



User Guide | PUBLIC

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How to Use Tax Service in the US Localization of SAP Business One

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1 Document History

Version	Date	Change
1.0	2017-08-16	Document Created
2.0	2022-08-10	Document Updated for Changes in FP 2202 HF01
3.0	2023-07-04	Document Updated for Changes in FP 2305
4.0	2025-01-10	Document Updated for Statement about Service Layer and SAP Localization Hub Tax Service
5.0	2025-02-02	Guide converted from PDF to HTML format for viewing on the SAP Help Portal.

2 Introduction

This how-to guide helps you to work with *Tax Service* in the US localization of SAP Business One.

Tax requirements in the US market are constantly evolving, with there being variation in requirements at the federal, state, county, city, and street address level. This makes tax requirement management in SAP Business One challenging.

With the level of complexity, to keep up with ongoing changes, and to fulfill legal requirements on tax in the US market, *Tax Service* connects SAP Business One to sources of up-to-date tax information.

Tax Service capabilities include:

- Predefined taxes like sales tax content
- Tax updates management
- Time dependent tax exemptions
- Time bound tax rates and jurisdictions
- Tax nexus determination

Tax Service helps you to manage tax compliance by determining taxes on transactions.

Tax Service obtains details from tax information providers to supply SAP Business One with up-to-date sales tax rate and use tax rate information as and when required. *Tax Service* means that customers avoid the need to maintain tax rate information in SAP Business One, reducing the administrative burden. As and when relevant marketing documents are produced in SAP Business One, a call is placed on *Tax Service* to provide the required tax information, this information is then available in SAP Business One marketing documents.

Options exist in SAP Business One to activate *Tax Service* and provide the required information to set up connections to tax rate information services. No matter who the provider of tax information is, SAP Business One creates tax rate repository values for *Tax Service* and tax calculations are made in SAP Business One through *Tax Engine*.

3 Setting Up Tax Service

Settings are available on the tab *Tax Service* in *Document Settings* (follow path ► *Administration* ► *System Initialization* ► *Document Settings* ►) to enable and set up your *Tax Service* options, provider, and tax accounts.

The screenshot shows the 'Document Settings' window with the 'Tax Service' tab selected. The 'Tax Service' section is expanded, showing several settings: 'Enable' is checked, 'Encrypt Sensitive Parameters' is checked, 'Provider Setup' is a button labeled 'Double-click to open', 'Use Tax Service on Purchase Documents' is unchecked, 'Sales Tax Account for Tax Service' is empty, and 'Purchase Tax Account for Tax Service' is empty.

- *Sales Tax Account for Tax Service* – as used by your company in *Accounting Data* (follow path ► *Administration* ► *Company Details* ► *Accounting Data* ►).
- *Purchase Tax Account for Tax Service* – as used by your company. Active if *Use Tax Service on Purchase Documents* is selected.

Selecting the option *Provider Setup* opens a separate window with a tab for the available provider:

The screenshot shows the 'Tax Service Providers' window with the 'Avalara Rates by Address' tab selected. The 'Avalara Rates by Address' section is expanded, showing several settings: 'Active' is checked, 'User Name' is 'abc', 'User Password' is '****', 'Base URL' is empty, and 'Tax API Path' is empty. Below the fields, there is a link to register with Avalara: <https://www.avalara.com/simplify/en/avatax/sign-up-for-avalara-rates-by-address.html>.

Avalara Rates by Address

- Active
- User Name
- User Password
- Base URL
- Tax API Path

Connect with Avalara by using the link on the tab, then register for Avalara's service to obtain your credentials.

You can deactivate individual *Ship To* addresses of business partners by selecting *No* in the option *Tax Service Enabled* (*TaaS Enabled* in some feature packages) on the *Addresses* tab of *Business Partner Master Data* (follow path ► *Main Menu* ► *Business Partners* ► *Business Partners Master Data* ► *Addresses* ► tab).

The option *Tax Service Enabled* is available in the table of properties grid for each *Ship To* entry of a particular business partner. The option *Tax Service Enabled* controls business partner tax nexus in SAP Business One for the *Ship To* in question.

