

Tax User Guide

Oracle Banking Trade Finance

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Tax User Guide
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1. Preface

1.1 Introduction

This manual is designed to help you maintain and process taxes on the contracts you process in Oracle Banking Trade Finance.

You can further obtain information specific to a particular field by placing the cursor on the relevant field and striking <F1> on the keyboard.

1.2 Audience

This manual is intended for the officers at your bank who set up tax components.

1.3 Documentation Accessibility

For information about Oracle's commitment to accessibility, visit the Oracle Accessibility Program website at <http://www.oracle.com/pls/topic/lookup?ctx=acc&id=docacc>.

1.4 Organization

This manual is organized as follows:

Chapter	Description
Chapter 1	<i>About this Manual</i> gives information on the intended audience. It also lists the various chapters covered in this User Manual.
Chapter 2	<i>Building Tax Components</i> explains the process of maintaining the tax details which arise due to the transactions handled with customers. <i>Building Tax Components</i> explains how tax rules, tax classes, and tax schemes are defined in Oracle Banking Trade Finance.
Chapter 3	<i>Reports</i> provides a list of reports that can be generated in this module and also explains their contents.
Chapter 4	<i>Function ID Glossary</i> has alphabetical listing of Function/Screen ID's used in the module with page references for quick navigation.

1.5 Glossary of Icons

This User Manual may refer to all or some of the following icons.

Icons	Function
	Exit
	Add row
	Delete row

Icons	Function
	Option List

1.6 Related Documents

For further information on procedures discussed in the manual, refer to the Oracle Banking Trade Finance manuals on:

- Common Procedures
- Products

2. Building Tax Components

2.1 Introduction

This chapter explains the processing of tax to be paid to the Government due to the transactions that you enter into with your customers. This type of tax is processed as an Expense type of tax, whereby you book the tax component into a Tax Expense account, to be paid to the Government.

You can also process tax as a Withholding type of tax, where you debit the customer account, and credit the tax component into a Tax Payable account (to be paid to the Government on the customer's behalf).

Depending on the laws in your country, you can define tax as an expense type of tax or a withholding type of tax.

- [Section 2.2, "Steps Involved in Processing Tax"](#)
- [Section 2.3, "Maintaining Tax Category"](#)
- [Section 2.4, "Tax Rule Master Maintenance"](#)
- [Section 2.5, "Tax Rules"](#)
- [Section 2.6, "Tax Components as Classes"](#)
- [Section 2.7, "Tax Component Groups"](#)
- [Section 2.8, "Tax Scheme to a Product Linkage"](#)
- [Section 2.9, "A Note on Tax Processing for Rollovers"](#)

2.2 Steps Involved in Processing Tax

The following steps are involved in processing tax:

- Defining Tax Rules
- Defining Tax Classes
- Defining Tax Schemes
- Associating a Product with a tax scheme

2.3 Maintaining Tax Category

This section contains the following topics:

- [Section 2.3.1, "Maintaining Tax Category"](#)

2.3.1 Maintaining Tax Category

You need to maintain valid Tax Categories in the system in order to apply tax on products or contracts. You can invoke the 'Trade Finance Tax Category Maintenance' screen by typing

'TADTFCAT' in the field at the top right corner of the Application tool bar and clicking the adjoining arrow button.

Treasury Tax Category Maintenance

New Enter Query

Tax Category *

Description

Maker Date Time: Mod No Record Status

Checker Date Time: Authorization Status

Exit

Tax Category

Tax category needs to be maintained only if tax rules of your country require maintenance of tax allowances and tax waivers for customers

Description

Enter a tax category along with a description. This becomes a valid tax category maintained in the system.

2.4 Tax Rule Master Maintenance

This section contains the following topics:

- [Section 2.4.1, "Maintaining Tax Rule Master Details"](#)
- [Section 2.4.2, "Viewing Tax Rule Master Details"](#)

2.4.1 Maintaining Tax Rule Master Details

You can maintain tax rule details in the 'Trade Finance Tax Rule Master Maintenance' screen. You can invoke this screen by typing 'TADTFRMA' in the top right corner of the Application toolbar and clicking the adjoining arrow button.

