

Original Article

Anatomy of Withholding Tax in Oracle Fusion Applications

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Abstract - Effective management of Withholding Tax is vital for ensuring compliance and financial accuracy in modern enterprises operating across multiple jurisdictions. Oracle Fusion Applications address this need through the Fusion Tax module—an integrated, rules-based engine that enables automated tax determination, calculation, and reporting across financial business transactions. This article presents a comprehensive examination of the Withholding Tax framework within Oracle Fusion Tax, detailing its architecture, configuration elements, and business applications. It explores key setup components such as tax regimes, jurisdictions, tax rules, and tax applicability logic, demonstrating how these configurations interact with core financial modules like Accounts Payable. Aimed at implementation partners, business users, and Fusion IT support teams, the article provides both conceptual and practical insights into achieving accurate tax automation, maintaining compliance, and reducing manual intervention. By dissecting the underlying mechanisms and best-practice configurations, this work contributes to a deeper understanding of how Oracle Fusion Tax supports scalable, compliant, and efficient withholding tax management in enterprise environments.

Keywords - Withholding Tax, Retention, TDS Tax Deducted at Source, Oracle Fusion Applications, Oracle Fusion Tax, Financials and Taxation, Implementing Fusion Tax Module.

1. Introduction

For global enterprises operating across diverse geographical jurisdictions, the accurate calculation and reporting of Withholding Taxes within Accounts Payable (AP) operations is a critical mandate. This requirement is not only crucial for regulatory compliance but also fundamental to ensuring the integrity of consolidated financial reporting and mitigating legal and audit compliance risks. Oracle Fusion Tax Cloud, a core component of the Oracle Fusion Cloud ecosystem, provides a sophisticated, centralized framework designed to navigate these multifaceted tax obligations.

Functionality of Withholding Tax in Fusion Tax Cloud is comprised of a complex application architecture and a sophisticated set of configurations. This often presents challenges to members of the system implementation and production support team due to a lack of clear understanding of Withholding Tax offerings. This article aims to address this challenge and attempts to provide an in-depth functional understanding of the essential configurations required to satisfy global withholding tax requirements. The article covers the core architectural components, from the Tax Regime-to-Rate structure, Tax Rule, and other important components involved in Withholding Tax configuration. The

article also outlines real-world examples of business requirements as well as advanced Withholding Tax aspects.

2. Withholding Tax

Withholding tax is a portion of the payment, made from the payer to the payee, kept with the payer and sent directly to the respective tax authority by the payer on behalf of the payee. Payroll Withholding tax ^[1] is applicable for wage payments to employees, from employer initiated by the employer from the payroll application. Payables Withholding Tax can also be applicable to the payments made from the buyer to the seller (vendor) initiated from the Accounts Payables application. This article specifically covers withholding tax applicable in payments to sellers (vendor) initiated from the accounts payable system. Withholding tax is classified as part of the Direct Taxation group.

Nomenclature for withholding tax varies by jurisdiction, reflecting localized fiscal frameworks. For instance, the Indian tax system utilizes the term Tax Deducted at Source (TDS), whereas various Latin American jurisdictions, such as Brazil and Argentina, formally characterize these obligations as Retention Tax (Retenciones). Some of the common withholding taxes applicable in countries are listed below.



Table 1. Withholding Tax by country

| Country | Withholding Tax name |
|----------------|---------------------------------------|
| Argentina | Retenciones de Ganancias |
| Australia | No-ABN withholding |
| Brazil | IRRF, IRPJ, ISS, PIS, COFINS |
| Canada | Regulation 105 Withholding |
| Colombia | Retefuente |
| India | TDS (Tax Deducted at Source) |
| South Africa | Withholding Tax on Interest/Royalties |
| United Kingdom | Construction Industry Scheme (CIS) |
| USA | NRA Withholding / Backup withholding |

In the payables business function, Withholding Tax is the portion of a payment retained by the buyer and excluded from payment to the seller. The buyer is responsible for payment of the same to the Tax authority on behalf of the seller.

