Why Tax Departments Need to Build Technology Roadmaps

How to Add Business Value Through Automation and Intelligent Technologies

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Developing a technology roadmap can help individual departments articulate and prioritize the projects they see as essential to adding business value, improving the customer and/or employee experience, achieving a return on investment, and aligning their goals with larger company objectives. For the tax department, creating and presenting such a roadmap to leadership can determine the percentage of the IT budget it receives to fund technology initiatives that will improve tax operations and meet personnel needs.

Tax departments have historically competed for technology dollars, and as governments continue to introduce legislation that gives them visibility into companies' data, systems, and processes, tax leaders are pressured to create their own digital transformation and respond with system changes that improve compliance, planning, and audit work. This need for continual improvement drives companies' decisions around the use of automation and intelligent technologies, resulting in a call to action for tax leaders to become familiar with tools that can help keep tax departments compliant and able to quickly adapt to new forms of taxation. Such awareness can empower this group to not only seek out new technology, but also take advantage of ongoing enterprise projects, which may already contain functionality that could benefit tax operations. As a baseline, tax departments should inventory and understand the entire functionality of the tools it already has licensed, purchased, and deployed before seeking funding for new or emerging technologies. This will build credibility with IT and those who control technology budgets and will help ensure that requests for additional functionality in response to regulatory changes are approved for additional functionality in response to regulatory changes.

"Companies tend to spend money when they are forced to comply with regulatory responsibilities," says Michael Bernard, Chief Tax Officer, Indirect Taxes at Vertex Inc. "Tax must meet its regulatory reporting with a high degree of accuracy. If tax departments can create a technology roadmap that prioritizes its projects based on regulatory work rather than approaching improvement in an ad hoc manner, they will be more likely to succeed in gaining the funding they need, in my experience."

Prior to joining Vertex, Bernard spent 28 years as a general manager and US counsel at Microsoft. His direct experience in the tax world and as a Vertex customer himself — running all phases of the North American operations for Microsoft's tax department and working with various functional areas of direct and indirect tax, including property tax, telecom tax, state tax policy, and audits — informs his work for Vertex today. In his current role, Bernard engages with some of the company's largest customers. He offers a thought leadership perspective on where technology and tax is moving and how Vertex software and services can and should meet the future needs of SAP customers.

Bernard says that before the pandemic, about 40% of corporate tax departments were digital, meaning that employees in these departments were able to work remotely from anywhere. This was possible because they had what they needed to meet compliance, planning, and audit requirements while remote: proper hardware and software, secure virtual private network connections, and the privileges required to access key company ERP systems and financial, business, and tax applications. “Now, the other 60% are trying to go digital faster than they were prior to the pandemic, which will be important moving forward,” he says. He anticipates seeing an increase in hybrid models (where a combination of on-premise and cloud solutions is used) as tax operations try to automate as much as possible on tight IT budgets.

Budget aside, going digital can be challenging for the tax department, according to Lane Leskela, Business Development Director, Finance, GRC and Security at SAP. “While the finance area is often an early-stage adopter of new capabilities, it seems that the tax department is often at the tail end of those discussions and sometimes not really involved until after major decisions have been made,” he says. “Getting the tax organization to be respected and to argue for a seat at the table is very important, especially now.”

When decisions around moving to SAP S/4HANA and the cloud are being made, Leskela says that they are often so high level that tax organizations often go back to using their old, familiar, discrete set of tools. “In some cases, this results in poor integration, which leaves them unable to reap the benefits of the new solutions and silos the tax department from a technology point of view,” he says.

Leskela and Bernard agree that there is an urgent call to action for tax departments that want to keep up with digital transformation and continue to add business value: Get involved in technology discussions as early as possible, create a technology roadmap that contains business cases for integration and for core participation in mainstream changes that affect finance operations, and align these initiatives with the chief financial officer’s objectives and budget.

New Forms of Taxation Are a Top Concern for Tax Departments

According to Bernard, tax departments are most concerned about new forms of taxation because it almost always means system changes for businesses. “Governments want more information. They want to be more closely tied to the systems and the data that companies have, and they want it in real time,” he says.

Recently introduced forms of taxation indicate that it’s not just filers using automation. Governments are starting to use it too, requiring businesses to pay close attention to changes in legislation. “Governments are using technology to move toward predictive analysis,” says Bernard. “It’s unclear how far along tax authorities are in being able to consume such information, but tax departments are rightly concerned about new legislation because the question for them becomes, will we be able to get the funding, personnel, and technology needed to absorb these changes?”

With Vertex being a global tax solution partner in SAP’s customer environment, Leskela says, “SAP customers rely heavily on the specific components offered by Vertex products to keep up with tax regulations, which require intimate procedural changes that are either necessary or recommended.”

