



Completing your cloud migration

Tax automation in the new ERP ecosystem

Summary

This paper examines leading approaches to cloud migration involving tax automation (integrated with cloud-based ERP). The discussions can help tax, finance, and IT groups lay the groundwork for tax automation success after a new cloud-based tax automation solution has been implemented and integrated.

Tax groups have a meaningful opportunity to enhance the value of their organization's digital transformation effort. This priority, which involves migrating tax automation to the cloud in tandem with larger enterprise resource planning (ERP) cloud migrations is becoming even more time-sensitive.

This urgency is increasing for two reasons. First, cloud-technology investments throughout the organization, including the tax department, increasingly qualify as a board-level priority, given that the pandemic, supply chain upheavals, and other disruptions, which have made the ability to operate in a digital and agile manner a strategic imperative among corporate directors and their C-suite partners. "As more companies embrace the cloud, the board of directors has become an important stakeholder," notes Oracle Group Vice President, Chad McAfee. "This reflects the fact that cloud investments are often part of the broader organizational strategy."

Second, by positioning themselves to be included in the larger finance transformation efforts, tax leaders can leverage the larger budgets and ample resources attached to ERP implementations. "The business case for a cloud migration tends to be more difficult to make when tax is doing it alone," explains Martin Lopez, Managing Director in Deloitte Tax LLP's Tax Management Consulting practice. When an ERP cloud migration takes place as part of a finance transformation effort, tax leaders are less likely to be scrutinized on their business case for migrating tax automation to the cloud. "Instead," Lopez continues, "the mindset is more along the lines of, 'We're going through finance transformation, and everyone's going to have an opportunity for improvements — what does the tax department need?'"

Fulfilling those needs requires tax leaders and their teams to get a read on:

1. How cloud-based tax solutions fit with ERP implementations and the overall digital transformation effort
2. How cloud solutions may benefit tax groups
3. The implementation success factors that help enhance returns on investments in cloud systems

Digital transformation leaves the station

While companies have invested in digital transformation initiatives for years, the obstacles posed by the pandemic hastened digital transformation progress in many companies.

Digital-born competitors, rapidly changing customer expectations, and the emergence of new technologies and tools has placed additional pressure on companies to leverage digital technologies to create or modify business processes that bolster agility, increase resilience, and enhance the customer experience.

The migration of business systems to a cloud environment marks a foundational component of digital operations. However, while marketing functions and other parts of the organization may have been early adopters of cloud applications, many finance functions have only recently embraced the shift to the cloud. This includes migrating to cloud ERP systems and their expanding ecosystem of integrated applications that support treasury, procurement, accounts receivable, accounts payable, and tax groups.

More CFOs are interested in accessing the new functionality that cloud-based ERP systems offer, along with the business resiliency and agility benefits they deliver, according to both McAfee and Lopez. “Migrating ERP ecosystems to a cloud-based environment requires a comprehensive effort,” notes Vertex’s Chief Tax Officer, Michael Bernard. “Organizational digital transformation is like a train,” Bernard continues, “and tax groups should consider the best way to hitch their digital-transformation activities to this powerful locomotive.”

In [Taking Tax to the Cloud](#), a recent Deloitte report on the role tax plays in ERP cloud migration, echoes Bernard’s point. “If tax isn’t at the table (and with its own digital road map) at this stage in the planning process, it should be,” according to the report. “Otherwise, the entire business may find itself losing out on functionality that could be embedded to ensure the business can meet global tax planning, compliance, forecasting, and reporting requirements in the future. It will also influence the ability to assess the tax implications of strategic decisions with agility in the face of future disruptions.”

For your (re)consideration

While some organizations have sound reasons for remaining in an on-premises tax technology environment, all tax groups should take a close look at their rationale for their cloud migration evaluation, Bernard notes.

