Tax Engines and ERPs

WHAT TECHNOLOGY SHOULD YOU ADOPT FOR INDIRECT TAX TO DELIVER THE MOST VALUE?

Deloitte.

THOMSON REUTERS®

Executive Summary

Today's organisations need tax technology that can deliver value at the speed of business transactions, whilst ensuring accuracy and compliance without burdening internal teams.

The global indirect tax landscape is constantly evolving, and the revenue authorities are regularly reviewing their activities. As a result, organisations are seeking ways to transform their tax operations and enhance their control framework to manage indirect tax reporting more effectively. This move can sometimes be triggered by a wider digital transformation or cloud migration project. Other times it's part of a broader IT consolidation program following M&A activity. Either way, such projects can provide opportunities to align the organisation's strategic goals of operational efficiencies with that of ensuring compliance with indirect tax requirements.

Whatever the reason, it's critical for decision-makers, including professionals in Finance, Tax, and IT departments, to understand how their tax technology choices impact the rest of the organisation. As a transaction-based tax, indirect tax touches every area of the enterprise. It is critical to ensure that the finance environment has sufficient controls to capture data accurately and report indirect tax downstream. When technology fails to provide timely, accurate indirect tax determination and compliance, the negative impacts on the organisation can be widespread. Operational efficiency may be impeded, as well as customer service, investor relations, and even the company's bottom line. Consequently, not having the right tax technology has the capacity to damage an organisation's reputation in the market and its tax risk profile with the relevant revenue authority.

Key considerations

When new technology capabilities are needed, most organisations seek a cost-effective solution that is easy to deploy, maintain and use. Some organisations believe the simplest route is to continue managing tax determination and compliance within their Enterprise Resource Planning (ERP) i.e., using the native tax option. This option involves the use of tax codes, within the ERP to drive tax outcomes. Thus, when planning a broader ERP upgrade, these organisations sometimes ask their ERP provider to add tax to the scope of the upgrade. However, relying solely on an ERP technology provider or custom software developers with no specialized tax technology knowledge to set up the necessary tax logic and reporting system during migration may carry various risks and missed opportunities. Another issue to consider, is who will maintain and update any tax rate changes in a timely manner to ensure compliance – will the organisation's tax team do this? Or will this be also outsourced (and what is the cost of this?).

However, IT departments can be reluctant to add new solutions because they suspect the implementation and upkeep will just create more work on their end.

But, what is sometimes overlooked, is that there are tax engines that are designed to create zero or as little friction in the system as possible. This type of solution requires no independent coding to maintain. It integrates easily with all other ERP platforms and IT systems, and runs automatically in the background, instantly calculating transactional taxes and feeding data to the appropriate channels.

A cloud-based tax determination engine includes a compliance automation tool, which is supported by the tax determination solution provider's teams of tax experts and engineers who continuously update tax rules, regulations, and other critical content. This provides the organisation with more comfort that indirect tax is being calculated correctly for reporting purposes; and eases the burden placed on in-house tax and IT teams by reducing manual processes.

There are certainly many factors to weigh up when choosing between a native or cloud-based tax determination approach to indirect taxes. To help tax and IT managers make an informed decision and build a strong business case for the right technology choice, this whitepaper explores the risks, challenges, and benefits to consider.

Determination of tax transactions in real-time

To determine the tax on all transactions in real time, an option is to introduce a cloud-based tax engine. This is most often seen as part of an ERP upgrade or migration process. Thomson Reuters' ONESOURCE Indirect Tax Determination engine is an example of this. To achieve this, ONESOURCE integrates into your ERP system/s and looks at each transaction and determines the tax based on key attributes such as date, item, and location of ship to and from, then updates your transaction with the right tax and tax code. It looks at the tax rate and rules for over 209 countries, as well as the tax logic, and can be customised for any tax rulings or special rules applicable to your specific operations. Thomson Reuters' dedicated tax teams update the tax rules and laws, including product taxability in real time. In doing so, it removes the time required by IT to update in your native ERP.

