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(Review Article)

Streamlining and Automating VAT Refund on Customs Clearance Invoices: A best-practice guide using SAP

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Abstract

This paper outlines the correct method for posting custom clearance invoices in SAP to claim VAT refunds on taxes paid during import operations. By following a structured approach to posting and managing these invoices, companies can ensure tax compliance, maintain an audit trail, and enhance efficiency. This paper outlines a standardized method for posting customs clearance invoices in SAP to enable accurate VAT recovery. A structured posting approach enhances compliance, ensures traceability through audit trails, and reduces manual errors. The methodology includes prerequisites, step-by-step instructions, and error resolution, supported by an illustrative scenario.

Keywords*:* Customs Clearance Process; Import VAT Refund; Tax Compliance customs; Audit trail of customs invoices; SAP import invoice posting procedure

1. Introduction

In the modern business environment, many companies are engaged in the import and export of goods across borders. As part of the customs clearance process, organizations incur various taxes. However, a portion of these taxes, particularly VAT, is recoverable against the output tax charged to customers.

Despite this, many organizations often post such taxes directly into their tax accounts and manually adjust their tax returns. This approach is not only inefficient but also prone to errors. Additionally, it breaks the audit trail, with a significant portion of tax-related documentation being stored outside the system.

This paper will explore the correct method of posting custom clearance invoices for SAP customers, ensuring that the data is accurately reflected in the SAP tax reports while maintaining a clear and traceable audit trail.

2. Literature review

Global trade, the buying and selling of goods and services between countries, remains a key driver of the world economy. Over the last decade, international trade has generally grown, with global imports reaching about $30.23 trillion in 2023. This made up around 28.67% of the world's total economic output (GDP). While this was slightly lower than the $30.75 trillion recorded in 2022, the drop reflects ongoing uncertainty caused by supply chain issues, global conflicts, and the continued effects of the COVID-19 pandemic. Opening up the trade between countries has been shown to boost economic growth, improve productivity, and spread technology—especially in countries that are well-connected to global supply chains.

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Economists like Paul Krugman and Richard Baldwin have helped explain how trade has changed over time. Paul Krugman, a Nobel Prize winner, reshaped trade theory in the 1980s and 1990s. He introduced the idea that trade doesn't only happen between very different countries, it can also occur between similar ones for reasons like economies of scale and people's desire for variety. His work also showed how factors like location and transportation costs affect where industries are set up, helping explain why some regions become economic hubs while others are left behind.

Building on Krugman's ideas, Richard Baldwin focused on how trade has evolved in recent decades. In his book *The Great Convergence* (2016), he describes the "second unbundling" a phase where not just products, but individual tasks in the production process, are spread across countries. Better communication technology helps companies to manage production in different parts of the world. This change allowed many developing countries to join the global economy by focusing on specific parts of manufacturing, rather than having to build everything themselves. Baldwin shows how technology has made global trade faster and more connected, but also more vulnerable to disruptions. Together, Krugman and Baldwin offer important insights into how modern trade works, how its benefits are shared unevenly, and how countries are adapting to these new challenges.

While much of the academic discussion on global trade focuses on macro-economic impacts and long-term benefits, companies often face practical challenges in their day-to-day international operations, especially when dealing with taxes, duties, and custom clearing cost. One common issue is the recovery of taxes like VAT during the customs clearance process. Although these taxes are often recoverable, many businesses still record them inefficiently, leading to errors and lost visibility. These practical concerns highlight the importance of managing tax data accurately in the ERP systems like SAP. This paper looks at how companies can correctly post customs clearance invoices in SAP to ensure proper tax recovery, accurate reporting, and a clear, auditable trail.

3. Handling of customer clearing process in SAP

SAP is a widely used ERP system by large companies around the world. Posting customs clearance invoices in SAP is more complex than posting regular supplier invoices, as it requires careful calculation and recording of taxes, duties, and cost details.

The step-by-step instructions below will help ensure that customs-related expenses, duties, and VAT are recorded correctly. This process will post the VAT from the customs invoice into the correct recoverable VAT account and include it automatically in the VAT return reports. This ensures accuracy, a clear audit trail, and avoids manual work.