Table 2. Withholding Tax on Payables invoice

| Invoice Amount | Line Type | Line Amount | Payable to Vendor | Payables to Tax Authority |
|----------------|-----------------|-------------|-------------------|---------------------------|
| 100 | Item | 100 | 80 | 20 |
| | Withholding Tax | -20 | | |

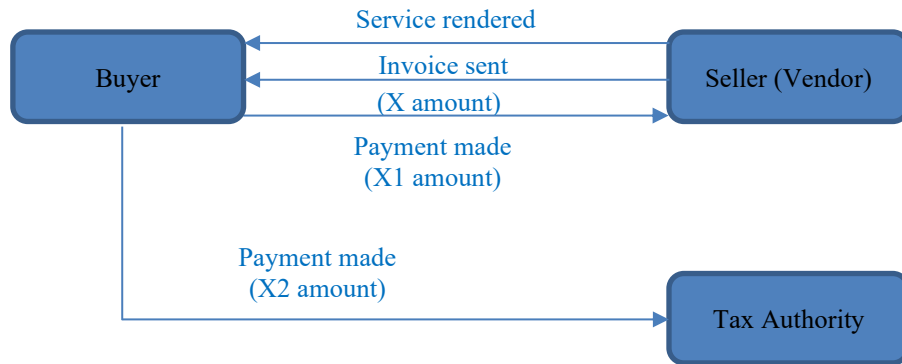


Fig. 1 Overview of Payables Withholding Tax

3. Withholding Tax in Oracle Fusion Applications

Withholding Tax is part of the Oracle Fusion Tax application, which offers comprehensive taxation functionalities for Sales and Use Tax [2] as well as Withholding Tax. While the Sales and Use tax component of the Fusion tax application interacts with multiple core applications (e.g., Accounts Payables, Accounts Receivables, Procurement, Costing, etc.). The withholding tax component of the Fusion Tax application interacts with the Fusion Accounts Payables application.

4. Architecture and Key Components

This section dives deeper into the architecture and key components of Withholding Tax in Fusion Tax Cloud.

4.1. Regime To Rate Structure

Regime to Rate Structure [3] is a core component of the Fusion Tax application. It comprises entities like Tax Regime, Tax, Tax Jurisdiction, Tax Rate, and Tax Status. During the tax applicability determination process, the Fusion Tax engine derives a specific set of Regime to Rate entities (Tax Regime, Tax, Tax Jurisdiction, Tax Status, and Tax Rate) to be applied on a business transaction.

It is important to note that Fusion Tax comprises two distinct tax functionalities, Transaction Tax and Withholding

Tax. While this article only focuses on the Withholding Tax aspect, the Regime to Rate structure is identical for both Transaction Tax and Withholding Tax.

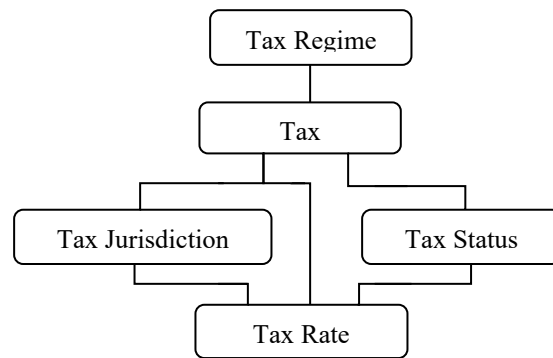


Fig. 2 Regime-to-Rate structure

4.1.1. Tax Regime

Tax Regime [4][5] is the highest-level entity in the Regime to Rate structure. Tax regime typically maps with a single country or group of countries (Tax Zone) having uniform Tax treatment, including the same tax currency associated with it.

Tax Regime will have a subscription created for the Individual Business Unit (BU) or Legal Entity (LE). This can

be configured using Configuration Options on the Tax Regime screen. A subscription must be created for either the BU or LE level and should not be created for both. By creating a subscription for BU or LE, the Fusion application will include a specific Tax Regime during the evaluation of Taxes for the business transactions pertaining to the given BU or LE.

For example, if a business needs to define a common Tax regime catering to all Canada-based business units and another Tax Regime for Brazil-based legal entities, then you need to define the Canada Tax regime and create subscriptions for all Canada-based BUs. Similarly, you need to define a Brazil Tax Regime and create subscriptions for all Brazil-based LEs.

Whether to create a subscription for BU or LE would be determined by the configuration of the Party Tax Profile. The Party Tax Profile is covered in detail later in this article.

