



7 Considerations for enhancing procurement technology implementations

»» Introduction

Every transaction tells a story, and the best ones tend to feature surprising plot twists. When it comes to a procurement group's increasingly strategic and data-driven narrative, unforeseen indirect tax risks linked to purchasing transactions can trigger unpleasant developments that hinder procurement efficiency and impede its transformation progress.

Procurement groups have a great story to tell, and the profession's recent deployment of advanced technology plays a central role. Procurement teams have notched impressive strides in recent years as they become more digital in their operations and more strategic in their contributions to organizational value.

"Investments in advanced digital solutions are a key enabler for procurement success," notes [Deloitte's latest survey of global chief procurement officers](#). Deloitte's work with procurement groups suggests that this business function is aware of the need to elevate their digital capabilities, and they are committed to doing so. Yet, many procurement teams remain unaware of the indirect tax risks lurking in their procure-to-pay processes.

From deploying predictive analytics and robotic process automation (RPA), to aligning evolving stakeholder objectives, to developing alternative resourcing models and finding other ways to strengthen supply chain resilience — and much, much more — many procurement teams have unending to-do lists that have given them limited bandwidth to delve into tax compliance determinations and calculations. The tangle of indirect taxes that must be accurately calculated on procurement transactions is increasingly complex and often managed in a suboptimal manner at the time of purchase.

As a result, procurement leaders and their counterparts in the tax group should keep the following points in mind:

- Procurement's ongoing digital transformation is crucial to organizational performance.
- Tax determinations represent a critical, though frequently neglected and potentially high-risk, component in procure-to-pay (P2P) lifecycles.
- Procurement's effort to enable seamless purchases hinges on accurate, convenient tax determinations.
- One of the leading ways to enable and sustain seamless transactions is by conducting tax determinations at the time of purchase via a procurement-tax technology integration.

Following this logic can empower tax teams to manage the organization's tax-compliance story while procurement groups remain laser-focused on enhancing their value proposition.

Procurement transformation, tax compliance, and purchase transactions

Addressing tax compliance requirements in a P2P model typically requires the deployment of tax technology in tandem with the implementation of a new procurement system. Getting that integration right starts with an understanding of where and how procurement and tax processes and data interact.

Some consequential procurement-tax touch points include:

- Master data setup and vendor setup
- The requisition and purchase order
- The receipt of goods (or services)
- The invoice verification process
- The posting of the invoice to an accounting or enterprise resource planning (ERP) system

»» "Investments in advanced digital solutions are a key enabler for procurement success."

Source: Deloitte Tax LLP, Deloitte Global 2021 Chief Procurement Officer Survey

Consider the creation of a purchase requisition. That form contains information needed to estimate whether tax needs to be submitted and if so, how much and where it's collected. A quick, secure, accurate, and less intrusive way to relay that information to the tax system is via an application programming interface. Many organizations value getting a tax liability estimate at that point because it can provide early clarity from budgeting and planning perspectives.

Another procurement-tax touch point — invoice reconciliation — occurs later, or further downstream, in the P2P process. At that point — once the purchasing organization has received the invoice from the supplier, a final tax determination can be made — the tax entry can be booked and entered in the accounting or ERP system. Though before that occurs, it is important for the tax technology to determine whether the actual amount of tax paid to the supplier was accurate. This determination requires tight integration among procurement, accounting, and tax systems.

As procurement teams strive to make the purchasing experience faster and more convenient, tax estimates, determinations, and remittances also must be conducted as quickly, easily, and above all, accurately as possible. That may be easier said than done.

While B2C transactions are, for the most part, straightforward when it comes to tax determination, B2B purchases may not be. In the U.S., the combined sales tax rate of the country, state, and city (in some cases, other jurisdictions also levy sales taxes) in which a consumer is located is added to the item's purchase price. In the EU and other parts of the world, value added tax (VAT) determinations are also relatively straightforward for B2C purchasing.

Again, B2B procurement taxation is much less cut and dry. "Managing the taxes on procurement transactions raises a number of questions that have to be answered accurately," notes Vertex Global Partner Leader, Kristin Schwabenbauer, who lists several important assessments that require attention:

- How do we determine which taxes apply?
- Which tax jurisdictions are involved?
- Where did the transaction originate?
- What is the purchased good or service's destination?
- Is tax due from the supplier side or the buyer side?

The taxability questions Schwabenbauer identifies apply to all procurement transactions, including common purchases like those for software. A long list of qualities pertaining to the software, as well as dimensions of the transaction itself ultimately determine whether, how much, and in which tax jurisdiction the transaction is subject to indirect taxes. While it might be ideal to have a tax category for, say, ERP software, it's difficult to do so given the array of factors that determine the tax rates on B2B software purchases.

Tax exemption status and certificates may come into play, for example. If the software is structured and delivered as a service, different tax rates will apply. The timing of the transaction and the software delivery may also affect tax and related accounting determinations. Plus, new marketplace facilitator tax rules continue to arise, and more states are adjusting their tax laws and rates on digital goods and services. All procurement transactions must comply with current rules and rates in all relevant jurisdictions.

"That's why most companies either enlist their tax departments or external tax specialists to analyze their purchasing categories to ensure that the system used to identify which taxes apply to each purchase is accurate, current, and detailed to a sufficiently granular level," Les Jackson, Managing Director at Deloitte Tax LLP, notes.

