

Business One in Action – How to Report Tax on Received Dunning Fees?



Applies to:

SAP Business One, [Accounting](#), [General Finance](#), [Logistics](#), [Sales & Purchasing](#)

Summary:

SAP Business One can be set up to automatically calculate interest and/or apply a dunning fee during the execution of the dunning wizard. However, neither the calculated interest nor any fee applied to the dunning letter is reflected in the business partner account balance. Yet, both fee and interest amounts can be included in the physical letter sent to the customer. When the customer accepts liability and pay the interest/fee, these monies received must be declared to the tax authority as additional income. This article demonstrates what methods can be employed to achieve the correct tax reporting.

Author: Kerstin Pauquet, Support Expert, GSC, SAP Business One

Company: SAP

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Author Bio :

Kerstin Pauquet joined SAP in 2003 and is currently active as Global Topic Lead and Support Expert for SAP Business One. She has worked as both technical and business consultant. She authored this article as a direct response to a partner enquiry during the Expert-on-Phone project, where she consulted on mainly financial and banking related topics.

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How to Report Tax on Received Dunning Fees/Interest?

Pre-requisite:

The dunning functionality has to be enabled as defined in the [How to set up an Automated Dunning Process](#) guide.

SAP Business One can be set up to automatically calculate interest and/or apply a dunning fee during the execution of the dunning wizard. However, neither the calculated interest nor any fee applied to the dunning letter is reflected in the business partner account balance. Yet, both fee and interest amounts can be included in the physical letter sent to the customer. When the customer accepts liability and pay the interest/fee, these monies received must be declared to the tax authority as additional income. As a consequence the dunning fee and interest payments must be manually added to the business partner (BP) account balance. The example below uses a manual journal entry (JE) to adjust the BP balance on the day the dunning letter is issued. This journal is reversed upon receipt of payment and replaced by a service type invoice with the posting date of when the payment is received.

Taking the dunning letter below as an example, the amount due on the invoice is GBP 115.00 and a fee of GBP 10.00 has been applied to it. The tax code is O1, which is the standard UK tax code with a rate of 15%.

Happy Little Elf

Yellow Brick Road
Munchkintown
Oz 5555
UNITED KINGDOM

The Fruit Basket
UNITED KINGDOM

Tel: _____
E-Mail: _____

Fax: _____

Date: 16.06.09
Page: 1
VAT Number: _____
Account No.: 1003

3rd Dunning Letter

Dear Sir/Madam,

Since you did not react to our previous dunning letters, we had to calculate late payment fees.

For the items due, including the late payment fees, we are now allowing you a final payment period of 14 days.

If you do not adhere to this payment deadline, we will unfortunately have to apply for a court order for our receivables

We considered payments received by: 16.06.09

#	Doc. No.	Document Date	Level	Description	Actual Balance	Amount Due	Due Date
1	IN 70/1	01.05.09	1		GBP 115.00	GBP 115.00	01.05.09
						Late Payment Fee:	GBP 10.00

Yours sincerely,

Balance Due: GBP 125.00

The BP account balance at this point does not include the fee.

#	Posting Date	Origin	Origin No.	Offset Account	Details	C/D (LC)	Balance Due (LC)
1		OB					GBP 0.00
2	01.05.09	IN	70	400000	A/R Invoices - 1003	GBP 115.00	GBP 115.00

It depends on the business process of the company how this fee is handled. If this fee is to be applied to the BP balance as soon as the dunning letter is created, either a service type invoice or a journal entry (JE) can be posted. Since it is not guaranteed that the customer will actually pay the fee, it would be unwise to include a tax posting in this transaction. It would render our company liable for sales tax before having received anything from the customer.

In this example a manual JE without tax is used to adjust the customer account balance. *Posting, Due and Document Date* is the date of *Dunning Wizard* run, here 16.06.2009. In the *Remarks* field a simple explanation of why a manual JE has been posted to the BP account is given. The company accountant must decide which off-setting account to use. Here, a *Dunning Fee* account had been created:

Series	Number	Posting Date	Due Date	Doc. Date	Ref. 1	Ref. 2
Primary	369	16.06.09	16.06.09	16.06.09		

#	G/L Acct/BP ...	G/L Acct/BP Name	Debit	Credit	Tax Group	Tax Amount	Gross Value	Base Amount
1	1003	The Fruit Basket	GBP 10.00					
2	140080	Dunning Fees		GBP 10.00				

Code	Name	Foreign Name	Group	Currency	Federal Tax ID	Local Currency
1003	The Fruit Basket		Customers	All Currencies		Local Currency

#	Posting Date	Origin	Origin No.	Offset Account	Details	C/D (LC)	Balance Due (LC)
1		OB					GBP 0.00
2	01.05.09	IN	70	400000	A/R Invoices - 1003	GBP 115.00	GBP 115.00
3	16.06.09	JE	369	140080	Dunning Fee 16.06.	GBP 10.00	GBP 10.00

When the customer pays GBP 125.00, our company becomes liable for the tax on the fee. Therefore, at this point in time the JE adjusting the BP balance should be called up and cancelled. Right-click in the header area of the JE and select *Cancel* from the menu displayed or go to *Data -> Cancel*.


