



Transforming your tax function

Automating the data validation and preparation process for indirect tax compliance

How to improve data integrity for indirect tax compliance



Custom content for Vertex by studioID



Data integrity is defined as “the maintenance and assurance of data accuracy and consistency over its entire life-cycle”. Ensuring data integrity is important in all aspects of financial management and is particularly critical for indirect tax compliance. Errors in tax data can result in significant costs in the form of fines, audit expense, recovery and staff time.

While companies strive to minimize errors, continuously evolving regulations and rate changes around the world make it increasingly difficult for organizations to rely on a manual approach to managing indirect tax. For example, in 2020 alone, there were 592 changes to sales taxes across the U.S., including rate changes and new regional taxes¹. In July 2021, complex new VAT rules came into effect in the EU and apply to all companies involved in B2C e-commerce transactions, or companies that act as an electronic marketplace.

As Peter Boerhof, VAT Director at Vertex, Inc. explains, this has significant implications for tax managers. “The environment needs to be constantly monitored and any new rules applied. With so many changes all the time, there’s a lot of room for error. At the same time, authorities are collecting more and more transactional data and moving toward a faster and digital audit, he explains. “Tax authorities are increasingly asking for more detailed information in their tax reports and businesses are struggling to provide this data without mistakes.” Some countries are even moving toward real-time submission of data, he notes, giving companies very little time to analyze and sanitize it.

The problems of manual processes and the potential impact on data quality

Against this backdrop, most service providers, shared service centers and in-house indirect tax managers are still tied to manual and often non-standard processes. This comes with inherent problems. As Anne Ramsey, Client Engagement Leader Indirect Tax at Vertex, Inc. explains, not only are manual processes labor intensive and error-prone, but they are often not well documented. “If a manual process isn’t well documented, and the person doing that job is suddenly unavailable, then you have a problem” she comments. “Furthermore, if you’re trying to train someone to do that job, it can be very difficult compared to when you have part of that process automated and everyone has access to the same data.”

Also with manual processes, time is not on your side, she notes. “You’re getting data out of your source system and in the US for example, companies have limited time to start filing these returns. If you’re late, you’ve got late fees, or you run the risk of filing an incorrect return and have to fix it later. If you’ve under-reported, there could be additional penalties. If you’ve over-reported, you also face recovering payments, which can take a long time and also draws attention to your filing history with the tax authority which could lead to future audits.”

Finally, with tax information potentially dispersed across the company, without a central system of record, chasing down documentation or other data can be both time consuming and frustrating. The user of the master data in the tax function is typically not the owner of the data, Peter Boerhof explains. “The problem is that the tax function inside of any type of a corporate environment doesn’t have the authority or autonomy to go back into the enterprise resource planning (ERP) system and actually manage the data themselves. This becomes not only a system strain, but also a strain on staff, he adds. “For example, while it depends on the type of master data we’re talking about - vendor data may be in procurement, customer data may be at customer service, and logistics and product data might be in supply chain.”

“For large companies with potentially hundreds of thousands of transactions, errors in tax compliance due to poor data integrity can lead to expensive outcomes.”

Peter Boerhof
Director VAT, Vertex, Inc.

Top 4 data integrity risks in manual indirect tax processing

1. Contains recurring master data errors, perpetuating risk and inefficiency
2. Lacks transparency in data repair, which is needed for audit defense
3. Reporting is not standardized and different data sources are used, resulting in mismatches between various reports
4. Data changes in compliance process not recorded

Out of necessity, companies are turning to tax automation technology solutions to improve the integrity of their data, minimize compliance risks, improve transparency, and free up staff time previously devoted to the many manual processes typically involved in indirect tax management.

