

# Accuracy and agility:

The procurement function, global supply chains and tax complexity





# Contents

01

## EXECUTIVE SUMMARY

02

## KEY FINDINGS

04

## INTRODUCTION

Global supply chain agility meets a world of tax complexity

07

## CHAPTER 1

A large issue that keeps growing

09

## CHAPTER 2

Companies are turning to automation...

10

## CHAPTER 3

...but the systems they use are not delivering

12

## CHAPTER 4

The two pillars of better tax determination

13

**Pillar 1:** Getting the technology right

14

**Pillar 2:** Getting the partnerships right

15

## CASE STUDY

Adjusting to new rules is a team game

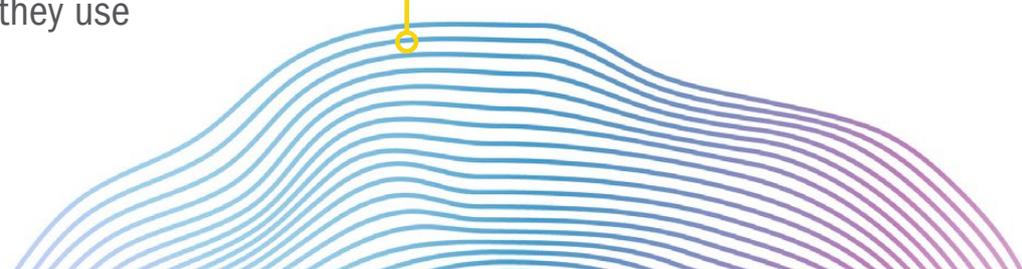
16

## CONCLUSION

An issue that needs attention as well as investment

17

## APPENDIX



# Executive summary

Amid the myriad and growing disruptions to global trade, from trade conflicts and Brexit to pandemic-related restrictions, supply chain agility has become, in the words of La-Z-Boy SVP and COO Darrell Edwards, “a strategic imperative”.

According to respondents to a survey conducted for this study, 83% of firms in multiple industries and countries around the world have taken steps toward greater agility. All the rest are considering how to do so.

Tariff wars and public health quarantines tend to grab headlines. A less-discussed but important and enduring challenge to smooth international trade is the navigation of the potentially highly varied indirect tax regulations in countries across global supply chains. Nearly all the executives surveyed agree that a capacity to calculate global indirect taxes accurately and efficiently contributes to supply chain agility and improves relations with vendors (93% in both cases). On the flip side, getting these taxes wrong, say experts interviewed for this study, carries serious risks, including substantial economic costs, fines, reputational damage, and – in extreme cases – the whole business coming to a shuddering halt.

Accordingly, this International Tax Review report, commissioned by Vertex, looks at the issues surrounding accurate indirect tax determination for companies with cross-border supply chains. It draws on a multinational, multi-industry survey of over 960 senior executives from the tax, finance, procurement and information technology functions, as well as in-depth interviews with seven corporate leaders and other experts.

## KEY FINDINGS



### DEALING WITH INDIRECT TAXES WITHIN THE SUPPLY CHAIN USES UP A SUBSTANTIAL, AND GROWING, LEVEL OF RESOURCES.

In our survey, 73% of accounts payable (AP) departments spend 13 to 24 hours per month keeping up to date with tax changes; a further 19% devote more. Meanwhile, 80% of tax executives report that their functions spend 13 to 24 hours each month helping AP with this task, and 10% say it takes up even more time.

Looking ahead, 86% of all those surveyed, and 95% of tax executives, say that tracking global tax changes in a timely manner is becoming more and more complex, increasing the risk of error.

Meanwhile, IT functions – brought in to apply automation to address this challenge – are also finding indirect tax to be a large job: 59% of IT respondents report that they have to expend high levels of effort to maintain tax environments on multiple platforms; 41% believe it takes medium effort.

It is not just the nature of the task that is siphoning off resources. Inefficiencies in various areas – from how the tax function keeps AP up to date on frequently changing rules and rates, to the way data is stored within companies – add to the burden.



### AUTOMATION IS NECESSARY.

AP departments that process hundreds of invoices every day from many different jurisdictions are under pressure to stay on top of things.

Technology is an obvious answer. Amid widespread and ongoing procurement automation, tax is not being forgotten. The automation of tax determination is now nearly universal, with 81% of companies doing this task within their ERP systems and 13% using integrated tax engines. If technology alone could easily address this issue, indirect taxation would not be a challenge.



### BUT CURRENT LEVELS OF AUTOMATION ARE INSUFFICIENT.

Some errors in dealing with indirect tax is nearly universal: 95% of executives, including 98% of those from the tax function, are aware of mistakes that have led to incorrect VAT payments. Even if audits rarely result in major remedial action, mistakes are common enough to present material issues.

Almost all companies, for example, track their tax coding errors, and 45% estimate that their rate of mistakes is between 1.1% and 3%. Vikas Aggarwal, head of APAC taxes at Nokia, pulls no punches putting this into context. A 2% error rate has “huge consequences which could have serious financial repercussions for companies”, he says. Not surprisingly, discomfort about this state of affairs is widespread. More than two-thirds of survey respondents are somewhat or very concerned that tax determination issues would be uncovered if a procure-to-pay system audit were conducted next week.



## Our research points to two essential steps on the road to better tax determination in support of procurement and supply chain agility.

### 01

#### Getting the technology right.

Although most companies rely on ERP systems for tax determination, those that deploy integrated tax engines do much better. Only 7% of the latter received a negative tax-related audit finding on their procure-to-pay systems during the previous five years, against 35% of all other companies.

Similarly, just 21% of those with integrated tax engines report determination error rates above 1%, while 49% of other companies do. Part of the benefit of using a determination engine comes from having a tool with more detailed tax data. Experts interviewed for this study, though, indicate that the full value comes from using this tool in the context of a well-designed corporate IT environment.

Ken Slough, business applications manager at EJ Americas, reports that using a tax determination engine along with broader data system consolidation was “a major key for our success in this area”.

### 02

#### Getting the partnerships right.

Amit Gupta, director, tax at Dell Technologies, explains that dealing with indirect taxes properly requires a “close relationship between tax, procurement, accounts payable and IT. All are dependent on each other”.

Cross-functional relations can be a substantial challenge. In general, they require a supportive culture within the organisation as a whole. When it comes to indirect taxes in particular, companies also need well-designed processes that reflect the requirements and strengths of every stakeholder. Finally, once in place, these processes need clear lines of responsibility during execution.

## INTRODUCTION

# Global supply chain agility meets a world of tax complexity

During a business's life, as conditions change, the importance of different parts of the company evolves.

Now, notes Darrell Edwards, senior vice president and chief operating officer at US furniture maker La-Z-Boy, commerce is undeniably becoming increasingly global. This has ushered in the age of the international supply chain as a leading source of competitive advantage. "You have to make sure that your supply chain has the ability to pivot with global demands," Edwards counsels. Supply chains are becoming more dynamic: "Their speed is accelerating."

