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# 1. About this Manual

## 1.1 Introduction

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

Besides this User Manual, you can find answers to specific features and procedures in the Online Help, which can be invoked, by choosing 'Help Contents' from the *Help* Menu of the software. 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 Organization

This manual is organized as follows:








<b>Chapter 1</b>	<i>About this Manual</i> gives information on the intended audience. It also lists the various chapters covered in this User Manual.
<b>Chapter 2</b>	<i>Building Tax Components</i> explains how tax rules, tax classes, and tax schemes are defined in Oracle FLEXCUBE.













## 1.4 Conventions Used in this Manual

Important information is preceded with the  symbol.

## 1.5 Glossary of Icons

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

<b>Icons</b>	<b>Function</b>
	New
	Copy
	Save
	Delete
	Unlock
	Print
	Close

Icons	Function
	Re-open
	Reverse
	Template
	Roll-over
	Hold
	Authorize
	Liquidate
	Exit
	Sign-off
	Help
	Add
	Delete

*Refer the Procedures User Manual for further details about the icons.*

## 1.6 **Related Documents**

For further information on procedures discussed in the manual, refer to the Oracle FLEXCUBE 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.

#### 2.1.1 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

### 2.2 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 'Tax Category Maintenance' screen by typing 'TADCATG' in the field at the top right corner of the Application tool bar and clicking the adjoining arrow button.

The screenshot shows a web page dialog titled "Tax Category Maintenance -- Web Page Dialog". The main content area contains the following fields and options:

- Tax Category \* OTTAX2
- Description OTTAX2
- Aggregation Required
- Consolidated Certificate Required
- Individual Certificate Required

At the bottom of the dialog, there is a "Fields" tab and a status bar with the following information:

- Input By SUDHEER
- Authorized By SUDHEER
- Date Time 7/3/2000 14:44:02
- Date Time 7/3/2000 14:44:11
- Modification Number 1
- Open
- Authorized
- Exit button

#### 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.

## Aggregation Required

You need to indicate whether or not aggregation of tax for all transactions under the selected Tax category is required. If this option is checked, the entire tax allowance utilized by the customer is calculated even if it exceeds the allowable limit for that tax period. If this option is unchecked, the tax allowance utilized by the customer is calculated only till the maximum amount of the allowable limit is reached.

## Consolidated Certificate Required

You need to indicate whether or not Consolidated Tax Certificate is required for all transactions in a given tax cycle. This option would work in conjunction with a similar option in the Customer Information Maintenance screen and the Tax Details screen accessed from the Branch Parameters Details screen. The message type for consolidated tax certificate would be CONSOL\_TAX\_CERT.

Depending on the periodicity maintained at the branch level, the system will generate the Consolidated Tax Certificate for a customer if Consolidated Tax Certificate Generation is required at the Customer level and the same is maintained at the Tax Category level. There is a pre-shipped advice format for generating a Consolidated Tax Certificate. The certificate will be printed on a Year to Date basis. The Certificate would include tax due on transactions for LD/MM and IC products.

Following elements will be available for advice generation for tax summary.

Element Name	Description	Data Type
CUSTOMERNO	The customer number for which the tax summary certificate is printed	Alphanumeric
CUSTOMERNAME	The customer name	Alphanumeric
FROMDATE	The from date for which the certificate is generated	Date
TODATE	The to date for which the certificate is generated	Date
TXNNUMBER	The contract reference number	Alphanumeric 16 characters
CALCDATE	The tax calculation date	Date
TAXCCY	The tax currency	Alphanumeric 3 characters
TAXAMTINTAXCCY	The tax amount in tax currency	Number
INTERESTAMT	The interest amount (basis amount on which the tax has been calculated)	Number

## Individual Certificate Required

You need to indicate whether or not Individual Tax Certificate is required for individual transactions. This option would work in conjunction with a similar option in the Customer Information Maintenance screen and the Tax Details screen accessed from the Branch Parameters Details screen. The message type for individual tax certificate would be IND\_TAX\_CERT.

For contracts that have tax defined on interest liquidation, an individual tax certificate will be generated by the system if the Tax Certificate is mapped as an advice for the event and the Individual Tax Certificate is required for the Customer. The tax certificate will be generated only if the Individual Certificate Required option is checked at the Customer and Branch levels and maintained in Tax Category.

For income other than through interest on customer accounts, the advice format can be maintained. This advice format can be mapped to the products.

For income through interest on customer accounts, there is a pre-shipped advice format from the system. The format of the advice can be modified. However, the name of the advice format is pre-shipped and cannot be modified.

The following tags will be available for advice generation for individual transactions:

Tag Name	Description	Data Type
TXNNUMBER	The contract reference number	Alphanumeric 16 characters
CALCDATE	The tax calculation date	Date
COMPCCY	The interest component currency	Alphanumeric 3 characters
TAXCCY	The tax currency	Alphanumeric 3 characters
TAXAMTINTAXCCY	The tax amount in tax currency	Number
INTERESTAMT	The interest amount (basis amount on which the tax has been calculated)	Number



## 2.3 Defining Tax Rules

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

The screenshot shows the 'Tax Rule Maintenance' web page dialog. The main form area includes the following fields:

- Rule Code \* KLKL
- Description Ijdvkldk
- Country Code \* ALL
- Customer Category \* ALL
- Effective Date \* 7/3/2000
- Tax Category
- Description

Below the main form are four tabs: 'Currency Details', 'Rounding Details', 'Additional', and 'Slab'. The 'Currency Details' tab is selected and contains the following sub-sections:

- Currency Details:** Currency, Reference Currency, Calculation CCY Basis (dropdown), Tax CCY Basis (dropdown).
- Exchange Rate:** Rate Type (STANDARD), Rate Code (Mid dropdown), Basis Percentage (20).

At the bottom of the dialog, there is a 'Fields' section with a table of user actions and an 'Exit' button.

Input By JAS1	Date Time 7/3/2000 11:50:55	Modification Number 1	<input checked="" type="checkbox"/> Open
Authorized By JAS1	Date Time 7/3/2000 11:52:46		<input checked="" type="checkbox"/> Authorized

### 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:

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.

### 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 FLEXCUBE, 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.

#### **Example**

The following example illustrates how the different rules in a Tax Scheme are applied.

