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Audit data services — Indirect tax extension

WD stage

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CH-1214 Vernier, Geneva

Phone: +41 22 749 01 11

Email: copyright@iso.org

Website: www.iso.org

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Foreword

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This document was prepared by Technical Committee ISO/TC 295, Audit data services.

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Introduction

This document is applicable to the bridging of understanding among auditors, auditees, software developers and IT professionals, and creating a mechanism for expressing the information, common to accounting, in a manner independent of accounting and ERP systems. The reasoning behind this is:

1. Indirect taxes and customs duties cover a wide area with diverse laws and regulations;

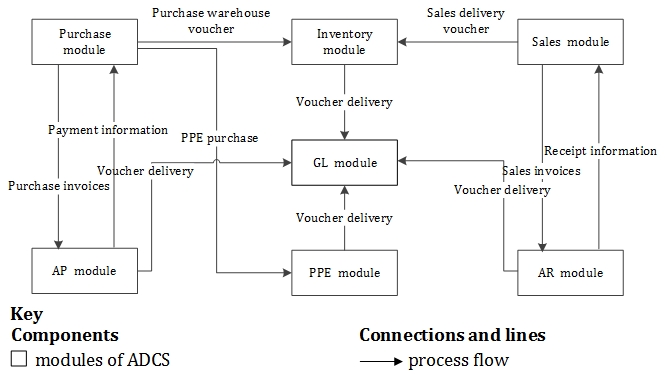
2. ERP systems have found their own ways to process and store specific data (attributes) for indirect taxes and customs duties;

3. Our task is to design a way that meets both challenges and provides at the same time only a limited extension to the current standard (without making any changes). We believe that we have found a solution.

This ADCS Indirect Tax extension has been designed to allow auditors access to data in an easily readable format for substantive testing of system controls and data, using proprietary audit software, as part of a methodology that also provides increased effectiveness and productivity in computer-assisted audit. This ACDS-extension should enable small and medium enterprises (“SME”), but also large companies to provide the requested data in such easily readable format. On the other hand, it should enable auditors to access the data attributes needed to audit a company in the light of indirect taxes.

Based on the ISO/FDIS 21378 document – which can be seen as the base document - it is stated that the ACDS covers the main business modules of accounting and ERP systems and the main business processes in the enterprise production supply chain. The ADCS has eight modules: Base (BAS), General Ledger (GL), Accounts Receivable (AR), Sales (SAL), Purchase (PUR), Accounts Payable (AP), Inventory (INV) and Property, Plant and Equipment (PPE).

Next steps are to further complete the extension and to validate these against common and less-common data attributes applicable in multiple countries.

****

1. Business modules in the ADCS

With this Indirect Tax extension local authorities and auditing companies should have an additional tool to determine whether the audited company has paid the correct tax at the right time, in accordance with domestic tax legislation. The auditor must obtain and evaluate the available audit evidence as part of the audit assurance process in order to reach an opinion as to whether or not a tax return is correct.

Audit data services — Indirect tax extension

# Scope *(mandatory)*

Type text.

# Normative references *(mandatory)*

*Two options of text (remove the inappropriate option).*

*1) The normative references shall be introduced by the following wording.*

The following documents are referred to in the text in such a way that some or all of their content constitutes requirements of this document. For dated references, only the edition cited applies. For undated references, the latest edition of the referenced document (including any amendments) applies.

ISO #####‑#, *General title — Part #: Title of part*

ISO #####‑##:20##, *General title — Part ##: Title of part*

*2) If no references exist, include the following phrase below the clause title:*

There are no normative references in this document.

# Terms and definitions *(mandatory)*

*Four options of text (remove the inappropriate options).*

*1) If all the specific terms and definitions are provided in Clause 3, use the following introductory text:*

For the purposes of this document, the following terms and definitions apply.

*2) If reference is given to an external document, use the following introductory text:*

For the purposes of this document, the terms and definitions given in [external document reference xxx] apply.

*3) If terms and definitions are provided in Clause 3, in addition to a reference to an external document, use the following introductory text:*

For the purposes of this document, the terms and definitions given in [external document reference xxx] and the following apply.

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No terms and definitions are listed in this document.

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ISO and IEC maintain terminology databases for use in standardization at the following addresses:

* ISO Online browsing platform: available at <https://www.iso.org/obp>
* IEC Electropedia: available at <https://www.electropedia.org/>

3.1

term

text of the definition

Note 1 to entry: Text of the note.