The process is divided into two parts: **prerequisites** and a **step-by-step guide** for posting the invoice.

We'll use an example to explain how to correctly post a customs clearance invoice.

An organization in the USA has exported the goods to a customer in Mexico. Below is the custom clearance invoice received by the customer organization in MX for the import of goods from the USA.

Table 1 A sample customs clearance invoice used to explain the correct posting process in SAP for imported goods.

Description	**Amount (MXN)**
Assesses value of the Goods imported	100000
Freight, Insurance, and other expenses	10000
Assessed Value including Freight and Insurance (CIF)	110000
Import duty/fee on the Goods @ 10% on CIF	11000
Total Value of Goods including Import duty	121000
VAT Paid on the goods imported @ 16% of Total Value	19360
Customer clearing agent Fees	1000
Domestic Freight from the Port to the customer location	500
Total Charges by Custom Clearing Agent	1500

VAT on custom clearing Fees @ 1600 on Total Charge	240
Total invoice amount from custom Clearing Agent (11000+19360+1000+500+240)	32100

4. Pre-requisites

Before proceeding, please check "**Calculate Tax on Net Amount"** in your user profile for posting FI documents:

You can verify these settings by executing FI transaction code **FB60** and navigating to **Editing Options**.

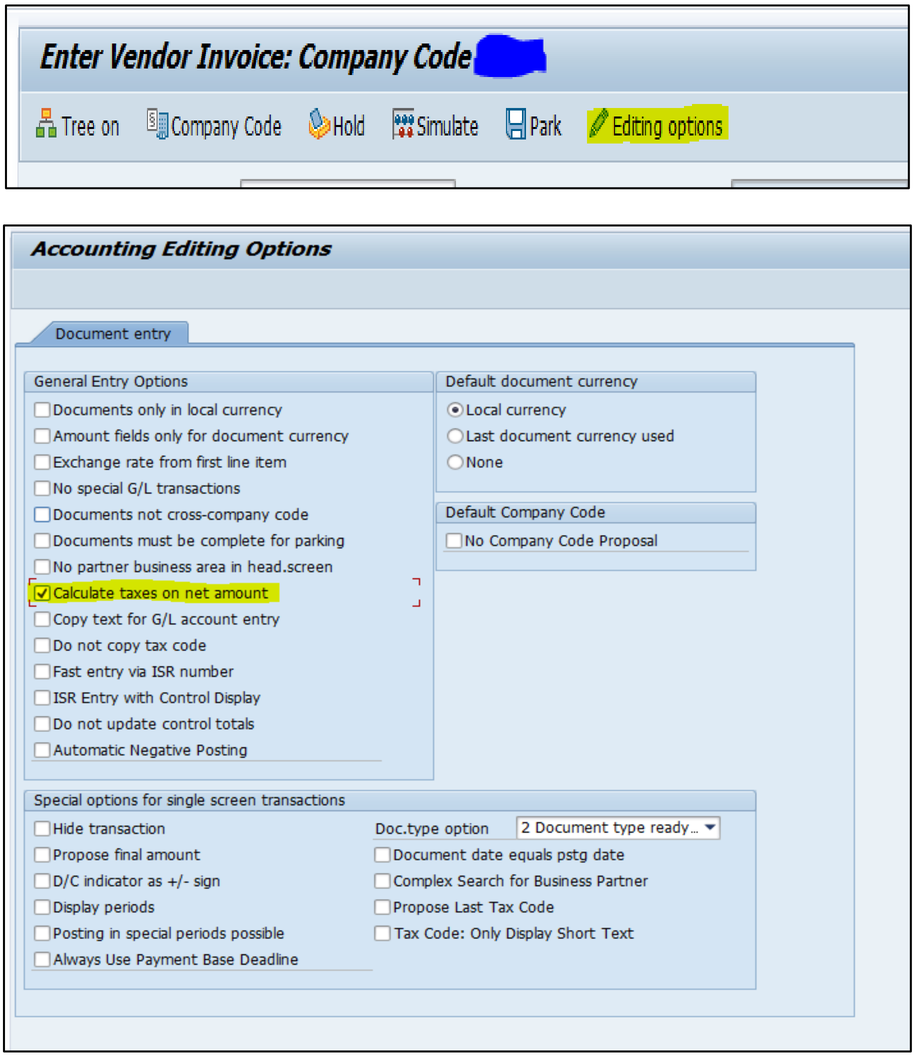

Figure 1 The user setting in SAP to verify "Calculate Tax on Net Amount".