Challenges in ERP-centric indirect tax management

Tax needs a seat at the table when ERPs are being scoped.

"ERPs are an integral component of any standard IT infrastructure," shares Daniel Ong, Principal Consultant at Deloitte. **"However, since ERPs are primarily engineered to oversee various organizational functions, tax remains a neglected area. Consequently, during the implementation or upgrade of an ERP system, tax is often overlooked. This omission results in the absence of automated tax determination and compliance activities, leaving tax teams to perform these tasks manually,"** he observes. **"This can lead to higher error rates, inefficiencies, and increased FTE to complete the necessary outputs."**

Developing and deploying an effective and reliable tax configuration within an ERP is not as easy as it seems. It requires expert tax knowledge, not just IT knowledge, to ensure tax determination logic is developed carefully to meet business needs and comply with tax requirements. And from there, this logic needs to be updated every time there is a change in the tax or business landscape.

Nonetheless, some organisations do not see a need to move beyond an ERP-centred approach. Perhaps there's a perception among decision-makers that because indirect tax rates have been relatively stable in Australia and because there are no state-based or local taxes to consider unlike in the United States, there will not be a major return on investment for adopting a tax engine. This is, arguably, a short-term view, given the substantial number of interpretations and public rulings on indirect tax issued by the ATO over the years. ONESOURCE Indirect Tax Determination updates any changes imposed on product/services taxability from the ATO and other tax authorities around the world.

People or software: Consider how resource intensive activities are handled.

Australian-based multinational organisations must consider how they deal with the global indirect tax rules and regulations of countries that they have a presence in. Often these multi-national organisations will have few or no local resources to manage the many different indirect tax regimes, let alone the changes made to those rules. In the Asia region alone, there have been substantial changes in the indirect tax legislative landscape. Real-time reporting and e-invoicing are becoming more prevalent in countries like Malaysia, Japan, China, and Saudi Arabia, which poses a significant challenge for local head offices to keep up with the numerous changes and requests from tax authorities.

Data fragmentation is another challenge. Tax teams need access to accurate, complete data to calculate and report on indirect tax. However, this is not always the case when separate ERP platforms are used to handle specific aspects of the organisation, or different business entities. Having disparate data sources and systems can leave the tax team scrambling to solve missing or incomplete data. This drains time and makes it difficult to maintain tax logic, accuracy, and compliance. While IT teams can be called in to develop multiple bridges and workarounds, these are often labour-intensive to build and require ongoing maintenance. ONESOURCE Indirect Tax Determination integrates with all source systems to ensure the right amount of tax is being calculated and reported. This reduces the time your IT department needs to spend on building bridges and work arounds. ONESOURCE Indirect Tax Compliance then takes your transaction data from multiple source systems to create your indirect tax return.

When an organisation undergoes changes such as mergers and acquisitions, cross-border expansion, or modifications in tax structure and IT architecture, the problem is compounded. Consolidating into a single ERP can be more complicated, time-consuming, expensive, and disruptive than many organisations realise.

Standalone tax projects often fail to gain funding

Very often during the planning or business case phase of a project, typically referred to as 'Phase 0', taxation impacts are ignored. Dealing with multiple tax jurisdictions is considered too difficult and the bare minimum is implemented in an ERP project. Simmone Cottom, Senior Indirect Tax Solutions Consultant at Thomson Reuters, warns that the situation can leave the tax function to determine their own reporting processes. **"In many cases, choosing your own path for an ERP implementation can create siloes and result in excess manual processing. The pain it can create for tax teams may not be fully appreciated until after the project launches,"** she explains. At this point, however, automating or streamlining the process would result in a need to change the underlying ERP design. At this stage, such stand-alone projects are out of scope and funding, or attention is hard to obtain. This leaves tax teams to fend for themselves, using legacy processes until similar opportunities arise.