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

#### **Tax Rule 1**

Rule Code	TxD1
Effective Date	1 January 1999
Component	Brokerage
Tax Rate	0.5%

## Tax Rule 2

Rule Code	TxD2
Effective Date	1 April 1999
Component	Brokerage
Tax Rate	0.75%

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

From 1 January 1999 to 31 March 1999, the brokerage paid on contracts will be taxed at 0.5%. From 1 April 1999 onwards, the brokerage paid will be taxed at 0.75%.

Brokerage will continue to be taxed at 0.75% till another rule with a different Effective Date is added to the scheme.

### 2.3.1 **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.

#### 2.3.1.1 **Currency Details**

##### **Calculation Currency 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.

##### **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 Currency 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.

##### **Currency for Tax Currency**

This is enabled only if the basis for the Tax Currency is selected as Specific.

## 2.3.2 Exchange Rate Type

### **Rate 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 FLEXCUBE, 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.

## 2.3.3 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.

## 2.3.4 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.

#### Example

For tax rule TX01, you have maintained the following details:

Code	TX01
Tax Currency	Deal CCY
Tax (Type)	Rate
Rate	1.5
Min. Amount	1,000
Max. Amount	10,000

This tax rule is applied on a securities deal. The deal currency is USD and the local currency is EUR. The exchange rate between the two currencies is 1.9 (where 1.9 units of USD is equal to 1 EUR). The amount involved in the deal is 90,000 USD and tax has to be paid in USD. Assume that tax is levied on the deal amount in your country.

Before tax is applied on the deal, the minimum and maximum amounts are converted into the deal currency (USD) as follows:

- Min. Amount: USD 1900 (EUR 1000 \* 1.9)
- Max. Amount: USD 19000 (EUR 10000 \* 1.9)

The tax amount for this deal is calculated as follows:

$$90000 * 1.5/100 = \text{USD } 1,350 \text{ (tax amount)}$$

As this amount is less than the Minimum (Tax) Amount specified for this tax rule, a tax of 1,900 USD will be levied on the deal, instead of USD 1350. On the other hand, if the tax calculated was more than the maximum tax amount, USD 19,000 would be applied as tax, since that is the maximum possible tax that can be levied.

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



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

## 2.3.5 **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.

## 2.3.6 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.

The following example illustrates how this works:

### Example

You have the following Amount Basis (cumulative) structure for a Tax Rule defined for tax on the deal amount:

Amount	Rate
0 to 250,000	1%
> 250,000 <= 1 Million	2%
> 1 Million <= 3 Million	2.5%
> 3 Million	3%

When this tax rule is applied on a deal of USD 1.5 million, the rate of tax will be calculated depending on whether the Amount Basis has been defined as a slab or as a tier. The different methods are calculated as follows:

### Tier basis

The first 250,000 will be taxed at 1%

Amount from 250,001 to 1,000,000 at 2%

Amount from 1,000,001 to 1,500,000 at 2.5%

### Slab basis

The entire USD 1.5M will be taxed at 2.5%

### **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.

### Example

Suppose, the following is the slab or tier structure you want to specify:

Amount	Rate
0 to 250 thousand	1%
> 250 thousand <= 1 Million	2%
> 1 Million <= 3 Million	2.5%
> 3 Million	3%



The Basis Amount To, for the first slab or tier should be indicated as 250,000, and that for the second slab or tier as 1,000,000, and so on.

If you are to calculate cumulative tax on, an amount of USD 300,000, then on 250,000 you would calculate tax at 1%, which amounts to USD 2500. On the remaining 50,000 you apply tax at 2%, which amounts to USD 1000. The total tax applicable would, therefore, be USD 3500.

In a non-cumulative or slab structure of tax application, you will apply 2% on USD 300,000, which works out to USD 6000.

### **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 Tax Rule Maintenance screen:

<b>Basis Amount</b>	<b>Rate (%)</b>	<b>Floor Amount</b>	<b>Floor Charge</b>
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

## 2.4 Maintaining Tax Components as Classes

A class is a specific type of component that you can build with certain attributes. For instance, you can build a tax class, with the attributes of a specific type of tax component, such as an Issuer Tax. Similarly, you can build a charge class, with the attributes of a specific type of charge, such as Charges for provision of services.

When building a tax class, certain attributes such as the following can be defined:

- The module in which you would use the class
- The tax type (whether a withholding or an expense type of tax)
- The association event
- The application event
- The liquidation event
- The default tax rule

Tax classes can be categorized into:

- Transaction Level Tax classes
- Issuer Tax classes

Transaction level taxes are those that would be levied, on the portfolios you maintain and the contracts that you enter into. Issuer taxes are those that are withheld by the Issuer (of a security) when disbursing cash dividends and coupons.

## 2.4.1 Defining Transaction Level Taxes as Classes

You can define the attributes of a transaction level tax under the corresponding section of the 'Tax Class Maintenance' screen. You can invoke this screen by typing 'TADTAXCL' in the field at the top right corner of the Application tool bar and clicking the adjoining arrow button.

The screenshot displays the 'Tax Class Maintenance' web page dialog. At the top, it shows the Class Code as 'INS\_TAX3', Class Description as 'TAX', Module as 'SD', and Description as 'Securities Deal Module'. Below this, the 'Transaction Level Tax' section is active, showing 'Issuer Tax' as the selected type. The 'Tax Type' is set to 'Withholding', and 'Borne By' is 'Customer'. There are checkboxes for 'Cash Outflow' (unchecked), 'Allow Rule Amendment' (unchecked), and 'Amend After Association' (checked). On the right side, there are fields for 'Add/Substarct' (dropdown), 'Swift Qualifier', 'Basis Component' (DEAL\_NOMINALAMT), 'Default Rule' (FATAX), 'Default Waiver' (checkbox), 'Net Consideration' (checkbox), 'Securities Deal Nominal Amount', and 'Amend After application' (checked). The bottom status bar indicates the user is 'PRANAVI', the date/time is '7/3/2000 14:49:41', and the modification number is '1'. There are also checkboxes for 'Open' and 'Authorized', and an 'Exit' button.

Before defining the attributes of a Transaction Tax Class, assign the class a unique identifier, called the Class Code, and briefly describe the class. A description would help easily identify a class.