Consider the following examples to understand how the tax department is affected by legislation:

- **Pan European Public Procurement Online (PEPPOL)**: Prior to PEPPOL, international companies and governments used different networks that were unable to communicate with one another to exchange e-invoices. Now, PEPPOL allows these networks to link together on a single IT infrastructure. This 21st-century electronic data interchange network is increasingly being adapted for other purposes, according to Leskela. “There are now systems in place that are capable of having enough information and enough real-time exchange with trading partners that the government can calculate applicable taxes from individual filers just by aggregating information from paid invoices. This may allow for something that we can call predictive, indirect taxation,” he says. “It’s likely that some tax authorities will start to send an annual notice for tax payments, with the amount due based on annual transactions that particular company has made through the country of operation, making the process of indirect tax filing more predictive.”
- **“Netflix tax”**: There is a new phenomenon occurring in services taxation. Originating in Australia and referred to colloquially as the “Netflix tax,” the concept of taxing the consumption of streaming services is coming to the US and is in fact growing in

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popularity as a result of the pandemic. Leskela says that most of the US, with the exception of Missouri and Florida (both states are reviewing their models) is now taxing online commerce. Since the Wayfair decision was passed in June 2018, states now have the authority to tax purchases made within the state, even if the seller does not have a physical presence in the taxing state. (This includes both domestic and foreign sellers.)

- **Sales and use tax:** The US contains approximately 14,000 localities. Due to limited federal funding for infrastructure that a locality might reasonably need to sustain — such as schools, parks, power grids, streets, and sewers — adding transactional taxes on a local level becomes necessary, says Bernard. To calculate the new taxes, the tax department will have to access the existing functionality in the tax engine with a company's sales order system. With about 600 localities being added in the US every year, tax departments are encouraged to pay attention to this increased responsibility.

Welcome Bots: Inventions from the "Tax Garage"

Increasing sales and use tax is just one example that reinforces the value of robotic process automation (RPA) for the tax department, which is already being used in some parts of finance, says Leskela. In the case of sales and use tax, administering multiple levels of actual and potential changes requires more predictability. In addition to providing greater assurance that there is minimal risk of tax defaults, underpayments, or timing issues that may incur penalties, "tax departments can use RPA capabilities to simplify the interfaces to complex calculations with inherent error reduction," he says. "Predictions can be used as benchmarks in the organization when the business performs before/after comparisons of risk in tax analytics and filing processes. Until recently, SAP was seeing this capability come into tax departments very slowly, but now it's accelerating and is a good fit for more efficient operational scenarios in tax administration," he says.

For example, consider any business that sells a product. "Those products have to be taxed properly for sales or value-added tax (VAT). Historically, tax department personnel often had to manually review the mapping that occurs between the product and the tax category contained in a tax engine. Now, there's machine learning that can handle that mapping at a very high confidence level. This is a huge step forward for the tax department, as well as the company, because the sales invoice is more accurate with the proper transaction tax applied," says Bernard.

Leskela says that SAP is working on conversational artificial intelligence (CAI) products that will allow finance to call forth the right entries at the right time. In the context of tax operations, chatbots can help automate tasks by providing accurate real-time responses based on open or prepared questions via native integration with the organization's other SAP and SAP partner solutions.

A CAI-specific solution for tax has yet to emerge, but these capabilities are already being adapted for finance organizations among SAP's customer base. "These new, adaptive enhancements to real-time computing

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have low code density and provide new and exciting options for SAP customer environments. Additionally, as SAP offers its own tax solutions using intelligent technologies such as machine learning and AI, it is complementing the capabilities that Vertex brings to the table," says Leskela.

Additionally, in many cases where businesses must fulfill detailed international provisions and perform highly repetitive calculations that draw on multiple sources, bots can help automate the process. For example, in 2017, the Tax Cuts and Jobs Act in the US introduced a requirement for some very difficult international provisions and calculations, including the Foreign-Derived Intangible Income (FDII) deduction and the Global Intangible Low-Tax Income (GILTI) deduction. Another recent international provision requires that businesses provide governments with multiple country reports containing their sales and employee information (known as country-by-country reporting). When first enacted, many tax departments used spreadsheets to calculate such provisions, according to Bernard, but today most of the calculations could be completed, and automated, by a bot.

The calculation of the research and development (R&D) credit, which requires specific costs obtained from a company's financial systems, is also ripe for bot use because the bot can go out and "scrape" for that data, "making the process of calculating the credit much easier and often more accurate," says Bernard.

"We are seeing bot technology being built for these areas — not by the IT department, but rather by some pretty savvy tax professionals who know how to do this stuff. Most companies refer to these initiatives as the tax garage, and they're doing a pretty good job of it," he says.

Demanding a Seat at the Table

To avoid being left behind, tax departments must demand a seat at the table alongside core finance and IT decision makers. According to Leskela and Bernard, there are three things that businesses can do to help tax leaders secure their spot and ensure that the organization welcomes them:

- **Tax leaders** must be able to identify how they can provide innovation and how that innovation can not only have a positive impact on the business, but also improve the effectiveness of how tax functions are performed. These innovations should be documented in compliance-driven business cases, and integrated into mainstream changes that affect finance operations. They should also align with the CFO's objectives and larger technology transformation initiatives, such as a move to SAP S/4HANA.
- **Tax departments** must be more willing to adapt to and integrate with new technologies, utilize applicable functionality in existing technology, and become more proactive as a department to increase their profile and up the relevance of their role. This is necessary to increase visibility for the organization around how the tax department is contributing to overall corporate value.
- **Everyone** must break through the misconception that the cloud should be confined to front-office departments. Businesses that move more than just sales and marketing applications to the cloud have experienced success driven by core economics and by a comfort level in the organization that comes from having reliable, repeatable experiences with their data and security model, and no significant breaches over a long period of time.