“

To remain competitive, reinventing your supply base is a strategic imperative.



**DARRELL EDWARDS**  
COO  
LA-Z-BOY

The challenges to trading across borders, though, are also growing. Eighty-six percent of companies see more agility in their procurement processes as a necessary response to geopolitical issues like Brexit, trade conflicts and changing sanctions regimes.

This is the finding of a survey of more than 960 corporate executives, drawn nearly evenly from four relevant functions – tax, procurement, finance and IT conducted by International Tax Review on behalf of tax technology provider Vertex.

The data shows that 83% of respondents' firms have already taken steps to increase such agility and 17% are considering ways to achieve this. Similarly, 49% report that their companies have lined up secondary and tertiary suppliers to guard against disruption and a further 49% say that they are looking at doing so.

This does not surprise Darrell Edwards. "With global supply chains being more susceptible to disruption, the need for agility is increasing to mitigate a wide variety of potential disruptions. To remain competitive, reinventing your supply base is a strategic imperative."

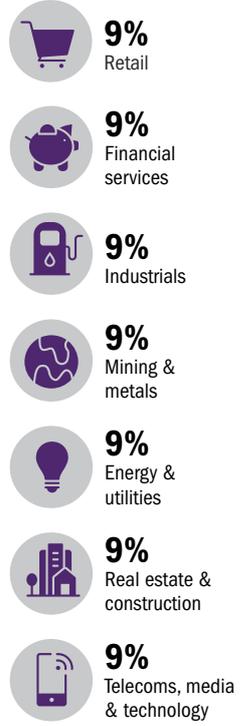
Those looking for proof of the value of increased agility need only consider the recent disruptions arising from COVID-19. More than eight in ten companies say their procurement functions were able to make the swift supply chain adjustments needed in the face of the pandemic and attendant lockdowns.

While this may sound reassuring, it could reflect survivor bias: some firms that were unable to adjust may no longer be around. A closer look at those with limited agility lends credence to this explanation. Over half (58%) of those that failed to make rapid supply chain changes are from one country: Brazil.

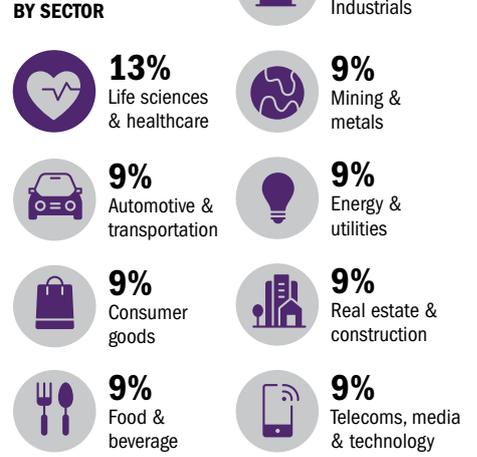
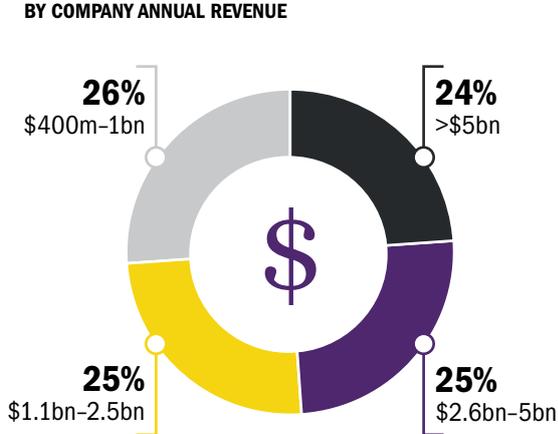
The way in which that country imposed travel restrictions – especially the closing of air borders and attendant loss of significant freight transport – posed a particular challenge for all international supply chains. Even Brazilian firms with greater supply chain

THE SURVEY IN NUMBERS

# Snapshot of respondents



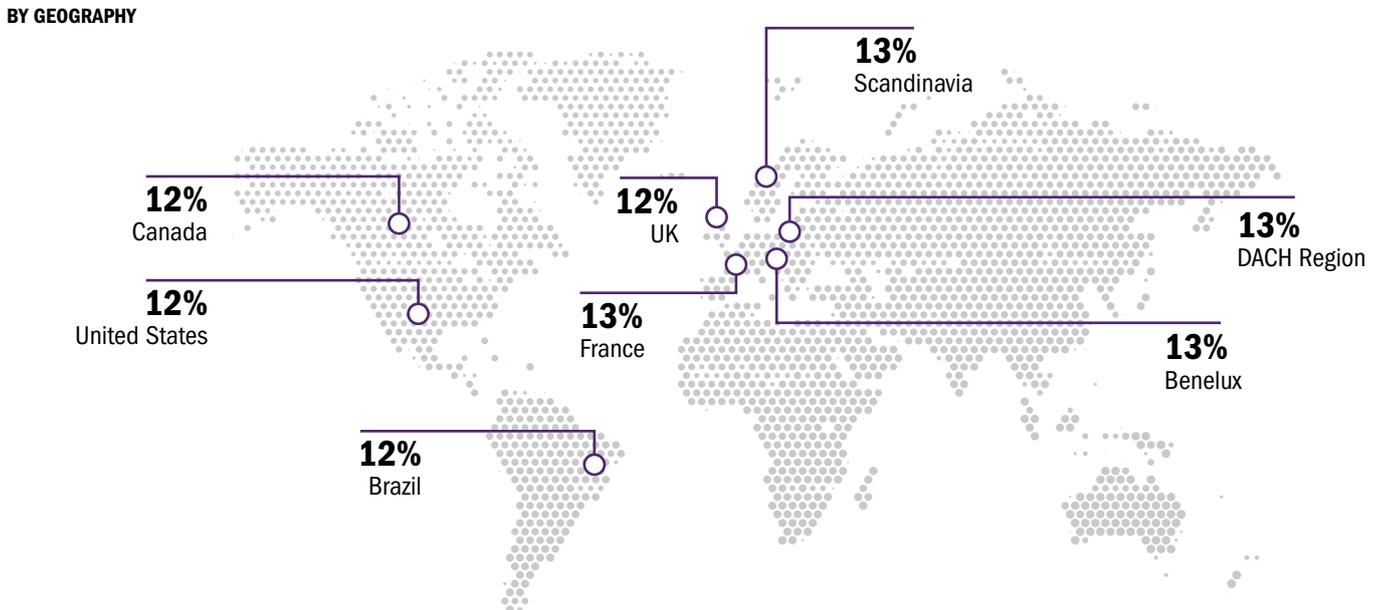
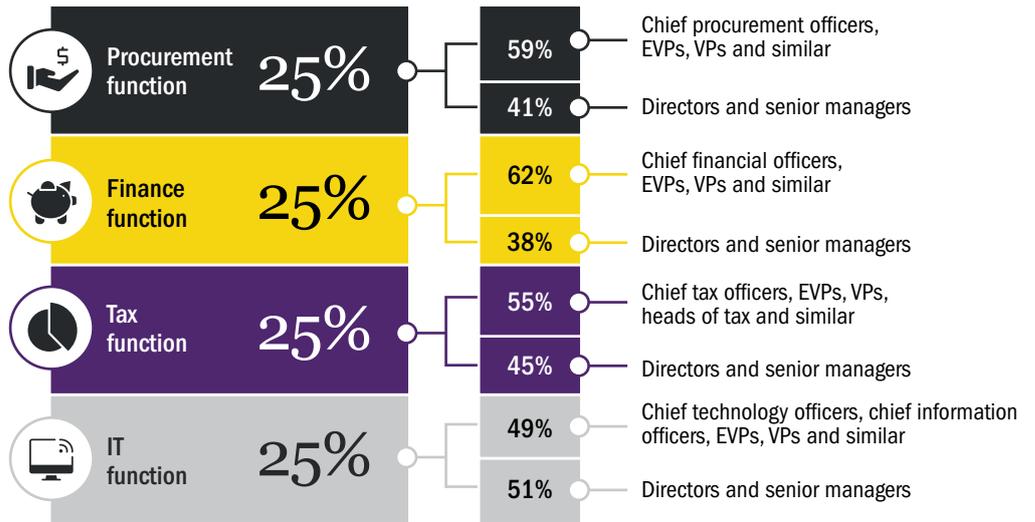
**963**  
overall number of responses



