End-to-end Process Automation for Insurance Premium Tax (SAP FS-CD)

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Management Summary

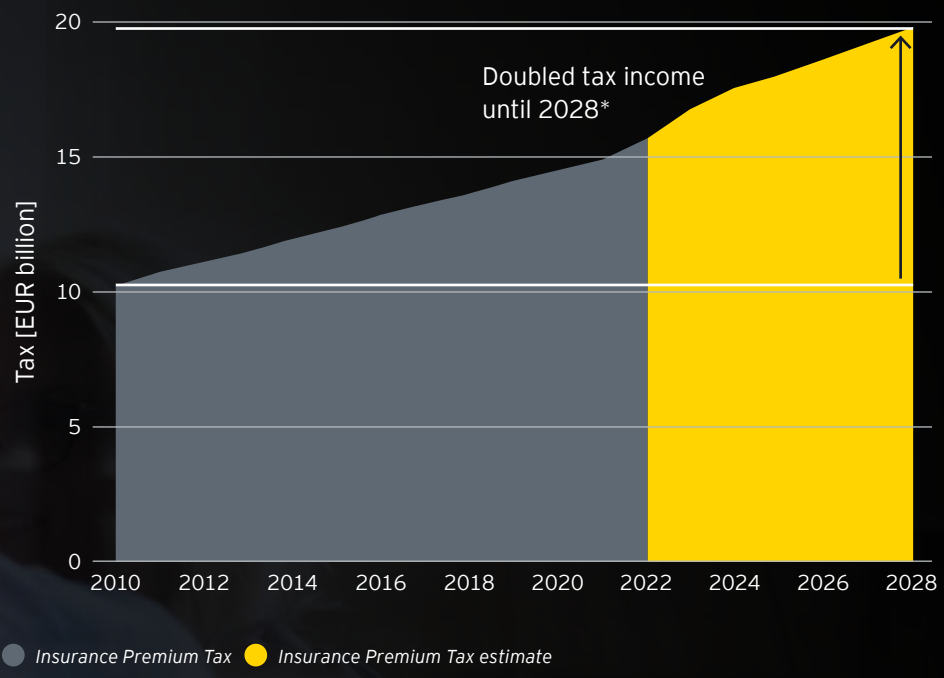
1

The determination and reporting of taxes, particularly Insurance Premium Tax, follows a largely manual and only partially traceable process at many insurers. Tax information is extracted and aggregated from the upstream insurance contract systems in order to determine the tax amounts collected and due and then remit them to the responsible tax authority. In view of the increasing tax volume in the area of insurance tax, the determination and reporting of taxes is coming increasingly into the focus of the tax authorities.

The use of the integrated standard functionalities of the current SAP finance architecture, particularly the SAP FS-CD platform, together with information already available in the insurance contract systems, creates significant automation potential. In addition to improvements in data quality and process speed, transparency in tax reporting and tax audits can also be increased considerably.

The implementation in the SAP FS-CD platform considerably increases efficiency in tax reporting and makes it more transparent, because this solution approach results in an expanded flow of information for tax items with tax attributes from the subledger to the general ledger, which previously was often unavailable or not available in sufficient form. This creates a central data source that is used as the basis for automated tax reporting.

FIGURE 1: Development of insurance tax through 2028



The result is a robust and automated tax process solution. This leads to a significant reduction in manual effort, the decommissioning of Excel-based solutions, and a significant reduction in the need for manual reconciliation of reporting data. It is assumed that integrating the proposed solution approach saves more than 50% of effort, taking into account only potential savings in tax reporting and the associated tax administration. In addition, greater transparency and traceability for tax audits arise within the scope of the duty of care under tax law, thereby increasing audit reliability.

* *Federal Ministry of Finance, Data Licence Germany – Attribution – Version 2.0, https://www.bundesfinanzministerium.de/Datenportal/Daten/offene-daten/steuern-zoelle/Datensammlung-zur-Steuerpolitik-2024/datensaetze/xlsx-Datensammlung-zur-Steuerpolitik-2024.xlsm*

Problem Statement and Introduction to Insurance Premium Tax

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The basis for levying Insurance Premium Tax in Germany is the Insurance Tax Act (VersStG, 27 April 2021, Federal Law Gazette I, p. 874) and the Ordinance Implementing the Insurance Tax Act (Insurance Tax Implementing Ordinance, abbreviated VersStDV, 27 April 2021, Federal Law Gazette I, p. 938).

The evaluation of taxes in the form of tax reporting or potential audit and review procedures entails challenges. The basis for the evaluation is the processing of taxes in the source systems, subledgers, and general ledger. The generation and/or transmission of tax indicators and tax attributes across the supplying systems, through the subledger and into the general ledger, is often incomplete at the very least.

