript{st} of Jan 2021
  - SAP ECC: SAP Notes 2753338, 2874323, and 2976216 must be implemented before 1\textsuperscript{st} of Jan 2021
  - SAP GTS: SAP note 2997204 must be implemented before importing data from feeder systems for Jan 2021

Intrastat reporting in SAP S/4HANA
  - SAP Notes 2753338, 2874323, 2875339, and 2976216 must be implemented before 1\textsuperscript{st} of Jan 2021
  - SAP Note 2997204 must be implemented before executing Intrastat selection reports for Jan 2021

Intrastat reporting in SAP ECC for AT, BE, CZ, DE, DK, ES, FI, FR, GB, GR, HU, IE, IT, LU, NL, PL, PT, SE, SK
  - SAP Notes 2753338, 2874323, and 2976216 must be implemented before 1\textsuperscript{st} of Jan 2021
  - SAP Notes for reporting XI and XU codes will be provided as soon as authorities of respective EU countries publish the related information. These SAP Notes must be implemented before creating Intrastat declaration files for Jan 2021.
Thank you.