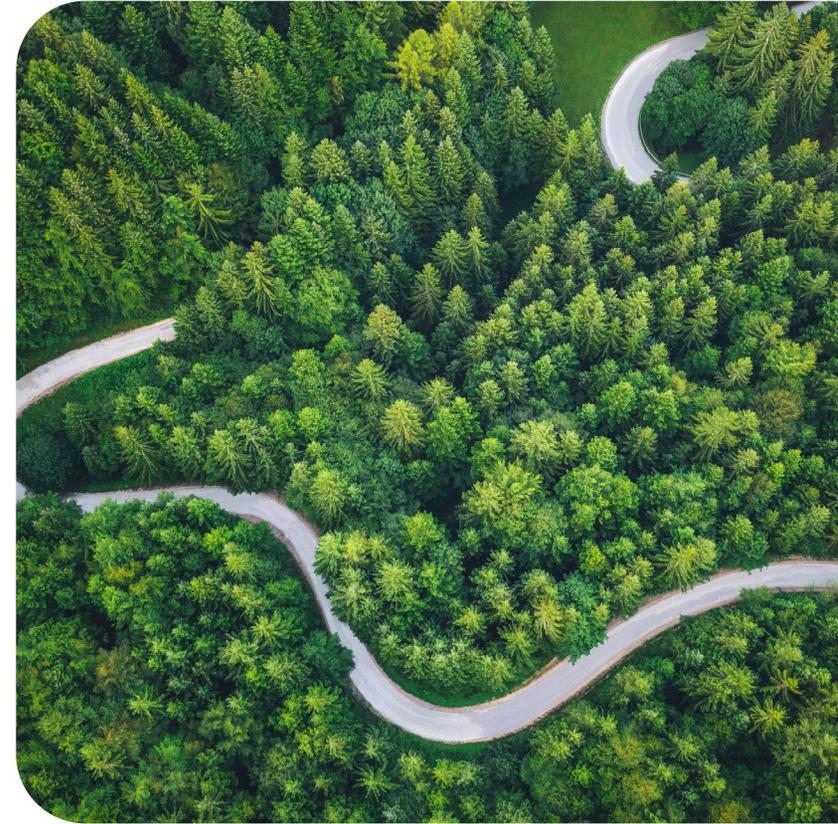


Building the Business Case for a Tax Engine in the P2P Process



Introduction

This playbook discusses the importance of efficient and accurate indirect tax management in the procure-to-pay (P2P) process and examines the specific challenges of managing indirect tax, the inefficiencies and risks of manual processing, and how tax automation technology can be integrated into procurement systems to solve these issues. By the end of this playbook, you will:

1. Understand the potential benefits of integrating indirect tax technology into the procurement systems
2. Learn about case examples of how integrating with an ERP or procure-to-pay solution can help reduce errors, create efficiencies and support tax planning initiatives
3. Learn how to choose the best indirect tax automation solution for your company



Managing Complexity in Indirect Tax

Managing indirect tax compliance is a complicated exercise. Procurement activities and indirect tax processes intersect at numerous junctions, including the requisition and purchase order, receipt of goods/services, invoice verification and posting of that invoice to the general ledger. As a result, procurement teams typically need to address several important indirect tax considerations including ensuring the accuracy of master data; managing tax variances; posting correct tax amounts to ERP systems; and fulfilling all reporting requirements.

The risks of getting tax calculations wrong can be high, and the consequences can be costly. At the time the invoice reaches accounts payable, if the vendor's tax amount is not validated, then there can be an over or underpayment of tax. When companies pay potentially thousands of invoices in a year, these errors can have a significant impact on their bottom line. When indirect tax is improperly calculated, the tax department is usually called upon to solve the problem, bearing the costs in terms of time to correct the error or deal with indirect tax audits.

Multiple parties outside of the tax function also rely on the accuracy of indirect tax calculations and reporting. In the US for example, the amount of indirect tax, sales and use tax reported can inform the budgeting process, explains Brian Cavin, Tax Managing Director at Deloitte. "It's important for companies in managing their spend. Also, having proper controls in the P2P end-to-end process can help determine whether they may be overpaying or underpaying their tax obligations." From the buyer perspective, having the correct tax amount on the purchase order upfront in the procurement cycle goes a long way to making sure they don't get surprised, and don't have a budget overrun due to tax, he adds.

