



TAX AUTOMATION 101: WHEN AND WHY SHOULD MY BUSINESS AUTOMATE?

Signs that your organization is ready for a tax automation solution



INTRODUCTION

If your organization collects and remits sales and use tax, there is a strong possibility that you can benefit from implementing a tax automation solution. As tax regulations have become increasingly complex, the time and number of resources needed to navigate these complexities has increased which may also take away from other business initiatives needed for growth and expansion.

As executives at any growing company know, it is not always easy to undergo a technology transformation. Due to the nature and volume of their businesses, larger enterprises have modernized their sales and use tax processes long ago, but some mid-market organizations are still using cumbersome manual methods for researching and updating sales and use tax rates that are slow, prone to error, and a drain on valuable resources. This presents a prime opportunity to leverage automation to help ease the burden when it comes to calculating and tracking compliance with sales and use tax regulations.

This e-book will illustrate how sales and use tax automation can help not only streamline business processes but also mitigate the risks of errors that can catch the attention of auditors.



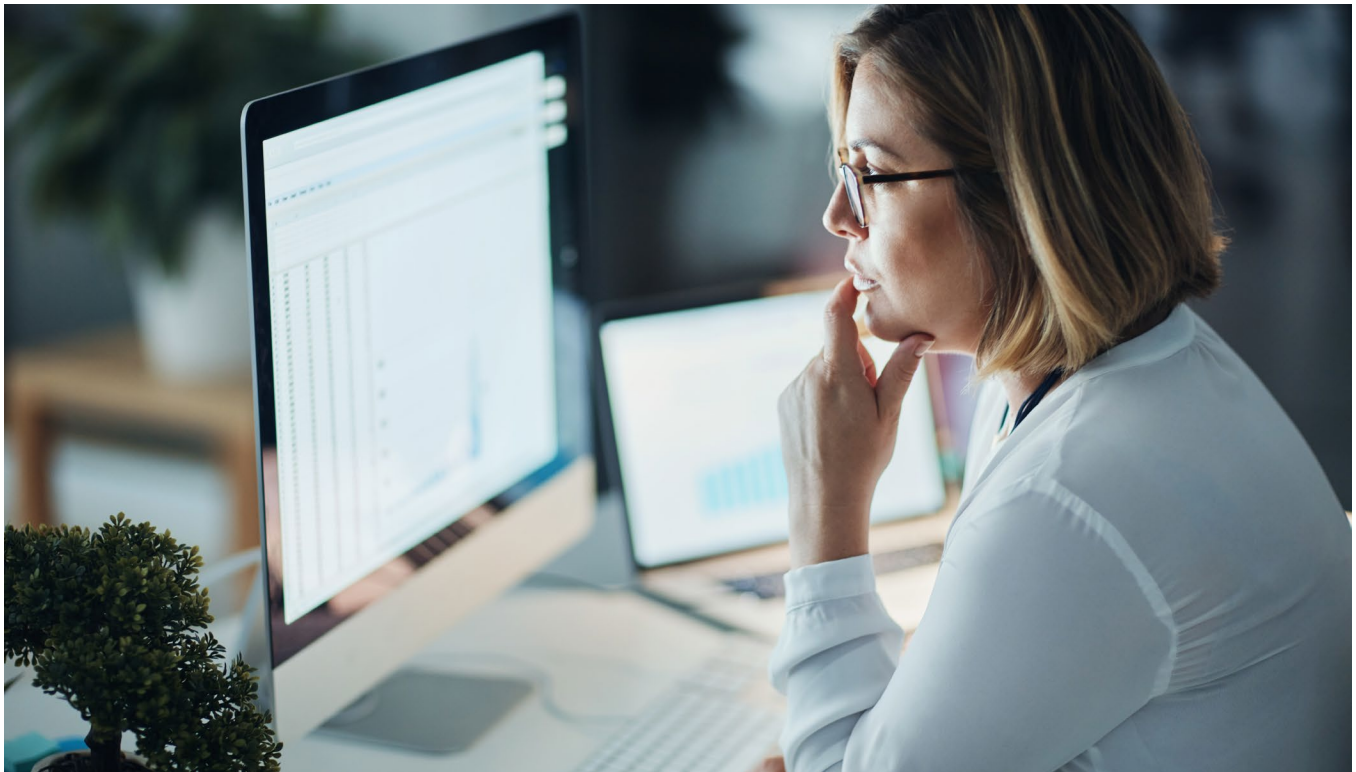
WHAT IS YOUR LEVEL OF TAX COMPLEXITY?