### Module

A tax class is built for use in a specific module. This is because the basis amounts on which the tax is applied could vary with the modules. In the Foreign Exchange module, for instance, you might want to levy tax on the brokerage paid. In the Securities module, you might have to pay a tax on the value of a security that you purchase. The *basis* on which the tax component is calculated is different in these two cases.



The Basis Amount Tags available, in this screen, would depend on the module for which you build the class.

### Tax

The type of tax indicates who bears the tax, whether the bank or the customer.

### Withholding

Withholding type tax is borne by the beneficiary on an income (either the bank or the customer). For example, the tax on the brokerage paid would be borne by the broker. You *withhold* this component in a Tax Payable account, by debiting the customer account (since brokers are defined as Customers in Oracle FLEXCUBE) and later paying the tax to the government on behalf of the broker.

## Expense type

If you choose to bear the tax that is payable on brokerage, you would define it as an expense type of tax. The tax entries, in this case, would be posted to an Expense account.

If you bear the tax, there could either be an immediate cash Outflow or payment, or a mere crediting of it to a Tax Payable account. In the latter case, there would not be an immediate Outflow. The tax would be paid at a later date, from the Tax Payable account.

## The Net Consideration

The sum of the different components of a contract determines the net value of the contract. To indicate that a transaction level tax component should be taken into account when determining the net value of a contract, choose the Net Consideration option.

If you choose to include the tax component in the net value of the contract, you should also indicate if the tax component is to be added or subtracted, while calculating the net consideration amount.

### Example

Assume you buy securities from a counterparty. The different components of the deal are:

- The value of the securities USD 50,000
- The applicable tax USD 1,000
- The accrued interest USD 1,500
- The applicable charge USD 50

If you choose to include the tax component when calculating the value of the deal, choose the Net Consideration option. Indicate if the component is to be Added or Subtracted.

### Result

If you choose the Net Consideration option and decide to add the tax component to the value of the deal, the net value of the deal would be USD 52,550.

If you choose the Net Consideration option and decide to subtract the tax component from the value of the deal, the net value of the deal would be USD 50,550.

If you do not choose the Net Consideration option, the net value of the deal would be: USD 51,550.

## Defining the Events and the Basis Amount

Each contract that your bank enters into goes through different stages, each of which is referred to as an Event in Oracle FLEXCUBE.

A securities deal, for instance, goes through different stages in its life cycle, such as:

- Deal Booking
- Money Settlement of Securities Deal
- Settlement of Securities Deal
- Reversal of Securities Deal
- Cancellation of Securities Deal

Each of these stages is referred to as an Event in Oracle FLEXCUBE.

The following are examples of the events for a portfolio that you maintain:

- Booking of Contingent Asset
- Accrual of Discount Earned

- Accrual of Interest Earned
- Forward Profit and Loss Accrual

At any of these events, you can choose to apply a tax. The event at which you would like to associate a tax component, is referred to as the Association Event. At this event, no accounting entry (for the tax component) is passed.

The event at which the tax component is actually computed is referred to as the Application Event. The tax is liquidated at the Liquidation Event.

The basis on which a tax is calculated is referred to as the Basis Amount. A tax can be on the basis of the principal, the brokerage paid and so on. When building a tax class, you have to specify the tag associated with the Basis Amount.

### **Choosing the Default Tax Rule**

A tax rule can be linked to the tax component that you are building. When you link a rule to a component, the attributes that you have defined for the rule, will default to the component.

A tax rule identifies the method in which tax, is to be calculated. A rule is built with attributes such as the following:

- The tax currency
- Whether the tax is to be a flat amount or calculated on a rate basis
- The minimum and maximum tax that can be applied
- The tier or slab structure on which the tax is to be applied
- The currency restrictions, etc.

The tax component to which you link a rule acquires ITS properties. Tax for the contracts with which you associate a tax component will, by default, be calculated according to the rule linked to the component. However, when processing a contract, you can choose to waive the rule.

When building a tax class, you can choose to allow the amendment of the rule linked to it, under the following conditions:

- You can choose to allow amendment after the association event
- You can choose to allow amendment after the application event
- You can choose to allow amendment of the tax amount

### **Including a Component in SWIFT Messages**

To report a component of a contract in the SWIFT messages that you generate, identify the component with the appropriate SWIFT code. You can identify a tax component with its SWIFT code when building the component.

#### **Example**

You would like to report the details of a contract to a customer, over SWIFT. Assume you would like to report the tax component (amongst others) in the message that you generate. Each component is identified in SWIFT by a unique code. Even while building the tax component in the Tax Class Maintenance screen, you can identify it with its SWIFT Code.

In the SWIFT Qualifier field of the Tax Class Maintenance screen, you can enter the component identifier, as follows:

If the tax component you are building is...	Enter
a Country, National, Federal tax	COUN
a Payment Levy sort of tax	LEVY
a Local tax	LOCL
a Stock Exchange tax	STEX
a Transfer tax	TRANSACTION
a Transaction tax	TRAX
a Value Added tax	VATA
a Withholding tax	WITH

## 2.4.2 **Defining Issuer Taxes as Classes**

An issuer tax can be levied on the coupon paid, or on a cash dividend. The issuer of a security determines the tax. To process the tax levied on a security, you have to maintain Issuer Tax classes.

An Issuer Tax class can be maintained in its corresponding section of the Tax Class Maintenance screen invoked from the Application Browser.



Please note that it is not necessary to associate tax rules to an Issuer Tax class. For an Issuer Tax component, you only have to furnish the following details:

- The Association Event
- The Basis Amount
- The Rate Code
- Other operational controls

Class Code \* INS\_TAX3  
 Class Description \* TAX  
 Module \* SD  
 Description Securities Deal Module

Transaction Level Tax | Issuer Tax

Event For Association \_\_\_\_\_  
 Basis Component \_\_\_\_\_  
 Default Rate Code \_\_\_\_\_

Default Waiver  
 Allow Rate Code Amendment  
 Amend After Association

Input By PRANAV1    Date Time 7/3/2000 14:49:41    Modification Number 1     Open  
 Authorized By PRANAV1    Date Time 7/3/2000 14:53:19     Authorized    **Exit**

### 2.4.3 Defining the Events and the Basis Amount

A security goes through different stages in its life cycle, such as:

- Booking
- Interest Accrual
- Liquidation, etc.