For example, a tax group within a large company that operates in multiple jurisdictions, bundles products and services in complex ways, and is highly acquisitive may opt-out of a cloud-based tax system because their tax compliance challenges require a highly customized solution. But what about a company that operates in multiple jurisdictions, yet rarely conducts M&A activity while selling a fairly straightforward collection of products and services? “In those situations, a cloud-based tax solution can be an excellent fit that offers significant value,” Bernard notes.

While a smooth sales cycle may also be a good fit for cloud-based tax technology, the same solution can help companies that experience significant seasonal variations in sales volume because it facilitates the tax group’s ability to scale up and down in response to those revenue spikes. Because ERP migrations require comprehensive, well-funded and well-coordinated efforts, tax teams should be ready to climb aboard when that finance transformation train leaves the station.



"Migrating ERP ecosystems to a cloud-based environment requires a comprehensive effort."

— Michael Bernard, Chief Tax Officer, Vertex Inc.



Potential cloud benefits

As tax leaders and their teams assess whether and when to shift tax automation to a cloud-based environment, they should evaluate the following benefits:

- Better access to tax data:** Cloud solutions prevent tax groups from having to worry about where tax data is located, Bernard notes, since the data is stored centrally within the application. If an audit occurs, that data can be easily and quickly accessed. This convenient access to tax and transaction data lets tax groups analyze that data to provide actionable insights.
- The ability to use advanced tools:** Current cloud-based ecosystems feature a variety of advanced tools and methodologies that deliver powerful data analytics, McAfee reports. Tax groups can take advantage of these tools, use related microservices, and build their own tools through low-code development mechanisms, he adds. Lopez agrees and notes that more tax teams are leveraging cloud-based ERP and tax automation systems, as well as the data product to perform advanced analytics. “Mature tax departments are asking how they can develop and use new analytical capabilities to improve their day-to-day operations, compliance activities, and strategic planning activities,” Lopez notes.
- Low-impact system updates:** Through the cloud model, all updates to the tax technology are integrated into the system by the cloud provider. “No effort is required by tax teams or their internal IT partners,” Bernard indicates. “Given how many tax rates and rules change each year, it’s crucial to have a tax solution that reflects those changes in a timely manner,” McAfee notes.
- Cost savings:** Cost savings are often a driving influence of the cloud-migration calculus. Cloud-based systems and applications generally cost less to maintain and update from a total cost perspective. The improved data access that cloud-based ERP ecosystems enable also gives tax departments potential opportunities to save, and recover, money. “With better access to transaction and tax data in a cloud environment, tax teams can leverage automation to determine if overpayments were made and if refunds are due,” Lopez explains. “If money wrongly went out the door years ago, and it can be brought back in, that’s a significant value. Tax teams also have the opportunity to conduct a more comprehensive analysis of credits and incentives, which can often identify credits that the tax department didn’t know existed prior to the cloud migration.”
- Deeper connections and collaborations with technology providers:** When migrating to the cloud, the tax department becomes the direct customer of the tax technology provider. While IT plays a crucial role in the migration decision, vendor selection, implementation, and governance, tax departments maintain a direct connection with the cloud technology provider. McAfee reports that link helps ensure that the tax solution configuration supports the tax group’s needs while emphasizing that “cloud tax software vendors really become a strategic partner to the tax group.”
- Less budgeting complexity:** Purchasing and maintaining an on-premises system requires budgeting for hardware (which also requires depreciation or amortization), maintenance, and internal IT costs. In a cloud environment, those calculations are replaced with a single budget item for the cloud service. “That change smooths out the expense cycle and equips finance and accounting partners with better control and visibility — two qualities that they greatly appreciate,” Bernard indicates.

Achieving and optimizing those benefits requires a successful implementation, which tends to be driven by several pivotal actions.