Trade Finance Tax Rule Master Maintenance

New Enter Query

Rule Code *

Description

Maker Date Time: Mod No Record Status

Checker Date Time: Authorization Status

Ok Exit

You can maintain the following in this screen:

Rule Code

Specify the tax rule code. This is the code by which the tax rule is identified. If you are defining a new tax rule, enter its code in this field.

Description

Give a brief description on the rule code specified.

2.4.2 Viewing Tax Rule Master Details

You can view the tax rule master details from 'Trade Finance Tax Rule Master Summary' screen. You can invoke this screen by typing 'TASTFRMA' in the top right corner of the Application toolbar and clicking the adjoining arrow button.

You can query on records based on any one or all of the following criteria:

- Authorization Status
- Record Status
- Rule Code

Click 'Search' button. The system identifies all records satisfying the specified criteria and displays the following details for each one of them:

- Authorization Status
- Record Status
- Rule Code
- Description

2.5 Tax Rules

This section contains the following topics:

- [Section 2.5.1, "Invoking the Tax Rule Maintenance Screen"](#)
- [Section 2.5.2, "Currency in which the Tax has to be Calculated"](#)
- [Section 2.5.3, "Exchange Rate Type"](#)
- [Section 2.5.4, "Rounding Details"](#)
- [Section 2.5.5, "Tax Application Method"](#)
- [Section 2.5.6, "Tax "](#)

- [Section 2.5.7, "Tax Slab"](#)

2.5.1 Invoking the Tax Rule Maintenance Screen

A tax rule identifies the method in which a tax component (a Stock Exchange tax, a Local tax, etc.) is calculated.

You can build tax rules in the 'Trade Finance Tax Rule Detailed Maintenance' screen. You can invoke this screen by typing 'TADTFRDE' in the field at the top right corner of the Application tool bar and clicking the adjoining arrow button.

Rule Code

This is the code by which the tax rule is identified. If you are defining a new tax rule, enter its code in this field. You can specify the attributes for this tax rule in the rest of the fields.

If you select an existing tax rule from the Tax Rule Summary View table, the code is displayed in this field. You can select an existing tax rule if you want to perform any of the following operations:

Operation	Description
Modify	All the details of the selected tax rule are displayed. Except for the Tax Rule Code, you can modify the input in any of the fields.
Delete	All the details of the selected tax rule are displayed. You can delete the record only if its addition has not been authorized.
Copy	Except for the Tax Rule Code, the other details related to the tax rule are displayed which can be changed. Enter the Code for the new rule before you save the tax rule.
Close	All the details of the selected tax rule are displayed. If you confirm the closure, the tax rule record will be closed. A closed record will continue to exist in the system but cannot be used. To use a closed record, you should reopen it.
Reopen	All the details of the selected tax rule are displayed. If you confirm the reopening of the record, it will become available for use again.

Print	The details of the selected tax rule are displayed on the screen and then directed to the printer.
Authorize	The details of the tax rule will be displayed. You can authorize the record if the following conditions are true: The record has some activity unauthorized. You have rights for authorization. You did not initiate the activity that is pending authorization.

Description

The system displays the description.

Customer Category

Customer categories are maintained by your bank in the customer maintenance module. These could be categories like banking, corporate, brokers, financial institutions etc. You can choose the customer category for which the tax rule is being defined. You could also choose to define the tax rule for all categories of customers.

Country Code

You can apply specific tax rules based on the country of residence of the customer. Thus individual tax rules for each combination of customer category, country code with an effective date can be maintained. Select the country code for the customer from the option list. Based on the country of residence of the customer, specific tax rules can be applied.

Tax Category

Various Tax categories (open and authorized) are maintained in the system. Specify the tax category from the option list provided for the given Tax Rule. If the tax category is not maintained, then the tax booked under this Tax Rule will not be considered for tax waiver/tax allowance processing. However, normal tax processing, as it happens today in Oracle Banking Trade Finance, will continue to happen.

Effective Date

Every tax rule is associated with an Effective Date. On the specified Effective Date, the rule becomes applicable. When more than one rule is linked to a Tax Scheme, a rule will be applied till the next rule for the same component, with a different Effective Date, is encountered.