[SOURCE: …]

3.2

term

text of the definition

# Indirect tax requirements

## Introduction

In this chapter, we will work out the generic aspects common to indirect taxes that need to be supported by the ADCS and the extension. Once we have the overview, we can determine which elements are inherently supported by ADCS and which need a place in the extension.

## Requirements

A good starting point to list the generic elements is the OECD report [Consumption Tax Trends 2020- VAT/GST and Excise Rates, Trends and Policy Issues]. This report is compiled by a group of experts, is updated annually and provides an overview of the main characteristics. It would seem sensible to use this as a lever.

Based on the OECD report it can be recognized that for a tax jurisdiction, the applicable tax treatment (taxed or exempt) and tax rate might differ. At a jurisdictional level, the actual tax treatment may result from the tax rate applicable to the:

* Product/item: e.g. reduced rate for food, standard rate for telecommunications and super rate for luxury goods;
* Business Partner: e.g. standard rate for regular consumers, zero-rate for embassies/UN-organizations;
* Place of supply: zero-rate/exempt for supply abroad, reduced rates for specified regions, zero-rate for free trading zones, VAT warehouse;
* Size of the business of the taxpayer: e.g. regular versus small-scale taxpayers;
* Type of industry: for certain types of industries specific rules might apply.

NOTE See Annex A for the examples of the Jurisdictional tables

The above should be suitable for all taxes based on accounting entries, even down to line level, and encompasses both direct and indirect taxes. However, the determination of tax liability of direct and indirect taxes may require information not normally found in an accounting system. For the ADCS we should classify additional characteristics into a number of categories/aspects, but for our purpose we need to add some categories which are not explicitly described but needed for our purpose. The suggested additional categories to further explore are:

1. Taxable transactions: Both goods and services;
2. Taxable amount and rates: VAT rate structures and VAT exemptions, as they could relate to the Business Partner, Place of supply or the Product/items;
3. Taxable amount and rates: Application of margin schemes;
4. Tax point date;
5. Deductions: Mechanism of charging VAT/GST on sales and allowing business to deduct input tax;

We have included a more detailed description of these categories (and why they are relevant) in Annex B.

NOTE see Annex B for the examples of these additional categories

# Business parties and employee

## Business parties involved and their roles and relationships

Nobu: We shall define the parties and their roles from an audit perspective

**Figure 1** shows party and their roles involved in the business transactions.

多角形 が含まれている画像

自動的に生成された説明

Figure 1 — Party and their roles (informative)

In the UBL supply chain processes, two main actors, Customer and Supplier, represent the key organizations or people involved in the processes. Each of these actors may play various roles. Some processes may also involve supplementary roles that may be provided by different parties.

## Employee roles and user activities

Nobu: We shall define the employees and system users and their roles and activities from an audit perspective.

**Figure 2** shows employee and system user and their roles.

暗い部屋のcg

中程度の精度で自動的に生成された説明

Figure 2 — Employee roles and user activities (informative)

The users managing the ERP system shall have unique identification data, enabling job identification and authentication of the users. The identification and authentication data shall be revoked without delay in case of the cessation of user rights. Each employee shall have the necessary education, practice and professional experience for the provision of his scope of activities.

The Party shall log every transactional event that can provide information on activity, changes happened in the ERP system, every verification activity performed related to transaction and / or accounting. In case of every log entry, the following data shall be stored:

* the date and time of the activity;
* the type of the event;
* the success or failure of the implementation;
* the identification of the user or the system who/what triggered the event

## Business processes and functionality supported by the extension

Type text

# Technical Tables Design

## General

In order to make the concept work for nicely for ADCS we need to:

* Link the observation to entries in other tables
* Split each variable in two columns and define
* Applicable common entries for the variables
* Set up a list of values (as an example)
* Link each variable value to system value

[TO BE FURTHER DEFINED BASED ON INPUT FROM THE EXPERT GROUP]

## Semantic model

### Justification and proposed approach

In principle tax coding in ERP (and accounting) systems are a subdivision of a tax type mentioned in ISO 21378 Table 42. The information stored in such tax codes could provide insight in the above required additional categories. However the invoice line details in ISO 21378 Table 82, the tax information per line contains only a tax type and tax amount. In effect, Table 1 lists the data stored for audit purposes in relation to a transaction in ISO 21378 Table 82:

1. XXX

|  |  |  |  |
| --- | --- | --- | --- |
| Scenario | Type of transaction | Information stored in ISO 21378 Table 82 | |
| TaxType1 | TaxAmount1 |
| 1 | Sale of goods (for EUR 100) in the Netherlands subject to 21% VAT | Value indicating NL VAT | 21 |
| 2 | Export sale of goods (for EUR 100) from the Netherlands, subject to 0% VAT | Value indicating NL VAT | 0 |
| 3 | VAT exempt supply of a service (for EUR 100) in the Nethelands | Value indicating NL VAT | 0 |
| 4 | VAT taxable supply of service (for EUR 100) provided by a Dutch supplier to an EU customer outside the Netherlands, VAT reverse charged to the customer | Value indicating NL VAT | 0 |

Currently the ADCS only provides invoice lines based on table 82, where the tax information per line consists of the tax type and tax amount. As illustrated above, the effect of this is that three scenarios that are fundamentally different from a VAT-perspective (Scenarios 2, 3 and 4 above), yield the same audit information. The lack of granularity that this provides could cause an issue if the auditor of the transaction cannot reconstruct whether exemption, reverse charge, 0% has been applied. This could also be extended for the other additional categories.

One way to facilitate this would be to change level of connection and add tax code to table 82, but this would entail a change to the standard, and the additional information besides the tax type and tax amount is only particularly relevant in case the audit covers the correct VAT treatment of transactions.

We therefore suggest supporting an extra level of detail with the proposed extension by linking additional characteristics to the invoice line level. For each invoice line, various characteristics can be linked that way (e.g. source system tax code, (multilanguage) description, VAT recovery ratio, goods/services code, etc.).

### Business rules

Type text

### Semantic data types

**Table 2** lists semantic data types from Core Component type. The reference identifier is added to the data type defined in ISO 15000-5.

1. Semantic data types

| Semantic data type | Component | Use | Primitive Type | Example | Description |
| --- | --- | --- | --- | --- | --- |
| Amount | Amount. Content | M | Decimal | 10000.25 | A number of monetary units specified in a currency where the unit of currency is explicit or implied. |
| Amount. Currency. Identifier | C | String | JPY |
| Unit Price | Amount. Content | M | Decimal | 10000.1234 | A unit price amount states a numerical monetary amount value for Business Information Entities that contain item prices that may be multiplied by item quantities. The currency of the amount is explicit or implied. |
| Amount. Currency. Identifier | C | String | JPY |
| Percentage | Numeric. Content | M | Decimal | 34.7812 | Percentages are given as fractions of a hundred (per cent) e. g. the value 34,78 % in percentage terms is given as 34,78. |
| Numeric | Numeric. Content | M | Decimal | 471 | Numeric information that is assigned or is determined by calculation, counting, or sequencing. It does not require a unit of measure. |
| Quantity | Quantity. Content | M | Decimal | 10000.1234 | Quantities are used to state a number of units such as for items. The code for the Unit of Measure (Quantity Unit. Code) is explicit or impllicit. |
| Quantity Unit. Code | C | String |  |
| Quantity Unit. Code List. Identifier | O | String |  |
| Quantity Unit. Code List Agency. Identifier | O | String |  |
| Code | Code. Content | M | String | Abc123 | Codes are used to specify allowed values in elements as well as for lists of options. Code is different from Identifier in that allowed values have standardized meanings that can be known by the recipient. |
| Code List. Identifier | O | String |  |
| Code List. Agency. Identifier | O | String |  |
| Quantity Unit. Code List Agency. Identifier | O | String |  |
| Code List. Version. Identifier | O | String |  |
| Identifier | Identifier. Content | M | String | abc:123-DEF | Identifiers (IDs) are keys that are issued by the sender or recipient of a document or by a third party. |
| Identification Scheme. Identifier | C | String | GLN |
| Identification Scheme Agency. Identifier | O | String |  |
| Identification Scheme. Version. Identifier | C | String | 1.0 |
| Indicator | Indicator. Content | M | String | on, off  or yes, no | A list of exactly two mutually exclusive values that express  the only possible states of a Property. |
| Date | Date. Content | M | Date | 2017-12-01 | Dates shall be in accordance with the " Complete representation of a calendar date" as specified by ISO 8601-1:2019, format YYYY-MM-DD. |
| Time | Time. Content | M | Time | 23:20:50 | Time shall be in accordance with the "Complete representation of a time of day" as specified by ISO 8601-1:2019, format hh:mm:ss |
| Document reference | Identifier. Content | M | String | abc:123-DEF | Document reference Types are identifiers that were assigned to a document or document line. |
| Text | Text. Content | M | String | 5% allowance when paid within 30 days | Text is the actual wording of anything written or printed. Line breaks in the text may be present, and any line breaks should be preserved and respected by the receiver's system |
| Language. Identifier | O | String | ja\_JP |
| **Key** M: Mandatory, O: Optional, C: Conditional | | | | | |

1. (informative)  
     
   Audit Examples
   1. Purpose

The purpose of the extension is to allow auditors to access data attributes that are not included in the standard scope if the ADCS but are needed to verify the indirect tax treatment of transactions. This section uses some examples to illustrate some of those data requirements, and how they could be addressed by the extension.

