

Oracle Fusion Tax Formulas

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Introduction

Oracle Fusion Tax provides a single-point solution for managing transaction and withholding tax requirements. The Define Tax Configuration activity lets you manage the entire configuration and maintenance of tax content.

Oracle Fusion Tax:

- Uniformly delivers tax services to all Oracle Fusion application business flows through one application interface
- Provides a single integration point for third-party tax products and services
- · Lets you configure and add country-specific tax content
- Ensures control over manual intervention and update

With Oracle Fusion Tax, you can model your taxes according to the needs of the following local and international tax requirements:

- Simple and complex country-specific tax legislation
- Cross-border transactions, including exports and Intra-European Community transactions
- Intercompany transactions
- · Local compliance requirements for recording and reporting
- · Continual changes to tax legislation, such as:
 - New taxes
 - Local law changes
 - Special tax rates
 - Special exceptions for products and customers

In this document, we discuss in detail the Tax Formulas feature in Oracle Fusion Tax.

Tax Formulas Overview

Tax formulas are used in the tax calculation process. They help to determine the taxable basis of a transaction line and the calculation methodology that must be applied to obtain the tax amount.

When the parameters available on a transaction do not satisfy the rule conditions, the default tax formulas defined for the tax are applicable.

There are two types of tax formulas:

- · Taxable basis tax formula
- Tax calculation tax formula

Taxable Basis Tax Formula

The taxable basis tax formula is used in the tax calculation process. They help to determine the amount or quantity that should be considered as the taxable basis of a transaction line. The tax rate is applied on the taxable basis amount to derive the basic tax amount on a transaction line.

The taxable basis type, defined in the taxable basis formula, decides the characteristics of the taxable basis amount.

The various taxable basis types are:

- Line amount
- · Assessable value
- Prior tax
- Quantity

The following standard predefined taxable basis tax formulas are available:

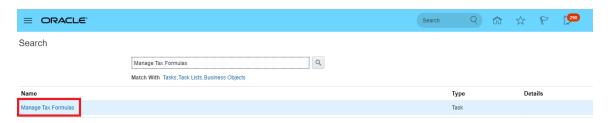
- STANDARD_QUANTITY
- STANDARD_TB
- STANDARD_TB_DISCOUNT

Line Amount:

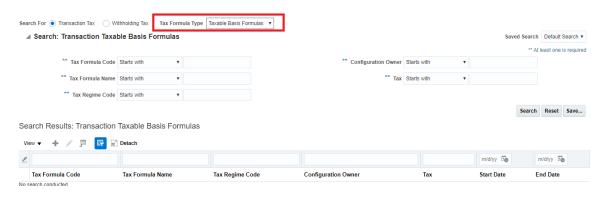
Use line amount when the transaction line amount is to be treated as the taxable basis to calculate tax.

By Default, Taxable Basis is Line Amount (STANDARD_TB) in tax setup.

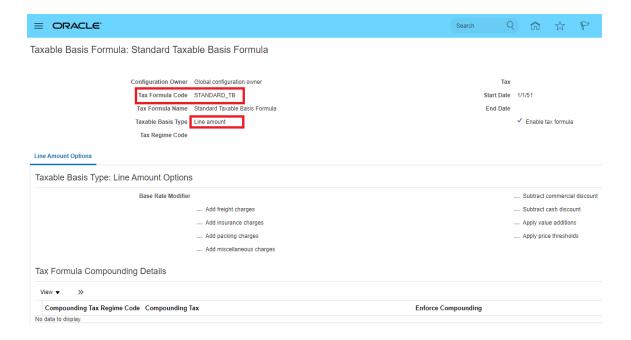
Step 1: Search "Manage Tax Formulas" task



Step 2: Select the Tax Formula Type



Step 3: Search the Tax Formula Code



Scenario: STANDARD_TB

Taxable Basis is Line Amount (STANDARD_TB)



Example:

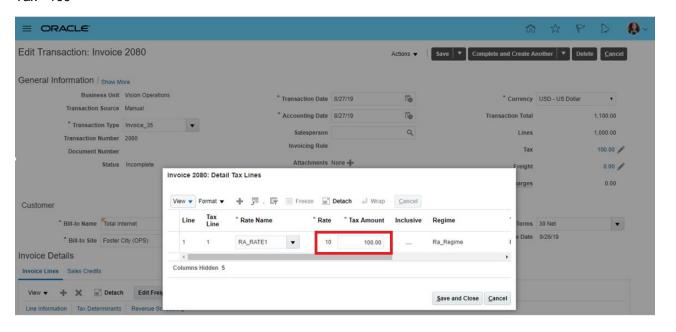
Line Amount = 1000

Tax Calculation = Taxable Basis *Rate%

Tax Calculation = Line Amount *10%

Tax = 1000 *10%

Tax = 100



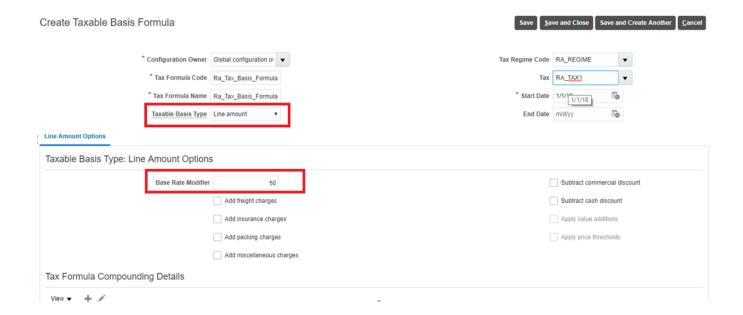
Base Rate Modifier

The transaction line amount is increased or decreased based on the percentage value given.

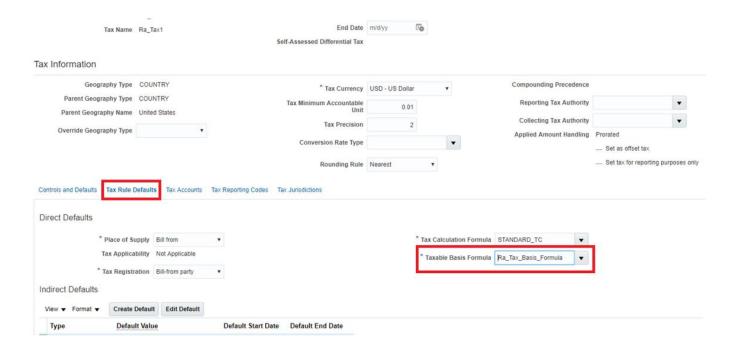
Scenario 1: Taxable Basis = Line Amount + Base Rate Modifier

Step 1: Creating Taxable Basis Formula:

Navigation: Manage Tax Formulas → Create Taxable Basis Formula



Step 2: Assign the user defined taxable basis formula in the tax setup.



Example:

```
Line Amount = 1000

Base Rate Modifier = 50% of line amount = 500

Taxable Amount = Line Amount + Base Rate Modifier

= 1000 + 500

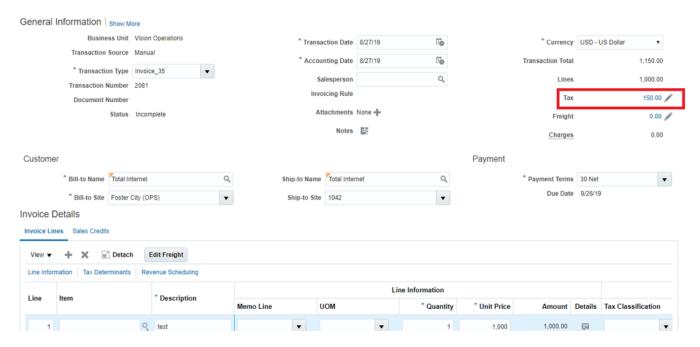
= 1500

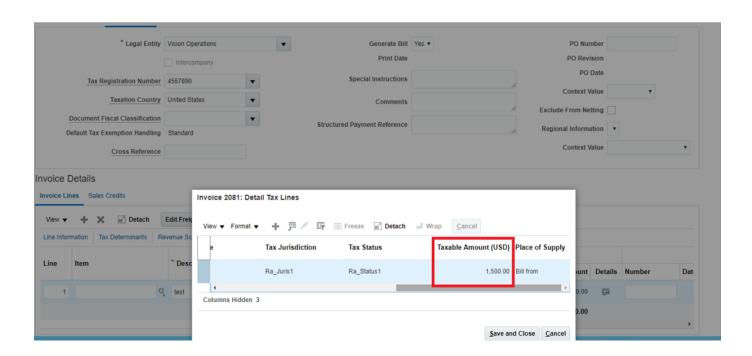
Tax Calculation = Taxable Amount * Rate%

= 1500*10%

Tax = 150
```

Step 3: Create transaction and check the taxable amount





Scenario 2: Taxable Basis = Line Amount - Base Rate Modifier

Another example of Base Rate Modifier: Calculate two taxes on a transaction.