BY SENIORITY

**56%**  
C-level, EVP, VP and similar

**44%**  
Directors and senior managers



agility could not benefit as much from the competitive advantage such agility should have brought amid the general regulatory restraints.<sup>1</sup>

As the example of Brazil shows, sometimes forgotten in heady talk of agile, global supply chains are ongoing challenges presented by borders and states. One unavoidable consequence is that, in the words of Amit Gupta, director of tax at Dell Technologies, “tax is always a part of strategy making” across a company.

Although income tax complexity is inevitably a substantial issue, when it comes to procurement, “indirect taxes apply to every transaction”, notes Vikas Aggarwal, head of APAC taxes at Nokia. “The more the transaction volume, the more imperative it is to get indirect taxes right.”

Looking ahead, the impact of indirect levies will only rise as, for most nations, transaction taxes will become one of the dominant forms of raising income.

Accordingly, nearly all respondents (93%) believe that the ability to calculate global indirect taxes accurately and efficiently contributes to the supply chain agility they all need.

The same proportion says that it also improves relations with vendors across the supply chain. This does more than smooth current relations. It makes a company a more attractive partner to leading suppliers.

The link between effective indirect tax management and improved relations with vendors is not hard to see. Dell’s Amit Gupta explains that these “costs directly impact the cost of goods sold and hence competitiveness”.

The other side of the coin is that getting indirect taxes wrong can be very costly. In some cases, business can grind to a halt. Vijay Vaidya, associate director, ERP and tech lead at Alexion Pharmaceuticals, explains that his company needs to deliver products on the same day because its customers tend not to keep costly drugs in stock. If Alexion struggles to accurately calculate indirect taxes, “our ordering system cannot work and we jeopardise our supply chain”, he says.

More generally, Kendra Hann, Deloitte’s global indirect tax leader, warns that errors in this field can lead to “fines, penalties and interest, as well as reputational issues if you have a penalty. Some geographies are very aggressive if you are not compliant”.

Adding to the overall challenge is the move to real time reporting of tax data, which is being introduced or extended by an increasing number of authorities. “The time to submit is small in some cases,” notes Hann. “It gives people some discomfort if they haven’t been able to check the data before it is sent in.”

Finally, governments are unlikely to see economic harm in increasing the complexity of indirect taxation. Looking at the broader picture, a study by the European Central Bank in 2019 found that, since 2009, restrictive trade measures by governments across the world have grown faster than liberalising ones. By 2018, the analysis estimated, over half of G20 exports were exposed to trade distortions resulting from these measures, up from less than a fifth in 2009.<sup>2</sup> Governments in a protectionist mood may – among other measures – see complex sales taxes and duties as protective as well as income-producing.

Getting a handle on indirect taxes, then, may seem like a technical issue, but it is essential for the success of a supply chain as a whole and, ultimately, a business that relies on international trade.

This report looks at the issues surrounding accurate indirect tax determination for companies with global supply chains. It finds that, while most firms recognise the challenges in this area, many are still casting about for ways to address them.

“

[Errors can lead to] fines, penalties and interest, as well as reputational issues. Some geographies are very aggressive if you are not compliant.



**KENDRA HANN**  
GLOBAL INDIRECT TAX LEADER  
DELOITTE

1. Marcus Assunção et al., “Resilience of the Brazilian supply chains due to the impacts of Covid-19”, HOLOS, 2020, [researchgate.net/publication/343750423\\_Resilience\\_of\\_the\\_Brazilian\\_supply\\_chains\\_due\\_to\\_the\\_impacts\\_of\\_Covid-19](https://www.researchgate.net/publication/343750423_Resilience_of_the_Brazilian_supply_chains_due_to_the_impacts_of_Covid-19)

2. Vanessa Gunnella and Lucia Quaglietti, “The economic implications of rising protectionism: a euro area and global perspective”, ECB Economic Bulletin, April 2019, [ecb.europa.eu/pub/economic-bulletin/articles/2019/html/ecb\\_ebart201903\\_01-e589a502e5.en.html#toc1](https://www.ecb.europa.eu/pub/economic-bulletin/articles/2019/html/ecb_ebart201903_01-e589a502e5.en.html#toc1)

# A large issue that keeps growing

Several functions have necessary roles in putting in place and maintaining the up-to-date expertise, financial systems and processes needed to properly deal with indirect taxation. Each of these parts of the business are devoting substantial resources to the issue.

To begin with, most accounts payable (AP) departments (73%) spend 13 to 24 hours per month keeping up to date with tax changes; an additional 19% have to devote even more time.

Tax functions also are expending notable levels of resources to support AP's efforts to stay abreast of change. Four in five tax departments devote 13 to 24 hours each month to this, and a further 10% spend even more time assisting AP on tax changes.

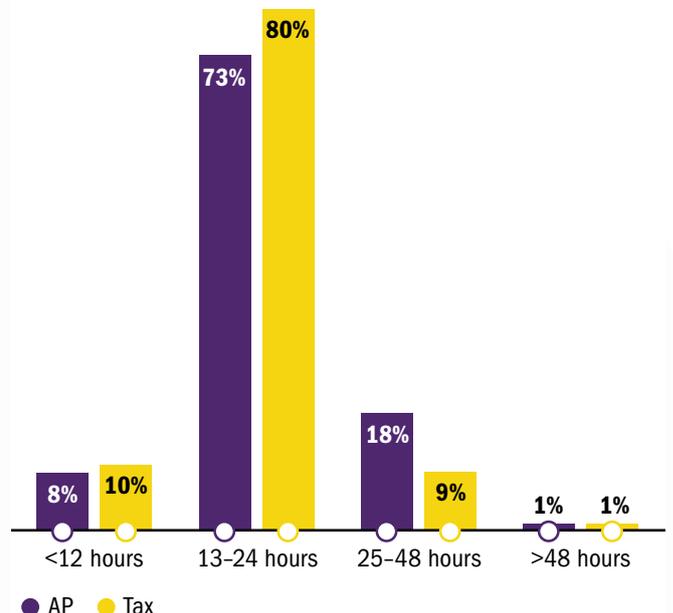
Some of this effort may even be wasted: only 41% of tax, finance and procurement experts believe that AP is kept up to date on tax changes in a highly efficient way. For the rest, the processes are merely adequate.