Series	Number	Posting Date	Due Date	Doc. Date	Ref. 1	Ref. 2
Primary	369	16.06.09	16.06.09	16.06.09		

Origin	Origin No.	Trans. No.	Trans. Code	Remarks
JE	369	369	Dunning Fee 16.06.	

#	G/L Acct/BP ...	G/L Acct/BP I	Tax Group	Tax Amount	Gross Value	Base Amount
1	1003	The Fruit Bas				
2	140080	Dunning Fees		10.00		

GBP 10.00 GBP 10.00

This brings the BP account balance back to GBP 115.00. With *Posting*, *Due* and *Document Date* of the day when the payment is received, a service type invoice using the appropriate account and tax code should be created. Again, the company accountant must decide which account to use. In this service –type invoice the document total is GBP 10.00.

In this example, payment for the invoice and the dunning fee is received on 18.06.2009. Using the field 'Gross Price' allows a user to enter the full amount; the application will automatically calculate the net and the tax amounts. If the field is not visible, use the *Form Settings*  (*Tools-> Form Settings* or *CTRL+Shift+S*) to pull it into the document rows.

A/R Invoice

Customer: 1003
 Name: The Fruit Basket
 Contact Person:
 Customer Ref. No.:
 BP Currency: GBP

No. Primary 72
 Status Open
 Posting Date 18.06.09
 Due Date 18.06.09
 Document Date 18.06.09

Item/Service Type: Service
 Summary Type: No Summary

#	Description	G/L Account	Tax Code	Gross Price	Total (LC)	Tax Amount (LC)
1	Receipt of Dunning fee from 16.06.	140080	O1	GBP 10.00	GBP 8.70	GBP 1.30
2			O1			

The value of 10.00 is entered in the field 'Gross Price'. Then press the 'Tab' key. SAP Business One will automatically calculate the net price and the tax amount according to the defined percentage.

Discount: GBP 8.70
 Payment:
 Rounding: GBP 0.00
 Tax: GBP 1.30
 Total: GBP 10.00
 Applied Amount:
 Balance Due: GBP 10.00

Buttons: Add, Cancel, Copy From, Copy To

Once the document is added, the posting to the sales tax account takes place:

Journal Entry

Series: Primary
 Number: 371
 Posting Date: 18.06.09
 Due Date: 18.06.09
 Doc. Date: 18.06.09
 Ref. 1: 72
 Ref. 2:
 Fixed Exchange Rate

Origin: IN
 Origin No.: 72
 Trans. No.: 371
 Trans. Code: A/R Invoices - 1003
 Remarks:
 Automatic Tax
 Manage WTax
 EU Report

Expand Editing Mode

#	G/L Acct/BP ...	G/L Acct/BP Name	Debit	Credit	Tax Group	Tax Amount	Gross Value	Base Amount
1	1003	The Fruit Basket	GBP 10.00					
2	207000	VAT Payable (output)		GBP 1.30	O1			GBP 8.70
3	140080	Dunning Fees		GBP 8.70				

In the *Incoming Payment* window both the overdue invoice and the fee invoice are available for selection and can be used as basis for the payment:

Incoming Payments

Code: 1003
 Name: The Fruit Basket
 Bill To: [Dropdown]
 Contact Person: [Dropdown]
 Project: [Dropdown]

Customer
 Vendor
 Account

No. Primary 34
 Posting Date: 18.06.09
 Due Date: 18.06.09
 Document Date: 18.06.09
 Reference:
 Transaction No.:

Selected	Document No.	Date	*	Total	Balance Due	Document Type	Total Payment
<input checked="" type="checkbox"/>	70	01.05.09	*	GBP 115.00	GBP 115.00	IN	GBP 115.00
<input checked="" type="checkbox"/>	72	18.06.09		GBP 10.00	GBP 10.00	IN	GBP 10.00

Payment on Account 0.00

Remarks: [Text Area]
 Journal Remarks: Incoming Payments - 1003
 Created by Payment Wizard

Amount Due (FC): GBP 125.00
 Amount Due (LC): GBP 125.00
 Open Balance:

Buttons: Add, Cancel, Deselect All, Select All, Add in Sequence

The tax report for the tax code O1 with a posting date range 01.05.2009 – 18.06.2009 represents correctly our company's liabilities:

Tax Report - Declaration

#	Tax Code	Tax Group Name	EU	Tax %	Doc. No.	Posting Date	Document Date	Base Amount	Tax Amount	Total Tax	Non-Deductible
1	O1	Uk Standard Rate 15%	No	15.000000				GBP 108.70	GBP 16.30	GBP 16.30	GBP 0.00
2		Uk Standard Rate 15%	No	15.000000	IN 71	01.05.09	01.05.09	GBP 100.00	GBP 15.00	GBP 15.00	GBP 0.00
3		Uk Standard Rate 15%	No	15.000000	IN 72	18.06.09	18.06.09	GBP 8.70	GBP 1.30	GBP 1.30	GBP 0.00
4								GBP 108.70	GBP 16.30	GBP 16.30	GBP 0.00
								GBP 108.70	GBP 16.30	GBP 16.30	GBP 0.00

Buttons: OK, Error Report, Expand, Collapse

Related Contents

- [SAP Business One in Action Catalog Page](#)
- How-to-Guides are available from the [Documentation Resource Centre](#)
- [How to set up an Automated Dunning Process](#)
- For more information, visit the [Business One homepage](#).

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