Each stage is referred to as an Event, in Oracle FLEXCUBE. When defining an Issuer Tax class, you should specify the following:

- The Association Event
- Basis Amount

The event at which you would like to associate a tax component to a security is referred to as the Association Event.

The basis on which interest, charge or tax is calculated or levied is referred to as the Basis Amount. (An Issuer Tax can be on the basis of the coupon paid, or on a cash dividend.) The different basis amounts available in the Securities module are associated with a unique 'tag'. When building a tax component, you have to specify the tag associated with the Basis Amount. When tax is calculated for a security, the basis amount corresponding to the tag will be picked up automatically.

## 2.4.4 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 'Tax Rate Maintenance' screen. When building an Issuer Tax component, say Issuer\_01, in the '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 'Tax Rate Code Maintenance' screen. You can invoke this screen by typing 'TADRTCD' in the field at the top right corner of the Application tool bar and clicking the adjoining arrow button.

The screenshot shows a web page dialog titled "Tax Rate Code Maintenance -- Web Page Dialog". The main content area contains the following fields:

- Rate Code \* TAX2
- Rate Code Description \* HJGDSFHER843
- Country Code USA
- Country Code Description United States of America

At the bottom left, there is a "Fields" tab. The bottom status bar contains the following information:

- Input By BM4
- Authorized By BM4
- Date Time 7/3/2000 12:50:37
- Modification Number 3
- Open checkbox (unchecked)
- Authorized checkbox (checked)
- Exit button

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

## 2.4.5 Furnishing the Rate Values for a Code

The actual rate values for a rate code can be maintained in the 'Tax Rates Input' screen. You can invoke this screen by typing 'TADRATE' in the field at the top right corner of the Application tool bar and clicking the adjoining arrow button.



**Tax Rates Input -- Web Page Dialog**

Rate Code \* SRTX\_C  
 Basis Amount Currency \* ALL  
 Beneficiary Country \* ALL  
 Beneficiary Customer Number \* ALL  
 Exchange Rate Type \* STANDARD  
 Tax Currency \* USD

Rate Code Description SR TAX RATE CODE  
 Currency Description ALL CURRENCY  
 Beneficiary Country Name ALL COUNTRIES  
 Beneficiary Customer Name ALL CUSTOMERS  
 Rate Type Description STANDARD  
 Tax Currency Name U.S.DOLLAR

Effective Date \* 7/3/2000  
 Exchange Rate Category \* Mid  
 Tax Rate \* 5

**Fields**

Input By SAN      Date Time 7/3/2000 13:53:15      Modification Number 1       Open  
 Authorized By SAN      Date Time 7/3/2000 13:54:01       Authorized      **Exit**

For a rate code, you can enter the following details:

The Basis Amount Currency	The basis (the coupon amount, the cash dividend amount, etc.) on which a tax is calculated, is referred to as the Basis Amount. You can specify the currency of the Basis Amount.
The Beneficiary Country	Issuer Tax Rates are specific to markets. When maintaining a rate value for a code, you have to identify the market for which you are defining the rate.
The Beneficiary CIF	You can maintain unique tax rates for issuers of securities. When you maintain a security, the system applies the tax rate defined for the issuer. If you have not maintained a rate for an issuer, the system applies the rate maintained for the country to which issuer belongs.
The Effective Date	The date on which a rate becomes effective is referred to as the Effective Date. For a code and Effective Date, you can maintain a rate.
The Tax Currency	You can specify the currency in which the tax should be applied.
The Exchange Rate Type and Category	If you specify a Basis Amount Currency that is different from the Tax Currency, you have to indicate the type of rate (standard, spot, cash, etc.), and the rate category (mid, buy, or sell rate) that should be used in the currency conversion.
The Tax Rate	In this field, you can enter the actual rate value for a Code, for an Effective Date. When you associate a rate code with an issuer tax class, the rates corresponding to Effective Dates will be picked up and applied.

**Example**

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

**Tax Class 1**

Class Code	Issu_clas1
Basis Amount	Coupon Amount
Effective Date	1 January 1999 (defined for the associated Rate Code)
Tax Rate	0.5% (defined for the associated Rate Code)

**Tax Class 2**

Class Code	Issu_clas2
Basis Amount	Coupon Amount
Effective Date	1 April 1999 (defined for the associated Rate Code)
Tax Rate	0.75% (defined for the associated Rate Code)

Tax for securities associated with the Issuer Tax component will be computed in the following manner:

From 1 January 1999 to 31 March 1999, coupons paid will be taxed at 0.5%. From 1 April 1999 onwards, the coupons will be taxed at 0.75%.

Coupons will continue to be taxed at 0.75% till another rate code, with a different Effective Date is encountered.

**2.4.6 Associating a Rate Code with an Issuer Class**

The tax that applies on a coupon would be calculated at a specific rate. When building an issuer tax component, you have to specify the rate at which tax should be computed for a coupon. When you associate a rate code that you have maintained with a component, the rates corresponding to the component will be picked up. A rate code identifies the rate that applies on a tax. A rate code is built with attributes such as the following:

- The tax currency
- The basis amount currency
- The Effective Date
- The Exchange Rate Type and Category

Tax for the component to which you link a rate code will be computed by default, on the basis of these properties.

When maintaining a security, however, you can choose to waive the rate code altogether.

## 2.5 **Grouping Tax Components into a Scheme**

A Tax Scheme consists of a set of Tax Rules that will be made applicable on a product. Tax schemes can be two types:

- Schemes, which cater to Money Taxation. These tax schemes involve a combination of tax rules only. In Oracle FLEXCUBE, money taxation schemes are made applicable on deposit, funds transfer, foreign exchange, money market and trade finance transactions.
- Schemes, which cater to Securities and Derivative taxation. These tax schemes involve a combination of tax classes. For instance a security could consist of one or more issuer tax components (a tax on coupons and a tax on redemption). You can define these components as tax classes. Since a Securities/Derivatives tax scheme is composed of one or more tax classes; by associating a tax scheme with a market, you can compute all the tax components for the securities used from the market.