2.5.2 Currency in which the Tax has to be Calculated

This can be the local currency or the currency of the contract. When a rule for which the tax should be calculated in local currency is applied on a contract involving a foreign currency, the local currency equivalent of the contract amount is considered.

2.5.2.1 Currency Details

Calculation CCY Basis

Calculation currency is the currency in which the Basis Amounts slabs are defined.

You need to specify whether the calculation currency for the Basis Amount should be Specific or Deal.

Specific indicates that the Basis Amount will be defined as per the currency selected in the Currency field.

Deal indicates that the Basis Amount will be defined in the currency of the transaction.

Reference Currency

Specify the reference currency.

Currency for Calculation Currency

You need to specify the currency to be used for conversion of the taxable amount. This option is enabled only if the Calculation Currency Basis is selected as Specific.

Tax CCY Basis

You need to specify the currency in which the final tax should be computed by the tax subsystem. This could either be Specific, Deal or Local currency.

Specific indicates that the final tax would be reported in the currency defined in the Tax Currency field of Tax Rule Maintenance. Deal indicates that the final tax reported by the tax subsystem would be in the currency of the transaction. Local Currency indicates that the final tax would be computed in the local currency of the Branch.

2.5.3 Exchange Rate Type

Rate Code Type

When maintaining a tax rule, you must specify the type of exchange rate that you would like to use to compute tax. At your bank, you may have defined different types of exchange rates. For example, you may have defined a 'Central Bank Rate', a 'Standard Rate', a 'Cash Rate', a Travelers Check Rate, etc. In Oracle Banking Trade Finance, these rates are referred to as 'Rate Types'.

Rate Code

If you have specified that tax is to be computed as a percentage of the taxable amount, you should also specify if the rate to be used is:

- Buy Rate
- Sell Rate
- Mid Rate

The rate value, corresponding to the Rate Type, will be applied to the Basis Amount as per the application basis defined (slab or tier).

Basis Percentage

You need to specify the factor for computation of the taxable amount. The basis percentage should be greater than 0 and less than or equal to 100. The basis amount would first be multiplied by this percentage to arrive at the actual basis amount on which tax needs to be computed. The reciprocal of the same factor would then be applied to the calculated tax amount to arrive at the actual tax amount.

2.5.4 Rounding Details

Rounding Option for Calculation Currency

You need to specify the rounding option to be used for conversion of the amount to calculation currency. It could either be Currency Default or Specific.

Currency Default indicates that the rounding details should be taken from the rounding parameters defined in Currency Maintenance.

Specific indicates that the rounding parameter should be defined/picked up from the Tax Rule.

Rounding Method for Calculation Currency

You need to specify the rounding method to be used for conversion of the amount to calculation currency. This field would be enabled only if the calculation currency rounding option is 'Specific'. Select one of the following options:

- Truncate
- Round Up
- Round Down
- Round Near

Truncate indicates that the amount should be truncated to the number of decimals specified for the currency

Round Up indicates that the amount should be rounded up based on the number of decimals and the nearest rounding unit for the currency

Round Down indicates that the amount should be rounded down based on the number of decimals and the nearest rounding unit.

Round Near indicates that the amount will rounded either up or down to the specified number of decimal places and units, depending on whether the next decimal place exceeds or is less than 5.

Decimals for Rounding for Calculation Currency

This field is enabled only if the calculation currency rounding option is selected as 'Specific'. You need to specify the decimal up to which the rounding/truncation needs to be done. The rounding decimal defined here should be less than or equal to the decimal defined in Currency Maintenance.

Units for Rounding for Calculation Currency

This field is enabled only if the calculation currency rounding option is selected as 'Specific'. You need to specify the unit up to which the amount needs to be rounded. The unit defined here should be a multiple of the unit defined in Currency Maintenance.

Rounding Option for Tax Currency

You need to specify the rounding option for conversion of the amount to tax currency. It could either be Currency Default or Specific.

Currency Default indicates that the rounding details would be taken from the rounding parameters defined in Currency Maintenance.

Specific indicates that the rounding parameter would be defined/picked up from the Tax Rule.