The tax regime of the country plays a crucial role in conjunction with the Place of Supply (set at the tax level) when determining automatic Tax applicability on business transactions. During the tax applicability determining process, at an initial stage, the Fusion Tax engine would search for a list of Taxes potentially applicable, based on the tax regime country matched with the country of all locations associated with a business transaction. For example, for a Payables Invoice with a based Business Unit (Bill to location), Mexico-based Ship to Location, and Canada-based Supplier (Bill from location), the Fusion Tax engine would consider all Taxes with Regime country as US, Mexico, and Canada for potential applicability. The Tax Regime can be accessed from the Manage Tax Regimes task.

4.1.2. Tax

Tax [6] is the most important entity and the heart of the Regime to Rate structure, and it can be accessed through the task Manage Taxes. User needs to select the Withholding Tax radio button to access Withholding Taxes. Tax comprises the core configurations of overall tax functionality. Some of the critical attributes of a tax entity are listed below and explained in detail in the following sections.

- Geography Type
- Enabled for Transaction
- Calculation point and Tax Invoice creation point
- Tax jurisdiction listing
- Tax Rule Defaults
- Threshold Control
- Tax Authority

Geography Type

Oracle Fusion Tax cloud application uses Geography entity data, which is part of Oracle Trading Community

Architecture (TCA), and it is owned by the Oracle HCM (Human Capital Management) application. Geography entity data includes the Geography structure and Hierarchy of Geographies for a specific country. For example, for the United States, the Geography Structure would be: Country – State – County – City – Postal code. Tax can be defined at any level of the Geography Structure, which is represented by Geography Type at the Tax level. E.g., for the United States, Sales and use tax is generally levied by State, county, and city-level tax authorities. Therefore, separate Taxes need to be defined with Geography Type, State, County, and City. Tax Geography Type, along with Place of Supply, plays an important role when determining automatic tax applicability on a business transaction.

Enabled for Transaction

In order for withholding tax to be considered for applicability, the business transaction attribute “Enabled for Transaction” must be enabled. Unlike Transaction Tax, the attribute “Enabled for Simulator” is not available for Withholding Tax, as Tax simulation functionality is currently limited to Transaction Tax.

Calculation Point and Tax Invoice Creation Point

Attribute Calculation Point indicates exactly at what point, in the invoice processing cycle, specific withholding Tax will be applied. e.g., during invoice validation (Invoice) or Payment creation (Payment).

Table 3. Calculation point: Invoice

| | | | |
|-----------------------|---------------------------|--------------------------|-----------------------|
| Invoice amount | | 100 | |
| Invoicing | | Payment | |
| Line Amount | Withholding Amount | Payable to Vendor | Paid to Vendor |
| 100 | -20 | 80 | 80 |

Table 4. Calculation point: Payment

| | | | |
|-----------------------|--------------------------|-----------------------|---------------------------|
| Invoice amount | | 100 | |
| Invoicing | | Payment | |
| Line Amount | Payable to Vendor | Paid to Vendor | Withholding amount |
| 100 | 100 | 80 | -20 |

The Attribute Tax Invoice Creation Point indicates at what point the tax authority invoice will be created. The value allowed for the attribute Tax Invoice Creation Point depends upon the value selected at the Calculation Point, as shown below.

Table 5. Calculation point and Invoice Creation Point

| | |
|--------------------------|-------------------------------|
| Calculation Point | Invoice Creation Point |
| Invoice | Invoice |
| | Payment |
| Payment | Payment |

Both of these attributes are also set at the Withholding Configuration Owner Tax Options level.

Tax Jurisdiction Listing

The tax jurisdiction entity is part of the Regime to Rate structure, and it is explained later in this article in detail. The Tax Jurisdictions listing will show all Tax Jurisdictions defined for the Tax at a glance. This is a quicker way to verify if the Tax jurisdiction being expected is defined for this Tax or not.

For example, for a US-based tax, with Geography Type “State”, is expected to be calculated based on the " Default Place of Supply “Bill to, and is expected to be applied on Payables Invoices belonging to a based Business Unit (BU) location. In order for this Tax to be applied to the payable invoice as expected. The based jurisdiction must be defined.