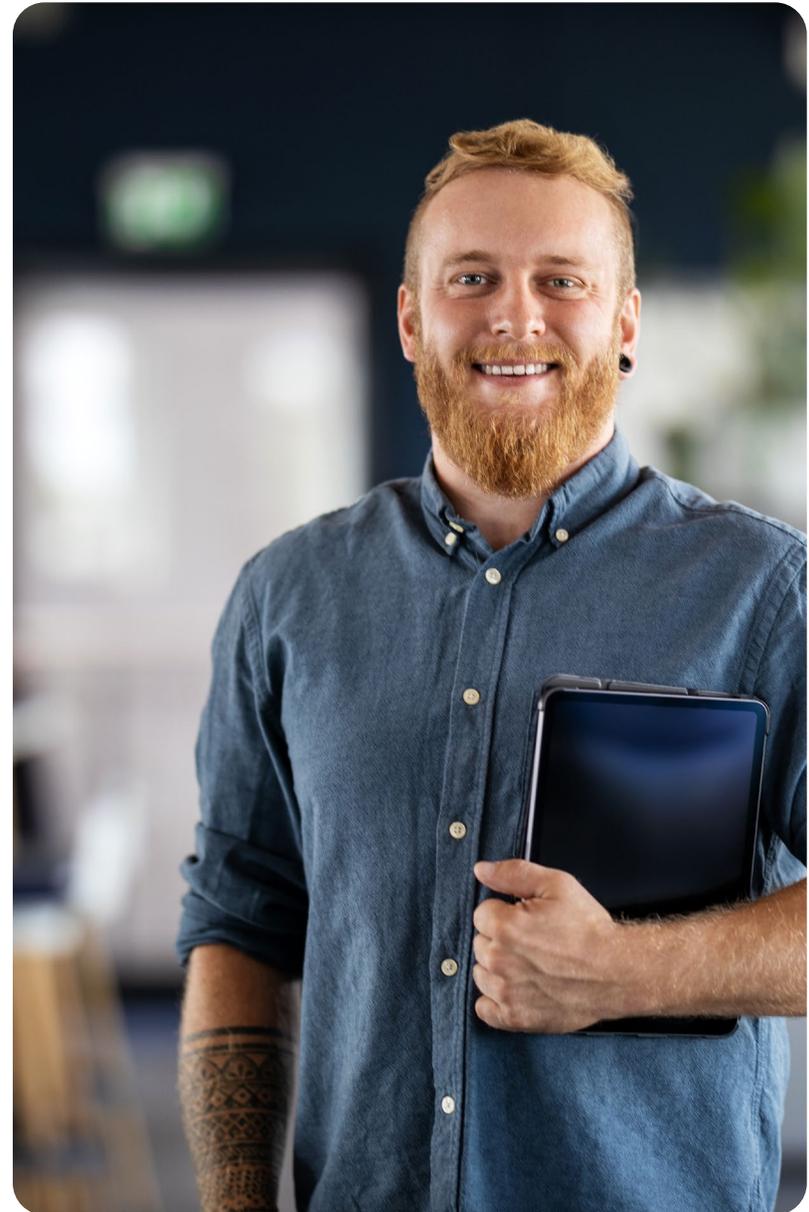
Improving data integrity – Big Wins with Automation

Vertex® Cloud Data Integrity is a tax-specific solution that automates and standardizes the data validation, analysis and transformation steps that are required for a company to accurately submit their month-end tax submissions. “The software was piloted in our own company and designed to increase data quality, reduce audit exposure and increase tax staff efficiency,” explains Brian Sparks, Principal Product Manager at Vertex, Inc. “To date, we’re seeing opportunity for up to 25% to 50% efficiency gains, depending on the process, and if you do the math on that for a large corporation, it can result in significant cost savings” he adds. “The more you can do around automation to get it as close to auto-pilot as possible, the better, and this lets people get out of the weeds of data repair.”

“When we start talking to clients about the automation process, instead of just picking up the old process and trying to recreate it in the technology, it’s a really good time to look at whether it should be re-engineered.”

Anne Ramsey

Client Engagement Leader, Indirect Tax, Vertex, Inc.