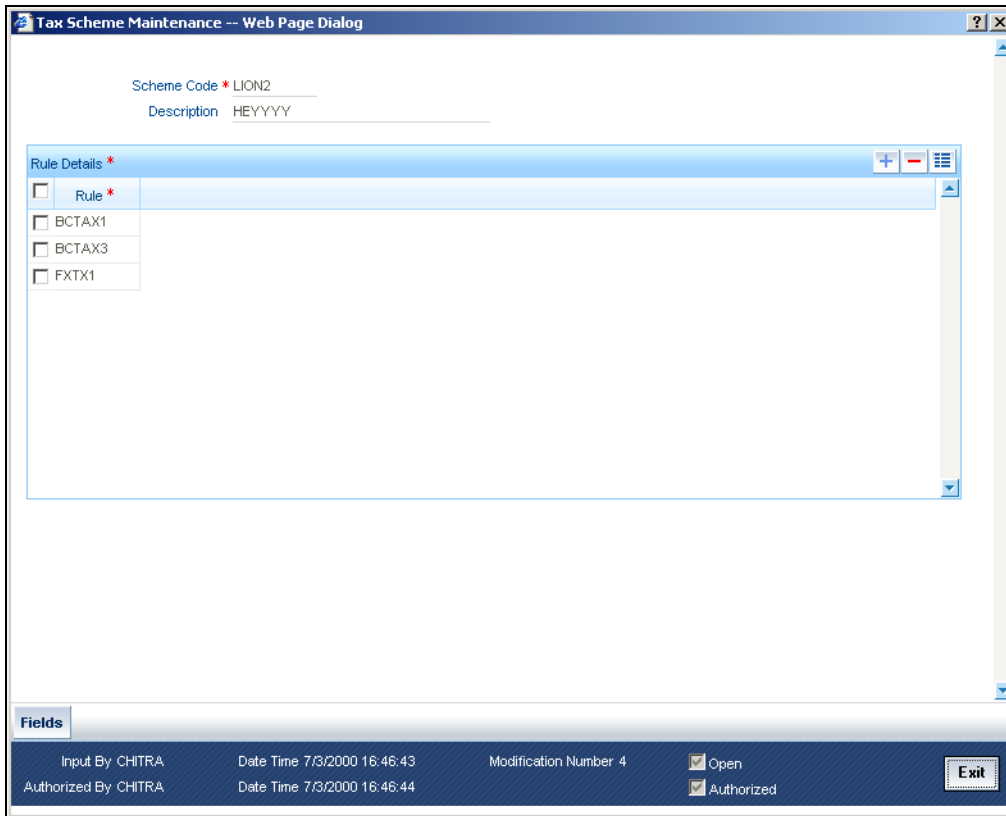
The manner in which you can maintain Money and Security/Derivative scheme types has been discussed in detail in the subsequent sections.

### 2.5.1 **Defining Securities and Derivative taxation schemes**

A contract that you enter into could consist of one or more tax components (a Stock Exchange tax, a Local tax, etc.). You can define each of these components as a tax class, and associate each with a tax rule. A tax rule identifies the method in which a tax component is calculated.

A tax scheme is composed of one or more tax classes. For instance, a Transaction Level Tax Scheme would be composed of one or more transaction level tax classes. By associating a Tax Scheme with a product, you can calculate all the tax components for the contracts entered under the product at one stroke.

Tax schemes can be built in the 'Tax Scheme Maintenance' screen. You can invoke this screen by typing 'TADSCHEM' in the field at the top right corner of the Application tool bar and clicking the adjoining arrow button.



You must identify a Tax Scheme that you build with a unique Code and a brief Description.

A tax scheme is built specifically for a module in Oracle FLEXCUBE. For example, a scheme with Stock Exchange tax classes would only be relevant to the Securities module. When you define a product in a module, only those tax schemes that you have built specifically for the module, will be available to you.

### 2.5.1.1 How a Scheme Works

A class in a scheme will remain effective till another class for the same component, but with a different Effective Date, is encountered.

The following example illustrates how the different classes in a tax scheme, defined for the same component is applied.

#### Example

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

##### **Tax Class 1**

Class Code	Brok_clas1
Effective Date	1 January 1999 (defined for the associated tax rule)
Basis Amount	Brokerage Amount
Tax Rate	0.5% (defined for the associated tax rule)

### Tax Class 2

Class Code	Brok_clas2
Effective Date	1 April 1999 (defined for the associated tax rule)
Basis Amount	Brokerage Amount
Tax Rate	0.75% (defined for the associated tax rule)

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

- From 1 January 1999 to 31 March 1999, the brokerage paid on contracts will be taxed at 0.5%. From 1 April 1999 onwards, the brokerage paid will be taxed at 0.75%.
- Brokerage will continue to be taxed at 0.75% till another class with a different Effective Date is added to the scheme.

### 2.5.1.2 Putting a Component in a Scheme on hold

You can choose to keep one or more tax components in a scheme, on hold. When you associate the scheme with a product, those tax components that are on hold, will not apply on contracts entered under the product. This status can be changed at any time.

### 2.5.2 Defining a Money Taxation 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 Funds Transfer module of Oracle FLEXCUBE.

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	Tax1
Effective Date	1 Jan 2002
Component	Charges Earned
Tax Rate	10

**Tax Rule 4**

Rule Code	Tax2
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.



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

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

The screenshot displays the 'Tax Scheme Maintenance' web page. At the top, the 'Scheme Code' is 'LION2' and the 'Description' is 'HEYYYY'. Below this is a 'Rule Details' table with the following entries:

Rule *
<input type="checkbox"/> BCTAX1
<input type="checkbox"/> BCTAX3
<input type="checkbox"/> FCTX1

At the bottom of the page, the 'Fields' section contains the following information:

Input By: CHITRA	Date Time: 7/3/2000 16:46:43	Modification Number: 4	<input checked="" type="checkbox"/> Open
Authorized By: CHITRA	Date Time: 7/3/2000 16:46:44		<input checked="" type="checkbox"/> Authorized

An 'Exit' button is located in the bottom right corner.