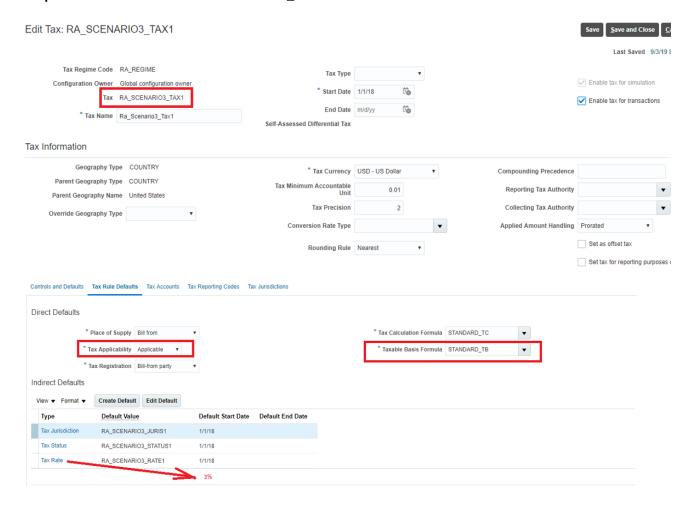
Tax1 should be 3% of line amount and Tax2 should be (Line Amount - Tax1) X 0.1%

Example:

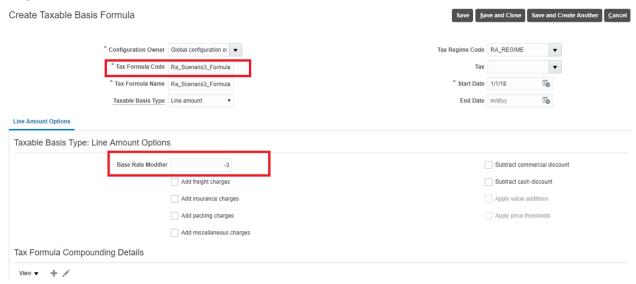
Line amount = 20000 Tax1 = 20000*3% Tax1 = 600

Taxable amount for Tax2 is (Line Amount –Tax1) i.e. 20000-600=19400 Tax2 = 19400*0.1% = 19.4

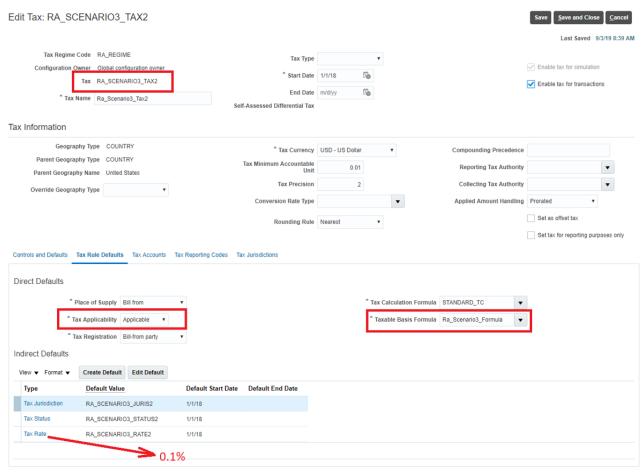
Step 1: Create Tax1 and select STANDARD_TB as taxable basis formula.



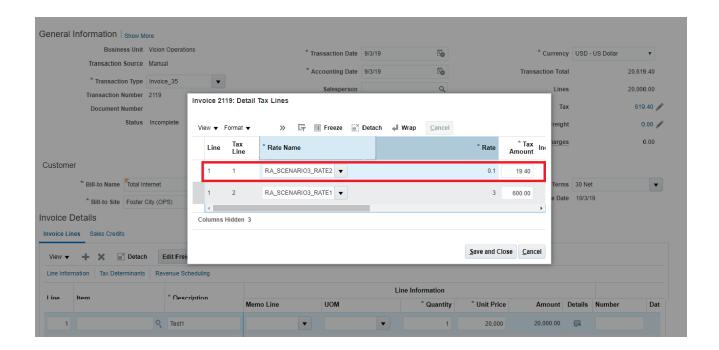
Step 2: Create Taxable Basis Formula for Tax2.

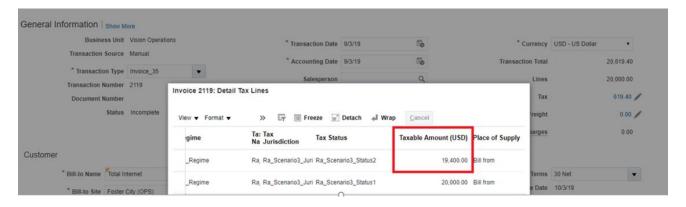


Step 3: Create Tax2 and select above custom taxable basis formula.



Step 4: Create a transaction and check the taxable amount for Tax2.





Line amount = 20000 Tax1 = 20000*3%

Tax1 = 600

Taxable amount for Tax2 is (Line Amount –Tax1) i.e. 20000-600=19400 Tax2 = 19400*0.1% = 19.4

Tax Formula Compounding

The tax details specified in the tax formula compounding region are added to the transaction line amount to determine the taxable basis amount. These tax details are also enforced by selecting the Enforce Compounding option. If a compounded tax is enforced but it's not calculated on the transaction, the tax associated with this tax formula also doesn't become applicable.

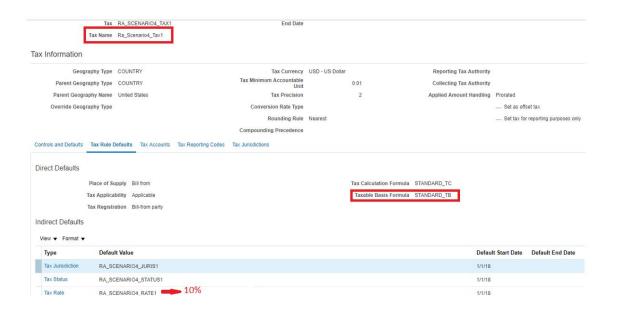
Scenario: Taxable Basis = Line Amount + Base Rate Modifier + Tax

Taxable Basis for Tax1 = Line Amount
Taxable Basis for Tax2= Line Amount + Base Rate Modifier + Tax1

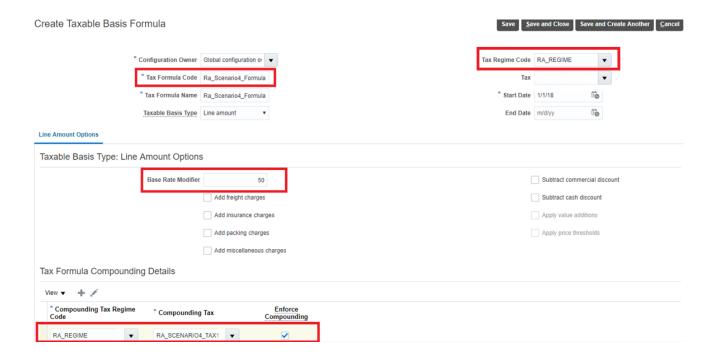
Tax1 = Taxable Basis for Tax1 * 10%

Tax2 = Taxable Basis for Tax2 * 5%

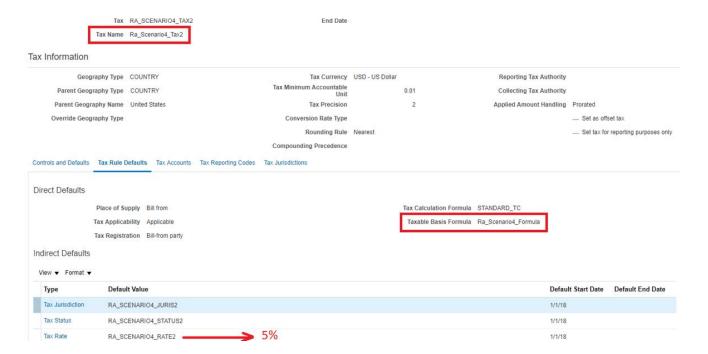
Step 1: Create Tax1 and select STANDARD_TB as taxable basis formula