Frequently, critical information (e.g., tax category, tax type, tax rate, etc.) is not supplied or not used sufficiently when debit and credit items are transferred from the upstream insurance contract systems to the subledger, even though this information is usually available at a fine-grained level in the supplying systems. In parallel with the payment schedule items that reflect the gross premium receivables, taxes are therefore often represented in the technical accounting systems as separate payment schedule and business partner items that are fine-grained but not sufficiently identified.

For this reason, both the subledger and general ledger items often contain too little or insufficient information in the form of tax indicators or tax attributes. Consequently, no clearly identifiable tax items can be created in the general ledger.

For the separate payment schedule and business partner items for taxes, the general ledger items are posted in aggregated form, without traceability to the subledger or the supplying systems. Due to this lack of traceability, a fine level of granularity in the tax data that might exist in the subledger fundamentally cannot be reflected in the general ledger view. Consequently, after the items have been transferred to the general ledger, significant manual effort is required to trace, identify, and evaluate the taxes posted in the general ledger for reporting or audit purposes.

Overall, it is apparent that the challenge lies particularly in the technical accounting systems. Even the transfer of data from the supplying systems to the subledger frequently leads to a loss of information in the form of tax indicators that are often available but are not used sufficiently. Furthermore, transparency is lost through aggregation and a lack of traceability during the final transfer to the general ledger.

Insurance Premium

3 Solution Approach with SAP FS-CD

The necessary, clearly defined tax indicators (e.g., tax category, date, tax base, etc.) are used to implement detailed tax items in the general ledger. They are automatically included when debit and credit items are transmitted from the source systems to SAP FS-CD and enriched as needed (see Figure 2). This takes advantage of an extension of the tax code "Other Taxes" that is possible in SAP FS-CD. Tax types that are not available in the standard system (e.g., Insurance Premium Tax or fire protection tax, etc.) can be added under this tax code.

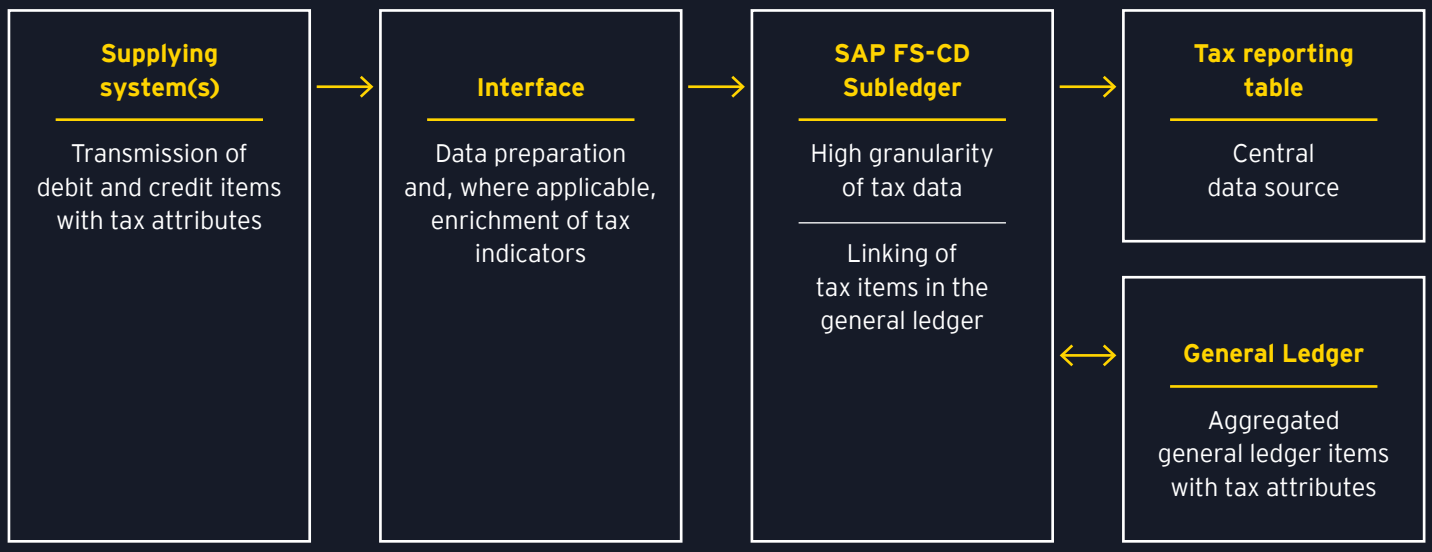
The tax codes and tax indicators serve as distinguishing features in SAP FS-CD and determine account determination for the general ledger items. As a result, the general ledger tax items can be identified as unambiguous tax items and have traceable tax attributes. Traceability is ensured in the form of item groupings in the SAP FS-CD document, thereby establishing a link between the SAP FS-CD subledger items and the SAP FS-CD general ledger items. In addition, the tax data is automatically stored in a tax reporting table (see Figure 2).

