



**Tax complexity  
and drivers for  
transforming finance**



## Introduction

Change has become the “new normal” for businesses across industries and around the world. Changes in customer behavior are driving increased engagement via digital channels. Changes in supply and demand are driving businesses to source raw materials and inventory from new suppliers. The economic impact of this has driven governments and regulatory agencies to rapidly change tax regulations and requirements.

The pace and breadth of these changes are pushing the limits of finance teams and tools to keep up. As a result, when planning their digital transformation projects organizations need to include plans to account for the compliance challenges of indirect tax policies, as well as related risks like cost controls and operational efficiency across the organization.

As digital channels have grown for both business-to-business and business-to-consumer transactions — particularly during the COVID-19 pandemic — they have also become more global. This means new opportunities, but also new tax liabilities and requirements.

Currently there are more than 19,000 separate tax jurisdictions worldwide. In the United States there are thousands of separate tax jurisdictions with wide-ranging compliance requirements. In Europe, recent changes in regulations and requirements for value-added tax (VAT) have only increased the challenge of compliance.

In this e-book we will explore new tax regulations and requirements and how they are driving organizations to transform their finance teams and processes to comply.

## The increasing complexity of sales and use tax

U.S.-based businesses are familiar with sales tax, but they often do not understand all of the complexities of sales tax regimes. International companies with operations in the U.S. are often baffled by the steps required to manage sales tax.

Reversing nearly 30 years of precedent, the U.S. Supreme Court decision *South Dakota v. Wayfair* allows states to collect sales tax on transactions that fall within their jurisdictions. While companies dealing with sales tax do not need to do the types of complex transaction analysis and calculation typical of VAT jurisdictions, they must still make an appropriate determination of the location where title transfer takes place.

With e-commerce channels growing daily, this distinction is particularly hard to manage. Managing the determination of delivery versus billing addresses when calculating tax is only part of the challenge. Additionally, many municipalities have enacted their own sales tax regulations, which may split up larger jurisdictions at the level of individual streets and addresses.

In addition, under U.S. law, companies must also be careful about the extent of their sales, not only from the standpoint of tax reporting, but also to shield the organization from liability. Courts typically permit lawsuits where a company has “minimum contacts” with a jurisdiction, which come about when a company establishes such contacts by selling to residents in that jurisdiction.

While most enterprise resource planning (ERP) solutions include base-level features to support determination of sales tax in the U.S., users are left to manually update tax data related to each jurisdiction and its corresponding rates. So, as the volume of tax jurisdictions and rate changes increases, so too

does the risk of errors. This means less accurate tax calculations and a higher risk of over/under payments, audits, and penalties. Not to mention an increase in the number of finance and IT resources needed to support the manual processes and maintenance.



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# Globalization and the complexity of VAT

Outside of the U.S. market, value-added taxes (VAT) pose unique challenges for companies. To date, most transactions trigger VAT rates calculated for different supply chains. This process is highly manual, putting most of the emphasis on in-house tax professionals — and other members of a company's finance team — to make the right decision and be consistent with the law.

In a VAT regime, companies face an enormous record-keeping burden, cataloguing the invoices for each and every transaction. Without comprehensive financial management systems, these requirements result in reams of non-digitized paper records or inflexible storage in poorly integrated databases, with the risk of miscategorization in both cases. When tax officials launch a preliminary audit of a company, the first place they start is with VAT records. Even small errors can cast doubt on other records and trigger a costly investigation that might culminate in civil fines, or worse still, criminal penalties. Cutting down on cumbersome manual processes related to VAT is essential.

Globalization is changing the way that companies think about sales and VAT. During the COVID-19 pandemic, every aspect of commerce went digital. Even with the reopening, many companies — both business to business (B2B) and business to consumer (B2C) — are finding that the digital component of commerce is not going away. The pandemic accelerated trends that were already underway, helping companies redefine their customer base, often expanding to a more global reach enabled by digital technology.

In response, VAT regulations have only increased in complexity, with the recent updates which took effect on July 1, 2021. These updates focused

on e-commerce and reduced thresholds, and dramatically increased the number of businesses and transactions that now are impacted by VAT regulations.

For most organizations' customers, VAT determination capabilities within their ERP solutions are basic, at best. Teams find themselves left to manually handle determination and remittance, further increasing compliance and audit risk and limiting their ability to support global commerce and business growth.





**For more than 40 years**  
Vertex has been a leading provider  
of indirect tax technology,  
**supporting more than half**  
**of the Fortune 500.**

## Transforming finance to address evolving tax and regulatory requirements

Changes in tax regulations and requirements are occurring at the same time that companies are undergoing other forms of digital transformation. Many companies are moving away from legacy systems on-premise and migrating to the cloud to reduce costs, increase efficiency, and add scalability to support business growth. This means either upgrading or migrating ERP solutions to support their new business models, processes, and platforms. This offers a great opportunity to align projects and upgrade or adopt a tax engine, rather than creating a separate project.

Adding an integrated solution focused on tax determination allows organizations to extend the value of their other systems, providing consistency and accuracy in terms of tax calculations regardless of how or where they do business. This is where tax technology leaders, such as Vertex, can be an invaluable partner.

Vertex offers a full suite of integrated indirect tax solutions for Microsoft Dynamics 365, enabling a straightforward and reliable process for in-house tax professionals. For more than 40 years Vertex has been a leading provider of indirect tax technology, supporting more than half of the Fortune 500.

Integrated tools geared to cloud and ERP platforms can help manage data elements, boost process efficiency, and reduce audit risk. By offering a single tax engine that works both on-premise and in the cloud, Vertex is able to connect customers with the modules they need and create a single source of truth.



Supported by a global team of certified consultants and support specialists, Vertex solutions and services help companies transform their finance teams and processes, streamlining tax determination and compliance while achieving much needed IT modernization.

Indirect tax has always been complex and always will be, but with advanced tools and a digital transformation strategy to match, companies can take an integrated approach that can overcome high-tech compliance hurdles and leave the company in a stronger position than where it began.

For more information, contact Vertex today at [vertexinc.com/en-gb/contact-us](https://vertexinc.com/en-gb/contact-us)

## About Vertex

**Vertex Inc.**, is a leading global provider of indirect tax software and solutions. The company's mission is to deliver the most trusted tax technology enabling global businesses to transact, comply, and grow with confidence. Vertex provides cloud-based and on-premise solutions that can be tailored to specific industries for major lines of indirect tax, including sales and consumer use, value added, and payroll. Headquartered in North America, and with offices in South America and Europe, Vertex employs over 1,200 professionals and serves companies across the globe.

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