**73%**

of AP departments spend 13 to 24 hours per month keeping up to date with tax changes.

**CHART 1**  
Time spent by AP and tax departments keeping AP up to date on tax changes (hours per month)



Although this interaction with AP is a substantial commitment for tax departments, an additional, burgeoning draw on the function's time is staying on top of developments worldwide. Eighty-six percent – including 95% of tax executives – report that tracking global tax changes in a timely manner is becoming more and more complex. The result, they add, is increased risk of over- or underpaying indirect tax.

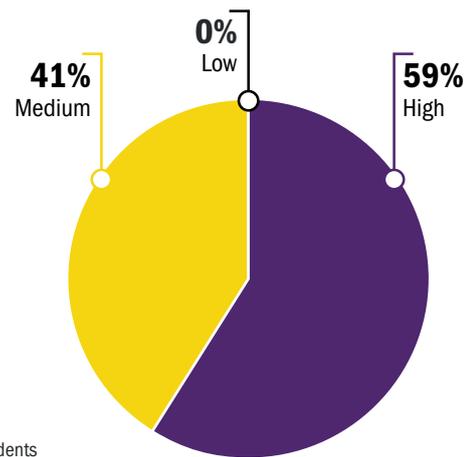
For Deloitte's Kendra Hann these data points are consistent with her experience in day-to-day dealings with clients. She explains that several issues contribute to the rising difficulty executives face keeping up with tax changes.

To begin with, the function, while based in one or a few locations, has to monitor and react to often rapid regulatory revisions, potentially across the world. Meanwhile, environmental taxes and taxes on new kinds of products – such as digital services – are being introduced. Finally, even where governments are trying to be helpful, sometimes they do so in ways that increase complexity.

At the start of the COVID-19 pandemic, “there were a huge number of almost daily changes with short notice, such as many reductions in rates, some increases, and payment deferrals”, Hann notes. “It is not that easy to comply with these changes overnight.”

Vijay Vaidya, the ERP and tech lead at Alexion Pharmaceuticals, adds that even when it is possible to quickly update software with new rates, testing it cannot happen instantaneously.

**CHART 2**  
Level of effort required from IT to maintain tax conditions on multiple platforms



IT respondents

As automation is becoming increasingly essential for businesses to keep on top of tax developments, the role of IT departments is coming more in focus. They too see issues surrounding indirect tax as a substantial task. Fifty-nine percent of IT experts report that a high level of effort is required from IT to maintain tax conditions on multiple platforms; 41% believe it takes medium effort; nobody described it as a low-effort job.

Ken Slough, business applications manager at EJ Americas, believes that the nature of the task is central to the problem. “Maintaining data on multiple systems and organising it in a meaningful way is always a challenge and a drastic waste of effort,” he says. “That is why it is a big burden.”

“

Maintaining data on multiple systems and organising it in a meaningful way is always a challenge and a drastic waste of effort.

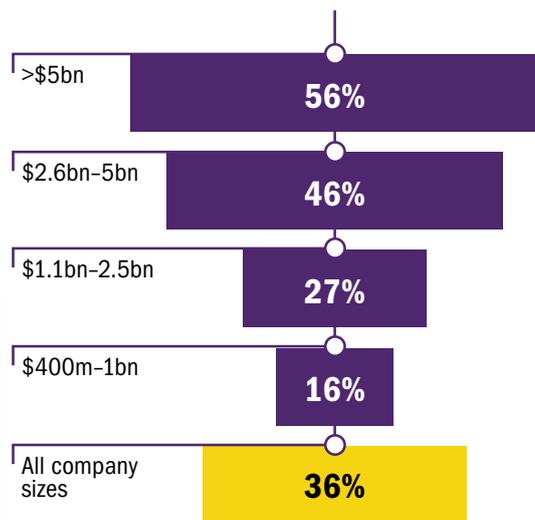


**KEN SLOUGH**  
BUSINESS APPLICATIONS MANAGER  
EJ AMERICAS

# Companies are turning to automation...

Most companies process dozens, if not hundreds or even thousands of invoices per day. Any one of these may require knowledge, sometimes specialised, of indirect tax rules in any of the different countries in their supply chains.

**CHART 3**  
**Percentage of companies that have implemented automated procurement solutions**  
 (by company annual revenue)



Few would disagree with EJ Americas’s Ken Slough, who says, “IT can play an important role in finding ways to deal with indirect taxes.”

The effective application of automation to tax, however, is no small innovation. Dell’s Amit Gupta explains that companies need to look end-to-end, not just in pieces that focus on individual segments: “You have to ask what are the key areas and relevant procurement processes including orders, invoices, sales invoices, reconciliation, withholding taxes – these are just a few. The sooner you start, the better.”

Slough agrees, pointing out that it took seven years to implement a relevant suite of IT and process changes at EJ Americas.

Companies seem committed to this form of long-term change. For procurement overall, 36% already have an automated solution, the survey shows. A further 48% are implementing one, and 12% are considering it. A mere 3% do not plan to go down this road.

Similarly, 34% have moved to touchless AP and an additional 65% are considering it. In both cases, bigger companies are leading the way. Around half of the largest companies surveyed have already implemented procurement automation (56%) and touchless AP (48%). This clearly is the direction of travel.

Tax is an important part of procurement automation. In 84% of companies this function plays a role in the selection of new procurement software, and at 81% of companies with touchless AP systems, these tools include tax coding of invoices.

Meanwhile, automation of tax determination is now nearly universal, with 81% doing it within their ERP systems and 13% using integrated tax engines. The remaining 6% that operate manually appear to be those that can get away with it, if only just: most are comparatively small in terms of annual revenue, with fewer than average monthly invoices and a small number of countries in their supply chains.

If technology alone could easily address this issue, indirect taxation would not be a challenge.

“

You have to ask what are the key areas and relevant procurement processes. The sooner you start, the better.



**AMIT GUPTA**  
 DIRECTOR, TAX  
 DELL TECHNOLOGIES

“

[Executives] have to understand what could be the impact of the errors in coding transaction taxes.



**VIKAS AGGARWAL**  
HEAD OF APAC TAXES  
NOKIA

### CHAPTER 3

## ...but the systems they use are not delivering

Unfortunately, indirect tax determination remains a significant problem at many companies.

Some level of error in dealing with indirect tax is nearly universal: 95% of executives, including 98% of those from the tax function, are aware of mistakes that have led to under- or overpayment of VAT, or VAT not being correctly deducted or reclaimed.