* 1. Exempt items

In the Netherlands children’s wear is subject to standard rate for VAT, in the UK there is an exemption. Let’s suppose that first transaction in 2021 is to NL customer and second transaction to UK customer.

EXAMPLE children’s wear

Table 2 lists（Write text）

1. XXXX

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Transaction Document ID | Transaction Document Line ID | Characteristic Type | Characteristic UOM Code | Characteristic Value | System Value |
| 202100021 | 001 | NL\_VAT\_item\_status |  | S | 1 |
| 202100022 | 001 | GB\_VAT\_item\_status |  | E | 0 |

* 1. Exempt items

In a considerable number of countries, deliveries to embassies or consulates are exempt from VAT. In ERP systems, this is controlled by the status of the customer. Suppose the third transaction is a supply to an embassy based in Brussels, the fourth is a supply to a regular customer in Belgium and the fifth a B2B-supply from a Belgian warehouse to a French customer.

EXAMPLE supply to embassies

Table 3 lists（Write text）

1. XXXX

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Transaction Document ID | Transaction Document Line ID | Characteristic Type | Characteristic UOM Code | Characteristic Value | System Value |
| 202100031 |  | BE\_VAT\_businesspartner\_status |  | E | 5 |
| 202100032 |  | BE\_VAT\_businesspartner\_status |  | S | 1 |
| 202100033 |  | BE\_VAT\_businesspartner\_status |  | K |  |

* 1. Layering indirect taxes

It is common that a number of indirect taxes are levied within the same jurisdiction. In some cases the taxes are designed so that only one applies at the same time, but in many cases they are ‘stacked’ or ‘layered’, with multiple taxes applying on the same invoice. And example of this can be seen with supplies of electricity, where in addition to VAT an energy tax is applicable in certain countries. In the EU, this energy tax is typically part of the taxable amount for VAT, making it a necessary attribute for auditors.

EXAMPLE VAT and energy tax

Let’s consider the example of a Dutch electricity provider, supplying electricity to a charge point operator for electric vehicles. The supply is subject to a reduced Energy Tax rate and exempt from the Sustainable Energy Surcharge (“ODE”). The supply is subject to the regular NL VAT rate.

Table 4 lists（Write text）

1. XXXX

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Transaction Document ID | Transaction Document Line ID | Characteristic Type | Characteristic UOM Code | Characteristic Value | System Value |
| 202100041 |  | NL\_EnergyTax\_item\_status |  | R | 1 |
| 202100042 |  | NL\_EnergyTax \_amount | EUR | 0.04 | 0.04 |
| 202100043 |  | NL\_ODE\_item\_status |  | E | 0 |
| 202100044 |  | NL\_ODE\_amount | EUR | 0.00 | 0.00 |
| 202100045 |  | NL\_VAT\_item\_status |  | S | 1 |

* 1. Supply of alcoholic items subject to customs control

Let’s suppose that the auditee is a microbrewery located in Belgium and that for the supply to the French customer, the alcohol percentage needs to be reported. Also this transaction should be reported to the National Office for Statics.

Table 5 lists（Write text）

The same table can be used:

1. XXXX

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Transaction Document ID | Transaction Document Line ID | Characteristic Type | Characteristic UOM Code | Characteristic Value | System Value |
| 202100051 |  | BE\_VAT\_businesspartner\_status |  | K |  |
| 202100052 | 001 | EU\_EXC\_alcoholpercentage | PERC | 0.055 |  |
| 202100053 | 001 | EU\_INTRASTAT\_STATVALUE | KG | 1,000.00 |  |

1. (informative)  
     
   Tax jurisdiction

Indirect taxes might be levied on a national bases (e.g. VAT in the EU), but can also be levied on a lower level (e.g. state sales and use taxes, and city sales taxes in the USA). In many cases, these levels are applicable simultaneously, forming a ‘hybrid’ tax system (apart from the USA, examples of countries charging indirect tax at a national level and at a state/provincial/city level include Brazil, Canada and India)2. To deal with this in a meaningful way, it is recommended to introduce the concept of tax jurisdiction.