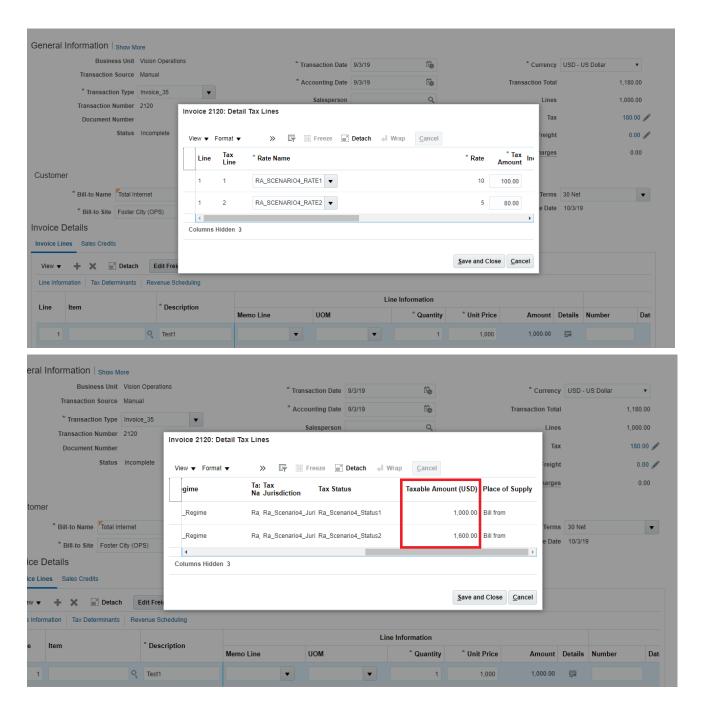
Step 2: Create Taxable Basis Formula



Step 3: Create Tax2 and select above custom taxable basis formula.



Step 4: Create a transaction and check the taxable amount for Tax2.



Taxable Amount = Line Amount + Base Rate Modifier + Tax1 Taxable Amount for Tax2 = 1000 +500+100 Taxable Amount for Tax2 = 1600

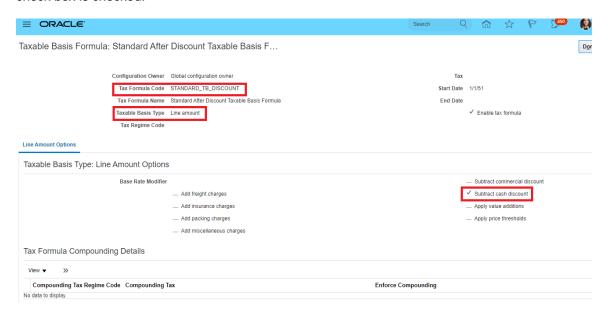
Subtract Cash Discount

The cash discount applicable on the transaction, derived through the attached payment terms, is deducted from the transaction line amount. This option is considered only for Receivable transactions.

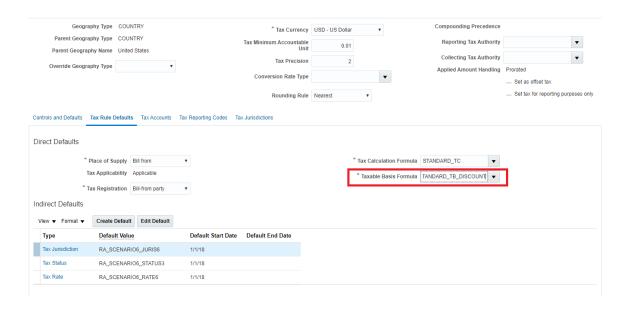
Scenario 1: STANDARD_TB_DISCOUNT

Predefined taxable basis tax formula: STANDARD_TB_DISCOUNT

Search STANDARD_TB_DISCOUNT in taxable basis formula. Note that subtract cash discount check box is checked.



Step 1: Create Tax. Make sure to select STANDARD_TB_DISCOUNT as taxable basis formula.



Step 2: Create transaction with following details. Check tax amount and taxable amount.

Line Amount = 1000

Payment Term = 2/10 NET 30 i.e. 2% discount if it is paid within 10 days.

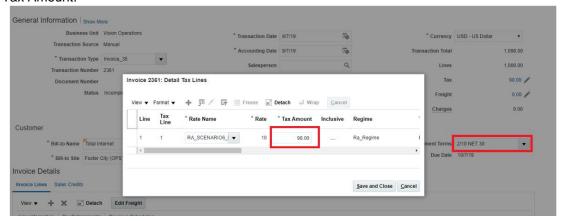
Tax Calculation = Taxable Basis * Rate%

= (Line Amount - Cash Discount)*Rate%

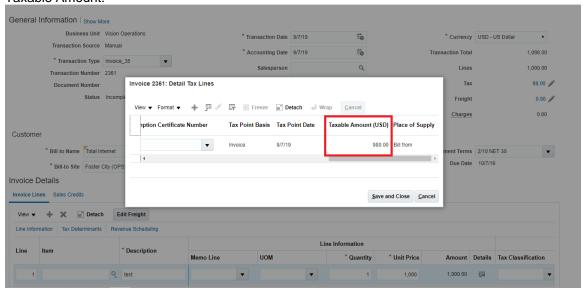
= (1000-20)*10%

= 98

Tax Amount:



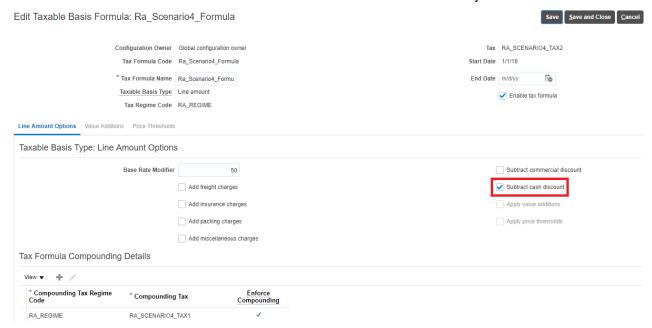
Taxable Amount:



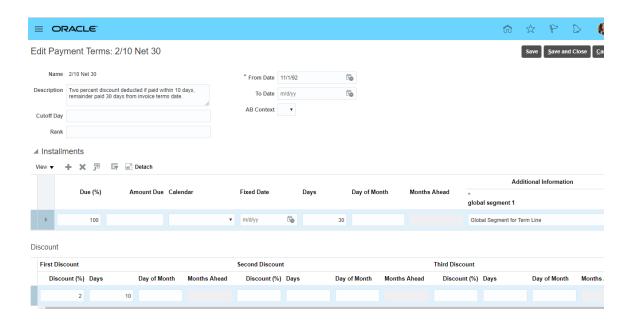
Scenario 2: Taxable Basis = Line Amount +Base Rate Modifier + Tax-Discount

Step 1: In this scenario, we used same taxes and formulas, which are used for scenario 4.

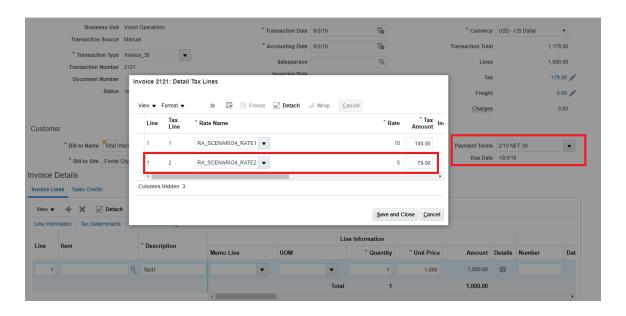
The above tax formula is edited to set the "Subtract cash discount" checkbox to yes.

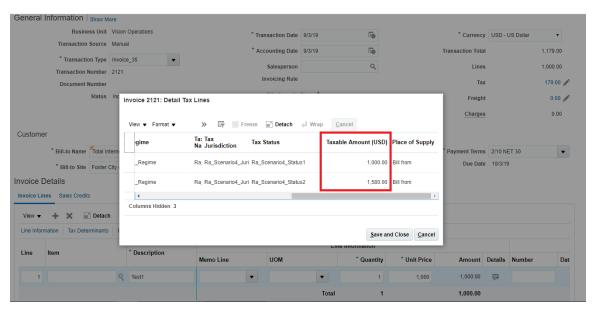


Step 2: Setup for payment term "2/10 NET30"



Step 3: Create transaction with payment term 2/10 NET30 and check the taxable amount for Tax2.





Taxable Amount = Line Amount + Base Rate Modifier + Tax1 - Cash Discount = 1000+500+100-20 = 1580

Tax2 = Taxable Amount * 5%

= 1580*5%

= 79

Assessable Value

Use Assessable value when the transaction line amount does not reflect the correct taxable basis from the tax calculation perspective. The assessable value given on the transaction line is considered as the taxable basis amount to calculate tax.

Taxable Basis Formula Based on Assessable Value:

The tax formula that is based on assessable value is used as the taxable basis for calculating tax when the tax authority does not consider the transaction amount to reflect the true sale consideration, from the tax perspective.