Tax Rule Defaults

Tax Rule Defaults configuration maintains a default set of attributes for the Tax. These attributes are a mix of Regime-to-Rate entities (e.g., Tax Jurisdiction, Tax Status, Tax Rate) as well as other attributes (Applicability, Place of Supply, Registration, Taxable Basis Rule, and Tax Calculation Rule) that play a role in the overall Tax determination process. These attributes are listed below;

- d.1. Applicability
- d.2. Place of Supply
- d.3. Registration
- d.4. Taxable Basis Rule
- d.5. Tax Calculation Rule
- d.6. Tax Rate
- d.7. Tax Jurisdiction
- d.8. Tax Status

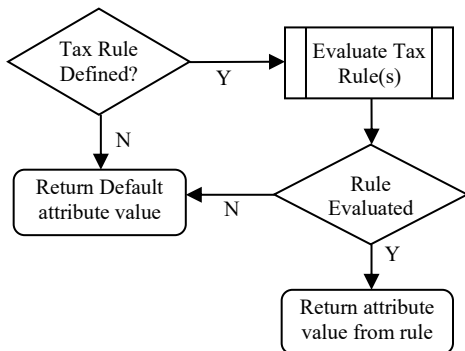


Fig. 3 Tax rule and rule defaults

Tax rules can be defined for each of these Rule Defaults (except Tax Jurisdiction). They can be defined pertaining to a specific Rule Type that corresponds to the Rule Defaults (e.g., Rule Type “Tax Applicability Rule” for Applicability Default, “Tax Status Rule” for Tax Status Default, and so

on). If Tax Rules are defined for a specific Default, then the rules will be evaluated first before returning the values defined at the Default. If no rule is evaluated successfully (i.e., Rule conditions were not met for any of the rules) or there are no rules defined, then the default value from Tax Rules Defaults will be returned.

Tax Rules are explained in detail in a later section of this article.

Threshold Control

Threshold Control can be used to drive Withholding Tax calculation treatment based on whether the Tax amount or the taxable amount falls within a specific threshold. For example, for a business requirement to calculate withholding Tax for a given Supplier only on the portion of payments more than 5000 per month. Following threshold control can be set up at the withholding Tax level.

Table 6. Period-based Threshold control – Min Taxable amount

| Threshold basis | WH Tax Calendar | Threshold Type | Min Value | Threshold Taxable basis |
|-----------------|------------------|----------------|-----------|----------------------------|
| Period | Monthly Calendar | Taxable Amount | 5000 | Amt in excess of min value |

Note: The Withholding Tax calendar can be configured from the Task Manage Withholding Tax calendar.

For the business requirement to calculate withholding tax for a given Supplier only if the individual invoice amount is more than 6000. If the amount is more than 6000, the withholding tax should be calculated on the entire invoice amount. However, if the invoice amount is less than 6000, then withholding tax should not be calculated at all. In this case, the following threshold control can be set up at the withholding Tax level.

Table 7. Document-based Threshold control

| Threshold basis | Threshold Type | Min Value | Threshold Taxable basis |
|-----------------|----------------|-----------|-------------------------|
| Document | Taxable Amount | 6000 | Total line amount |

For a business requirement to calculate withholding tax for a given Supplier, which should not exceed 8000 per month, the following threshold control can be set up at the withholding Tax level.

Table 8. Period-based Threshold control – Max tax amount

| Threshold basis | WH Tax Calendar | Threshold Type | Max Value |
|-----------------|------------------|----------------|-----------|
| Period | Monthly Calendar | Tax Amount | 8000 |

Tax Authority

The Tax Authority tab can be used to create a Tax Authority and a Tax Authority site assignment with a Business Unit for the Withholding Tax. In order to make the Tax Authority and Tax Authority Site appear in this tab, you must first create the Tax Authority and its site, which can be created by creating a Supplier with supplier type “Tax Authority” and creating an appropriate supplier address and supplier site associated with it.

Tax authority assignment must be created for each business unit for which Payables invoices are expected to be created. The Tax authority supplier and site assignments configured here will be used by Fusion Payables to create Tax Authority Invoices.

4.1.3. Tax Jurisdiction

Tax jurisdiction ^[7] essentially represents a specific physical location in the geography hierarchy on which the Tax is levied. Tax Jurisdiction contains Geography Type and Geography name, which it represents.

Geography Type at the jurisdiction level must be the same as Geography Type defined at the Tax level. For example, if there is a Tax defined for the United States with Geography Type as State, when defining Jurisdiction for this Tax, Jurisdiction Geography Type must be selected as State, and Geography Name must be selected as one of the US States. Tax Jurisdiction can be accessed from the Task Manage Tax Jurisdictions.