Tip: Enabling "Calculate Tax on Net Amount" can significantly reduce the time spent calculating gross amounts, including taxes.

5. Step-by-Step Guide

5.1. Step 1: Calculate the Tax Base Amount

The calculation method for the tax base amount depends on whether the "Calculate Tax on Net Amount" option is checked:

- **If Checked:** Add Freight, Insurance, and custom duty to the asset value of the goods. As per our example: the tax base is MXN 121000 (MXN 100000 + MXN 10000 + MXN 11000)
- **If Not Checked:** Calculate the base amount as described above and include the total taxes charged to the customer. As per our example, the tax base is MXN 140360 (MXN 100000 + MXN 10000 + MXN 11000 + MXN 19360)

Note: Sometimes customer clearing agents send single invoices for multiple custom clearances. Please add them all together to come to the tax base amount.

5.2. Step 2: Execute Transaction Code FB60 to record the invoice into SAP

Enter the required data in SAP transaction code FB60 as indicated in the table below:

Table 2 SAP Field Inputs for Customs Clearance Invoice Posting

Field Name	Mandatory or Optional	Value to be Input
Transition	Mandatory	Select Invoice (R)
Vendor	Mandatory	Enter the SAP Vendor Number for the customs clearing agent
Document Date	Mandatory	Enter the invoice date
Posting Date	Mandatory	Enter the date you are posting the invoice in SAP
Reference	Optional	Customer Clearing Agent Invoice Number
Document Type	Mandatory	Use KR (standard for vendor invoices) or the appropriate document type
Amount	Mandatory	Enter the total invoice amount as per the customs-clearing invoice
Currency	Mandatory	Enter the invoice currency
Calculate Tax	Mandatory	Tick this box (essential if 3rd party tax engine is connected)
Text	Optional	Free Field to enter anything meaningful.
Line 1	Mandatory	Choose the appropriate expense GL account, set the indicator to S (Debit), enter the import duty amount from the invoice, and assign the correct cost center. Do not enter a tax code for this line.
Line 2	Mandatory	Select the correct expense GL account, set the indicator to S (Debit), enter the customs clearing agent fees from the invoice, and add the appropriate tax code and cost center. If your system uses jurisdiction-based tax calculation, also enter the tax jurisdiction code.
Line 3	Mandatory	Choose the appropriate expense GL account, set the indicator to S (Debit), enter the amount for any additional charges (e.g., freight), and include the relevant tax code and cost center. If jurisdiction-based tax is enabled, also enter the tax jurisdiction code.
Line 4 (Calculate tax on Net is ticked)	Mandatory	Select the Tax Control GL account (the balance of this account should be zero after posting), set the indicator to S (Debit), and enter the tax base amount from the previous step (when "Calculate Tax on Net Amount" is ticked). Add the appropriate tax code and cost center. If jurisdiction-based tax is enabled, also enter the tax jurisdiction code so the system can calculate the recoverable tax accurately.
Line 4 (Calculate tax on Net is not ticked)	Mandatory	Select the Tax Control GL account (the balance of this account should be zero after posting), set the indicator to S (Debit), and enter the tax base amount calculated in the previous step (when "Calculate Tax on Net Amount" is not ticked). Include the relevant tax code and cost center. If jurisdiction-based tax is enabled, also

		enter the tax jurisdiction code to ensure the system calculates the recoverable tax correctly.
Line 5	Mandatory	Select the Tax Control GL account (the balance of this account should be zero after posting), set the indicator to H (Credit), and enter the tax base amount calculated in the previous step (when "Calculate Tax on Net Amount" is ticked). Add the cost center. Note: Do not enter any tax code for this line item.

Sample screenshot when ‘Calculate tax on net amount” is ticked.