Consider a sales transaction between two companies, A and B. The item value on the invoice is 1000 USD. However, if they are related companies, that is, within the same group, the tax authority can mark the item value as 5000 USD for the purpose of tax based on the average market price. The tax authority can choose to collect the tax based on that value instead of the actual sales value of 1000 USD.

Scenario 1: Taxable Basis Formula Is Based On Assessable Value

• The tax amount is calculated from the transaction details and tax setup as follows:

Invoice line amount: 1000 USD
Assessable value: 5000 USD

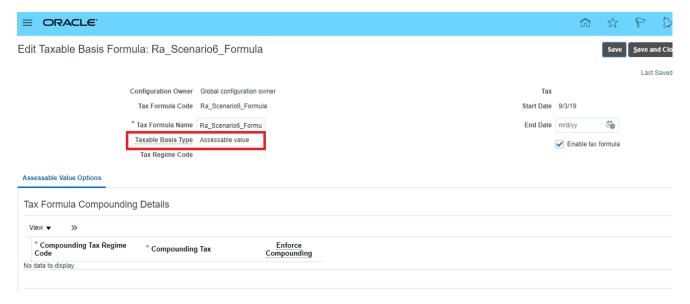
• Tax rate: 10%

· Taxable basis type: Assessable value

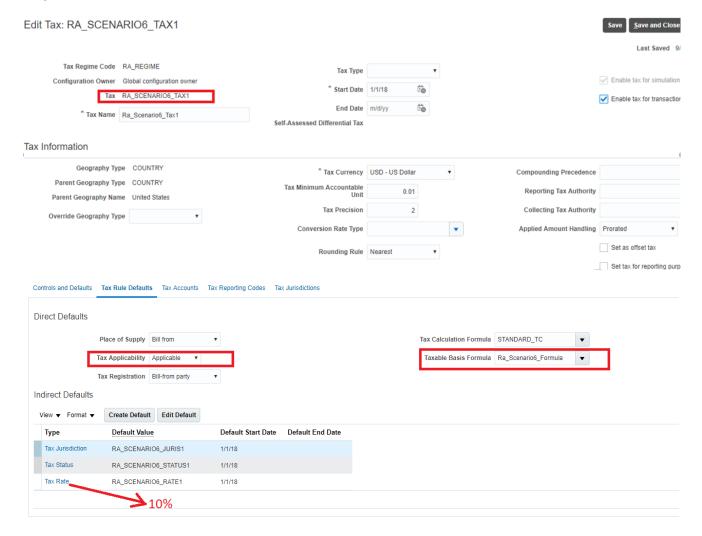
• Taxable Basis: 5000 USD

The tax is equal to the taxable basis multiplied by the tax rate (5000 USD * 10% = 500 USD).

Step 1: Create Taxable Basis Formula



Step 2: Create Tax and select above custom taxable basis formula.



Step 3: Create Transaction and check the taxable amount.

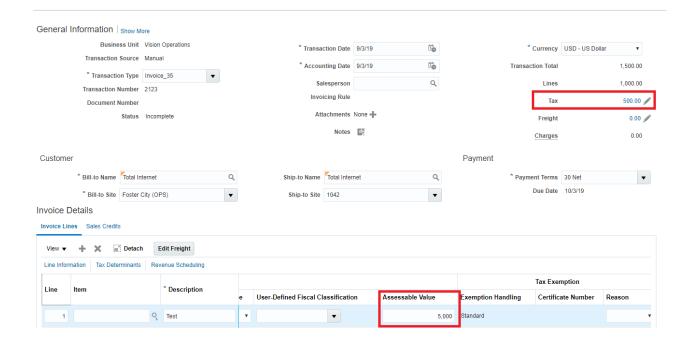
Invoice line amount: 1000 USD
Assessable value: 5000 USD

• Tax rate: 10%

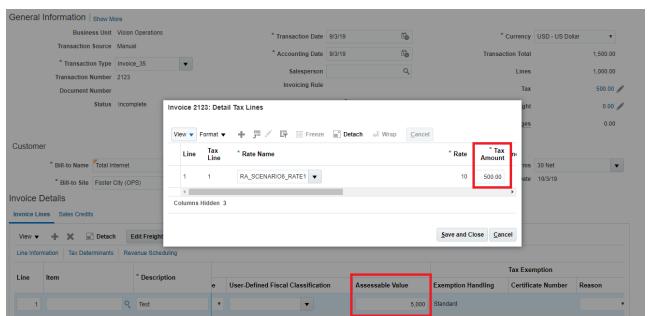
· Taxable basis type: Assessable value

• Taxable Basis: 5000 USD

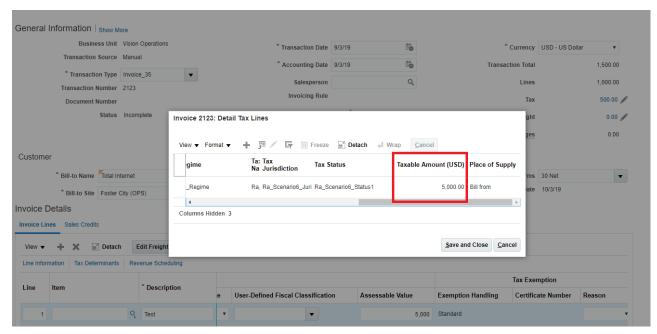
The tax is equal to the taxable basis multiplied by the tax rate (5000 USD * 10% = 500 USD).



Tax Amount:



Taxable Amount:



Scenario 2: Taxable Basis Formula Is Based On Assessable Value + Tax

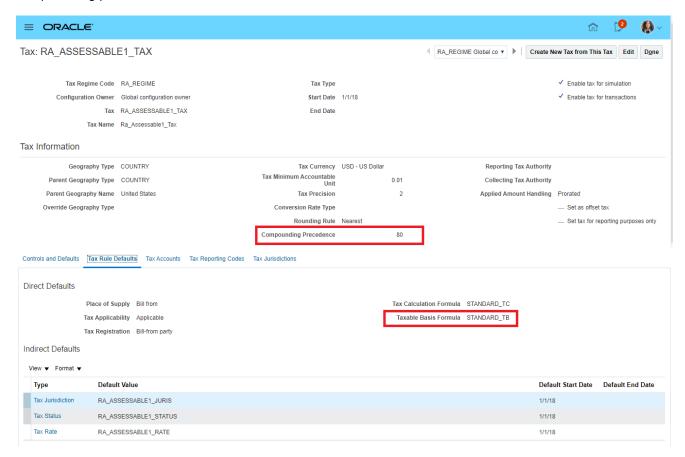
Tax1 =Lline Amount * 10%
Tax2 = (Assessable Value + Tax1) *5%

- The tax amount is calculated from the transaction details and tax setup as follows:
- Invoice line amount: 1000 USD
- Assessable value: 5000 USD
- Tax1 rate: 10%Tax2 rate: 5%
- · Taxable basis type: Assessable value
- Taxable Basis: 5000 USD

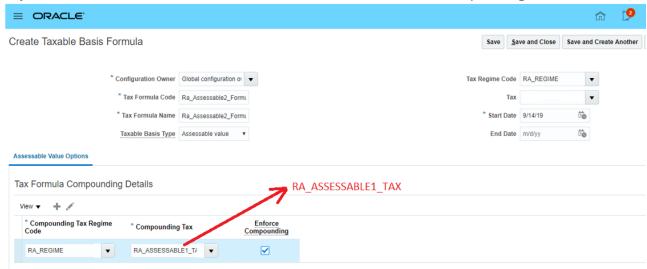
Tax Calculation = Taxable Basis *Rate%

- Tax1 = Line Amount *10%
 - = 1000*10% = 100
- Tax2 = Taxable Basis *5%
 - = (Assessable Value + Tax1) *5%
 - = (5000 + 100) *5%
 - = 5100*5%
 - = 255

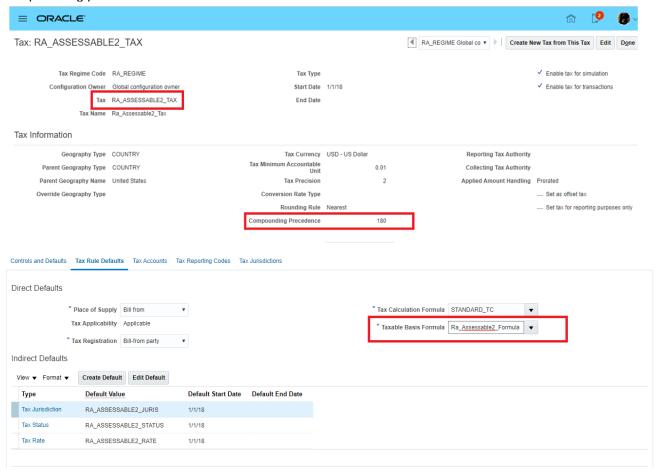
Step 1: Create Tax1. Make sure that compounding precedence value of Tax1 is less than compounding precedence value of Tax2.