Tax Jurisdiction uses Geography data, such as Geography Structure (as Geography Type) and Geography Hierarchy (as Geography Name). Geography data is part of Oracle Trading Community Architecture (TCA) and owned by the Fusion HCM application.

During the tax determination process, the appropriate Tax Jurisdiction will be derived based on the evaluated Place of Supply. For example, for determining Tax applicability for US-based tax with Geography type “State” on Accounts Payables Invoice, if evaluated Place of Supply is Bill to, the Tax engine will look at the State of BU location and derive Tax Jurisdiction based on that specific State. Out of all Tax Jurisdictions defined for a Tax, there must be one Tax Jurisdiction marked as a default Jurisdiction.

4.1.4. Tax Rate

Tax Rate ^{[8][9]} is the lowest level entity in the Regime to Rate structure. Tax Rate represents the actual Tax Rate, typically in terms of a percentage that will be applied to the business transaction. Tax Rate can be accessed from the task Manage Tax Rates and Recovery Rates.

Tax Rate must be associated with a Tax Status and can be associated with a Tax Jurisdiction. Out of all non-

jurisdiction-based Tax Rates defined for a Tax, there must be one Tax Rate marked as a default Tax Rate. Similarly, out of all Tax Rates associated with a specific Tax Jurisdiction, one must be marked as the default Tax Rate.

During the Tax Rate determination process, in case there is no Tax Rate Rule defined, the Tax engine first derives Tax Jurisdiction based on the determined Place of Supply, then selects the default Tax Rate associated with that Tax Jurisdiction. If there is no such Tax Rate defined, then the Default Tax Rate (as defined in Tax Rule Defaults) will be derived.

4.1.5. Tax Status

Tax Status ^[10] is used to determine Taxability, i.e., how a product, service, or transaction should be treated for taxation purposes. With a tax, separate Tax Statuses can be defined based on various taxability situations, such as taxable, exempt, zero-rated, etc. Appropriate Tax Rate must be defined and associated with Tax Status to reflect the taxability situation. Tax Status can be accessed from the task Manage Tax Statuses.

4.2. Party Tax Profile

Party Tax profile ^[11] configuration defines the Tax Profile of various parties (First Party and Third Party) involved in the Tax Determination process. Some of the key party tax profiles are listed below;

Table 9. Party Tax Profiles by Type

| Type | Tax Profile |
|------------------------|------------------------------|
| Internal / First-party | Business Unit Tax Profile |
| | Legal entity Tax Profile |
| External / Third-party | Third-Party Tax Profile |
| | Third-Party Site Tax Profile |

First-party tax profiles play an important role in the tax determination process. The tax determination process looks at the Business Unit Tax profile for the Invoice Business Unit. Flag “Use legal entity tax subscription” on Business Unit Tax profile determines which party tax profile (out of Business Unit and Legal Entity) the tax engine should consider in the tax determination process. If the flag is checked, Legal Entity Tax Profile will be taken into consideration; else, Business Unit Tax Profile will be taken into consideration. Based on this flag, the Tax Regime subscription and Configuration Owner Tax Option will be evaluated. For example, for a Business Unit Tax profile, if “Use legal entity tax subscription” is checked, then the Tax engine will look for all Tax Regimes with Legal Entity subscription in place and also take into consideration Legal Entity-based Configuration Owner Tax Options (COTO) instead of Business Unit-based Regime Subscriptions and COTO. The address associated with the Business Unit Tax profile will be considered as the Bill to address (for Purchase Transactions) or Bill From address (for Sales Transactions).

First-party tax profiles are created automatically at the time of creation of the Business Unit and Legal Entity.

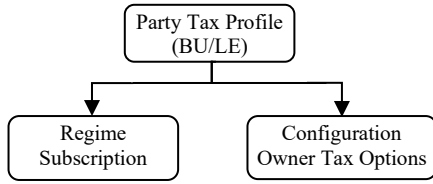


Fig. 4 Party Tax Profile Usage

The third-party tax profile represents external parties such as the Supplier and Customer. A third-party tax profile can be defined at the Party level and Party site level. A third-party tax profile can be used to control Tax applicability at the third-party level. For example, if the business requirement is to exclude certain suppliers from Tax calculation, then the flag “Allow Tax Applicability” should be unchecked for such suppliers’ party tax profiles. Third-party Tax profile is an optional configuration, and it will not be created automatically upon creation of Supplier and Customer. If no Third-Party Tax Profile is defined for a Supplier or Customer, then Tax applicability is enabled for them by default. The Party Tax Profile can be accessed from the task Manage Party Tax Profiles.