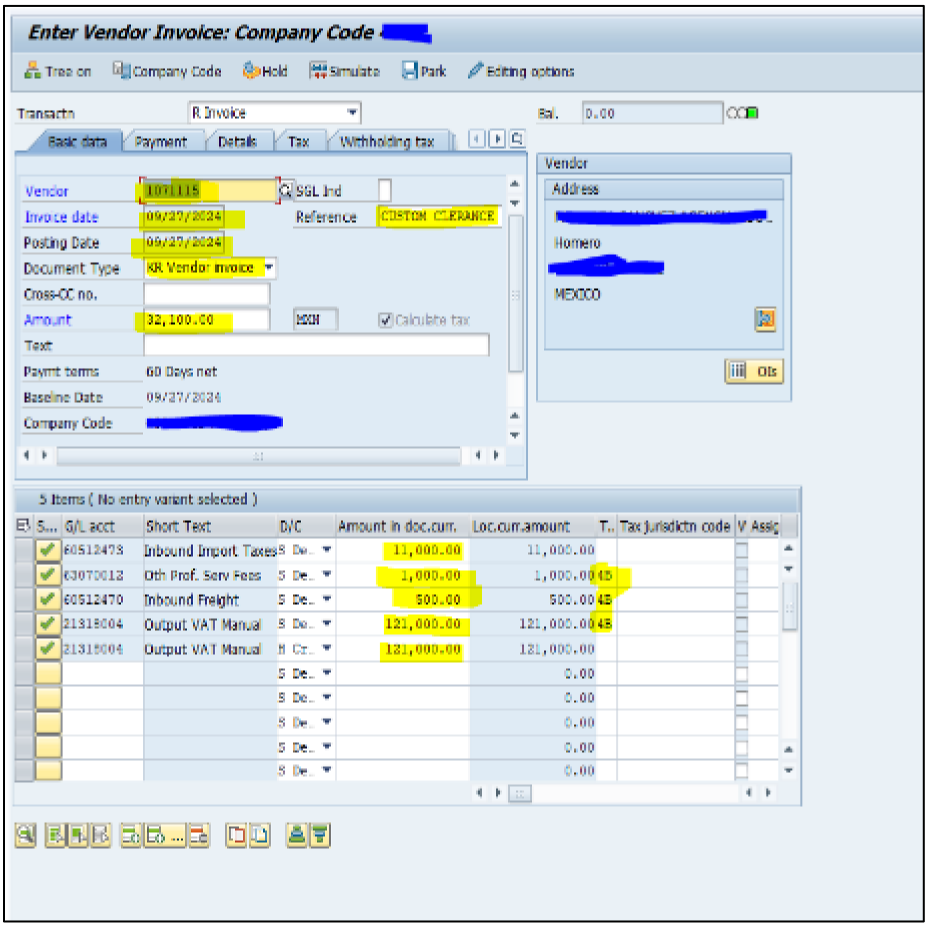

Figure 2 Sample FB60 Screen with values when "‘Calculate tax on the net amount” is ticked.