Rounding Method for Tax Currency

This field is enabled only if the Calculation Currency Rounding Option is selected as 'Specific'. You need to specify the rounding method to be used for the defining the tax amount. The available methods are:

- Truncate
- Round Up
- Round Down
- Round Near

Truncate indicates that the amount should be truncated to the number of decimals specified for the currency

Round Up indicates that the amount should be rounded up based on the number of decimals and the nearest rounding unit for the currency

Round Down indicates that the amount is rounded down based on the number of decimals and the nearest rounding unit.

Round Near indicates that the amount will rounded either up or down to the specified number of decimal places and units, depending on whether the next decimal place exceeds or is less than 5.

Decimals for Rounding Tax Currency

This field is enabled only if the Calculation Currency Rounding Option is selected as 'Specific'.

You need to specify the decimal up to which the rounding/truncation needs to be done. The rounding decimals defined here should be less than or equal to the decimals defined in Currency Maintenance.

Units for Rounding Tax Currency

This field is enabled only if the Calculation Currency Rounding Option is selected as 'Specific'. You need to specify the unit up to which the amount should be rounded. The unit defined here should be a multiple of the unit defined in Currency Maintenance.

2.5.5 Tax Application Method

A tax can be a percentage of the component that is to be taxed (such as the principal, brokerage, etc.), or a flat amount. If you opt to calculate tax as a flat amount, choose the Flat option. If, instead, you opt to calculate tax as a percentage of the transaction amount, choose the Rate option. If tax is to be calculated as a flat amount, specify the flat amount.

Amount Limits for a Tax Rate

If you have specified a percentage of tax for the rule, you should also specify the maximum and minimum amounts, in the local currency, within which the amount calculated using the tax rate should fall.

If you have specified a flat amount for the tax rule, then you need not specify the minimum and maximum amount limits.

Note

The minimum and maximum limits apply for specific rules linked to a Tax Scheme, and not for the entire scheme.

2.5.6 Tax

Flat

If you opt to calculate tax as a flat amount, choose the Flat option.

Rate

You can specify the percentage in the Rate field. This Rate is applied on the amount to be taxed to calculate the tax amount.

Exemption Allowed

Deposit Interest Retention Tax (DIRT) is payable on interest on deposits and accounts. Customers belonging to certain customer categories can be exempt from paying DIRT.

As part of the DIRT exemption maintenance, you need to indicate such deposits and accounts which will not attract DIRT. While doing so, you will have to mark off specific tax components which you do not wish to be applicable to the account / deposit.

In order that a particular tax component is available for marking off as non-applicable during DIRT exemption maintenance, you will have to select the 'exemption allowed' option for that component while maintaining its tax rule.

Cumulative

There are two ways of applying tax:

- Cumulative
- Non-cumulative

In a cumulative structure, the rate of tax will be calculated in a cumulative manner, where the tax of the previous slab is added to the tax of the next.

In a non-cumulative structure, the tax of the previous slab will not be added to the tax of the next slab. Only the rate applicable to that particular slab will be applied.

If you check this field the cumulative method of applying tax will be used. If you leave this field blank, the non-cumulative type of tax will be used while calculating the tax. By default, non-cumulative processing is done for tax.

2.5.7 Tax Slab

You can define the tax that you would like to apply to a contract, in terms of a tier or a slab structure.

Through this screen, first specify if the Basis Amount (on which tax is calculated) should be taken as a slab or a tier. Indicate Cumulative (by checking the box), if the Basis Amount structure is a Tier. Leave it blank if the Basis Amount structure is a Slab.

Basis Amount To

You should specify the upper limit of the slab or tier to which a particular rate or amount should be applied as tax.

Flat Amount and Rate

If the tax is in the form of a flat amount, you should specify the actual amount. This amount will be applied on the corresponding Basis Amount To, depending on whether you have specified the application basis as a slab or a tier.

If the tax rule computes tax on the basis of a rate, you have to specify the actual (rate) value. The rule uses the rate, entered against each slab or tier, to calculate tax for contracts on which the rule is applied.