4.3. Configuration Owner Tax Options

Configuration Owner Tax Options ^[12] (also known as COTO in short) defines Tax Options for a specific Configuration Owner (such as Business Unit or Legal Entity) and an Event Class (such as Payables Standard Invoice).

Table 10. Applications and Event classes

| Application | Event Class |
|-------------|---------------------|
| Payables | Standard Invoices |
| | Prepayment Invoices |

Whether the COTO should be defined for Business Unit or Legal Entity is determined by the status of the flag “Use legal entity tax subscription” at the Business Unit Party Tax Profile.

It is important to differentiate between the Configuration Owner set at various Tax entities, such as Tax, Tax Status, Tax Rate, and Tax Rule, and the Configuration Owner set at COTO. For Tax entities, the Configuration Owner can be set as Business Unit, Legal Entity, or Global Configuration Owner. However, Configuration Owner Tax Options cannot be defined for Global Configuration Owner, and it must be defined for Business Units or Legal Entities. Configuration Owner Tax Options can be accessed from the task Manage Configuration Owner Tax Options. Once defined, Configuration Owner Tax Options cannot be modified. However, it can be end-dated to allow creation of a new Configuration Owner Tax Options record with appropriate updates.

Configuration Owner Tax Options maintains some of the important attributes from a tax determination process perspective, which are described in detail in the following sections.

4.3.1. Apply Withholding

The Apply Withholding attribute can be checked or unchecked to control automatic Withholding Tax Calculation for a combination of Configuration Owner and Event Class. If this attribute is unchecked, withholding tax will not be calculated even if other withholding tax configurations are in place, e.g., default tax applicability is enabled, or Tax applicability rules are configured.

4.3.2. Regime Determination Set

The Regime Determination Set can be set to one of two options as mentioned below.

Determine Application Withholding Regimes

This is the most common option. It will make full use of various Fusion Tax configurations to fulfil complex business requirements. When this option is chosen, appropriate Tax Rules can be defined based on various Tax determinants available at the business transaction level as well as transaction line level.

Withholding Standard Tax Classification Code

When chosen, the Tax applicability will be driven solely based on the “Withholding Tax Code” (i.e., Withholding Tax classification code) attribute specified at the business transaction line level. This option is suitable for organizations with simpler Tax applicability requirements and who do not need very complex and rule-based Tax configurations.

4.3.3. Calculation Point

This attribute indicates at what point Withholding tax is allowed to be applied to a payable invoice. Allowable values are Invoice, Payment, and Both. The Attribute Calculation Point is also available at the Withholding Tax level. The value set at the Configuration Owner Tax Option will override the value set at the Individual Withholding Tax level. Therefore, it is important to ensure that either both values are in sync or the value set at the Configuration Owner Tax Option level is *Both*.

Table 11. Calculation Point attribute matrix

| Withholding Tax | COTO | Will tax be applied? |
|-----------------|---------|----------------------|
| Invoice | Invoice | Yes |
| Invoice | Payment | No |
| Invoice | Both | Yes |
| Payment | Invoice | No |
| Payment | Payment | Yes |
| Payment | Both | Yes |

4.3.4. Tax Invoice Creation Point

This attribute indicates at what point the withholding authority invoice is allowed to be applied to the payables invoice. Allowable values are Invoice, Payment, and Both. The Attribute Tax Invoice Creation Point is also available at the Withholding Tax level. The value set at the Configuration Owner Tax Option will override the value set at the Individual Withholding Tax level. Therefore, it is important to ensure that either both values are in sync or the value set at the Configuration Owner Tax Option level is *Both*.