There are several options for transmitting taxes to SAP FS-CD as transaction data and for processing them in SAP FS-CD, with Variant 1, the tax supplement within a payment schedule item, and Variant 2, subordinate payment schedule tax items, being particularly important.

1 | External tax as a tax supplement within a payment schedule item:
An effective method for posting external taxes is to integrate a tax supplement within a payment schedule item. This method makes it possible to record the net premium receivable as the main component, while the tax supplement contains the corresponding tax attributes (e.g., tax indicators). This creates an aggregated business partner item that includes both the net premium receivable and the tax amounts, which increases traceability and enables more efficient evaluation.

2 | External tax as a subordinate payment schedule tax item:
Alternatively, subordinate tax items can be transmitted immediately after a higher-level payment schedule item. In this case, the header item does not contain a tax supplement, and the subsequent tax items are treated as subordinate payment schedule tax items. This structure enables a clear separation and identification of the different tax types, which facilitates the traceability and evaluation of tax data.

FIGURE 2: High-level process sequence



Through traceable identification of taxes between the subledger and the general ledger, the creation of detailed tax items with tax attributes in the general ledger, and a tax reporting table as a central data source (see Figure 2), manual processes can be significantly reduced, particularly in tax reporting and potential tax audits. In addition, the necessary basis for automated tax reporting and audit reliability is created.

Tax reporting

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Business Case

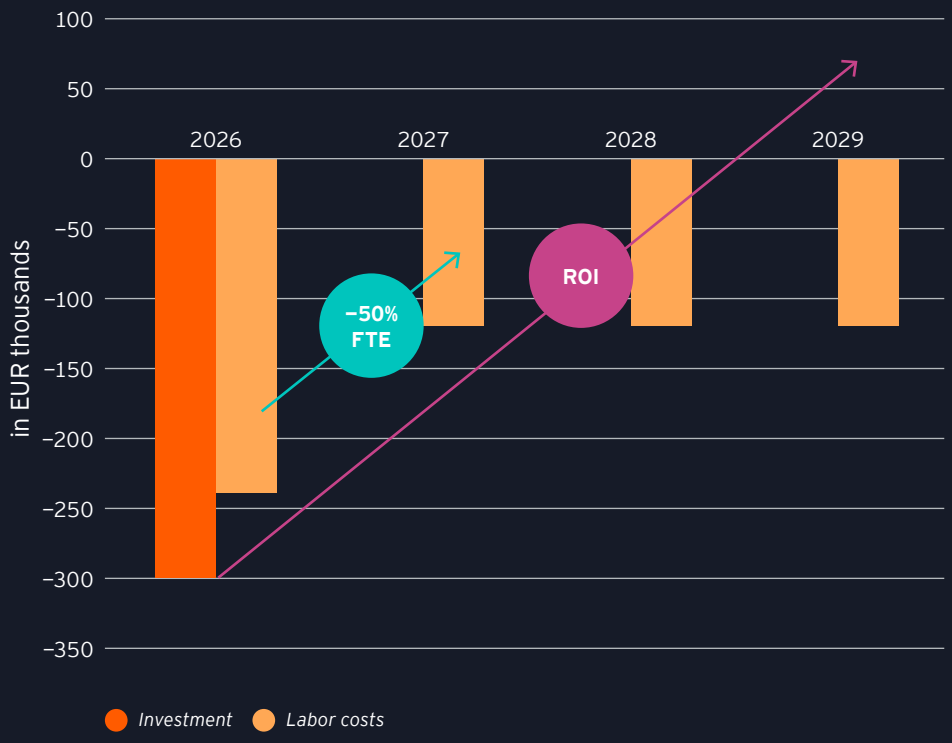
By automating the process for settling and reporting insurance tax, savings can be achieved both in determining taxes by the system owners of the upstream insurance contract systems and in the tax departments. In the following example, an insurance company currently employs four full-time equivalents (FTEs) for tax administration and the manual processing of insurance tax. By automating the processes, the insurance company could reduce the requirement to two FTEs while simultaneously freeing up capacity specifically for higher-value, less repetitive activities.

