# Italian VAT reporting – a smooth ride with Oracle's Gapless Document Sequencing.

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In Italy, when invoices are reported in the VAT register, payables VAT register and sales VAT register should report payables and receivables transactions respectively, in a continuous, unique ascending sequence in the chronological order of GL date without any gaps. This is a strict legal requirement and should be followed for every VAT reporting period.

This paper discusses how Oracle E-Business suite Italian add-on localization can help, as a tool, in achieving these objectives with its unique feature of Gapless Document Sequencing for payables and receivables invoices. This is written from the perspective of the manufacturing industry but it can be used by other industries too. It also highlights the value addition brought in by Infosys consultants to make this solution comprehensive.

These must also simply be numbered sequentially in the order of accounting date before use.

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## How is this different from the standard Oracle Gapless Document Sequence?

Oracle E-Business suite provides a standard solution where document sequences can be generated in a gapless manner for payables and receivables invoices. However, Italy's laws require that the gapless sequence be maintained within each VAT period and also be based on the GL date within each VAT period. This means the sequence should be in a chronological order of the GL date within the VAT period.

The Standard Oracle Gapless Document Sequence will only generate the document number in sequence but will not restrict within the VAT period and GL dates.
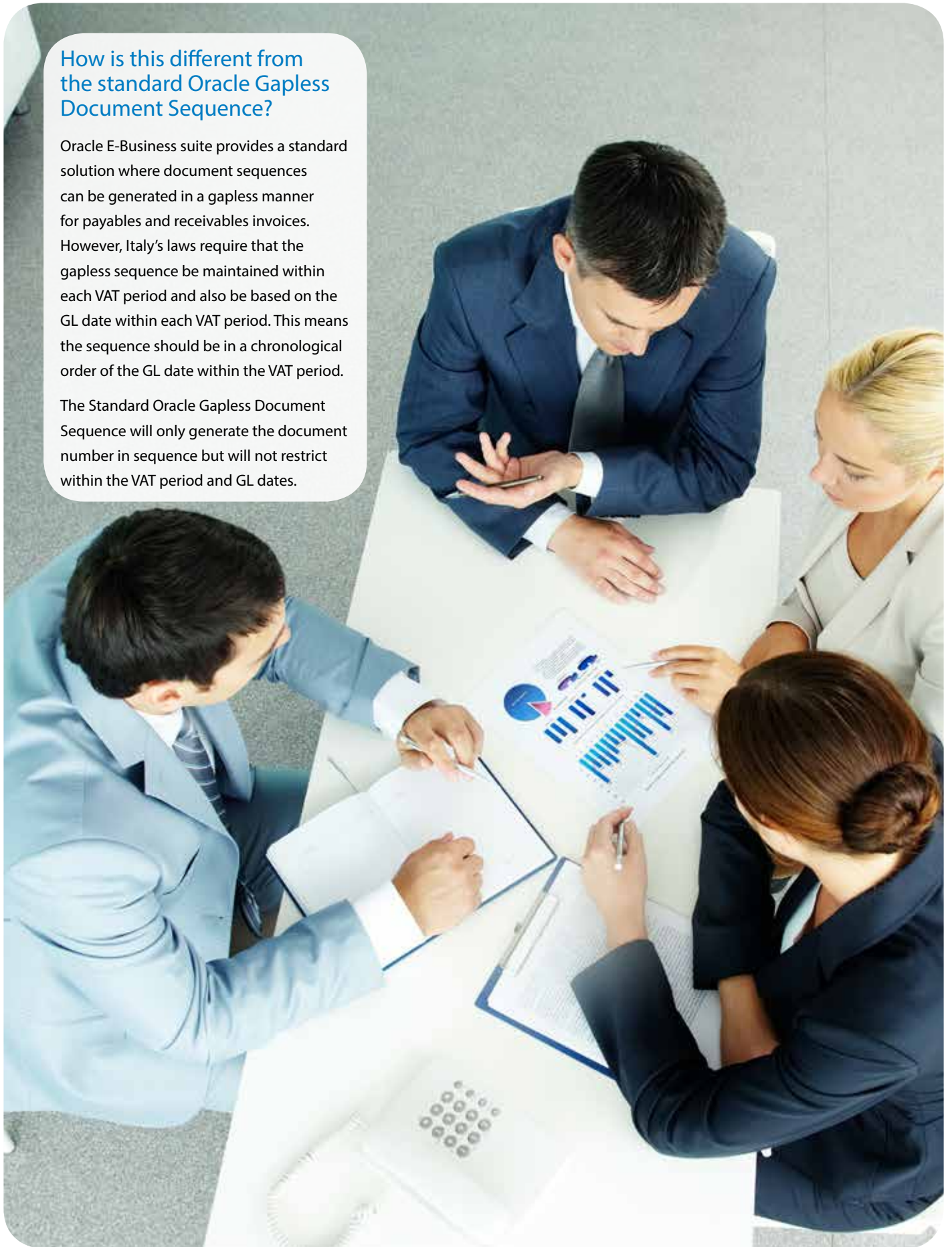
| Example: Standard Gapless Document Sequence solution | | | | |
|---|---|---|---|---|
| **Invoice number** | **Invoice date** | **Document sequence number** | **GL date** | **Period** |
| INV1 | Feb 01, 2013 | 1 | Feb 01, 2013 | Feb 13 |
| INV2 | Feb 05, 2013 | 2 | Feb 05, 2013 | Feb 13 |
| INV3 | Feb 03, 2013 | 3 | Feb 03, 2013* | Feb 13 |
| INV4 | Jan 01, 2013 | 4 | Jan 01, 2013 | Jan 13 (**) |