Table 12. Tax Invoice Creation Point attribute matrix

| Withholding Tax | COTO | Tax authority invoice created? |
|-----------------|-----------------|--------------------------------|
| Invoice | Invoice | Yes |
| Invoice | Payment | No |
| Invoice | Both | Yes |
| Payment | Invoice | No |
| Payment | Payment | Yes |
| Payment | Both | Yes |
| Invoice | Blank (not set) | No |
| Payment | Blank (not set) | No |

There is an option to not set any value for the attribute Tax Invoice Creation Point, i.e., to choose a blank value from the list of values. If this is chosen, the Tax authority invoice will not be created, irrespective of the value of the attribute Tax Invoice Creation Point set at the individual Withholding Tax level.

The values available to be set for attributes Calculation Point and Tax Invoice Creation Point are dependent upon the value set for attribute Regime Determination Set. The table below shows the list of available values.

Table 13. available values for attributes

| Regime Determination Set | Calculation Point | Tax Invoice Creation Point |
|--|-------------------|----------------------------|
| Withholding Standard Tax Classification Code | Invoice | Invoice |
| | | Payment |
| | | Blank |
| | Payment | Payment |
| | | Blank |
| | | Blank |
| Determine Applicable Withholding Regimes | Invoice | Invoice |
| | Invoice | Payment |
| | Invoice | Blank |
| | Payment | Payment |
| | Payment | Blank |
| | Both | Payment |
| | Both | Both |
| | Both | Blank |

4.4. Tax Rules

Tax rules [13] provide the ability to implement complex business logic for Regime to Rate determination and Tax

calculation on business transactions. Tax Rule utilizes various attributes at the transaction header and line level, known as Tax Determinants, to build such logic.

There are different types of Tax rules as listed below.

Table 14. Tax Rule Type and Results

| Rule Type | Result |
|-----------------------|---|
| Applicability Rule | Applicable / Not Applicable |
| Place of Supply Rule | Bill To, Ship to, Bill From, Ship from, Ship to, if not, then Bill to |
| Direct Tax Rate Rule | Tax Rate, Tax Status |
| Tax Rate Rule | Tax Rate |
| Tax Status Rule | Tax Status |
| Tax Registration Rule | Tax Registration |
| Taxable Basis Rule | Taxable basis formula |
| Tax Calculation Rule | Tax Calculation Formula |

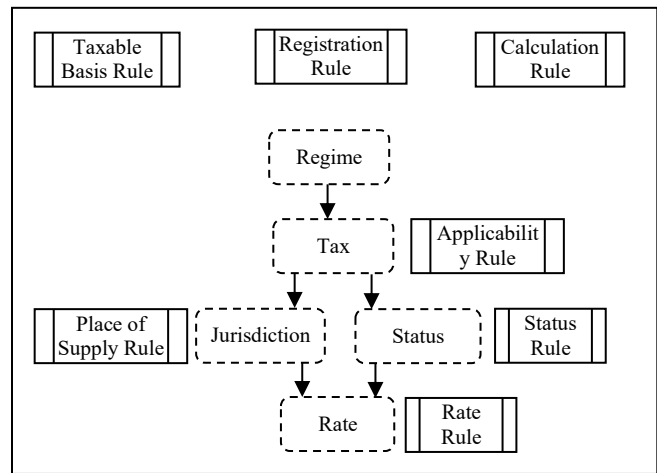


Fig. 5 Tax rule and rule defaults

During the tax determination process, the Fusion Tax engine performs Regime-to-Rate determination. Tax Regime and Tax are derived based on the Tax applicability rule. Similarly, Tax Status is derived based on the Tax Status rule, Tax Rate is derived based on the Tax Rate rule, and Tax jurisdiction is derived based on the Place of Supply rule. The taxable basis rule can be used to modify the taxable basis amount. Taxable basis is the amount on which the tax rate will be applied to determine the tax amount.

$$Taxable\ basis \times \left(\frac{Tax\ Rate\ \%}{100} \right) = Tax\ amount$$

By default, the taxable basis will be the same as the Payables invoice line amount. Taxable basis rule will return a specific Taxable basis formula, which can be configured using the task Manage Tax Formulas. Similarly, the Tax Calculation rule will return the Tax Calculation Formula, and it can be used to modify the resulting Tax amount.

Tax rule consists of one or many Tax Condition sets, and each Tax Condition set consists of one or many Tax conditions. Each Tax condition forms a logical expression by combining Tax determinants with a logical operator. The logical expression can be evaluated with a result of True (Success) or False (Failure). If all Tax conditions within a Tax Condition Set evaluate with result True, then that condition set will be considered, and corresponding Result(s) (as mentioned in table 5) will be returned by the Tax engine. The tax engine will stop further processing within that rule once a Tax condition set is successfully evaluated.