NITE There are a lot of other cases, for example Spain which has a different VAT regime for Canary Island, Ceuta and Melilla from the main land.

Wikipedia’s definition of jurisdiction3 is: “is the practical authority granted to a legal body to administer justice, as defined by the kind of case, and the location of the issue“.

For indirect taxes, the executive or practical authority can be recognized at various levels. For indirect tax purposes it is necessary to be able to determine the applicable jurisdiction. For this, a table is required which links tax type with tax jurisdiction and country.

Table A.1 lists a simplified example:

1. XXXX

|  |  |  |  |
| --- | --- | --- | --- |
| Tax Type | Tax Jurisdiction | ISO Country | Description |
| VAT | AT | AT | Austria |
| VAT | BE | BE | Belgium |
| VAT | ES | ES | Spain: mainland |
| VAT | ES-CN | ES | Spain: Canary Islands |
| VAT | ES-CE | ES | Spain: Ceuta |
| CA | CA | CA | Canada |
| PST | CA-BC | CA | Canada: British Colombia |
| HST | CA-ON | CA | Canada: Ontario |

1. (informative)  
     
   Example of indirect tax
   1. General

Each example could be further defined based on the discussion with the expert group, based on local needs and requirements. These examples should be considered as a starting point and could be subject to change.

* 1. Goods and services

Goods can be defined for our purpose as any physical or tangible thing4. Supply of items other than goods can be classified as services, excluding transfers of cash, property rights and similar items. The distinction between goods and services is important as their tax treatment, determination and/or reporting, might be different.

NOTE Tangible property includes any physical goods. Electricity, gas, heat or cooling energy and the like may be considered as a tangible property for the VAT/GST purposes as well as certain interests in immovable property amongst others. As the actual classification might differ per jurisdiction, an entry in the classification might be jurisdiction specific. The design of the table should The design of the table should take into account that this may be jurisdiction-specific.

The current suggested extension for customs only focuses on goods, but for VAT/GST services are relevant as well. The main methods to include services as well are by:

* adding an additional attribute or label the item as goods or services: e.g. Goods Service ID with a restricted domain [‘G’, ‘S’];
* adding a new instance which classifies items as good or services. This instance might include some product hierarchy and/or reporting attributes;

NOTE Some countries have introduced specific reporting lines on their VAT return to report listed categories of goods or services. Examples include reporting the sales of gold, agricultural products or beer to name a few

* using the attribute Characteristic Type to make distinction between goods and services

There are pros and cons for each option. Suggestion is made to elaborate on this in the near future.

The classification of items as goods or services might differ occasionally per jurisdiction. Decision should be made whether this will be supported too by:

* adding an attribute per jurisdiction, or
* if applicable a country extension / override where needed.

Last but not least, discussion is needed whether it suffice to add a solution for the distinction Goods/Services on item level only. Some ERP-systems are only reporting transactions and will get the data from another source system. Th distinction between goods/services might therefore only be available at the level of

* Sales/purchase invoice line;
* General Ledger line ;
* Tax report line.

To discuss whether to add attributes as well for the defined instances.

* 1. VAT rates

[TO BE FURTHER DEFINED]

* 1. Place of Supply

For consumption tax purposes, the place of supply of goods or services is the place where that service or delivery of goods is treated as being supplied. This is the place where it’s liable to consumption taxes (if any).

The place of supply is mainly based on one or a few of the following attributes:

* Ship-from address
* Ship-to address
* Place of establishment
* Residence (e.g., consumers)
* Plant (e.g., for sale without transport of goods. Can also include place not determined as high-seas - cargo in transport)

To be verified whether which of these attributes are already being defined.

The tax status of a specific location might be relevant in this respect as well. One can think of free-trade-zones, customs warehouses, VAT warehouses and so on.

Example of suggested instance is listed in the following table: Tax indicator location is listed in Table 　A.2 and explanatory table is listed in Table A.3.

1. Tax indicator location

|  |  |  |
| --- | --- | --- |
| Location | Location Type | Tax Item ID |
| 1001 | plant | 2 |
| 1002 | plant | 1 |
| 1003 | ship-to | 1 |
| 1004 | residence | 1 |
| 1005 | plant | 0 |

1. Explanatory table

|  |  |
| --- | --- |
| Tax Item ID | Description |
| 0 | Free trade zone |
| 1 | Taxed |
| 2 | VAT warehouse |

* 1. [TO BE FURTHER DEFINED]

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[1] ISO #####‑#, *General title — Part #: Title of part*

[2] ISO #####‑##:20##, *General title — Part ##: Title of part*