Complete tax requirements are often missed

Capturing the full list of tax requirements for all countries that a client operates can be difficult and lead to unforeseen issues. Due to the specialised complexity of multi-country tax technology, ERP consultants may not ask some pertinent questions, and clients may overlook information that provides the full scope of requirements. With a tax engine, such as ONESOURCE Indirect Tax Determination, tax governance is strengthened and these gaps are overcome, as rates and rules per country are regularly updated by tax specialists without ERP consultant intervention.

5 ways a tax engine mitigates these risks and delivers business value

There are many reasons why organisations, especially multinational organisations, should consider adopting a cloud-based tax engine with an automated compliance tool into their current IT environment. Here, we outline five key advantages.

01

Reduce the risk of invoicing errors.

Multi-country tax deployments can be large and complex. Managing different processes and tax codes in an ERP environment increases the risk of errors, fines, and penalties. While tax managers do conduct regular error and duplication checks as part of tax reporting processes, these are incredibly time-consuming and don't always catch every issue.

A cloud-based tax engine mitigates these risks by connecting different systems and data sources to automate indirect tax decisions, without the headache of managing and maintaining tax codes in the ERP. A well-chosen and designed tax engine can calculate correct tax amounts in milliseconds and easily handle millions of transactions daily for a global footprint, including complex markets such as Brazil, India and the US.

Recently, Thomson Reuters commissioned Forrester Consulting to conduct an independent Total Economic Impact (TEI) Study. The purpose of the study was to examine the potential return on investment that could be realised through the implementation of ONESOURCE Indirect Tax. Upon surveying seven multinational organisations, Forrester concluded that over three years a composite organisation was able to:

- *Significantly improve the **accuracy and consistency** of tax calculations*
- ***Reduce error rates on tax invoices to below 1%** from 75%*

02

Increase operational efficiency, decrease costs.

The longer-term return on investment offered by tax engines outweighs the immediate costs of implementing this technology. Tax engines are specifically designed to alleviate tax teams from daily firefighting, and the manual processes and data mapping that drain time. This increases efficiency overall, bringing down operating expenses.

A content-enabled solution also ensures timely and continuous compliance and speeds up the process of adapting to changes in the tax landscape. The use of a tax engine reduces the risk of errors or late filings – empowering organisations to focus on managing their business and tax teams to focus on higher value tax advisory or support services. This should in turn lead to reduced risk of penalties or adverse audit findings.

Forrester Consulting's study into ONESOURCE Indirect Tax found that the composite organisation:

- *Achieved efficiency gains within the compliance team, **saving $494,000***
- *Gained efficiency for indirect tax team, **saving $468,000***
- *Was able to **reallocate 3 FTEs** across both compliance and determination teams to focus on more value add-strategic work*

03

No need to wholly manage indirect tax changes and tax codes in house.

While the tax codes and indirect tax rules in an ERP or custom add-on are embedded in the system and must be manually updated, a cloud-based tax engine is more efficient, offering automated tax coding and indirect tax rule updates.

"With an ERP-centred approach, organisations need to invest more significantly in tax research to stay up to date with changes in the tax environment," states Mark Oh, Indirect Tax Lead for Thomson Reuters. **"Each time a tax rule or law changes, IT or the tax team, must update and test new tax logic for every ERP platform in use.**

Using tax technology, such as ONESOURCE Indirect Tax Determination and ONESOURCE Indirect Tax Compliance delivers trusted, relevant content from local tax authorities and tax experts. Updates happen automatically and feed into any ERP system that is connected to the tax engine. This eliminates tax teams needing to conduct development and testing of an in-house solution."

04

Ensure reliable, real-time access to data.

To mitigate the risk of ERP failures and the business disruption that ensues, cloud-based tax engines are designed to keep operational processes running. With the right cloud-based tax engine in place, organisations benefit from a high level of technology expertise as well as near-certain uptime (provided the vendor operates high-quality data centres with exceptional security strategies, disaster recovery capabilities and extremely low latency). Thus, the indirect tax team is always able to manage tax on a transaction-by-transaction basis, as well as comply with new policies and developments in the tax landscape, such as e-invoicing, that require reliable, real-time access to data.

05

Improve indirect tax controls and audit trails.