Floor Amount

The floor amount should be specified only if the Amount Basis (Cumulative) is a tier. This will be the upper limit of the previous tier. By default, the amount specified as the Basis Amount To for the previous tier limit will be displayed. This need not be specified for the first limit in the tier.

This amount is used to calculate the tax, along with the Floor Charge.

Floor Charge

The Floor Charge is applicable only if the Amount Basis is a tier. This is the tax amount to be considered for the previous tier limit. This amount is used along with the Floor Amount that you specify to arrive at the tax.

The floor charge need not be specified for the first limit in the tier. This amount may not always be the same as the amount calculated, using the Basis Amount To and the Rate for the previous slab. However, if not specified, the Floor charge is calculated based on the rate for the previous tier and the Floor amount for the current tier.

An example for the calculation of tax based on a tier structure

Tax is applied on the deal amount of a deal based on the following structure:

- > 0 <= 10,000 - 0.05%
- > 10,000 <= 20,000 - 0.06%
- > 20,000 - 0.08%

The following will be the specifications in the 'Trade Finance Tax Rule Detailed Maintenance' screen:

Basis Amount	Rate (%)	Floor Amount	Floor Charge
10,000 (upper limit of the first tier)	0.05	0	0
20,000	0.06	10,000 (upper limit of the first tier)	X (tax amount that will be considered for the first tier)
999999999 (a big amount since there is no upper limit for the third slab).	0.08	20,000 (upper limit of the second tier).	Y (tax amount that will be considered for the earlier slabs).

When this tax rule is applied on a deal, tax will be calculated, depending on the component amount (example, brokerage paid), as follows:

If the component amount is USD 5,000, it falls in the first tier. The tax amount will be calculated in the following manner:

Amount = USD 5,000

Tax 0.05% of USD 5,000 = USD 2.5

If the component amount is USD 15,000, it falls in the second tier. The tax will be calculated in the following manner:

Amount = USD 15,000

Floor Charge (X)= 5.0

Amount to be taxed at 0.06% = USD 5,000 (Component Amount - the floor amount of the second tier)

Tax = USD 3+ 5 = USD 8

If the Component Amount is USD 30,000, it falls in the third slab. The tax amount will be calculated in the following manner:

Component Amount = USD 30,000

Floor Charge (Y)= 11.0

Amount to be taxed at 0.08% = USD 10,000 (Component Amount - the floor amount for the second tier)

Tax Amount = USD 8+ 11 = USD 19

2.6 Tax Components as Classes

The section contains the following topics:

- [Section 2.6.1, "Maintaining Rate Codes and their Values"](#)

2.6.1 Maintaining Rate Codes and their Values

A Tax Rate Code identifies the rate that applies on an issuer tax. For instance, you can create a rate code and specify the rate values for different Effective Dates, in the 'Trade Finance Tax Rate Code Maintenance' screen. When building an Issuer Tax component, say Issuer_01, in the 'Trade Finance Tax Class Maintenance' screen, you only need to specify the Rate Code that should apply. For all securities associated with Issuer_01, the rates corresponding to the code will be picked up.

You can define a rate code, and enter a brief description for it, in the 'Trade Finance Tax Rate Code Maintenance' screen. You can invoke this screen by typing 'TADTFRCDD' in the field at the top right corner of the Application tool bar and clicking the adjoining arrow button.

Maker	Date Time:	Mod No	Record Status	Authorization Status
Checker	Date Time:			

Since tax rates would vary across markets, you can define rate codes specific to markets (countries).

2.7 Tax Component Groups

This section contains the following topics:

- [Section 2.7.1, "Grouping Tax Components into a Scheme"](#)
- [Section 2.7.3, "Features of Trade Finance Tax Scheme Maintenance Screen"](#)

2.7.1 Grouping Tax Components into a Scheme

A Tax Scheme consists of a set of Tax Rules that will be made applicable on a product. This tax scheme involve a combination of tax rules only. In Oracle Banking Trade Finance, taxation schemes are made applicable on trade finance transactions.

2.7.2 Defining a Tax scheme

Any transaction on which tax is applicable is linked to a Tax Scheme. A Tax Scheme describes the method in which the tax has to be applied on a transaction.