### 2.5.3 Features of 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.

## 2.6 Linking a Tax Scheme to a Product

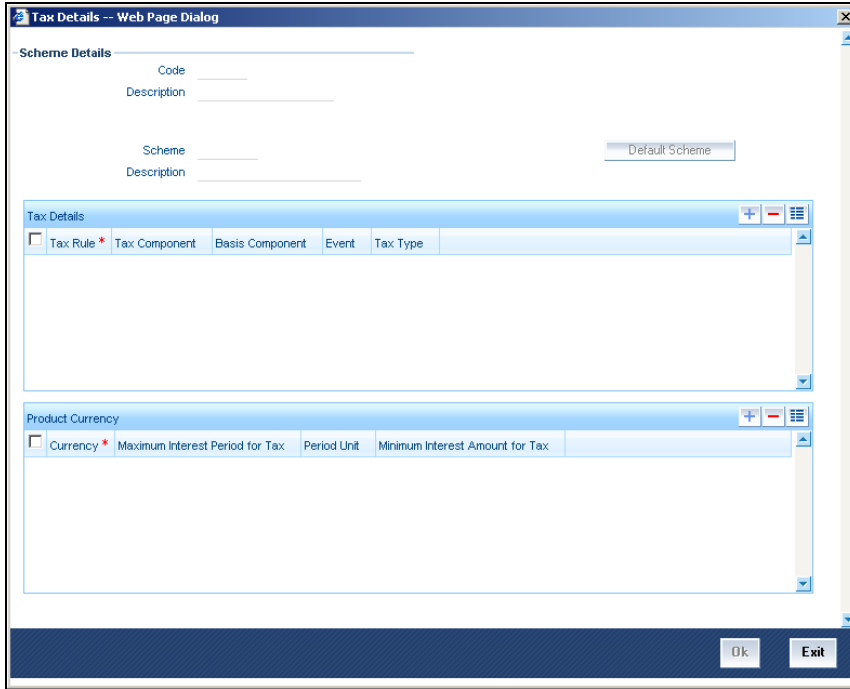
A tax scheme is linked to a product, only if tax is applicable to the product. This linkage is established through the tax screen, of product definition. The tax scheme thus linked will be applicable on a contract processed under the product by default. However, you have the option of waiving the application 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 LD/MM Product Definition screen. Click 'Tax' button in the respective 'Product Definition' screen.



### 2.6.1.1 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.

#### **Example**

Tax can be applied on either the LC amount, the commission or charge component. These are called the Basis Component. The method of tax application defined for the Tax Rule will be applicable 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.

### **Example**

For an LC it is always the bank, which bears the tax. Hence, a tax that is levied always falls under an Expense type. The tax is debited from an expense account and put in a tax payable account, from where it is subsequently paid to the government.



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.

### **Minimum Interest Rate Code for Tax**

This field is appears only for LD and MM product maintenance.

You need to specify the rate code that will be used to determine the minimum interest rate for the tax to be applicable. If the rate code is not defined, then the minimum interest rate will be taken as 0.

## **2.6.1.2 Specifying Currency Details**

### **Currency**

This field appears only for LD and MM product maintenance.

You need to specify the currency for which the tax waiver rules (maximum interest period and minimum interest amount) should be defined.

### **Maximum Interest Period for Tax**

This field appears only for LD and MM product maintenance.

You need to specify the interest period beyond which tax on the interest amount liquidated would be waived.

The maximum interest period would be applicable only for Deposit type of products for LD and Borrowing type of products for the MM module.

If the tax rule has a tax category linked to it, then the currency details will be mandatory. A validation for this would be done during tax processing. In case the tax rule does not contain the tax category, and the currency details have not been defined, then the maximum interest period would be ignored and the minimum interest amount would be considered as 0 indicating that the tax would always be computed.

## Period Unit

This field appears only for LD and MM product maintenance.

You need to specify the unit for the interest period. The available options are as follows:

- Days (D)
- Months (M)
- Years (Y)

## Minimum Interest Amount for Tax

This field appears only for LD and MM product maintenance.

You need to specify interest amount up to which tax will be waived. The minimum interest amount would be applicable only for the Deposit type of products for LD and Borrowing type of products for MM module.

If the tax rule has tax category linked to it, then the currency details will be mandatory. A validation for this would be done during tax processing. In case the tax rule does not contain the tax category, and the currency details have not been defined, then the maximum interest period would be ignored and minimum interest amount would be considered as 0 indicating that the tax would always be computed.

If the interest amount being liquidated is less than the minimum interest amount, tax will be waived completely for that transaction

### 2.6.1.3 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 Tax Rule 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.

### 2.6.1.4 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).

#### 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.

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).



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

## 2.6.2 Processing Tax on MM contracts

The tax processing for MM contracts would occur as follows:

- First, the Waiver maintenance for Interest Rate/Period/Amount defined at the at the LD/MM 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 LD/MM 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 LD/MM 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 LD/MM 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
- In case the Waiver conditions defined are not satisfied, the tax computation would be done as follows. This computation would be done only for Deposit (LD) and Borrowing (MM) type of products.
  - First, the actual basis amount would be arrived at based on the Basis Percentage defined in Tax Rule Maintenance.
  - This Basis Amount would be rounded using the currency rounding parameters.

- Then the availability of Tax Free Allowance at the contract level would be verified. If the Limit has been defined, then availability of the same would be verified in the sequence in which it has been defined. In case the Tax Free Allowance has not been defined at the contract level, the same would be verified at the Customer level. If the Tax Free Allowance is available, the same would be reduced from the taxable amount (Basis Amount) to arrive at the Net Taxable Amount. If the contract currency and the tax-free allowance currency are different, the Basis Amount would be converted to the Tax-free Amount currency.
- The Net Taxable Amount arrived at here would again be rounded up using the Currency Rounding Parameters.
- The taxable amount (Basis Amount) would then be converted into the Calculation Currency (Basis Amount Currency) in case the Calculation Currency defined in the Tax Rule is different from the contract currency.
- The Taxable Amount (Basis Amount) thus computed would be rounded using the rounding parameters defined for the Calculation Currency. Even if the taxable amount is in the same currency as Calculation Currency, rounding would be done using the Calculation Currency rounding parameters defined in the Tax Rule.
- The appropriate Tax Rate would be picked up based on the slabs defined in the Tax Rule and the tax would be computed on the rounded taxable amount.
- The tax amount thus computed would then be converted into Tax Currency if the tax currency is different from the Calculation Currency.
- The converted amount would then be rounded using the Tax Currency Rounding parameters.
- The Basis Percentage defined in the Tax Rule would be applied again to the tax amount to compute the actual tax amount. The inverse of Basis Percentage would be applied to get the Actual Tax Amount. Thus if the Basis Percentage is 50 and the tax computed by the system is USD 125, the actual tax amount would be
- $USD\ 125 * (100/50) = USD\ 250.$
- The tax amount computed after application of the Basis Percentage would again be rounded using the Tax Currency rounding parameters.
- Now, the Customer-group Tax Waiver Maintenance would be verified to check if some waiver has been maintained for the Customer Group-Customer-Tax Category-Product combination. If a Waiver Rule has been maintained, then the waiver amount would be computed by applying the waiver percentage to the tax amount.
- The waiver amount would be subtracted from the tax amount
- The net tax amount post waiver would again be rounded using the tax currency rounding parameters to arrive at the final tax amount to be charged to the customer account.