The screenshot shows the 'Business Partner Master Data' window with the 'Addresses' tab selected. The 'Ship To' table has one entry, 'Los Angeles', which is highlighted. The 'TaaS Enabled' dropdown menu is open, showing 'Yes' as the selected option. The 'Set as Default' button is visible below the table. The 'Add' and 'Cancel' buttons are at the bottom left, and the 'You Can Also' button is at the bottom right.

To use *Avalara Rates by Address* and obtain tax rates from the provider Avalara, you must register for the service with Avalara which is free-of-charge under a fair usage policy. Select the web link on the tab *Avalara Rates by Address* to register and activate the service with Avalara. After registration, Avalara sends a user name and password which must be added to the tab *Avalara Rates by Address* in the corresponding fields. Electronic Document Service tax service, Avalara client, can access the Avalara service and allow requests for tax rates from Avalara, after registering with Avalara. As Avalara is a separate organization from SAP SE, SAP SE is not liable for the results of tax rate values that are provided by Avalara or the correctness and accuracy of tax rates that are provided by Avalara.

Only one *Tax Service* provider can be active and used for marketing documents at any one time.

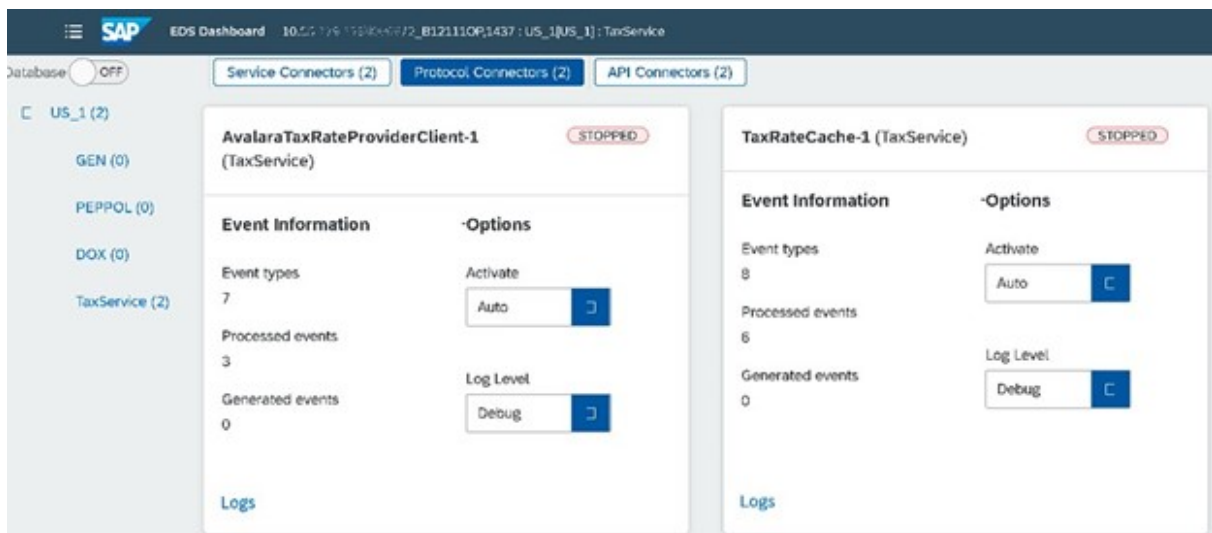
4 Electronic Document Service

Electronic Document Service (EDS) is needed for integration and connection to the tax rates provider Avalara.

Protocols for *Tax Service* are available in EDS and can be viewed and activated through the *EDS Dashboard*. Through the connector *Avalara Tax Rate Provider Client*, which works with the connector *EDS Tax Service*, relevant tax rates are obtained from the online provider of tax information Avalara.

Tax information is held in an encrypted format in EDS in *Tax Rate Cache*, which is updated as and when required.

EDS provides tax information to SAP Business One client upon request. When opening relevant marketing documents and entering valid business partners or addresses, requests are sent to EDS automatically for each item or service on marketing documents. Tax rates are returned from the request and have precedence over tax determination setup.