While tax coding errors on invoices are routinely tracked (99% say so), other findings are sobering: only one of the more than 700 in-house finance, procurement and tax experts in the survey panel was confident that their firm's error rate was 0%. Meanwhile, 89% of finance executives report that their firms routinely post provisions to cover possible

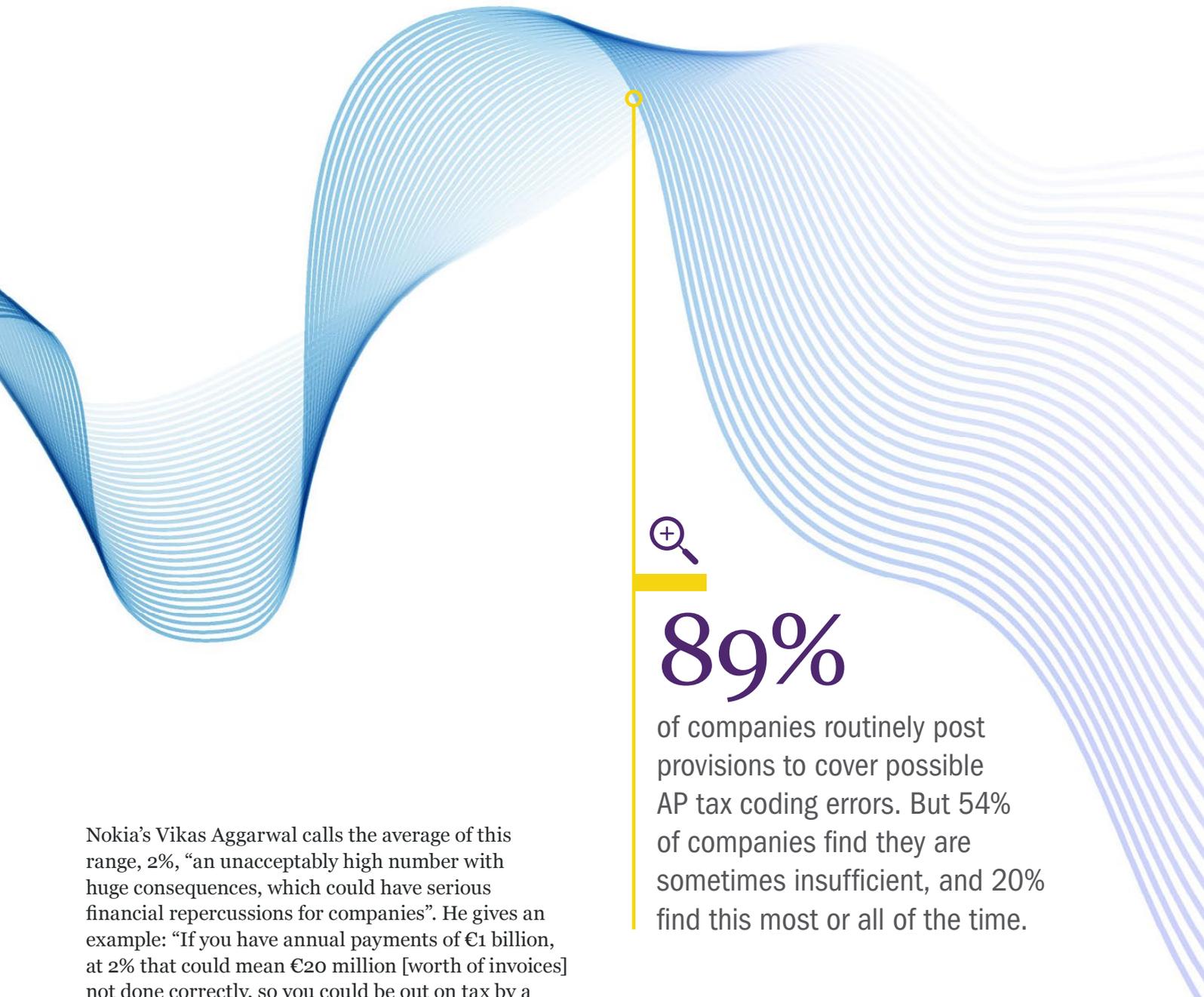
AP tax coding errors, a figure which rises to 95% among the largest companies.

Not surprisingly, discomfort about this state of affairs is common, although most often it takes the shape of a low-level unease rather than high anxiety. Just over half of those surveyed (51%) are somewhat concerned that issues around tax determination would be found around procure-to-pay, if an audit were done next week, while a further 17% are very concerned.

In short, the current extent of automation has not eliminated errors in tax determination, and executives feel uncertain. In fact, greater use of technology may have raised the profile of the issue. Where an automation system is introduced in procure-to-pay it often highlights errors companies were not aware of.

Few systems are perfect, but how material are indirect tax problems in procurement systems? On the one hand, extreme process issues appear to be rare. Nearly every company had seen an internal or external audit of its procure-to-pay system in the past five years and, overall, 31% received negative results. Of these, 3% required major remedial action, with 81% needing to make minor changes.

On the other hand, too often the impact of errors in the execution of these processes is substantial. In particular, 45% of companies report a tax coding error rate of between 1.1% and 3%.



# 89%

of companies routinely post provisions to cover possible AP tax coding errors. But 54% of companies find they are sometimes insufficient, and 20% find this most or all of the time.

Nokia's Vikas Aggarwal calls the average of this range, 2%, "an unacceptably high number with huge consequences, which could have serious financial repercussions for companies". He gives an example: "If you have annual payments of €1 billion, at 2% that could mean €20 million [worth of invoices] not done correctly, so you could be out on tax by a couple of million."

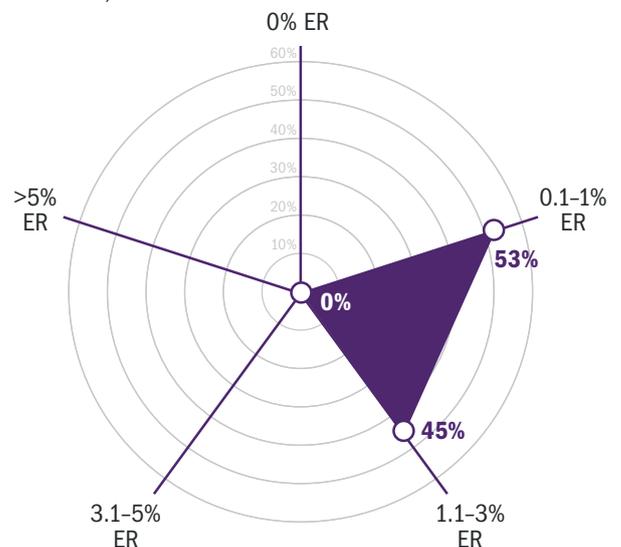
Aggarwal adds that executives "have to understand what could be the impact of errors in coding transaction taxes and strive to achieve Six Sigma quality in transaction tax reporting". The survey suggests that this, too, is underappreciated. Of the companies that post provision for such mistakes, 54% say that these are sometimes insufficient and a further 20% add that their provisions is frequently or always insufficient.