### **2.6.3 Processing Tax on Customer Accounts**

- In order to process tax in customer accounts, the tax formula has to be maintained in the IC Rule Maintenance screen. The Periodicity in the Tax formula (Formula2) should always be set to Periodic. The tax rounding parameters would be maintained at the Rule level. An IC Rule would also be maintained for a Tax Category. The parameters maintained in the IC Rule Maintenance would be as follows:
  - Tax Category
  - Rounding parameters for Basis Amount and Tax Amount
  - Basis Amount Percentage
  - Local Currency Basis ( to specify whether the Basis Amount should be in local currency or account currency)
  - Tax Payable Currency

- Whether to Book Tax to Expense Account or not
- The tax amount on the credit interest for the account would be calculated based on the Rule Maintenance.
- Tax would be waived in the following cases:
  - If the interest rate is less than 1%
  - If the interest period is more than one year
  - If the amount is less than 10 EUR

To achieve the above defined waivers, UDE's would have to be created and used in the conditional clause for Tax Formula.

For the Waiver Rule where the Interest Period should be more than one year, the liquidation frequency would have to be set to one year. Also, the Rule attached to the Product Tax Formula should not be defined. For the other two options, the UDEs would have to be created.

For example, consider if an IC Rule RUL1 is defined with two formulas. FORMULA1 with normal book formula that calculates the credit interest, and FORMULA2, the tax formula. In such a case, the following UDE's would have to be defined for this Rule

RATE -- The credit interest rate

TAX\_RATE – Tax rate

TAX\_RATE\_CAP – Value of this can be 1% (For checking the interest rate)

TAX\_AMT – Value of this can be 10 EUR (For checking the amount)

The Tax Formula FORMULA2 would be defined as follows:

Condition	Result
RATE > TAX_RATE_CAP AND FORMULA1 > TAX_AMT	FORMULA1 * TAX_RATE

This maintenance would have to be controlled operationally by the Bank.

- If the interest amount does not fall under the above waivers, then the system will start the calculation process for the tax amount
- The system will apply the % of the Basis Amount for tax calculation. This would give the amount on which tax has to be calculated. The % would be arrived at from the maintenance at the tax formula level. After computing this amount, the system would apply the rounding rules defined for the Basis Amount for this amount.
- Once the Basis % is arrived at, the system would look into the Customer Account/Customer Level Allowance Limit for the Tax Cycle defined. This would be in the system as a separate Maintenance. The System would first look into the table where the Customer Account Limit is maintained for the customers. If this is not found, then the system would look into the Customer Allowance Limit Maintenance and get the Customer Level Limit maintained. Once the value of the Allowance Limit is arrived at, the system would deduct this from the Basis Amount obtained after applying the Basis % , and arrive at the Taxable Amount.
- The system would update the Amount Utilized in a separate data store for Utilization of the Limit. This would happen online
- On this amount only, the system would apply the Tax Rate and compute the Tax Amount

- After calculating the Tax Amount, the system would round the Tax Amount based on the rounding parameters for the Tax Amount
- Next, the Inverse Basis % would be applied on the Tax Amount
- After computing this amount, the system would apply the Customer Level Waiver. This waiver would be maintained again as a separate maintenance in Oracle FLEXCUBE. This is the % Tax Amount to be waived. First, the Waiver Amount from the original amount would be calculated. Then, this would be subtracted from the original amount to arrive at the Tax Amount.

After applying the Customer Level Waiver %, the system would round the Tax Amount again based on the rounding parameters at the Tax Amount level. This would be the final tax amount to be deducted from the Account.

**Example**

Consider the following scenario:

A deposit/account yields an interest of USD 152.

Tax rate is 30%

Basis Percentage is 50%

Available Tax Free Allowance Limit is USD 50

Calculation and Tax Currency are EUR and 1 EUR = 1.13 USD.

Rounding Rule for both Calculation and Tax Currency is Truncate.

Customer Tax Group Waiver is defined as 20%

The tax computation would be as follows:

Total Interest Amount (Basis Amount) = USD 152

After application of Basis Percentage, the Basis Amount would be  $USD\ 152 * (50/100) = USD\ 76$ .

After application of the Tax Free Allowance, the Basis Amount would be  $USD\ 76 - 50 = USD\ 26$ .

Now the Basis Amount would be converted into the Calculation Currency. Thus, the Basis Amount in EUR is  $USD\ 26 * 1.13 = EUR\ 29.38$ .

Since the Rounding Rule is Truncate, the actual taxable amount would be EUR 29.

The tax amount computed would be  $EUR\ 29 * (30/100) = EUR\ 8.7$

On applying the rounding rule (Truncate), the tax amount would be EUR 8.

Now the Inverse of Basis Percentage would be applied to get the final tax amount. The final tax amount thus would be  $EUR\ 8 * (100/50) = EUR\ 16$ .

Now the Customer Tax Group Waiver of 20% would be applied on the net tax amount. The waived amount would thus be  $EUR\ 16 * (20/100) = EUR\ 3.2$

Thus, the Net Tax Amount =  $EUR\ 16 - 3.2 = EUR\ 12.8$ .

This is the final tax amount. This tax amount would again be rounded using the tax currency rounding rule (Truncate). Thus the final tax amount to be charged to the customer would be equivalent of EUR 12.

## 2.7 **A Note on Tax Processing for Rollovers**

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

### 2.7.1.1 **Specifying Rollover Tax Details for the product**

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.