\* Earlier GL date in the same period.

\*\* Assumes that both Jan-13 and Feb-13 periods are still open.

However Italy's legal requirement requires that the document sequence numbers are generated in sequence for each valid VAT period as follows:

| Example: Italian Gapless Document Sequence solution | | | | |
|---|---|---|---|---|
| **Invoice number** | **Invoice date** | **Document sequence number** | **GL date** | **VAT Period*** |
| INV1 | Feb 01, 2013 | 1 | Feb 01, 2013 | Feb 13 |
| INV2 | Feb 05, 2013 | 2 | Feb 05, 2013 | Feb 13 |
| INV3 | Feb 03, 2013 | 3 | Feb 05, 2013 ** | Feb 13 |
| INV4 | Jan 01, 2013 | 4 | Feb 05, 2013 ** | Feb 13 |

\* As per Italy VAT reporting requirements, only one period can be assigned as valid VAT open period at a given time and all invoices have to be reported in a gapless sequence in chronological order of the GL date.

\*\* As GL date Feb 05, 2013 was already assigned to sequence number 2, the subsequent sequences cannot have the GL date before Feb 05, 2013. They can have any GL date on or after Feb 05, 2013 within the Feb 13 period.

The following chart represents the incorrect sequences and the correct sequence with respect to the GL date on a sample basis:



Incorrect sequence w.r. to GL date
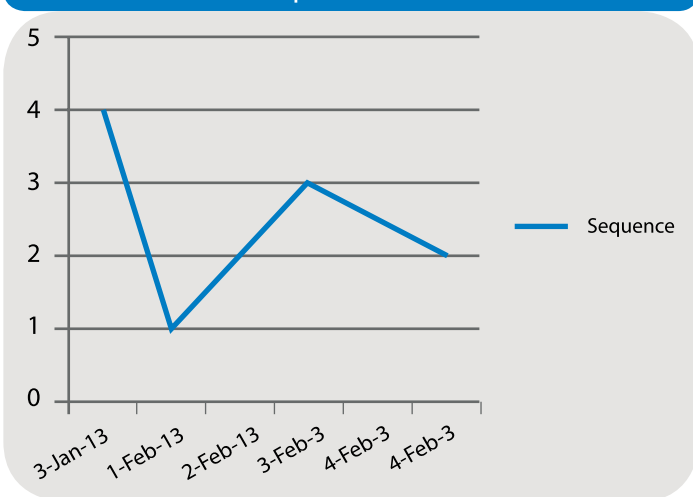


Correct sequence w.r. to GL date
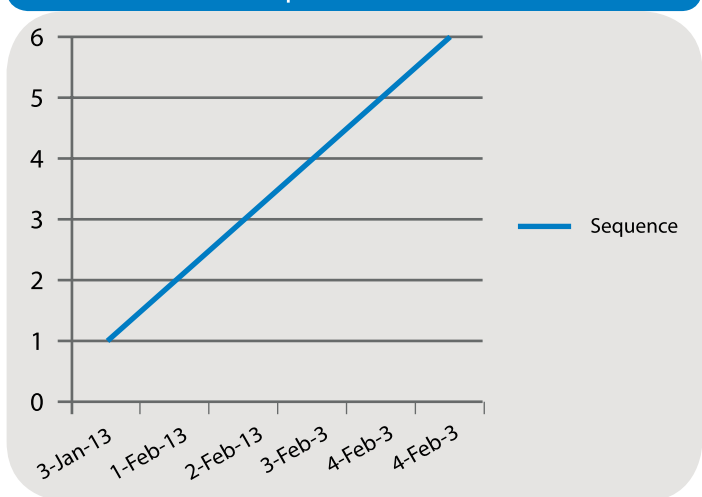
## Setups required

This section deals with important setups that are to be completed to satisfy legal requirements. The solution is presented by Oracle as an 'add-on localization' (in addition to the European regional localization) that are country- specific. The Italian gapless document sequencing requirements are addressed as part of Italian add-on localization solution sets.

The setups required:
- Patches for Europe localization and Italy add-on localization
- Specific countries enabled under licensing setups.
- Gapless document sequence setup.
- Localization Descriptive Flexfield (DFF) information for gapless document sequence setup created.
- Profile Option for sequential numbering enabled.
- Tax calendar that is different from accounting calendar ensured.
- EMEA VAT reporting entity set up.
- VAT register setups as part of EMEA VAT reporting entity setup - payables, sales, payables sales (for INTRA EU / reverse charges).
- Associate document sequences created earlier to respective VAT registers.
- Valid VAT period at the reporting entity level set up.
- CLE Italian VAT transactions date check profile option enabled.

## Solution overview

This section provides a brief overview on the Oracle add-on Italian localization solution for gapless document sequences.

Once the setups are done, Italian localization would do a validation on the GL date before generating the document sequence number for each invoice (payables / receivables). It identifies the GL date of the invoice based on the last generated document sequence as max GL date during run time and performs the validation for every new invoice created with its GL date vis-a-vis the max GL date.

Following is the list of validation performed by the Italian add- on localization solution:

- Transaction date cannot be later than GL date.
- GL date cannot be lesser than max GL date.
- GL date cannot be greater than system date.
- GL date can only be in the valid VAT period.
- Distribution GL date is frozen with header GL date on saving the invoice.

The validation should work on all types of invoices such as manual invoices and imported invoices.

Example: Sample table with AR invoice imported from order management, intercompany invoices imported in to receivables and payables, global intercompany invoices imported in to receivables and payables.

| Invoice number | Invoice date | Created source/method | Document sequence number | GL date | VAT period* |
|---|---|---|---|---|---|
| INV1 | Feb 01, 2013 | Manual | 1 | Feb 01, 2013 | Feb.13 |
| INV2 | Feb 02, 2013 | Imported | 2 | Feb 02, 2013 | Feb.13 |
| INV3 | Feb 03, 2013 | Imported | 3 | Feb 03, 2013 | Feb.13 |
| INV4 | Feb 02, 2013 | Manual | 4 | Feb 02, 2013 ** | Feb.13 |

** - This is not allowed in Italy. The sequence number generation/validation is irrespective of invoice creation source/method.

In this case, though the invoice - 'INV4' is a manual invoice, the GL date can only be Feb 03, 2013 or later as sequence 3 is already associated with GL date Feb 03, 2013 for invoice - 'INV3', even though it is an imported invoice.

The system will show the 'GL date cannot be lesser than the max GL date available' error. The system would adjust the GL date to the max GL date available for manual invoices; for imported invoices the GL date has to be corrected in the interface tables.