Even where mistakes are caught, they still can be costly. Anil Kumar, indirect tax manager and a colleague of Vijay Vaidya at Alexion, says that reviewing errors can take one to two days a month. And Deloitte's Kendra Hann adds that this can be a more general problem: "Having people focussing on and checking this is a real drain on resources."

CHART 4

### Error rates for tax coding of AP invoices at companies

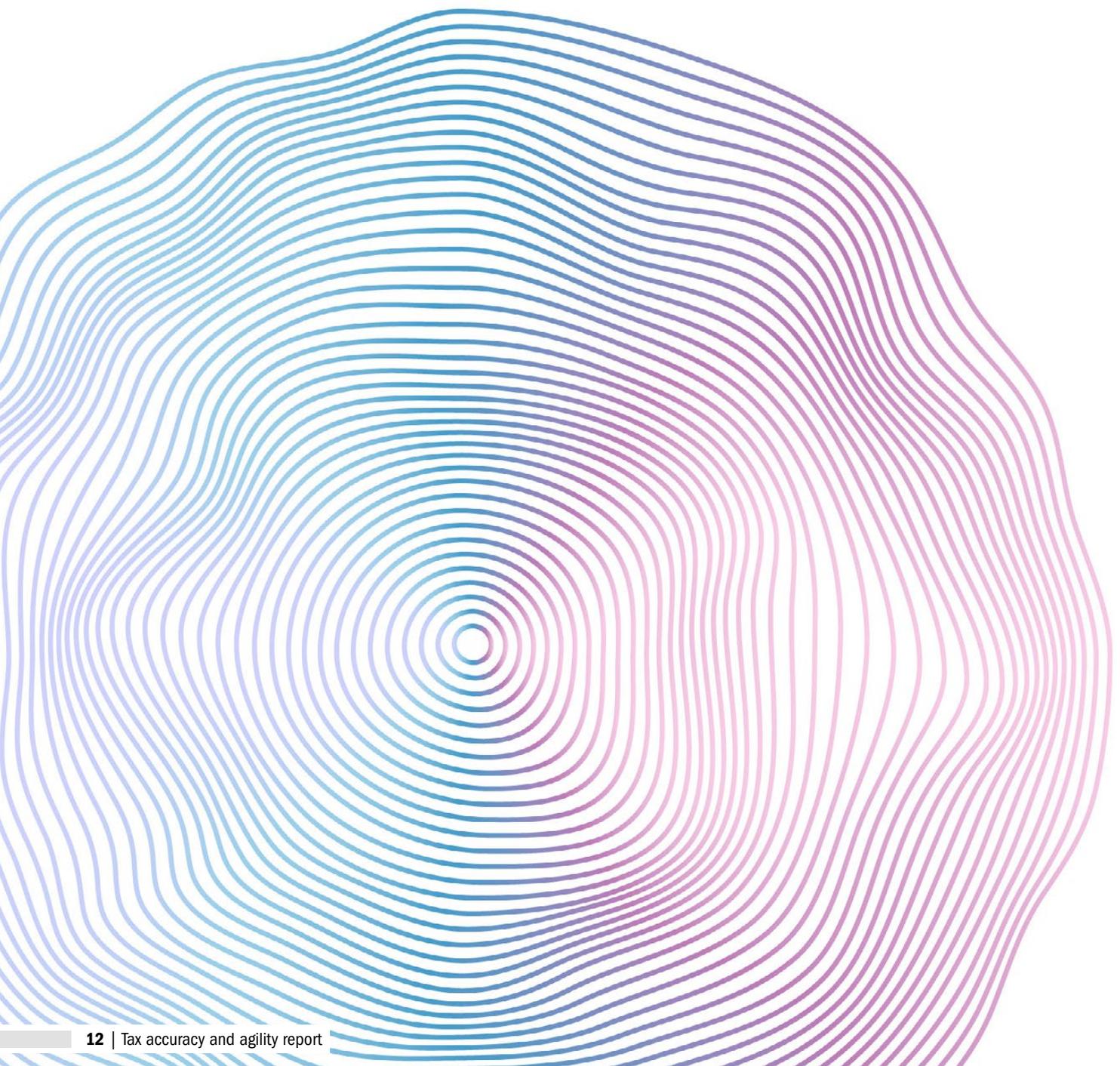
(ER = error rate)



Missing to 100%: "Organisation is tracking but does not know the rate" and "Organisation is not tracking the error rate"

# The two pillars of better tax determination

Getting indirect tax right, then, is a fundamental requirement for multinational supply chain agility and the competitive advantage that it can bring. Automation is essential to this task, but currently that automation is delivering suboptimal results for a large number of companies. The survey data and expert insights suggest two areas where firms should focus in order to pull ahead in this field.



# 01

## GETTING THE TECHNOLOGY RIGHT

In tax automation, as elsewhere, not all tools are alike.

As noted earlier, most companies rely on existing ERP systems for tax determination rather than specialised integrated tax engines. While it is tempting to save money by working with already-purchased software, the data shows that companies that have a tax engine get better results.

To cite a few of the most indicative examples: 47% of those with integrated tax engines say that AP is kept up to date on tax changes in the most efficient and productive way, compared to 40% of other respondents; only 7% of the first group received a negative audit finding in the previous five years, against 35% of the latter; and, perhaps most important, just 21% of those with integrated tax engines report high determination error rates of 1% or more, while 49% of other companies do.

Some of these benefits accrue simply from having a more effective tool. “[The] biggest weakness of using an ERP directly goes back to manual calculation and input,” says Ken Slough from EJ Americas, adding: “somebody has to set up and enter” the tax rules. “Having indirect tax calculated [by an engine] is just a lot easier.”

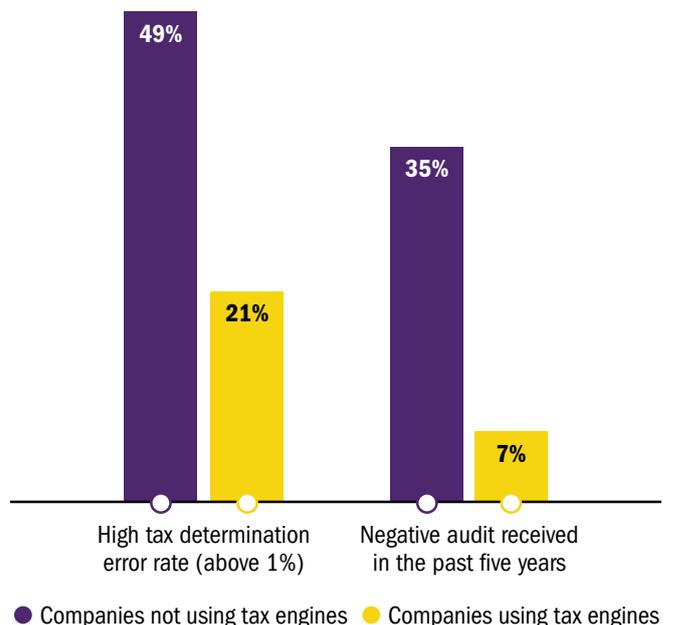
Similarly, notes Alexion’s Vijay Vaidya, with an ERP alone often “you cannot have the granularity level, which is where most of the hard cases are”.