Step 2: Create Taxable Basis Formula. Make sure that Tax1 is selected for compounding tax.



Step 3: Create Tax2. Make sure that compounding precedence value of Tax2 is greater than compounding precedence value of Tax1 and select above custom taxable basis formula.



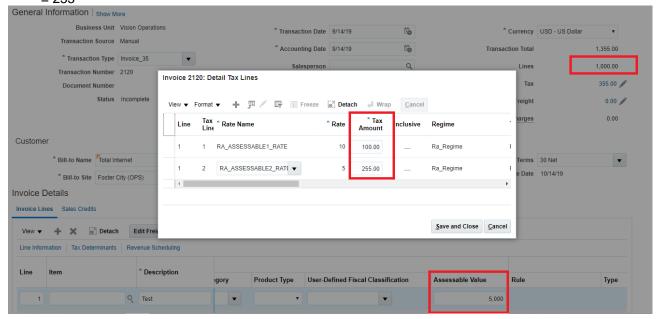
Step 4: Create transaction. Check the tax amount and taxable amount for Tax2.

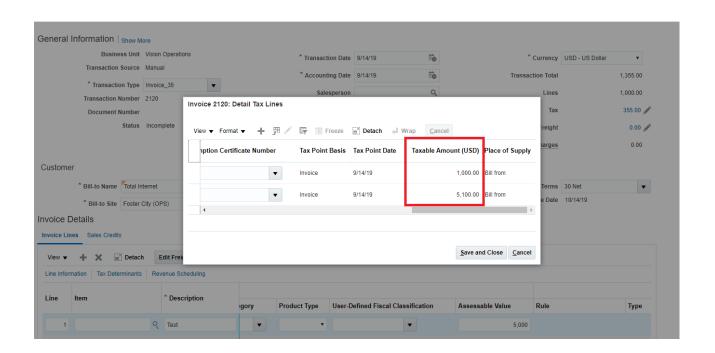
Tax1 = Line Amount *10%

= 1000*10% = 100

Tax2 = Taxable Basis *5%

- = (Assessable Value + Tax1) *5%
- = (5000 + 100) *5%
- = 5100*5%
- = 255





Scenario 3: Taxable Basis for Multiple Taxes are Based on Assessable Value

Taxable Basis for Tax1 is Assessable Value
Taxable Basis for Tax2 is (Assessable Value + Tax1)
Tax1 = Assessable Value * 10%
Tax2 = (Assessable Value + Tax1) *5%

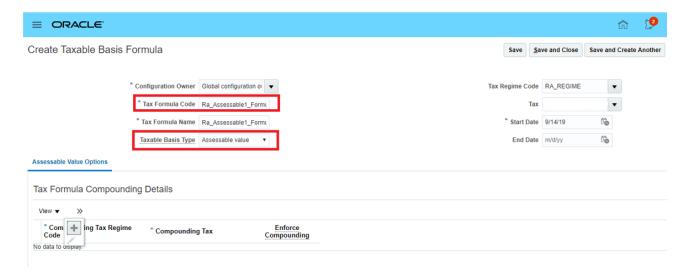
- The tax amount is calculated from the transaction details and tax setup as follows:
- Invoice line amount: 1000 USD
 Assessable value: 5000 USD

Tax1 rate: 10%Tax2 rate: 5%

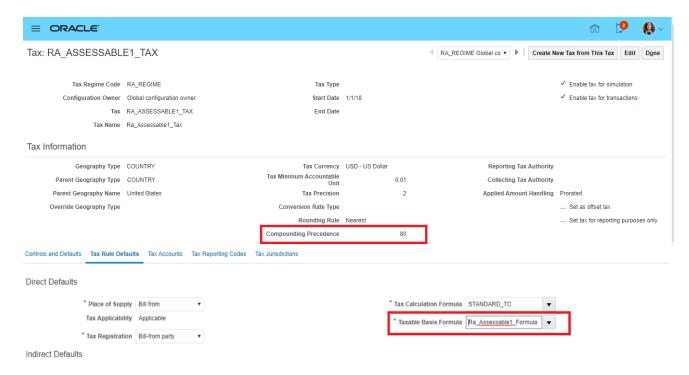
- Taxable basis type: Assessable value
- Taxable Basis: 5000 USD

Tax Calculation = Taxable Basis *Rate%
Tax1 = Assessable value *10%
= 5000*10% = 500
Tax2 = Taxable Basis *5%
= (Assessable Value + Tax1) *5%
= (5000 + 500) *5%
= 5500*5%
= 275

Step 1: Create a taxable basis formula and use it while creating the tax1.

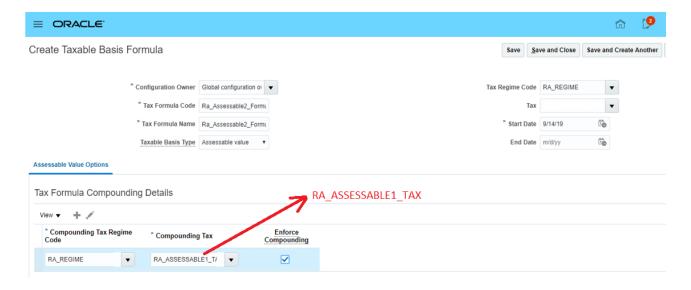


Step 2: Create Tax1. Make sure that compounding precedence value of Tax1 is less than compounding precedence value of Tax2 and select above custom taxable basis formula created for Tax1.

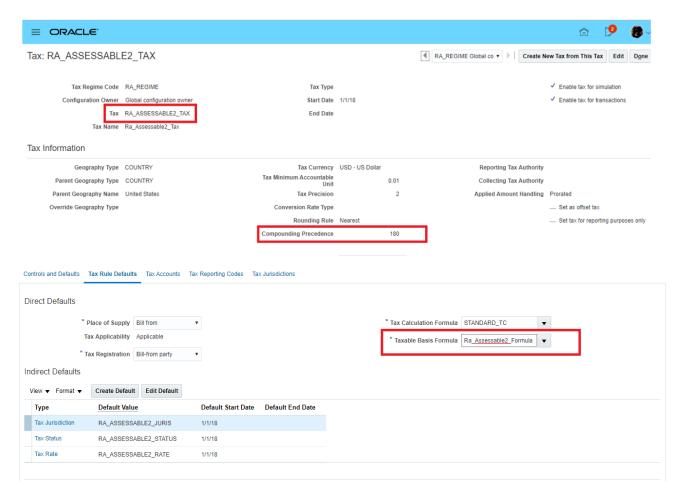


Note: Above Tax already created in scenario 6b. Only change is, taxable basis formula selected as custom formula (Ra_Assessable1_Formula) instead of seeded formula (STANDARD_TB).

Step 3: Create Taxable Basis Formula. Make sure that Tax1 selected for compounding tax.



Step 3: Create Tax2. Make sure that compounding precedence value of Tax2 is greater than compounding precedence value of Tax1 and select above custom taxable basis formula.



Note: Tax2 setup and Taxable Basis Formula for Tax2 already created in Scenario 6b. There is no change in formula or tax setup for Tax2.

Step 4: Create transaction. Check the tax amount and taxable amount for Tax1 and Tax2.