In today's e-commerce-driven market, many organizations find themselves in the position of having to calculate, collect, and remit sales and use taxes.

Factors that determine a company's sales and use tax complexity include:

- ▶ **Location** (Where do you currently sell your products or services?)
- ▶ **Number of Products/Services** (How many types of products or services do you sell?)
- ▶ **Research** (Are you manually researching and updating tax rates?)
- ▶ **Audit Risk** (Have you been previously audited?)

Experts say there is no magic number to determine when a company's tax complexity merits automation. However, if you're seeing any of these



numbers rise significantly and it is impacting the ability to accurately and efficiently calculate and remit sales and use tax, it is time to evaluate a tax automation solution.

While a complicated sales and use tax situation is a sign that your business can benefit from a tax automation solution, a primary consideration is the ability to support growth, according to Heather Ingram, Practice Leader, Vertex Inc.

“It is important to evaluate your plans for expansion, and that includes knowing your customer,” she said. “If you are looking at broadening your product line or going into new locations, those signal some more complicated scenarios that could likely benefit from automation.”

A company’s level of tax complexity can quickly rise based on the business model and regulatory updates. The U.S. Supreme Court’s *South Dakota v. Wayfair* decision regarding nexus has made it even more challenging to stay current with sales and use tax requirements.

Seth O’Hara, State & Local Tax Partner with Grant Thornton, shared the example of a manufacturer that operated two plants. “Monitoring and

“IT IS
IMPORTANT
TO EVALUATE
YOUR
PLANS FOR
EXPANSION,
AND THAT
INCLUDES
**KNOWING
YOUR
CUSTOMER.**”

— Heather Ingram,
Practice Leader,
Vertex Inc.



maintaining the tax rates is typically straightforward with two locations.” However, if the company expands to manufacture different types of products and operates 15 plants in four states, complying with changing regulations in sales and use taxes becomes more challenging, O’Hara noted. “The manufacturer is now not only operating in more states, but is being taxed on some of the products it is purchasing. If the company is purchasing materials that are being used for research and development, for example, that is taxed differently.”



WHICH PAIN POINTS ARE HAMPERING GROWTH?

There are a number of challenges when it comes to managing sales and use tax, and keeping up-to-date with tax rates is high on the list. Even large teams of experts can have difficulty tracking jurisdictional tax information changes, recognizing sales tax holidays, and managing product tax liabilities and exemptions.

Validating shipping addresses is another critical pain point. While many tax automation platforms calculate rates based on zip codes, more sophisticated solutions, such as those from Vertex, determine a tax rate more precisely based on latitude and longitude coordinates. This is especially relevant for shipments to plants and overseas locations.



While your organization might not be experiencing all of these pain points at the moment, there is a greater potential for sales and use tax challenges as the organization grows. “CFOs need to position their companies to comply not only with current rules, but to be able to accommodate future sales and use tax regulations,” said George Salis, Vertex’s Principal Economist & Tax Policy Advisor.

It is not enough to automate the process, but find a solution to overcoming your company’s specific current and future challenges, Salis said. “The best solution is the one that best fits your business model. That is the most important consideration, because small and medium-sized organizations have a business model that is distinct from large businesses. A small operation comprising of five states is very different than a large operation, such as Amazon, that comprises international and 50-state e-commerce.”

“CFOs NEED TO POSITION THEIR COMPANIES TO COMPLY NOT ONLY WITH **CURRENT RULES**, BUT TO BE ABLE TO **ACCOMMODATE FUTURE SALES AND USE TAX REGULATIONS.**”

— George Salis,
Vertex’s Principal
Economist & Tax
Policy Advisor



WHY AUTOMATE?