Driving factors

Finance and IT take on the lead role in most ERP cloud migrations. Other groups migrating their supporting technology systems to the cloud as part of this larger effort can “benefit by getting behind finance and IT and drafting off them,” like cyclists, Lopez suggests. Yet, he also emphasizes that this effort is not at all passive – it requires taking an active role in the planning and implementation efforts and being proactive and doing such things as developing a tax technology roadmap ahead of time, before the IT initiative begins. The actions that tend to increase the efficacy and efficiency of cloud migration initiatives are as follows:

- Getting educated:** Tax professionals should recognize that cloud applications are deployed and used differently compared to how on-premises systems are purchased, maintained, and used. “Tax groups can take full advantage of the functionality and integrations that a cloud-based model offers,” McAfee notes, “when they understand that optimizing those benefits requires a different mindset. There are standard deployment practices in the cloud that let the end users place an emphasis on the aspects of the solution that matters most to them as a business function and as a company. Treating a cloud migration the same as an on-premises implementation is not the path to success.”
- Being proactive:** Lopez also asserts that education is crucial in cloud migrations. He agrees that tax teams should start by learning about the potential opportunities that cloud-based tax automation and its integration with the cloud-based ERP system offer. “Being proactive means learning what finance transformation means and how it affects the tax department,” he explains. “Once you learn how finance transformation affects tax, you need to educate the implementation team and the business stakeholders so that they also understand the tax implications.” Being proactive also may involve discussions with an expanding set of stakeholders. As McAfee notes, more boards are asking questions about cloud migrations. As such, “there are often board-level discussions concerning the best approach to cloud technology investments,” McAfee says. “Tax leaders should keep informed of those discussions and their implications on technology-investment decisions.”
- Identifying critical data:** Gaining better, more convenient access to transaction and tax data ranks among the most valuable benefits of migrating tax automation to the cloud. Tax professionals involved in cloud migration efforts should clearly identify the data they need to support all of their activities. “The tax department should say to their IT counterparts, ‘These data sets are important to us, and we need that data in this type of format,’” Lopez asserts. In some cases, IT will show tax how it can own their data requirements through access of additional ERP data via system functionality and other tools.
- Prioritizing according to pain points:** When organizations migrate ERP and tax systems to the cloud, they should prioritize the development of

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a technology roadmap to establish the order in which a wide range of functionality and capabilities are deployed. Priorities generally reflect pain points that vary by company and tax department. Transfer pricing may be a source of pain in one organization while other tax groups may face challenges with provision on the sales and use tax side. A well-designed cloud migration effort will deploy applications and functionalities that address the highest-magnitude risks first. Once tax teams develop their own digital roadmap, they should collaborate with finance and IT to determine how their plan aligns with finance's larger technology road map. "It's usually helpful to avoid the big-bang approach to cloud migration," McAfee notes. "Rather than trying to take on everything at one time, it's advantageous to break down complex migrations into more manageable steps. That way, you can demonstrate success and build momentum."

- **Putting the right tax person on the implementation team:** ERP cloud migration project teams typically include representatives from numerous stakeholder groups, including the tax function. Bernard says it is important for tax leaders to select the right member of their team to participate in an effort that can last up to 12 to 18 months in large organizations. "The tax person on the project team should have a firm grasp of the desired end state," Bernard notes. "From a tax perspective, that end state is being able to access and use all of the transaction data needed to properly collect and remit taxes." The project team's tax representative should understand where the tax solution data comes from and how it feeds into the application. Previous experience working on a large transformation project is also a plus. "Projects of this scope feature plenty of ups and downs," Bernard notes. "They also involve disagreements, adjustments, compromises, and (sometimes) challenging collaborations among different stakeholders. Navigating this terrain requires a certain level of organizational familiarity and interpersonal maturity."

Those sharp interpersonal communication skills will typically help project teams make decisions that can help drive smoother integrations among cloud-based ERP systems, tax automation, and other finance and accounting applications. "The closer tax aligns itself to that finance group and, to the extent possible, embeds their tax requirements into the ERP cloud design, the more likely they are to achieve the benefits that finance transformation can deliver," Lopez adds.

Start that alignment today because the clock on finance – and tax – transformation is ticking.

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