Both executives stress that this technology cannot simply be added as a kind of stand-alone tool. According to Slough, an engine needs to be applied in the context of data systems consolidation.

“A major key for our success in this area,” he says about EJ Americas’ switch to a tax engine, was “to have one source of truth for data rather than housing it in multiple places”. Vaidya adds that, even with multiple systems in procurement, using a tax engine within a single reporting system gives a consolidated overview and makes it easier to follow up on flagged errors.

The right automation tools, when used within a well-designed IT system, can do much to improve how supply chains handle indirect taxes. While essential they are only part of what companies need to do this effectively.

CHART 5  
Impact of tax engines on tax rate determination



# 02

## GETTING THE PARTNERSHIPS RIGHT

Kendra Hann, Deloitte’s global indirect tax leader, recalls working with one company where a member of AP staff was not impressed by the capabilities of its automated tax determination software.

The person in question “overrode everything, because it was quicker to process”. The reason was that the company had a KPI in place based on the number of invoices processed in a specific time frame. “You need to make sure the KPIs you set meet every stakeholder’s requirements,” Hann concludes.

This is an extreme case, but goes to the heart of one of the challenges around getting indirect taxation right: the need for employees across the company to work together on a common goal. As Dell’s Amit Gupta says, this field requires a “close relationship between tax, procurement, accounts payable and IT. All are dependent on each other”.

Gupta cites as an example a recent landmark case by the Supreme Court of India. For buyers of software in India, this the ruling results in a profound overhaul of applicable tax rules. Different corporate functions need to collaborate to correctly implement the changes. (See page 15, *Adjusting to new rules is a team game*.)

However essential collaboration across functions regarding indirect tax may be, experts agree that it is not always easily achieved. Experts point to three essential foundations that are relevant here.

According to Darrell Edwards of La-Z-Boy, effectively working together across functions begins with the culture of the company: “It is imperative to have a collaborative culture permeate through the entire organisation.” This takes hard work, he adds, but “since we are part of the same team, it doesn’t make sense not to collaborate”. Sometimes practical arrangements, such as having the most senior executives work in the same building, can help shape the firm’s culture in this way.

A culture of cooperation, says EJ Americas’s Ken Slough, is essential for what he describes as the biggest challenge in the effective application of automation of indirect tax: redesigning business processes. “You need lean [business processes] to leverage the benefits of a modern cloud-based system. Technology does not mean a lot without good processes.”

This process redesign needs to involve input from all relevant parts of the company: “Finance, AP and procurement will have their own challenges and requirements, while IT has technical limitations,” Slough says. This, too, brings inevitable practical challenges. At EJ Americas, the use of a small development team made up of subject matter experts from each function was a key part in keeping process redesign and implementation on track.

This sense of joint endeavour needs to continue beyond the design and initial implementation of process changes and automation. Best practice, therefore, includes a control framework between stakeholders and clear arrangements regarding who owns what part of the process.

This starts with the tax function being used effectively. It should act as an advisor to other parts of the business to embed the right processes, train people, and keep them abreast of relevant indirect tax issues.

Doing all of this well requires another change at companies: the tax team being brought in early to advise supply chains on tax implications of any major changes. According to Deloitte’s Kendra Hann, this practice has become more common in recent years, but remains far from universal.

In 16% of companies, the tax department is not involved at all when evaluating a procurement solution, the survey data shows. Even among the 84% that do consult tax departments, this may not be done at the optimal time.

Anil Kumar, Alexion’s indirect tax manager, warns of issues arising when changes to the procurement solution are made but companies do not foresee the tax impact, “so that the tax department is not brought in until the last few days: this is a big problem”.

It is, perhaps, worrying that a quarter of procurement and IT experts in the survey say that the tax function is never involved in evaluating new automated procurement solutions, while they also insist that tax accuracy is sufficiently taken into account in that same software (98% in these groups think so).

Meanwhile, AP also needs to be sufficiently integrated in the overall supply chain process, rather than just being seen as a necessary cog in the system.

Better training of AP staff has a role to play in this – but it is costly and time consuming to keep an AP team up to speed on a constantly evolving tax environment. And even the best training will fail to have impact if other factors, such as new tax legislation, employee turnover or the wrong KPIs, get in the way.

## Adjusting to **new rules** is a team game

Dating back around two decades, it was an issue only a tax lawyer could love. India did not charge tax on the income of businesses that did not have a permanent establishment in the country, including foreign providers of software. This practice was also enshrined in the country's tax treaties.

In order to generate state income from a lucrative market, however, India has characterised payments to foreign software providers as royalties, rather than business income. This required Indian payers in such transactions to withhold 10% of such sums as a royalty tax.

The move provoked substantial controversy. The Supreme Court of India's decision of 2 March 2021 in *Engineering Analysis Centre of Excellence Private Limited v the Commissioner of Income Tax and Another*, dealt collectively with over 100 related lawsuits. Among the findings in the 226-page judgment, the relevant one here is that the payments in question could not be characterised as royalties.

Such a big regulatory shift, explains Amit Gupta, director, tax at Dell Technologies, requires a range of changes as its effects will ripple through a company.

To begin with, such a resultant company policy change "has to be formulated by the tax team and then communicated to AP and procurement. This, in turn, will affect prices, so procurement maybe has to renegotiate. Meanwhile AP has to make sure withholding taxes don't happen". The latter, in turn, may require assistance from IT.

Even for good tax news, everyone has to work together to secure the full benefits.

“

You need lean [business processes] to leverage the benefits of a modern cloud-based system. Technology does not mean a lot without good processes.



**KEN SLOUGH**  
BUSINESS APPLICATIONS MANAGER  
EJ AMERICAS

Even simple KPI measures can improve results. In companies where KPIs for AP include the number of errors in applying tax codes, just 26% received a negative audit report on their procure-to-pay system in the last five years. This compares to 34% at other companies.

More striking, 70% of companies with error rate-based KPIs succeed in reducing the error rate on invoices to less than 1%. In companies that do not use this KPI, one in two fail to achieve error rates that low.

Effective automation, then, requires companies to make sure that all the right people are on board.

## CONCLUSION

# An issue that needs attention as well as investment

Even a company with a moderately large supply chain cannot avoid the complexities of indirect taxation. It is a growing challenge, and the ability to deal with it well is of widespread concern among executives.