Sample screenshot when 'Calculate tax on the net amount" is not ticked

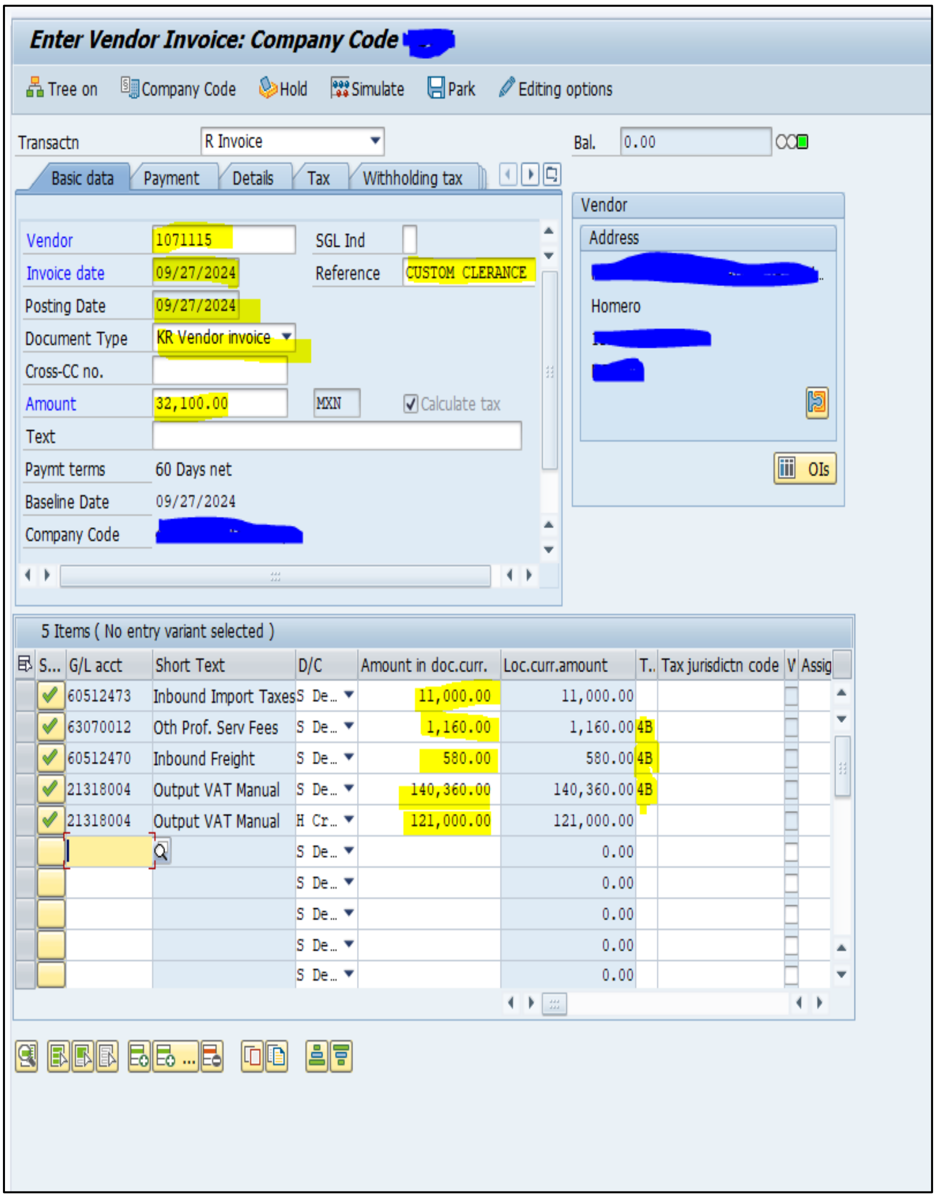

Figure 3 Sample FB60 Screen with values when "'Calculate tax on the net amount" is not ticked.

5.3. Step 3: Simulate the Transaction

Before posting, simulate the transaction to verify that all entries are correct. This step ensures the simulated posting matches the customs clearance invoice provided by the clearing agent.