Top 10 benefits of automating data validation

1. Increases efficiency with pre-defined rules and automated checks and sanitization
2. Minimizes the time that your staff spends on the identification, correction, and validation of compliance submission data through powerful automation capabilities
3. Increases the ability to check and track if adjustments/corrections were made to the ERP or other transactional source systems, eliminating recurring errors
4. Improves data accuracy and completeness with powerful validation capabilities
5. Increases the overall compliance level for the complicated end-to-end VAT process
6. Reduces risk of overpayments and maximize refunds or deductions
7. Easily review errors, warnings, missing or incomplete info (based on your pre-defined rules), create your own rules to correct, augment, or route data, and sanitize data for the next step in your compliance process
8. Minimizes risk and audit exposure through the automation and standardization of your data validation and correction process
9. Provides a valuable audit trail that can be used for audit defence

Characteristics of a best-in-class cloud-based technology solution

Top 4 qualities of best-in-class data validation technology

1. Designed for tax professionals
2. Maximized responsiveness, efficiency, and design for an exceptional user experience
3. Scalable for handling high volumes of data
4. International applications and customer service

“Best-in-class technology means there’s no lengthy set-up period, it’s secure, yet user friendly, and doesn’t need the vendor on-site to continuously update it,” says Anne Ramsey. At the same time, it has to be easy to import data from your ERP or other finance system in any format. “With tax, you’ve got many data files you’re working with and they’re all in different formats. So, when it comes to automation technology, it has to be able to handle any type of data file. It has to be scalable as the company grows both domestically and internationally and can be easily adaptable to changing regulations or business structures.”

For Brian Sparks, a critical aspect in indirect tax technology is that it can identify errors, and is exception based. “Your tax staff doesn’t want to look at the 500,000 transactions a week that pass a validation check, but rather the 15 that don’t,” he points out. Also having visibility around how data has changed is important for audit. “If a company is audited one to three years into the future and the system of record doesn’t match the return that they submitted in the past, they have to be able to explain why that data changed”. The Vertex Cloud Data Integrity solution is built to support internal control and “We’ve built an audit log inside of our application so that we know who logged on, or who changed any data,” Sparks comments.

Conclusion

Ensuring data integrity is important in all aspects of financial management and is particularly critical for indirect tax compliance. Errors in tax data can result in significant costs in the form of fines, audit expense, recovery and staff time. As the evolving indirect tax environment grows in complexity, maintaining data integrity is an increasingly difficult task. Most indirect tax outsourced service providers, shared service centers and in-house indirect tax managers are still tied to manual and non-standard processes and this comes with inherent challenges.

Manual processes create a host of risks including data errors, compliance and audit risk, as well as an in-efficient use of time and resources. Out of necessity, companies are turning to tax automation technology solutions to improve the integrity of their data. By implementing best-in-class cloud-based technology, tax functions are finding new efficiencies. Audit risk is reduced and tax staff are spending less time identifying and correcting errors.

When it comes to identifying best-in-class technology, Vertex Cloud Data Integrity is designed specifically for improving data quality for indirect tax compliance. Vertex Cloud Data Integrity offers ease of set up and can accommodate any type of data file and provides global

“In the Vertex world, our data integrity product is optimized for the tax function. Other off the shelf validation products don’t have the same level of transparency in data repair which will be important for audit situations.”

Brian Sparks

Principal Product Manager, Vertex, Inc.

service and support. As Peter Boerhof describes, “Vertex has a dedicated tax research team in the US, EU, and Brazil, whose full-time job it is to monitor compliance developments and to make sure that they’re embedded in our solutions.” The solution is also exception based, provides visibility and transparency and is designed specifically with government audit in mind. Additionally, the solution is available for a wide range of Vertex indirect tax offerings such as Vertex Cloud VAT Compliance, which delivers a fully integrated end-to-end solution for VAT determination, compliance, data integrity, and audit prep. The solution streamlines compliance and features integrated Data Integrity capabilities, as well as workflow automation that maximizes data and return accuracy and minimizes risk of liability; and supports evolving VAT legislation including One Stop Shop (OSS) and real-time reporting.

Sources

1. "End of Year 2020 Sales Tax Rates and Rules Report." Vertex, Inc., 2021.





Vertex, Inc. is a trusted 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 serve 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, Inc. employs over 1,100 professionals and serves companies across the globe.

To learn more about Vertex Inc.'s solutions, please visit
vertexinc.com



studio / **ID**

BY INDUSTRY DIVE

studioID is Industry Dive's global content studio offering brands an ROI rich tool kit: Deep industry expertise, first-party audience insights, an editorial approach to brand storytelling, and targeted distribution capabilities. Our trusted in-house content marketers help brands power insights-fueled content programs that nurture prospects and customers from discovery through to purchase, connecting brand to demand.

[**LEARN MORE**](#)