5 Working with Tax Service

Once activated and set up, [Tax Service](#) provides matching rates based on the marketing document and business partner properties.

- Tax jurisdictions are based on the marketing document row or header level ship-to address [ZIP Code](#), [Street](#), [City](#), [County](#) and [State](#). More inputs mean a more precise response.
- Tax jurisdiction rates received from [Tax Service](#) are used on marketing documents.
- A system [Tax Code](#) is generated for each new jurisdiction combination that is created by a document. The system [Tax Code](#) is created by SAP Business One using rates and jurisdictions that are received from [Tax Service](#) and used on marketing document rows.
- A default [Sales Tax G/L Account](#) is required to add a [Tax Code](#) successfully, and then post a marketing document. The default [Sales Tax G/L Account](#) can be changed for subsequent [Tax Codes](#). The specific [Sales Tax G/L Account](#) used for a [Tax Code](#) can be changed at any time in [Tax Jurisdictions](#) setup. A similar logic applies to purchasing.
- System [Tax Codes](#) begin with "#" and end with "SS" if service sales related, "SM" if item sales related, "PS" if service purchase related or "PM" if material purchase related. The digits (numbers) in the system [Tax Codes](#) represent ZIP Codes. System jurisdiction [Codes](#) also begin with "#". A new system [Tax Code](#) is finally added to the database and [Tax Codes](#) repository only when a document is added. If the document addition is stopped, the [Tax Code](#) is not added either.
- Service sales are determined by a non-inventory item flag in [Item Master Data](#), service type marketing documents, or header and row freights.
- Material sales are determined by an inventory item flag in [Item Master Data](#).
- The [Tax Code Determination](#) mechanism, which pre-dates [Tax Service](#), stays inactive if a match exists in [Tax Service](#) and the specific business partner is set up for [Tax Service](#). System [Tax Codes](#) can be used in [Tax Code Determination](#) if that is a future preference.

Note

- [Tax Service](#) only works with domestic US business partners.
- [Tax Service](#) does not currently support [Minimum Taxable Amounts](#), [Maximum Taxable Amounts](#) or [Flat Tax Amounts](#) as featured in [State Rates - Setup](#).
- [Tax Service](#) relies on an Internet connection to function. Without an Internet connection, SAP Business One falls back to using the [Tax Code Determination](#) mechanism.

5.1 Raising an A/R Invoice with Tax Service

When raising an [A/R Invoice](#) (follow path ► [Main Menu](#) ► [Sales - A/R](#) ► [A/R Invoice](#) ►) for a business partner against their domestic US ship-to address, [Tax Code](#) is populated and tax is calculated based on information from [Tax Service](#) and business partner master data.

The following [A/R Invoice](#) example shows:

- A single item priced at \$100.
- A [Tax Code](#) "#90245SM" generated based on the business partner's 90245 ZIP Code in El Segundo, CA, and the row being for an item, not a service.
- Tax is calculated at \$8.75.

#	Item No.	Item Description	Quantity	Unit Price	Discount %	Price after Dis...	Tax Code	Total
1	01-022012	Raw Material, A203, .047 OD X .016 ID Tubing	1	\$100.00	0.000	\$100.0000	#90245SM	\$

Total Before Discount	\$100.00
Discount	\$0.00
Total Down Payment	\$0.00
Freight	\$0.00
Rounding	\$0.00
Tax	\$8.75
Total	\$108.75
Applied Amount	\$0.00
Balance Due	\$108.75

Drilling down into the [Tax Code](#) field through the arrow icon shows more information on the tax calculation:

- State tax comes to \$7.25, county tax comes to \$1.50, city tax is zero.

#	Type	Code	Name	Tax on Tax	Rate	Effective Rate	Sales Tax Acco...	Purchasing Tax...
1	State	#01LWY00	California		7.250	7.250	\$0300-00	
2	County	#1L2Q901	Los Angeles		1.500	1.500	\$0300-00	
3	City	#728M400	El Segundo		0.000	0.000	\$0300-00	
4	City				0.000	0.000		

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