Potential cost savings from an investment in expanding FS-CD are shown in Table 1 and Figure 3. The number of upstream insurance contract systems used was not taken into account in the calculations. It can be assumed that a higher number of upstream insurance contract systems is a strong multiplier of the time actually required to determine insurance tax and therefore also of the potential reduction in effort.

TABLE 1: Calculation of FTE savings

Parameter	Before integration	After integration	Savings
Number of FTEs	4	2	2
Annual cost per FTE	60,000 EUR	60,000 EUR	-
Total cost	240,000 EUR	120,000 EUR	120,000 EUR
Estimated implementation costs	-	300,000 EUR	-
Payback period	-	3 years	-

FIGURE 3: Return on investment



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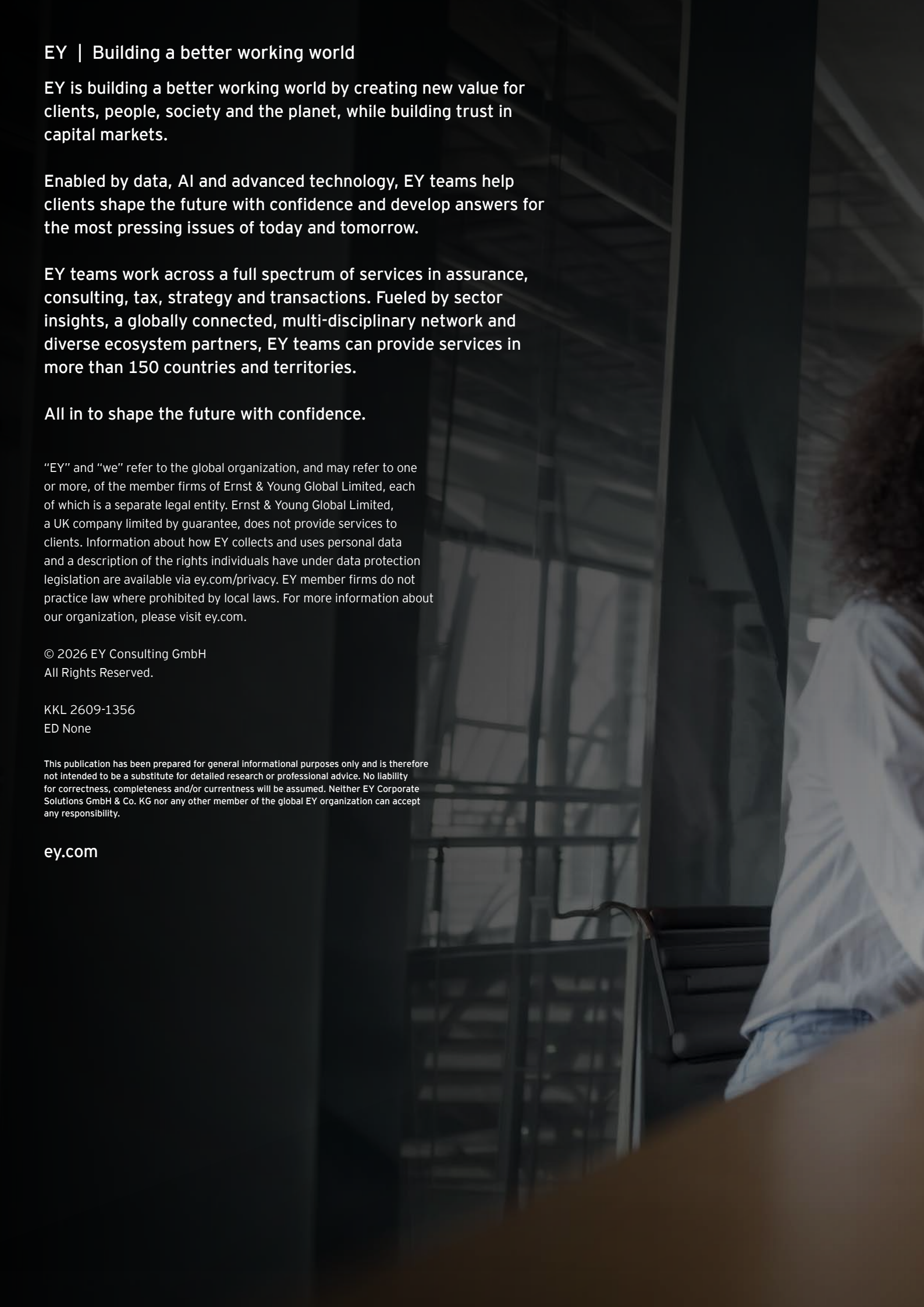

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