» "Without that sharp visibility, tax decisions can be inaccurate, which may trigger a succession of pain points. Tax liabilities may accumulate, audit risk may increase, and in many cases the company needs to defend itself against the audit's findings."

Source: Deloitte Tax LLP, Director.

For your consideration

To limit potential issues from materializing and escalating, procurement teams should be mindful of the following considerations while seeking out assistance and clarifying insights:



» "It's crucial to bridge any gaps that exist between procurement & tax systems."

— Les Jackson, Managing Director at Deloitte Tax LLP

1. Consider the complex tax requirements that apply to procurement transactions

Post-*Wayfair* changes, new marketplace facilitator sales tax rules, ongoing EU VAT changes, digital taxation legislation, and the list goes on. The numerous factors that determine whether, which, and how much tax applies to each purchasing transaction are complicated by the fact that rules and rates continually change across hundreds of tax jurisdictions. The global embrace of digital commerce and the substantial bills coming due in response to COVID-19 stimulus packages around the world indicate that this complexity will intensify.

2. Consider tax audit risks and their potential drag on procurement performance

Making procurement transactions "seamless" marks a top objective of most procurement groups, which carefully monitor key performance indicators to closely manage efficiency throughout all P2P processes. Delays, uncertainties, and inaccuracies in tax determination activities may hinder procurement efficiency. When companies fail to self-accrue and/or pay the taxes they legally owe, the risk of being subjected to time-consuming, disruptive audits may also increase.

3. Consider the risks that arise when non-tax professionals make complex tax decisions

Professionals from different parts of the organization routinely use procurement systems to support their activities. Buyers use the system to make purchases, and procurement groups ensure that these platforms reflect their sourcing strategies, relationships, and data analysis needs. Accounts payable (AP) teams and other accounting professionals use the system to access invoices. When procurement systems are not sufficiently integrated with tax automation solutions (i.e., where tax determination is predominantly manual), AP professionals and other users can get involved in making tax determinations. That could be a recipe for tax errors and increased audit risks. "It's crucial to bridge any gaps that exist between procurement and tax systems," Jackson asserts. "You want to avoid manual tax evaluation activities that result in having professionals who are not well versed in global tax rules determine which rules and rates apply."

4. Consider performing tax determinations the moment a procurement transaction occurs

As Jackson points out, the ideal point to get the tax determination correct within the P2P lifecycle is at the time of the transaction. Doing so after the fact may be less efficient because it often results in the need to track down data, engage in discussions, and perform other manual work. While the logic of getting tax right at the time of the transaction seems obvious, tax teams, their IT colleagues, and external software and services partners know firsthand that doing so requires upfront integration work to ensure the smooth exchange of data at each procurement-tax touch point.

5. Consider the underlying purpose of technology implementations – to help users do their jobs better

Advanced procurement systems and platforms support procurement groups' digital transformation progress, deliver a faster, more convenient purchasing experience to internal customers, and strengthen relationships with suppliers. AP teams are also procurement customers and partners, and they count on procurement systems to furnish accurate accounting data. Tax automation helps tax groups achieve and sustain compliance as efficiently and effectively as possible, while freeing up resources to focus on long-term tax planning and other strategic endeavors. These objectives are straightforward, but they often get lost in the shuffle. "It can be helpful to step back from transformation initiatives and ask, 'How do we give everyone involved in the P2P lifecycle the tools they need to do their jobs more effectively?'" Schwabenbauer notes. "When you look closely at what accounts payable groups do, you realize that determining how tax should be calculated is typically not part of their job."



6. Consider integrating new tax automation when implementing a new procurement platform/system

By performing tax determinations at the time of a purchase, organizations limit the likelihood of having to conduct large amounts of manual work down the road if and when errors arise. The same principle applies to procurement and tax technology implementations. "You really want the implementations to occur in parallel," Jackson asserts. "That way, you can gather all the tax requirements up front and those needs shape the procurement system implementation. Addressing those needs after the fact or later in the process may force the tax group to play catch up. That can negatively affect implementation timelines."

7. Consider how much behind-the-scenes work is needed to deliver seamless procurement experiences

An irony of so-called 'frictionless' procurement transactions is that creating an easy, user-friendly customer experience requires difficult work behind-the-scenes. Procurement teams need to be aware of indirect tax complexity and the factors that may increase audit risks. Tax groups need to ensure that all relevant tax rules and rates are applied and kept current, ideally via tax automation. Procurement and tax systems need to be integrated. "Seamless' is a tricky word," Jackson points out. "It usually means that a purchaser is going to have a user-friendly experience when procuring a good or service," he explains. "In the B2B world, getting to that single-click point takes a fair amount of business process, technology, and integration work."

To be sure, procurement groups typically have more than enough work to do beyond technology integrations.

"The evidence is clear: The average number of priorities CPOs are reporting is increasing, as is the overall relative importance of each," according to [Deloitte's CPO survey report](#). While procurement teams have typically focused on reducing costs, they are generally much more focused on driving operational efficiency, progressing with their digital transformation, innovating, and introducing products and services — all of which qualify as top-five CPO priorities this year. ²

By making it a priority to understand and consider indirect tax risks while deploying new platforms and technologies, procurement teams can make sure rising tax audit risks do not prevent them from turning the next page in their transformation stories.

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