For imported transactions in receivables, a separate Autoinvoice request set will be used for Italy which will include the GL date validation program. This program will validate the GL date and then allow Autoinvoice to create the invoice. If there is validation failure, users have to manually correct the GL date either in the interface lines or use a suitable date as default date while submitting the Autoinvoice request set for Italy.
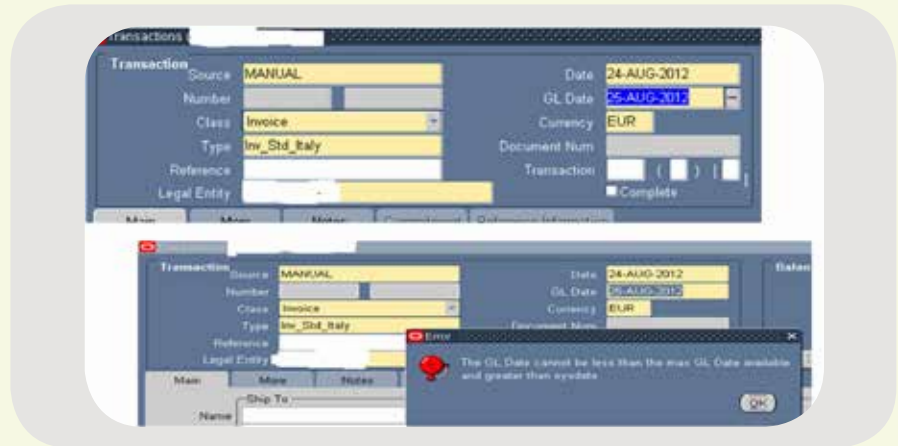
Similarly for payables, a separate payables open invoice import request set is available in Italy to validate GL date. If the validation fails, users have to correct the GL date appropriately in the payables open interface table and move the records to the invoice workbench by resubmitting the request set.

Individual patches are offered by Oracle to implement these request sets. The import of invoices from upstream product to receivables / payables should be only through this request ret. Running the standard import program will result in invoices getting created without the required Italian validations.

## Value additions provided by Infosys consultants

For a global organization, invoices can be created from various sources. Invoices can be created manually or imported from order management – the same way Intercompany invoices can be created from internal sales orders, intercompany drop shipments and advanced global intercompany system (AGIS) transactions. The GL date validation should consider all possible combination of invoice creation.

Infosys consultants with their industry exposure and experience offered the following suggestions to Oracle. Since they were valid business cases and complied with Italy's legal requirements, Oracle has implemented them through fast-track enhancement requests (ERs):

## Common Autoinvoice request set

Earlier Oracle had separate Autoinvoice requests for customer VAT exemption date check (for customer exemption features) and GL date validation features (for document sequence validation). If a customer wanted to use both features, then validation could not happen. Based on the implementation experience, Infosys consultants suggested that Oracle could include both validations in a single request set. The request set will then perform both validations in one go and on successful validation, a standard Autoinvoice import would be triggered.

## GL date validation for payables invoices imported for intercompany and AGIS transactions

Intercompany payables invoices created from AGIS were not undergoing GL date validation. Imported payables invoices originating from IR/ISO, intercompany drop shipment, and AGIS were created with incorrect GL dates and incorrect sequence numbers. As per Italian legal requirements, all invoices irrespective of the source/creation method should be subjected to gapless document sequencing and GL date validation. Infosys consultants highlighted that payables invoices could be created from all possible sources in a true global organization utilizing most of the Oracle products/modules; there by wanting a comprehensive GL date validation solution. Based on Infosys inputs, Oracle created a request set that included a GL validation program for payables invoices as well. The GL validation program would stop importing invoices with GL dates that are older than the last GL date used in the invoice.

## Conclusion

With the flexibility provided by Oracle, all types of invoices i.e., external and internal can be created manually or automatically. According to Italian legal requirements, irrespective of the way the invoice is created, they all need to be reported in the VAT register in a chronological manner without any gap in the sequence for each VAT reporting period. Italian add-on localization solution set of gapless document sequencing and GL date checks ensure that this legal requirement can be met by all organizations implementing receivables and payables.

## References

- Oracle Financials for Europe User Guide.

- Oracle Italy Add on Localization Financials User Guide.

## About the Author



**Murali Krishnan Santhanam** is a Lead Consultant, having over 13 years of experience in Finance and ERP domains. Since joining Infosys in 2008, Murali has played key roles both in onsite and offshore for Oracle EBS R12 implementation and upgrade projects in the Manufacturing vertical. Currently he is playing the role of an offshore project manager and solution lead for the Finance track for the Oracle R12 rollouts and support project.

Prior to joining Infosys, Murali worked in Oracle India, where he was part of Financials Quality Assurance team for R12. Before Oracle he worked in UltraTech Cements handling Accounts and Finance functions.

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