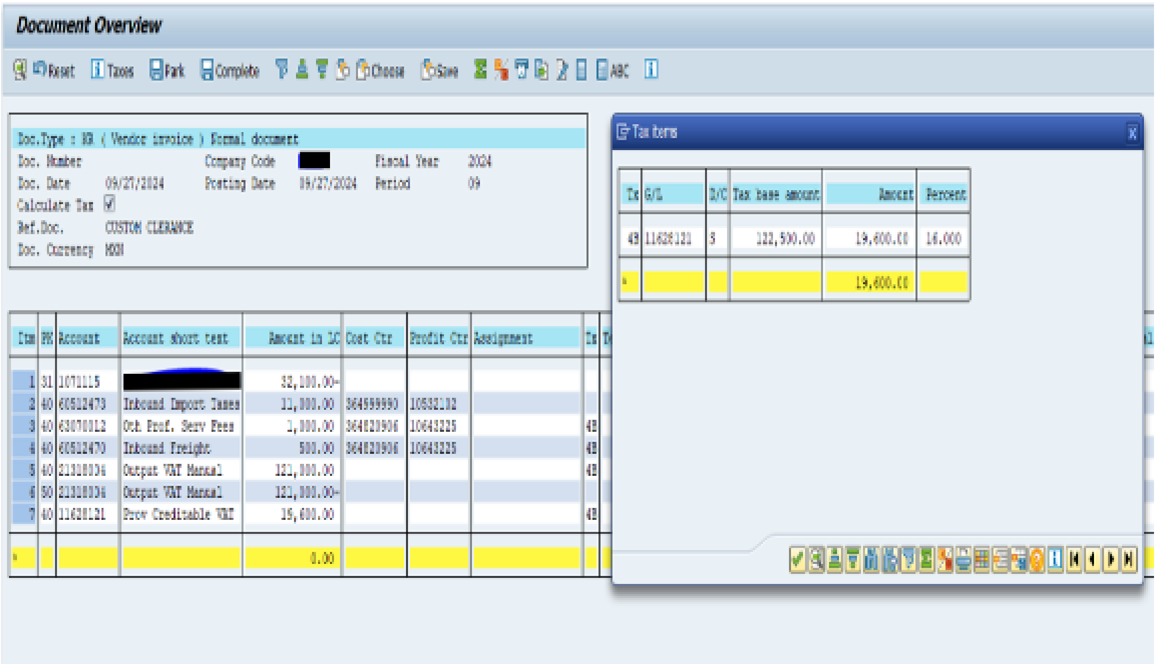

Figure 4 Sample posting in SAP in simulation form

5.4. Step 4: Save and Post the Document

If the simulation results meet your expectations, proceed to save and post the document.

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6. Error Handling

- **Tax Not Computed:** The system might not calculate tax for several reasons. Common causes include selecting the wrong tax code or using a setting that marks the transaction as tax-exempt, especially when a third-party tax engine is involved. In such cases, contact your Tax and IT teams to investigate the issue further.
- **Discrepancy Between Debit and Credit**: This may occur due to incorrect tax base calculations or failure to check the "Calculate Tax on Net Amount" option. It can also result from not adjusting the credit indicator for the second line item.
- **Combining multiple Ship-To Custom Clearing Invoices**: Posting a single customs invoice for multiple delivery locations can lead to incorrect tax calculations and mismatches.
    - ***Recommended Solution:*** *Try to split the invoices by location.*
    - ***If splitting is not possible:*** *Calculate the tax base separately for each delivery location based on their applicable VAT rates. Then follow the steps above and repeat lines 4 and 5 for each tax jurisdiction to post the taxes accurately.*

By following these steps, you can efficiently manage customer tax adjustments in SAP while minimizing the potential for errors.

6.1. Case study

I have successfully designed and implemented this solution for posting customs clearance invoices across multiple multi-national companies. This structured approach significantly improves tax compliance, ensures full traceability through system-based audit trails, and minimizes manual errors.

Previously, these organizations posted these taxes directly into tax accounts and made manual adjustments during tax return preparation. This process was inefficient, error-prone, and disrupted the audit trail, often relying on tax-related documents stored outside the system.

With the new solution in place, manual errors and reconciliation efforts have been virtually eliminated. As a result, organizations now experience smoother period-end closings, more accurate VAT return filings, and greater ease during tax audits. Additionally, automation has freed up tax professionals to focus on higher-value, strategic work instead of repetitive, day-to-day tasks. In some cases, it has even resulted in a reduction of FTE in the tax department.

7. Conclusion

In conclusion, the approach outlined for posting customs clearance invoices in SAP offers a comprehensive solution to streamline VAT recovery and improve tax compliance. By adopting a structured, systematic process for managing customs-related expenses, duties, and VAT, organizations can not only ensure accurate financial reporting but also maintain a transparent and traceable audit trail. This approach eliminates the inefficiencies and risks associated with manual processes, reducing errors, and minimizing the need for manual reconciliations.

Furthermore, automating the VAT refund process in SAP allows businesses to achieve smoother period-end closings, timely tax filings, and greater ease during tax audits. It shifts the focus of tax professionals from routine administrative tasks to more strategic activities, thereby increasing overall productivity and driving greater value for the organization.

By following these best practices, companies can enhance operational efficiency, ensure full regulatory compliance, and mitigate the risk of costly errors in VAT claims. As global trade continues to evolve, leveraging automation and efficient systems like SAP will be critical for businesses seeking to maintain a competitive edge and stay ahead of increasingly complex tax regulations.

In the future, as digital tax reporting and automation continue to advance, organizations can look forward to even more streamlined processes, further reducing the manual workload and enhancing the accuracy and timeliness of tax-related reporting.

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