### 2.7.1.2 **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

### 2.7.1.3 **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.

## **2.8 Specifying exemption of tax on interest earned on accounts/deposits**

### **2.8.1 Features of application of DIRT**

Deposit Interest Retention Tax (DIRT) is payable on interest earned on accounts and deposits. This is deducted by the bank in the form of withholding tax.

Normally, you will deduct DIRT for all customers. However, regulations may require you to waive DIRT for accounts or deposits held by certain customer categories. Customers belonging to such categories will typically produce relevant exemption certificates from tax authorities.

DIRT is to be deducted by you for a customer account or deposit till such time as the customer produces the exemption certificate and again beyond the validity of the exemption certificate. Therefore, it is possible for a customer account or deposit to keep moving in and out of DIRT exempt status. Such movements are tracked by Oracle FLEXCUBE's audit trail.



DIRT exemption is always with prospective, and not retrospective, effect.

#### **Example**

The Sisters of Charity, a customer belonging to the DIRT exempt category opens a three-year term deposit on 01-Jan-2003, but does not produce the exemption certificate immediately.

At the time of yearly capitalization, on 31-Dec-2003, DIRT is deducted from the interest on the deposit and the net amount (Principal + Accrued Interest – DIRT) is capitalized.

The Sisters of Charity produces the exemption certificate on 15-Jan-2004, the certificate being valid from 01-Jul-2003. The DIRT deducted for the year ended 31-Dec-2003 is not rolled back. DIRT exemption applies for the period starting 15-Jan-2004.

The exemption certificate produced by The Sisters of Charity is valid up to 15-Aug-2004. DIRT becomes applicable once again from 16-Aug-2004. So, the amount rolled over during yearly capitalization on 31-Dec-2004 is:

Rolled-over amount as on 31-Dec-2003 + Interest for the year 2004 – DIRT for the period 01-Jan-2004 to 14-Jan-2004 – DIRT for the period 16-Aug-2004 to 31-Dec-2004.



## 2.8.2 Exempting DIRT on interest for Current / Savings accounts (CASA)

In order to waive DIRT on interest earned on CASA, you have to first build the 'DIRT exempt' SDE into an interest rule, build an interest product using that rule and attach the product to the relevant account.

*Refer to the Maintaining System Data Elements and Maintaining Interest Rules chapters of the Interest and Charges user manual for details on the above.*

Invoke the 'DIRT Exemption Details' screen from the Application Browser.

Effective Date	Dirt Exempt	Reason Text *	Additional Text
----------------	-------------	---------------	-----------------

Select the relevant account number (which you wish to specify as DIRT exempt) from the list of values. Select the 'DIRT Exempt' option to mark the account for exemption from DIRT on interest earned. You have to enter the date from which DIRT exemption is to take effect. You also need to select the reason for DIRT exemption from the list of values built into Oracle FLEXCUBE. Additionally, Oracle FLEXCUBE gives you the facility for capturing any pertinent additional information as text.

You need to visit this screen in order to change the DIRT exempt status of any customer account.

## 2.8.3 Exempting DIRT on interest on deposits

For marking term deposit contracts as DIRT exempt, invoke the 'DIRT Exemption Details' screen from the Application Browser. You can invoke this screen by typing 'TADACMNT' in the field at the top right corner of the Application tool bar and clicking the adjoining arrow button.

From the list of values, select the contract that you wish to specify as DIRT exempt. Those tax components attached to the contract, for which the 'exemption allowed' option has been selected while maintaining tax rules, are displayed.

*Refer to the Specifying Tax Exemption section earlier in this chapter for details on marking tax components for exemption.*

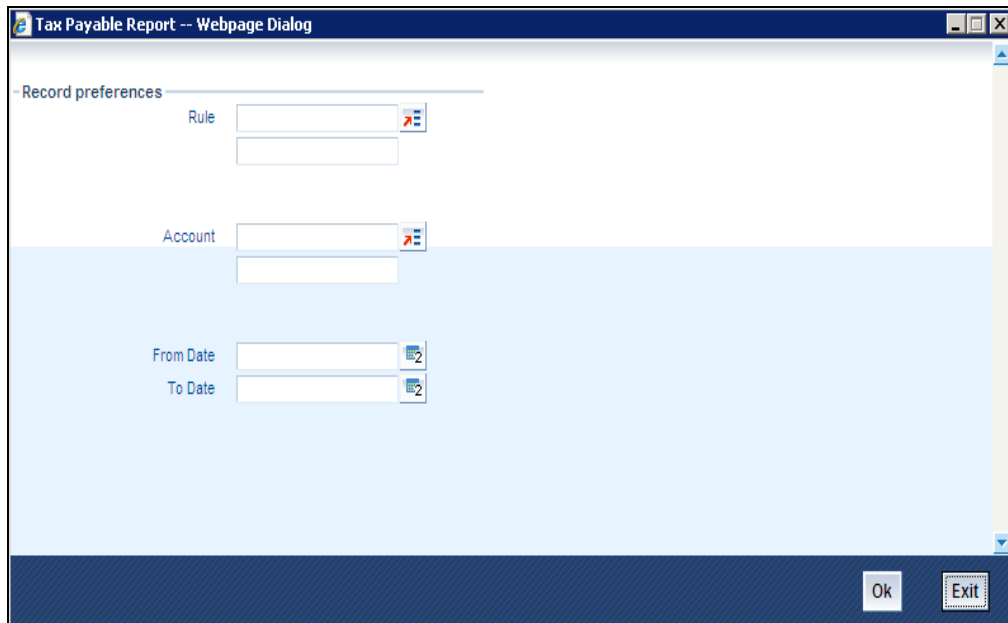
Select the components that you wish to be waived for the deposit. For each component that you mark off as waived, you can select a reason from the pre-shipped list of values and also enter additional information as text.

## 3. Reports

### 3.1 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 web browser window titled "Tax Payable Report -- Webpage Dialog". The window contains a form with the following fields and controls:

- Record preferences** section:
- Rule**: A text input field with a dropdown arrow button.
- Account**: A text input field with a dropdown arrow button.
- From Date**: A date input field with a calendar icon.
- To Date**: A date input field with a calendar icon.
- At the bottom right, there are **Ok** and **Exit** buttons.

#### 3.1.1 Contents of the Events Log

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 No	The contract reference number
Value Date	The value date of the transaction
Amount	The amount payable



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