If there is no tax rule defined or the rules are defined but none of them result in success, then the values defined in Tax Rule Defaults will be considered and returned by the Tax engine.

The Place of Supply ^[14] rule determines “Place of Supply”, which is basically a pointer that points to one of the physical locations associated with a business transaction. The geography associated with the location “pointed” by the derived Place Of Supply will then be used to derive Tax Jurisdiction.

For example, for a Payables invoice, during the process of determining US State-level tax, if the Place of Supply result is “Ship to”, the Tax engine looks at the Invoice line level ship to location and derives the State associated with that location. Then it looks for the tax jurisdiction defined for that State. If no jurisdiction is defined for the Ship to location State, then the tax will not be applied.

Table 15. Place of supply mapping for Payables invoice

| Place of Supply Value | Entity associated with the Payables invoice |
|-----------------------|---|
| Bill To | Business Unit Location |
| Ship To | Ship to Location at line level |
| Bill From | Supplier Billing Location |
| Ship From | Supplier Shipping Location |

5. Other Key Aspects

5.1. Gross Amount Rate schedule

Unlike the Tax Rate associated with Transaction Tax (i.e., Sales and Use Tax), which is typically a fixed rate (e.g., a percentage), the Tax Rate for Withholding Tax can be configured to be driven by the Taxable amount. For example, consider the business requirement outlined below, which can be fulfilled by configuring the Withholding Tax Rate with Rate Type “Gross amount rate schedule.”

Withholding Tax rate with type “Gross amount rate schedule” will allow the implementor to define the desired rate schedule (i.e., a series of Taxable amount Ranges and corresponding Tax rate percentage) as described in the table above.

Table 16. Gross amount rate schedule

| Taxable Amount Range | | Tax Rate (%) |
|----------------------|-----------|--------------|
| From Amount | To Amount | |
| 0 | 2,000 | 2 |
| 2,001 | 5,000 | 5 |
| 5,001 | 10,000 | 10 |
| 10,001 | Higher | 12 |

5.2. Withholding Tax calculation on Transaction tax

In case the Withholding Tax Calculation Point is set as Invoice, Tax calculation for Transaction Tax (i.e., Sales and Use Tax) and Withholding Tax typically occur at the time of Payables Invoice validation. Fusion Tax Engine would perform Transaction Tax processing before Withholding Tax processing. This makes it feasible to include the Transaction Tax amount in the Withholding Tax calculation. In order to include Transaction Tax in the Withholding Tax calculation, the following configurations must be in place.

- Attribute “Process Transaction Taxes” at the Withholding Configuration Owner Tax Options level must be enabled.
- The attribute “Use in withholding tax calculation” at the Transaction Tax level must be enabled.

Table 16. Transaction Tax excluded from Withholding Tax

| Line Type | Line Amount | Withholding Tax Rate | Withholding Tax |
|-----------------|-------------|----------------------|-----------------|
| Item | 100 | | |
| Transaction Tax | 20 | 7% | 7 |

Table 17. Transaction Tax included in Withholding Tax

| Line Type | Line Amount | Withholding Tax Rate | Withholding Tax |
|-----------------|-------------|----------------------|-----------------|
| Item | 100 | | |
| Transaction Tax | 20 | 7% | 8.4 |

6. Conclusion

Accurate calculation of Withholding Tax on payable invoices is one of the crucial business functions in the Accounts Payable process for global organizations dealing with the purchase of goods and services. It not only impacts an organization’s relationship with business stakeholders such as Suppliers and Contractors, but also is vital from a legal compliance and reporting perspective.

Oracle Fusion Tax application, which is seamlessly integrated with Oracle Fusion Payables application, provides a robust and configurable framework capable of addressing complex and dynamic taxation requirements across jurisdictions. A thorough and in-depth understanding of the functioning of Withholding Tax in Oracle Fusion Tax Cloud Application is therefore essential for system implementers, application support teams, and business users alike. Such

proficiency not only ensures accurate tax handling but also enhances process efficiency, reduces compliance risk, and strengthens the organization's overall financial governance.

Conflicts of Interest

The author declares that there is no conflict of interest regarding the publication of this paper.

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