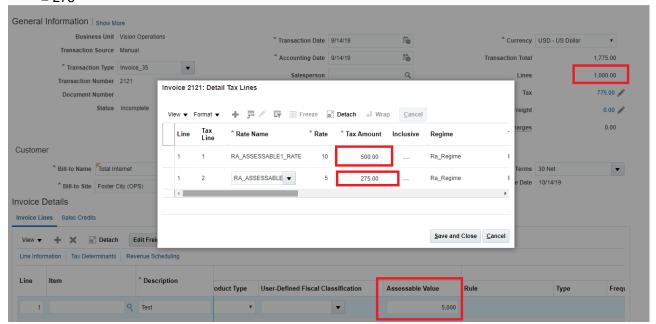
Line Amount = 1000

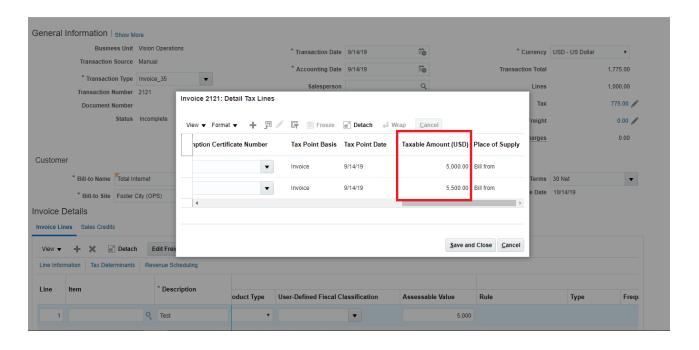
Tax1 = Assessable value *10%

= 5000*10% = 500

Tax2 = Taxable Basis *5%

- = (Assessable Value + Tax1) *5%
- = (5000 + 500) *5%
- = 5500*5%
- = 275





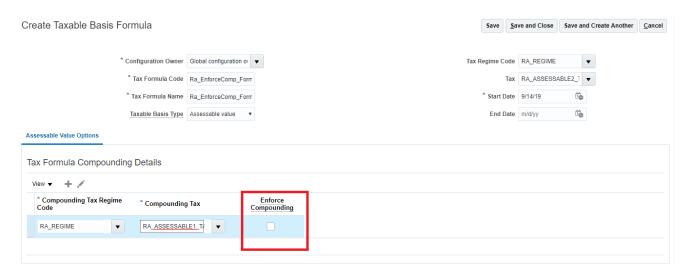
Scenario 4: Enforce Compounding Test with Assessable Value

Taxable Basis for Tax1 is Assessable Value

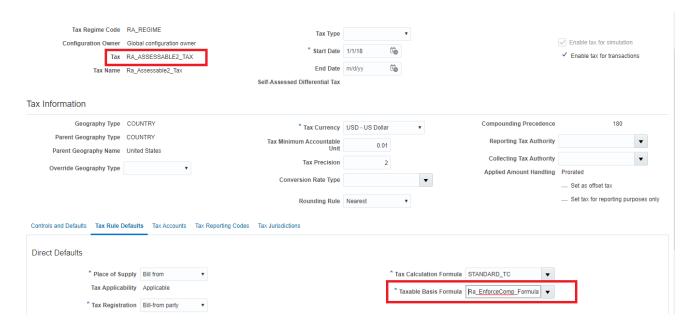
Taxable Basis for Tax2 is (Assessable Value + Tax1) but enforce compounding checkbox is not checked.

We will continue to use the same tax setup for Tax1 and Tax2

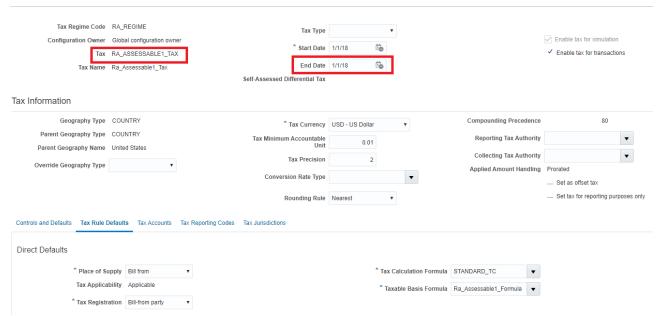
Step 1: Create a taxable basis formula for Tax2. Make sure that compounding tax is selected as Tax1 and enforce compounding check box is not checked. It means that Tax2 should calculate even though the Tax1 is not calculated.



Step 2: We use the same Tax2, created in scenario 6b. Query the Tax2 and select the above taxable basis formula.



Step 2: Query the Tax1 and end date it, so that tax1 should not apply on transaction.



Step 3: Create transaction and check taxable amount for tax2.

Line Amount = 1000

Tax1 = NULL (As this tax is end dated)

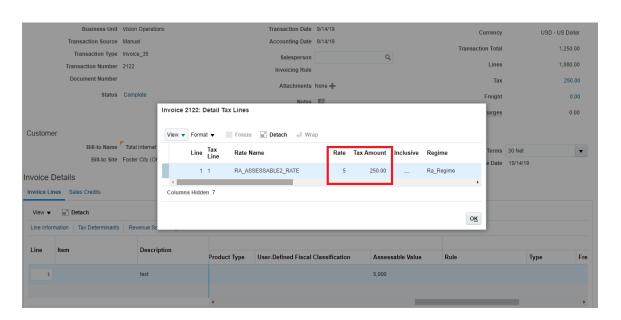
Tax2 = Taxable Basis *5%

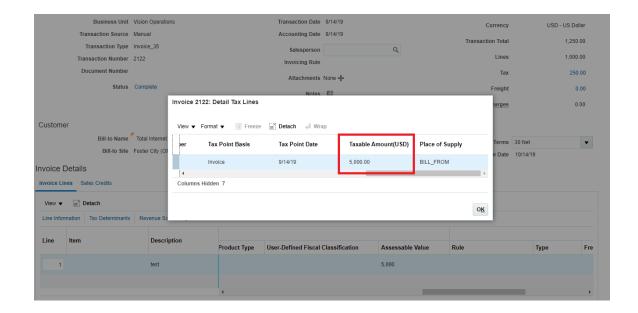
= (Assessable Value + Tax1) *5%

= (5000 + Null) *5%

= 5000*5%

= 250





Prior Tax

Use Prior Tax if the taxable basis is one or more than the other taxes calculated on the transaction line. The option to compound the prior taxes that are calculated on the transaction line are also available.

Taxable Basis Formula Based on Prior Tax

In this case, the previous tax that is calculated on a transaction is considered as the taxable basis.

Consider a situation when two taxes, state tax and county tax, are applicable on a transaction.

In this situation, the transaction details and tax setup is as follows:

Invoice line amount: 1000 USD

State tax rate: 20%Country tax rate: 10%

· Taxable basis type: Prior tax

· Compounding regime: Sale and use tax

· Compounding tax: State tax

The tax calculation is as follows:

- The state tax is equal to the invoice line amount multiplied by the state tax rate (1000 USD * 20% = 200 USD).
- The taxable basis for the county tax is the tax calculated for the state tax (200 USD).

The country tax is equal to the taxable basis multiplied by the county tax rate (200 USD * 10% = 20 USD).

Scenario: Taxable Basis Formula Based on Prior Tax

Example:

Tax1 = Taxable Basis * 10%

= 1000*10%

Tax1 = 100

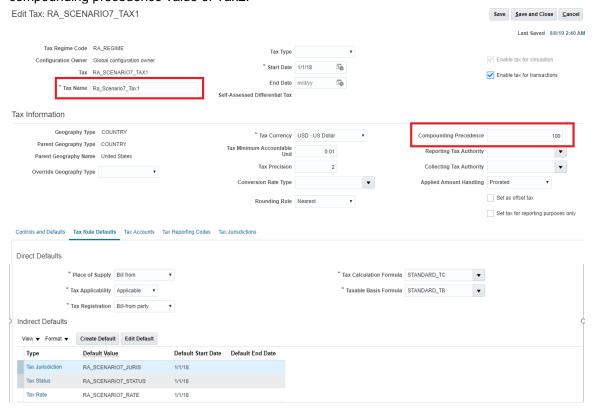
Tax2 = Taxable Basis * 20%

= Prior Tax *20%

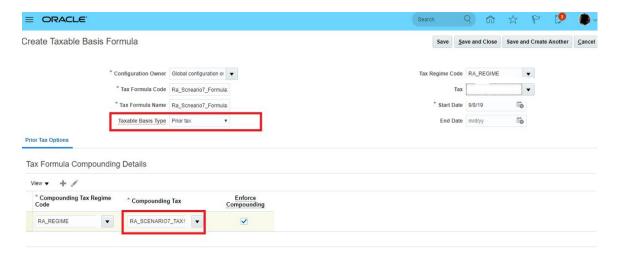
= 100*20%

= 20

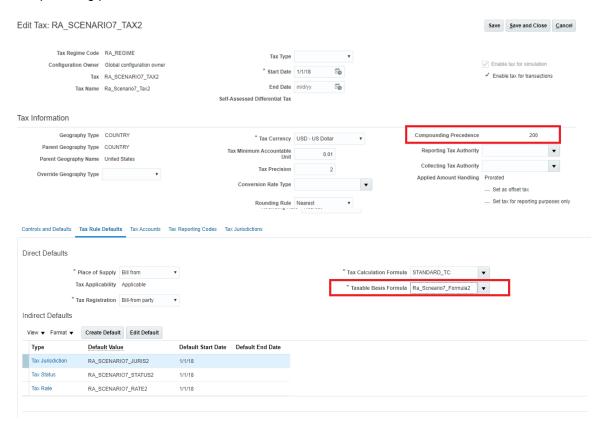
Step 1: Create Tax1. Make sure that compounding precedence value of Tax1 is less than compounding precedence value of Tax2.