There are significant gains that can be achieved through automation. Among the most significant is a reduction in risk. The company doesn't have to worry about managing compliance with every jurisdiction, as a cloud-based tax automation solution performs updates automatically. "Even large enterprises with teams of tax experts cannot always effectively manage the potentially hundreds of thousands of rate changes a month," said Vertex Inc.'s Ingram.

A tax technology solution, backed by a team with tax expertise, means that all bases are covered. "When a company uses a modern tax automation platform, they can be more confident that they are charging the proper rate," said Grant Thornton's O'Hara. "For example, a sophisticated tax automation system can determine, by latitude and longitude, the proper rate to charge."



Getting the tax rate right reduces the chance of an audit. And when there is the inevitable audit, there is a trail that makes preparing for and defending an audit less taxing.

More precise rate calculations also result in less customer friction. When you must inform a customer that you charged the wrong rate, they're less likely to make future purchases. "It isn't just bad business, it is a reconciliation nightmare when you have to adjust a tax rate. Not to mention potentially causing customer aggravation and an increase in your audit exposure," Ingram said.

"A
SOPHISTICATED
TAX
AUTOMATION
SYSTEM CAN
DETERMINE, BY
LATITUDE AND
LONGITUDE, **THE
PROPER RATE
TO CHARGE.**"

— Seth O'Hara,
State & Local Tax Partner,
Grant Thornton



WHEN TO AUTOMATE?

Regularly assessing your sales and use tax complexity helps determine if you can benefit from a tax automation solution, but then you need to answer the question of when to automate.

“It can be beneficial to consider tax automation in conjunction with other transformative projects, such as an ERP installation or upgrade,” O’Hara said.

Choosing the best time for a digital transformation of any type is never easy, but there are clear signals of when it would be most beneficial to integrate an automated sales and use tax process.

- ▶▶ If you are looking to significantly scale or grow. If you’ve been operating in one geography, calculating and remitting sales and use tax may have been a fairly low priority. That changes when your e-commerce business takes off.
- ▶▶ If you’re managing manual processes that won’t scale if you add a new market, product, etc.
- ▶▶ If you’re experiencing a lot of audits that are taking up valuable time and resources, and potential fines. Companies can quickly comply with auditors when they turn to tax automation.
- ▶▶ If you lack in-house expertise to manage the complexities.

CONCLUSION

As a mid-sized organization scales, tasks such as sales and use tax calculation and remittance become more complex and time-consuming if its staff is manually tracking rates and updates.

Automation can free up the resources to work on more strategic initiatives while relying on a tax technology platform — and the experts behind it — to handle the headaches of calculating sales and use tax rates and monitoring changes in regulations.

Furthermore, a sales and use tax automation solution can provide a springboard for expanding to other products, services, and locations without having to stress about compliance issues.

Key takeaways from this e-book:

- ▶ Mid-market organizations that are still managing the sales and use tax calculation and remittance process with spreadsheets, emails, and limited resources to research changes in rates and regulations are hampering their abilities to grow.
- ▶ It is important to assess the current level of tax complexity, including the products and services being sold as well as location. While it is possible to manually track sales and use tax rates and regulations if you have just a few locations, things can quickly get out of hand as the business scales.
- ▶ If you're experiencing challenges in managing jurisdictional tax information changes, recognizing sales tax holidays, and managing product tax liabilities and exemptions, it is likely time to consider modernizing the process.
- ▶ A tax technology solution provides a number of benefits, including assurance that you're applying current sales and use tax rates and your talent and resources are being directed to more value-added activities.

ABOUT THE SPONSOR

Vertex Inc. is a leading tax software and services provider that empowers global commerce. Vertex connects customers and partners across all industries to deliver the world's most trusted tax solutions for businesses to grow with confidence. Vertex provides cloud-based and on-premise solutions that can be tailored to specific industries for every major line of indirect tax, including sales and consumer use, value added and payroll. Headquartered in Pennsylvania, and with offices worldwide, Vertex is a privately held company that employs over 1,000 professionals and serves companies across the globe.