A tax scheme can have a number of Tax Rules linked to it. The attributes of all these rules will be applied on the transaction. Thus, a Tax Rule is made applicable on a contract through the Tax Scheme. For instance, let us assume we are building a tax scheme, which should be used for the BC module of Oracle Banking Trade Finance.

You have defined the following Tax Rules (only the fields relevant to the example are discussed):

Tax Rule 1

Rule Code	TaxP1
Effective Date	1 Jan 2002
Component	Transfer amount
Tax Rate	10

Tax Rule 2

Rule Code	TaxP2
Effective Date	1 April 2002
Component	Transfer amount
Tax Rate	12

Tax Rule 3

Rule Code	TaxI1
Effective Date	1 Jan 2002
Component	Charges Earned
Tax Rate	10

Tax Rule 4

Rule Code	TaxI2
Effective Date	1 April 2002
Component	Charges Earned
Tax Rate	12

When all these rules are linked to a single tax scheme, the tax will be applied in the following manner:

For the Transfer Amount

If you initiate a transfer from 1 Jan 2002 to 31 Mar 2002, the transfer amount will be charged at 10%. If you initiate a transfer from 1 April 2002 onwards, the transfer amount will be charged at 12%. This is because, after Tax Rule 1, Tax Rule 2 is for transfer and it has an

Effective Date of 1 April 2002. All transfers will continue to be taxed at 12% till another rule for the transfer amount with a different Effective Date is added to the scheme.

For the Charges Earned

The charges will also be taxed in the same manner as the transfer amount as two rules have been linked to the Tax Scheme that have exactly the same Effective Date and rates as the ones for the transfer amount.

Note

The basis component on which the tax should be applied (principal, interest, transfer amount etc) is specified through the 'Trade Finance Tax Scheme Maintenance' screen. Tax Schemes too are linked to a product through this screen.

You can invoke this screen by typing 'TADTFSCH' in the field at the top right corner of the Application tool bar and clicking the adjoining arrow button.

The screenshot shows the 'Trade Finance Tax Scheme Maintenance' application window. The interface includes a menu bar with 'New' and 'Enter Query' options. Below the menu bar, there are input fields for 'Scheme Code *' and 'Description'. A 'Rule Details' section displays a table with one row containing 'Rule Code *'. The bottom of the window features a status bar with fields for 'Maker', 'Checker', 'Date Time', 'Mod No', 'Record Status', and 'Authorization Status', along with 'Ok' and 'Exit' buttons.

2.7.3 Features of Trade Finance Tax Scheme Maintenance Screen

Scheme Code

Identify the Tax Scheme that you are maintaining with a unique code. A scheme consists of several tax components (classes). You can indicate the components that you would like to include in the scheme in the Component field.

2.8 Tax Scheme to a Product Linkage

The section contains the following topics:

- [Section 2.8.1, "Linking a Tax Scheme to a Product"](#)
- [Section 2.8.2, "Features of the Product-Tax Linkage Definition screen"](#)
- [Section 2.8.3, "Surcharge"](#)
- [Section 2.8.4, "Processing Tax on a Contract"](#)
- [Section 2.8.5, "Processing Tax on LC contracts"](#)

2.8.1 Linking a Tax Scheme to a Product

A tax scheme is linked to a product, only if tax is applicable to the product. This linkage is established through the tax screen, of product definition. The tax scheme thus linked will be applicable on a contract processed under the product by default. However, you have the option of waiving the application of tax, for a specific contract

A Tax Rule represents the method in which a specific tax has to be calculated. The amount based on which the tax has to be applied is not specified for a Tax Rule. This is specified only when the Tax Scheme is linked to a product.

The system thus offers you flexibility in terms of the method in which tax has to be calculated. For example, for one type of product, you could use a Tax Rule to apply tax on interest earned, while for another product, the same rule could be used to apply tax on the principal (if the method of tax calculation is the same for both the components).

A Tax Scheme is applicable on a product by linking the two rates mentioned above. Once the Tax Scheme is specified for linkage, you should indicate the component on which the two rules are applicable, the event when the tax should be liquidated and the type of tax - withholding or expense.