Step 2: Create taxable basis formula for Tax2.

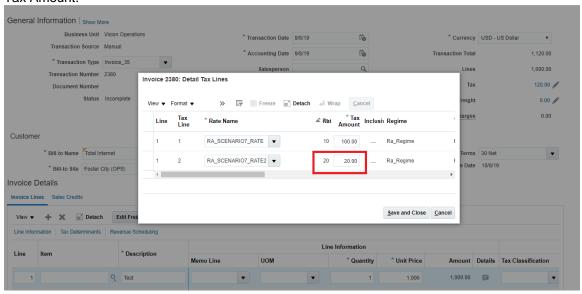


Step 3: Create Tax2. Make sure that compounding precedence value of Tax2 is greater than compounding precedence value of Tax1 and select above custom taxable basis formula.

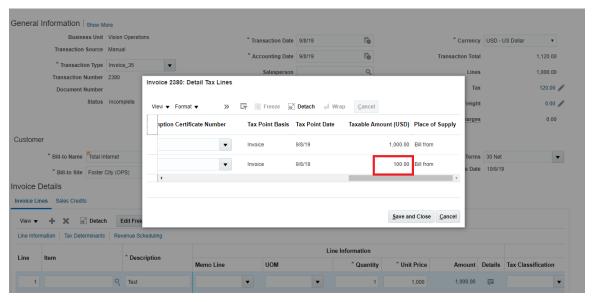


Step 4: Create transaction. Check tax amount and taxable amount of Tax2.

Tax Amount:



Taxable Amount:



Tax1 = Taxable Basis * 10%

= Line Amount *10*

= 1000*10%

Tax1 = 100

Tax2 = Taxable Basis * 20%

= Prior Tax *20%

= 100*20%

= 20

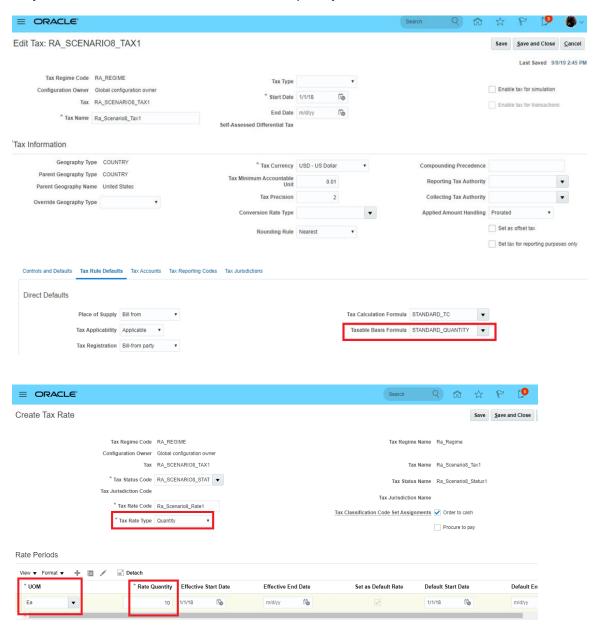
Quantity

Use Quantity if you want to calculate tax on transactions based on the number of units or items involved in the transaction.

STANDARD_QUANTITY: It is predefined taxable basis tax formula, where taxable basis is equal to the quantity of the transaction line.

Scenario: Taxable Basis Formula Based on Quantity

Step 1: Create Tax1 and make sure that rate is quantity based tax rate.



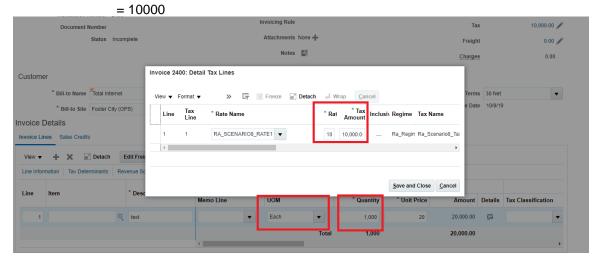
Note: You can express tax rates in terms of percentage or quantity. A quantity-based tax rate is based upon the number of items purchased or events that occur. For example, a taxing jurisdiction passes a law that each package of cigarettes sold is subject to a tax of 0.87 USD. This tax is considered a quantity-based tax as it is assessed based upon the number of packages purchased and not the price of the product.

Step 2: Create Tax1 with following details. Check tax amount and taxable amount.

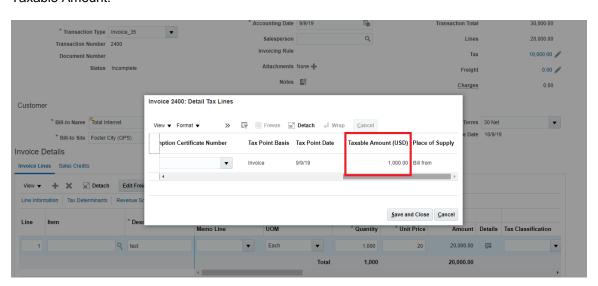
Quantity = 1000 Unit Price = 20 Line Amount = 20000

Tax Calculation = Taxable Basis*Rate Quantity
Tax1 = Quantity*Rate Quantity

= 1000*10



Taxable Amount:



Tax Calculation Tax Formula

The tax calculation tax formula is used to determine the calculation methodology that is applied to derive the basic tax amount on a transaction line. The tax amount on a transaction is generally calculated by multiplying the derived tax rate by the taxable basis.

However, in some cases the tax amount is required to be altered by adding other taxes that are applicable on the same transaction line. Use a tax calculation formula defined with compounding criteria to address this requirement.

The tax details specified in the tax formula compounding region are added to the calculated tax that is associated with the tax formula. These compounded tax details can also be enforced when you select the Enforce Compounding option. When the compounded tax is enforced and when it is not calculated on the transaction, the tax to which this tax formula is associated with also does not become applicable.

Example:

Consider a situation when two taxes, state tax and county tax, are applicable on a transaction. In such a situation, the transaction details and tax setup is as follows:

Line amount: 1000 USDState tax rate: 20%County tax rate: 10%

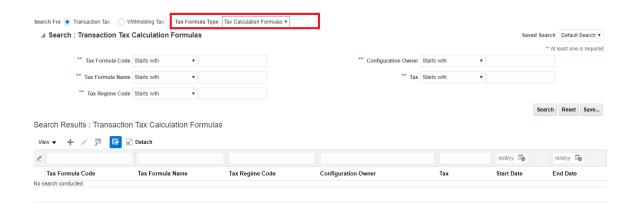
Compounding regime: Sale and use tax

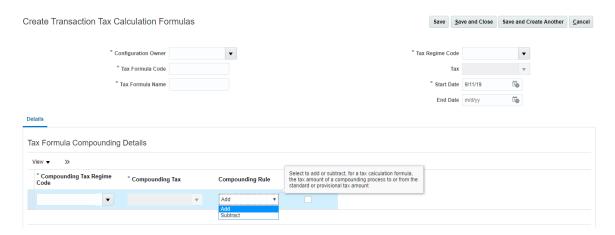
· Compounding tax: State tax

The tax calculation is as follows:

- The state tax is equal to the invoice line amount multiplied by the state tax rate (1000 USD * 20% = 200 USD).
- The county tax is equal to the invoice line amount multiplied by the county tax rate plus the state tax (1000 USD * 10%) + 200 USD = 300 USD.