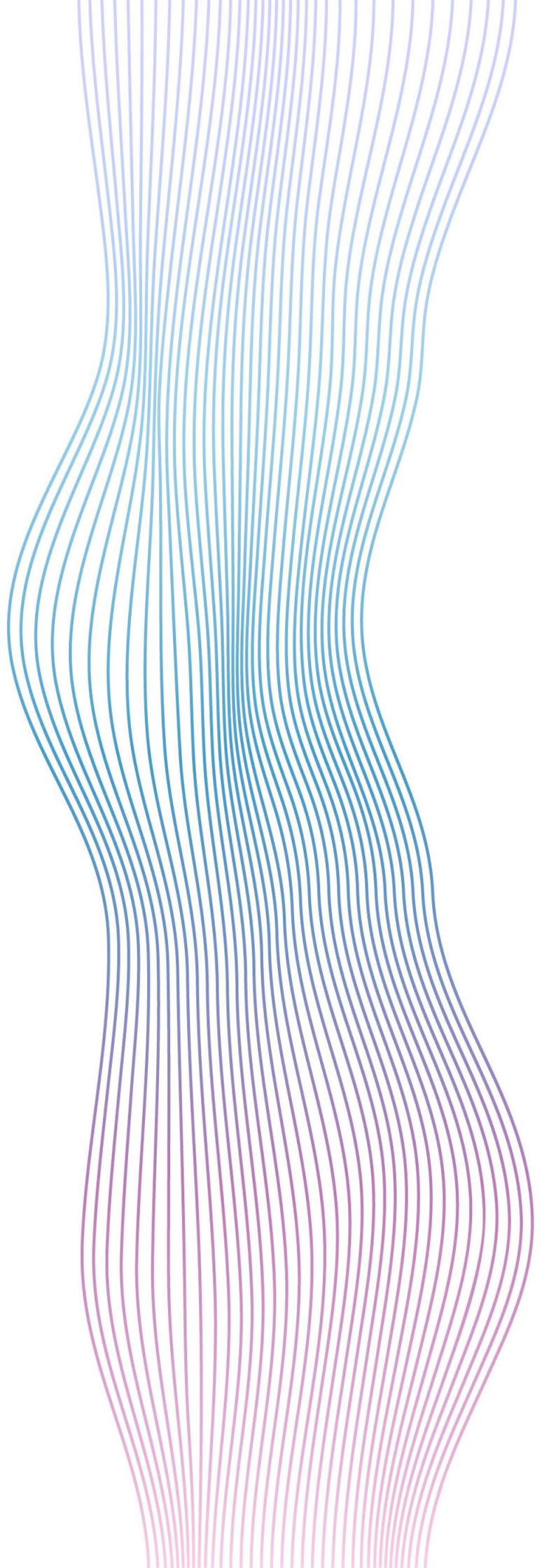
Automation is clearly a fundamental part of the answer, but the automated systems most companies have in place are both time-consuming to maintain and overly prone to possibly expensive mistakes. In particular, tax coding errors are worryingly common.

The solution is not a short-term fix of purchasing new software, but a long-term plan to address all aspects of the challenge. This begins with getting the right kind of automation. Tax engines, for example, correlate with markedly lower error rates, the research shows.

Their application, though, needs to be part of a broader process. IT systems must come out of their silos, so that a coherent, single view of truth can underlie the consistent application of rules across companies.

Similarly, people need to be able to work beyond their functional silos. The processes related to indirect tax must serve all relevant stakeholders with a clear framework defining which function has genuine responsibility for which role.

These requirements should sound familiar to executives. They reflect the direction of travel for effective companies. In this sense, while indirect taxation will take work to address, the effort expended will not only help create more agile supply chains, it will help build the broader, co-operative cultures that will underpin the successful companies of the future.



# About the research

This report is based on a survey of 963 corporate executives drawn nearly evenly from four relevant corporate functions: tax, procurement, finance and IT.

The survey was conducted by Thought Leadership Consulting, a Euromoney Institutional Investor business and sister company of International Tax Review. Fieldwork took place between March and May 2021.

Fifty-six percent of respondents hold C-suite, executive vice president, vice president or similar roles, with the rest being directors and senior managers. The sample is international, with 64% of respondents based in Europe, 24% in North America and 12% in Latin America.

The respondents also cover a wide range of industries, with between 9% and 13% working in each of the following sectors: life sciences & healthcare (including medical devices); automotive & transportation; consumer goods (including packaging); energy & utilities; financial services; food & beverages; industrials; mining & metals; real estate & construction; retail (including apparel); and telecoms, media & technology.

Twenty-six percent of respondents work for companies with annual revenues of \$400 million to \$1 billion; 25% for companies with revenues of \$1.1 billion to \$2.5 billion; 25% for companies with revenues of \$2.6 billion to \$5 billion; and a further 24% for companies with revenues in excess of \$5 billion.

All respondents came from companies with at least one foreign supplier, and a third (34%) had supply chains that stretched over 11 or more countries.

In addition to the survey, in-depth interviews were conducted with seven corporate leaders and experts in procurement, indirect tax and IT.

**Vertex and International Tax Review would like to thank the following independent experts for their contributions to this report.**



**VIKAS AGGARWAL**  
Head of APAC taxes  
Nokia



**DARRELL EDWARDS**  
Senior vice president and chief operating officer, La-Z-Boy



**AMIT GUPTA**  
Director, tax  
Dell Technologies



**KENDRA HANN**  
Global indirect tax leader  
Deloitte



**ANIL KUMAR**  
Indirect tax manager  
Alexion Pharmaceuticals



**KEN SLOUGH**  
Business applications manager  
EJ Americas



**VIJAY VAIDYA**  
Associate director, ERP and tech lead  
Alexion Pharmaceuticals



## 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.

[vertexinc.com](http://vertexinc.com)



## ABOUT INTERNATIONAL TAX REVIEW

International Tax Review is the market-leading masthead servicing the international corporate tax payer community, providing an essential source of news, analysis, publications and events for leading tax experts, directors, lawyers and CFOs.

[internationaltaxreview.com](http://internationaltaxreview.com)



Thought Leadership **Consulting**

A Euromoney Institutional Investor company

## ABOUT THOUGHT LEADERSHIP CONSULTING

Thought Leadership Consulting is the strategic content division of Euromoney Institutional Investor plc. TLC creates thought-provoking content for global business leaders. Our editorial team is hugely experienced in devising memorable, long-lasting and effective content programmes. With a team of independent journalists, experienced editors and professional marketers, we create reports, surveys, blogs, articles, videos, podcasts, infographics and animations. All of our content is unbiased, original, research driven and audience-led.

[thoughtleadershipconsulting.com](http://thoughtleadershipconsulting.com)

## PRODUCTION

### Managing editor

Ben Bschor

### Writer

Dr Paul Kielstra

### Charts and design

Claire Boston



Meet us at the corner of

# COMMERCE AND COMPLIANCE.

You'll be in good company.

Vertex tax technology is helping over 4,000 companies around the world, including over half the Fortune 500, to transact, comply, and grow with confidence.

Let us tackle tax complexity — so you can seize the next opportunity.

[vertexinc.com](https://vertexinc.com)

 VERTEX<sup>®</sup>



[internationaltaxreview.com](http://internationaltaxreview.com)