To specify the linkage of a tax scheme to a product you have to invoke the Product-Tax Linkage Definition screen from the BC Product Definition screen. Click 'Tax' button in the respective 'Product Definition' screen.

2.8.2 Features of the Product-Tax Linkage Definition screen

The following are the features of the Product-Tax Linkage definition screen.

Tax Component and Basis Component

Tax can be applied on the basis of any component that is taxable according to the laws in your country. This component is called the Basis Component. The method of tax application defined for the Tax Rule will be applied on this component.

Event

You should specify the event for which the tax is applicable. For example, if you specify that the tax is to be applied upon initiation of the contract, then the liquidation entries for tax will be passed when the contract is initiated. If you specify the event as the Maturity of the contract, the tax will be liquidated upon Maturity of the contract.

Similarly, if you specify that the tax be to be applied at the time the commissions are collected from the customer, then the entries for tax will be passed when the commission is paid.

Tax Type

The type of tax, decides the bearer the tax. It could be the bank or the customer.

A customer bears withholding type of tax and the tax component is debited to the customer's account. The bank bears an expense type of tax and the tax component is booked to a tax expense account.

Note

The tax details specified for a product will be automatically applied on all contracts involving the product. However, while processing a contract, you can waive the application of all or specific tax rules for the contract.

2.8.3 Surcharge

If a surcharge is to be applied on the final tax amount, then the surcharge should be created as a separate rule in the 'Trade Finance Tax Rule Detailed Maintenance' screen. This Rule should be included in the same Tax Scheme as the primary tax rule. In the Product Tax Linkage screen, the Basis Amount for the surcharge should be the tax component of the primary tax rule.

2.8.4 Processing Tax on a Contract

The taxes that apply on a contract can be of two types: 'Expense' and 'Withholding'. The tax that your bank bears on a contract is referred to as an expense type of tax, whereby you book the tax component to a Tax Expense account. The tax that is borne by counter party of a contract is referred to as a withholding tax, whereby you debit the counter party's account, and credit the tax component into a Tax Payable account (to be paid to the government on the counter party's behalf).

For example,

A tax on a Letter of Credit (LC) can be levied either on the:

- Outstanding LC amount.
- On the commissions and charges that you earn to process the LC.

In both cases, it is the bank that bears the tax - this is an Expense type of tax. The tax expense account should be debited and the tax payable account should be credited. From this liability account, the tax should be later on, paid to the government.

You can invoke the 'Contract Tax Details' screen while you are processing a contract. Click 'Tax' button in the contract details screen.

Tax Details

Contract Reference *

Tax Scheme

☐ Waived

Rule Details

1 Of 1 Go

Rule *	Basis Component	Event	Type	Waived

Amount Details

1 Of 1 Go

Ok Exit

You have a choice of waiving tax due to all the Tax Rule(s) linked to the Tax Scheme applicable to the product (and hence the contract) or that which is only due to specific Tax Rule(s).

Note

Only the tax that has not yet been liquidated can be waived.

2.8.5 Processing Tax on LC contracts

The tax processing for MM contracts would occur as follows:

- First, the Waiver maintenance for Interest Rate/Period/Amount defined at the LC product level would be checked. The tax would be fully waived if any one of the following conditions was satisfied.

The Interest rate pertaining to Interest Rate Code defined in the Tax Definition of LC product is more than the contract interest rate for the Basis Amount.

The interest period for the current interest being liquidated is more than the interest period defined in the Tax definition of LC product. This would be applicable only for deposit and borrowing type of products.

- The total interest amount on which tax has to be computed is less than the minimum interest amount defined in the Tax Definition of LC product. This is also applicable for deposit and borrowing type of products.
- If a Tax category is linked to a Tax Rule and the Waiver parameters have not been defined, then a configurable override would be shown

2.9 A Note on Tax Processing for Rollovers

This section contains the following topics:

- [Section 2.9.1, "Specifying Rollover Tax Details for the product"](#)
- [Section 2.9.2, "Liquidating tax \(on principal\) upon rollover"](#)
- [Section 2.9.3, "Specifying rollover tax details for the contract"](#)

2.9.1 **Specifying Rollover Tax Details for the product**

Instead of liquidating a contract on maturity, you can roll it over into a new contract. The outstanding principal of the old contract can be rolled over with or without the interest outstanding on it. When a contract is rolled over (renewed), it is processed in the following manner:

- Original contract is liquidated
- A new contract is initiated

In the Product Rollover Details screen, you should specify the following tax details:

Whether tax has to be applied on the rolled-over contract

For tax to be applicable on a rolled-over contract:

- It should be applicable to the product involving the contract
- It should not have been waived for the original contract

You have to indicate whether tax has to be applied on the rolled-over contract also.