Navigation: Manage Tax Formulas → Tax Formula Type should be "Tax Calculation Formulas"



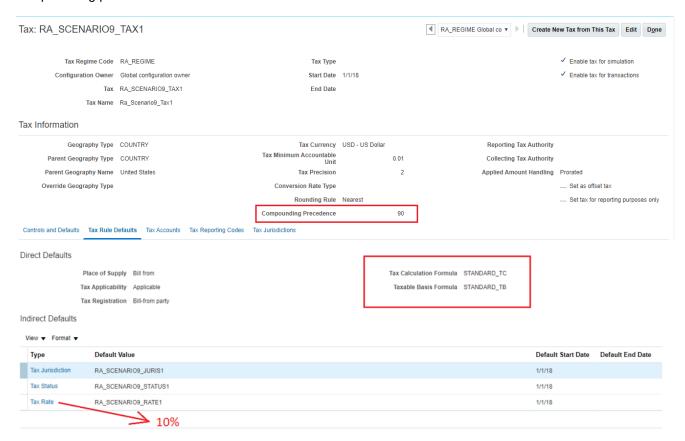


Scenario 1: Compounding Tax

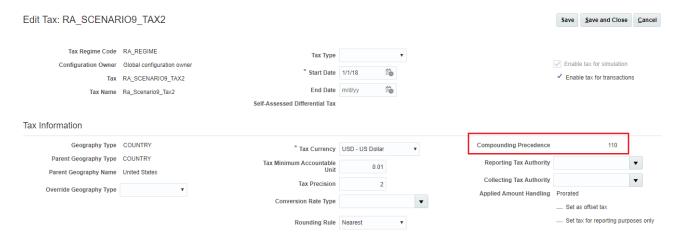
Tax1 = line amount *10%

Tax2 = (Line Amount*5%) + Tax1 → Tax calculation tax formula

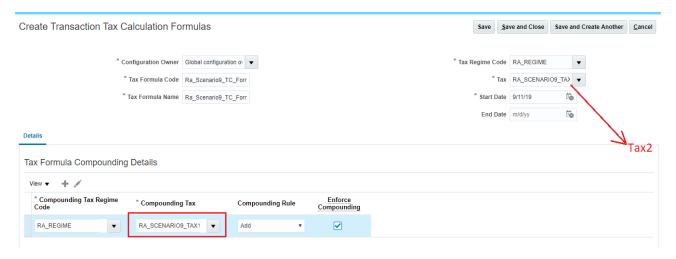
Step 1: Create Tax1. Make sure that compounding precedence value of Tax1 is lesser than compounding precedence value of Tax2.



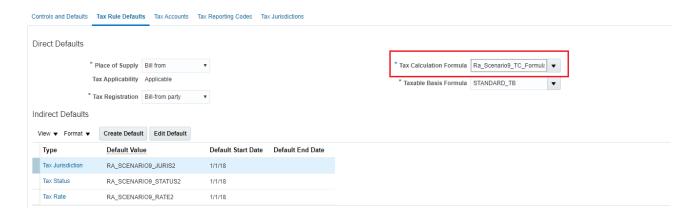
Step 2: Create Tax2. Make sure that compounding precedence value of Tax2 is greater than compounding precedence value of Tax1.



Step 3: Create Tax Calculation Formula.



Step 4: Query the Tax2 and select the above custom tax calculation formula.



Step 5: Create transaction with below details and check the tax amount of Tax2.

Line Amount = 1000
Tax Calculation = Taxable Basis *Rate%

Tax1 = line amount *10%

= 1000*10%

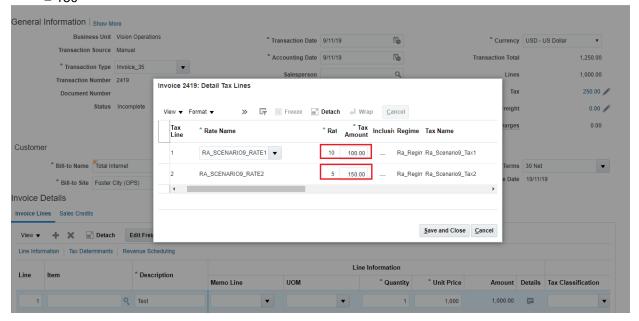
= 100

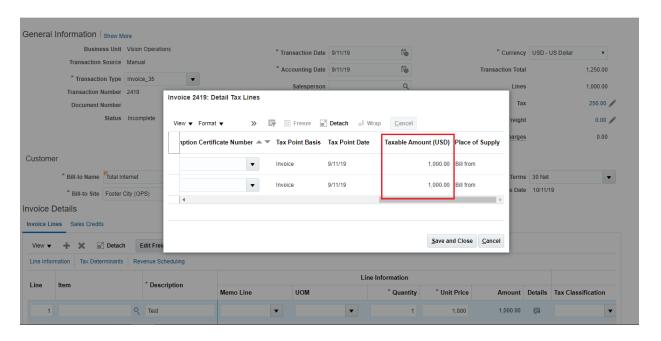
Tax2 = (Line Amount*5%) + Tax1

=(1000*5%) + 100

= 50+100

= 150



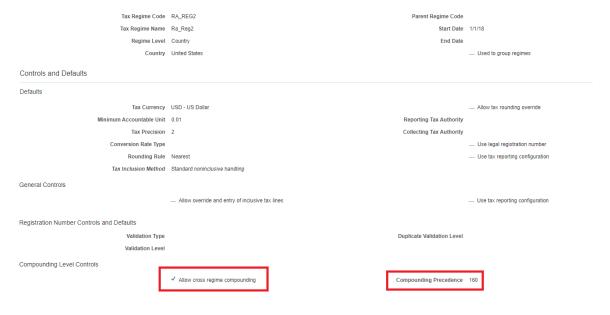


Scenario 2: Allow Cross Regime Compounding Check box

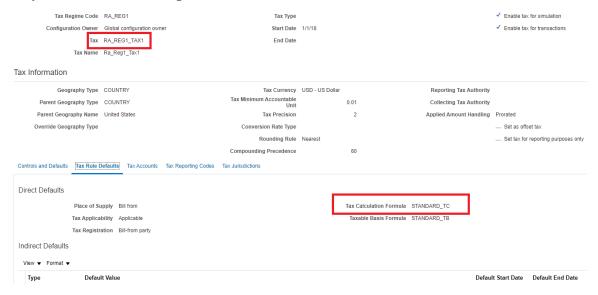
Step 1: Create Regime1. Make sure that "Allow Cross Regime Compounding" checkbox is checked and compounding precedence value of Regime1 is lesser than compounding precedence value of Regime2.



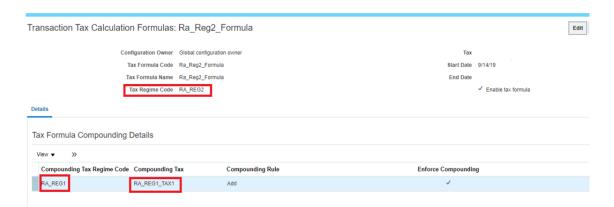
Step 2: Create Regime1. Make sure that "Allow Cross Regime Compounding" checkbox is checked and compounding precedence value of Regime2 is greater than compounding precedence value of Regime1.



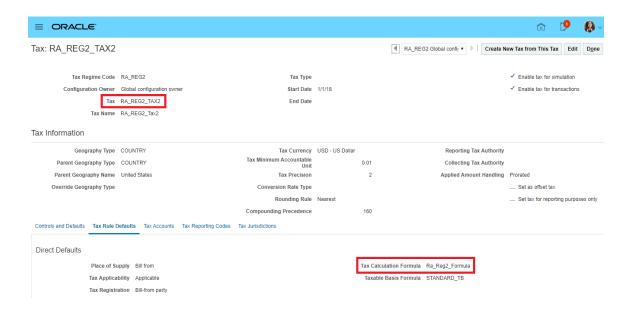
Step 3: Create a Tax for Regime1.



Step 4: Create a Tax Calculation Formula.



Step 5: Create a Tax for Regime2 and select the above custom tax calculation formula.



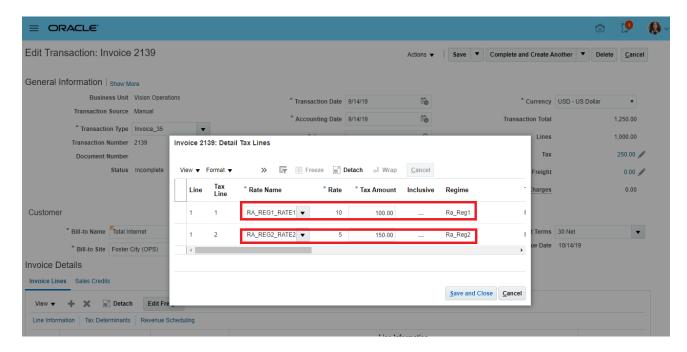
Step 6: Create a transaction with following details and check the tax and taxable amount of Tax2.

```
Line Amount = 1000

Tax Calculation = Taxable Basis * Rate%

Tax1 = Line Amount * 10%
= 1000*10%
= 100

Tax2 = (Line Amount * 5%) + Tax1
= (1000*5%) + 100
= 150
```



Note: "Allow Cross Regime Compounding" check box must set at both the regime levels for cross regime compounding. If the check box in any of the regime is not set then that regime cannot be a part of cross regime compounding.

Reference: Oracle Financials Cloud Implementing Tax https://docs.oracle.com/en/cloud/saas/financials/18c/fattx/implementing-tax.pdf		
Oracle Financials Cloud Implementing Tax		
Oracle Financials Cloud Implementing Tax		
Oracle Financials Cloud Implementing Tax		
Oracle Financials Cloud Implementing Tax	Reference:	
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	https://docs.oracle.com/en/cloud/saas/financials/18c/faitx/implementing-tax.pdf	