A robust tax control framework (which includes effectively designed and operating data controls for indirect tax purposes) is more important than ever.

Just ask Sasha Smith, Indirect Tax Partner at Deloitte, who is seeing the revenue authorities supercharging their compliance programmes. **"The revenue authorities are placing data and technology at the centre of their review activity,"** she says.

To respond to these changes, Sasha is a firm believer in managing indirect tax data controls effectively. **"It is critical to ensure that systems which store and process financial data, can accurately calculate, allocate, record, and report indirect tax amounts. This goes hand in hand with reducing risk and results in more efficient tax processes."**

In that context, a well-designed and tested tax engine with an automated compliance tool can help to mitigate the risk of costly invoicing errors and inaccurate reporting, allowing organisations to save time, reduce risk, and build better relationships with customers, suppliers, and tax authorities.

The Forrester Consulting study found that having to manually research and implement global tax rate and regulatory code changes requires around 4,800 hours (or 6.5 months) of IT [or tax] personnel time every year. The reported organisation was able to substantially reduce IT maintenance through automated change updates, **saving $297,000**.[1]

With less need for IT support and external research input, the use of tax solutions gives tax managers control over their indirect tax processes at a central level, saving valuable time and reducing costs.

Additionally, automated records and logs of tax procedures provide documented proof of compliance. Should a dispute ever arise over alleged non-compliance, the tax team can substantiate their activities with supportive evidence.

Utilise an 'outside-in' approach incorporating a tax engine

Better outcomes are often achieved when tax processes are incorporated into an ERP project and focus on the tax reporting output rather than just the input processes. This way of thinking is better served by considering a tax engine and the inflows and outflows of data from the ERPs. To reach such a level of efficiency, it is important to engage with stakeholders early on, and factor all costs into the ERP project plan.

[1] https://www.thomsonreuters.com.au/en/resources/tax/reports/forrester-total-economic-impact-report/form.html

Comparing the capabilities of ONESOURCE Indirect Tax and a native ERP solution

CAPABILITIES	ONESOURCE	ERP & BESPOKE PLATFORM
Provides tax determination to multiple ERP platforms and IT systems	**Yes**	No
Certified integration for other ERP platforms: SAP, Oracle, Microsoft and NetSuite	**Yes**	Not applicable
Tax research and content with automatic updates	**Yes**	No
Support and maintenance	**Little to no effort**	Substantial effort
Analytics and dashboard for tax insights	**Supported**	Supported, usually at an extra cost and not maintained
Specialist tax automation experience	**Yes: 20+ Years**	No

CASE STUDY

How Orica simplified indirect tax with a tax engine

Orica, a world-leading mining and infrastructure solutions provider, is committed to the highest level of tax compliance globally.

When the multinational corporation set out to standardise and streamline their tax processes, they sought a technology solution that would offer them rich functionality, while elevating governance and control across their tax landscape.

Discover why Orica opted to introduce ONESOURCE alongside their existing ERP platform to transform global tax provisioning, determination, and compliance.

WATCH INTERVIEW

Watch the case study now and find out how Orica is able to:

- Align tax processes and resources across the business
- Report on tax in a standardised manner
- Ensure tax compliance globally
- Improve control and discipline over tax adjustments
- Streamline the audit process
- Forecast the tax consequences of transactions
- Gain a global perspective on tax matters

In closing

Considering how easily a tax engine can be integrated into any existing IT environment, and all the benefits this offers, it can be short-sighted for organisations to rely solely on limited ERP functionality to manage the demands of indirect tax determination and compliance. The decision creates both opportunity costs and risks in a dynamic tax and business landscape.

A tax engine with an automated compliance tool is an IT investment that is up-and-running quickly and continues to deliver value over the long-term, by ensuring efficient tax and accounting processes, and accuracy on tax calculations every time. The tax team is also able to scale quickly to address new challenges or support business initiatives focused on innovation and growth.

All of this elevates the strategic value of the tax department as a function that helps the organisation thrive in an increasingly digital, data-driven economy.

Disclosures

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