2.9.2 **Liquidating tax (on principal) upon rollover**

If tax is applied on the principal of a contract at the time of its initiation, when you roll over the contract you have two choices in the treatment of tax.

- Apply tax on the principal (outstanding principal + outstanding interest, or, only the outstanding principal depends on your specifications) of the new contract.
- Since the principal of the old contract has already been taxed, you can choose to waive tax on the principal of the rolled-over contract. However, if this principal has an outstanding interest, from the old contract incorporated in it, then only this portion (the outstanding interest portion which is now a part of the principal), will be taxed.
- This option applies only to tax on principal and not to tax on interest

This field assumes importance only under the following circumstances:

- Tax (for principal as well as interest) has not been waived on the old contract
- Tax, has not been waived on the rolled-over contract

2.9.3 **Specifying rollover tax details for the contract**

While specifying rollover details for the contract, you should indicate the following:

Whether tax has to be applied on the contract

You have specified for the product whether tax has to be applied on a rolled-over contract.

If you have opted to apply tax on the rolled-over contract, through this screen, you can waive it for the rolled-over contract.

Liquidating Tax on Rollover

If you have specified for the product that tax on the principal of rolled-over contracts should be liquidated, then this attribute applies to all the contracts involving the product. But through this screen, you can specify that tax (on the entire principal) should not be liquidated for a contract that you are processing.

If you have specified, for the product, that tax on the principal of rolled-over contracts should *not* be liquidated, then this attribute applies to all the contracts (involving the product). Through this screen, you can make tax applicable on the principal of the rolled-over contract.

3. Reports

This chapter contains the following section:

- [Section 3.1, "Tax Payable Report"](#)

3.1 Tax Payable Report

This section contains the following topics:

- [Section 3.1.1, "Generating the Tax Payable Report"](#)
- [Section 3.1.2, "Contents of the Report"](#)

3.1.1 Generating the Tax Payable Report

The Tax Payable Report gives details of all taxes that are to be paid over a period in time. You can specify the period for which you require the report when you invoke the report function. In the Application Browser, this report is available under the Modularity/Tax module.

To invoke this screen type 'TARAYABL' in the field at top right corner of the Application tool bar and click the adjoining arrow button.

The screenshot shows a window titled "Tax Payable Report" with a "Record preferences" section. It contains several input fields: "Rule *" (with a dropdown arrow), "Account *" (with a dropdown arrow), "From Date *" (with a date picker icon), and "To Date *" (with a date picker icon). Below these are "Report Format" (set to "PDF" with a dropdown arrow) and "Report Output" (set to "View" with a dropdown arrow). On the right side, there is a "Printer At" dropdown (set to "Client") and a "Printer" text field. At the bottom right, there are "Ok" and "Exit" buttons.

3.1.2 Contents of the Report

The parameters specified while generating the report are printed at the beginning of the report. The contents of this report are discussed under the following heads:

Header

The Header carries the title of the report, information on the branch code, the ID of the user who generated the report, the date and time at which it was generated, the branch date, the modules covered in the report.

Body of the Report

The following details are displayed in the report

Rule	The rule of the transaction
------	-----------------------------

Account	The account class of the transaction
Currency	The currency of the transaction
From	The period of the transaction from when the tax has to be paid
To	The period of the transaction till when the tax has to be paid
Reference Number	The contract reference number
Value Date	The value date of the transaction
Amount	The amount payable

4. Function ID Glossary

T

TADTFCAT2-2
TADTFRCD2-11
TADTFRDE2-4

TADTFRMA 2-2
TADTFSCH 2-14
TARAYABL 3-1
TASTFRMA 2-3