"Having an incorrect tax code on a transaction can affect how a tax return is reported to the tax authority and can limit the ability to possibly recover that tax."

Brian Cavin
Tax Managing Director at
Deloitte

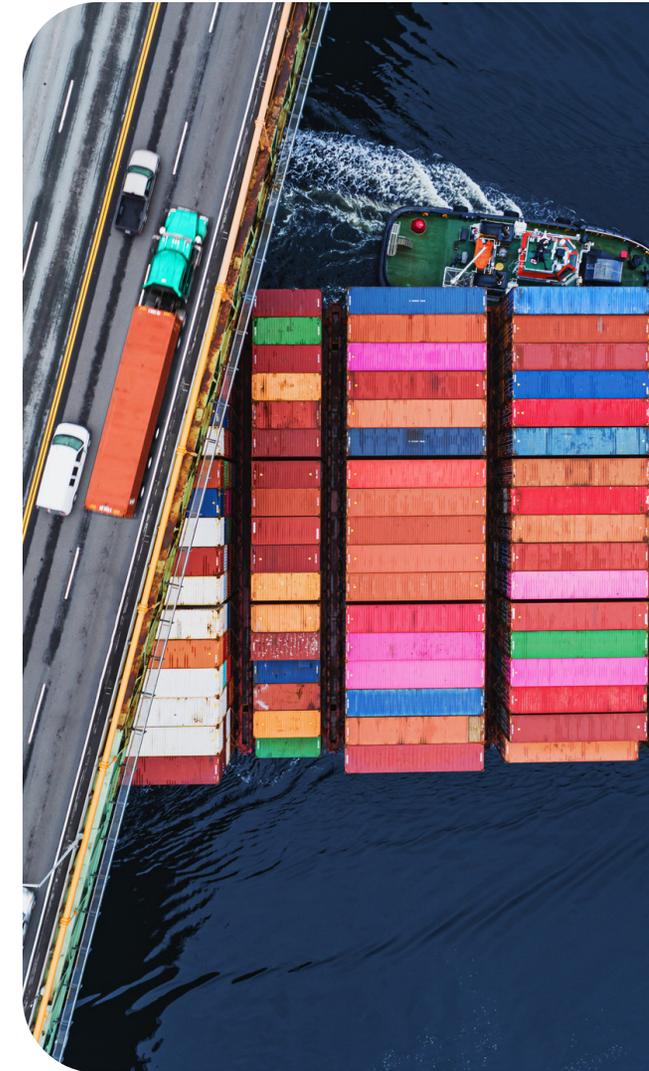
In terms of managing other risks, tax code accuracy is also very important, says Cavin. “Having an incorrect tax code on a transaction can affect how a tax return is reported to the tax authority and can limit the ability to possibly recover that tax.” Also from a shipping perspective, companies may buy goods centrally and charge the purchase to a central cost center, while the goods are shipped to multiple locations. “Not capturing those true shipping locations means that you may not be compliant in the jurisdictions where those goods are being shipped and you can potentially miss exemptions, or you may have a use tax obligation,” he notes.

Governments across the globe are also becoming so much more technologically savvy, and in many cases outside of the US, countries are moving to nearly real-time tax reporting. “Governments are focusing on the supply chain, at least from an invoicing and tax perspective”, Brian Cavin explains. “Sometimes they have very near real-time visibility into your tax payment and your tax obligations.”

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Brian Cavin

Tax Managing Director at Deloitte



The Indirect Tax Automation Imperative in the Procure-to-Pay Process



All of these examples demonstrate the importance of getting indirect tax calculations right. In an effort to make indirect tax management during the purchasing process more accurate and frictionless, companies are turning to tax automation solutions.

Tax automation, when implemented effectively, provides the most accurate solution for validating vendor-charged taxes and accruing use taxes. The effective integration of procurement systems with a third-party tax engine provides highly accurate tax evaluations during the procurement process, provides the flexibility to easily manage business and regulatory changes, and frees up time for accounts payable personnel, explains Kristin Schwabenbauer, Global Partner Leader at Vertex, Inc.

“If you don’t have something that’s automated to help support this process, then you could have AP clerks making tax decisions which should be made by a tax professional. Companies could be processing 300,000 plus invoices a year and you can’t have a tax person checking every single one,” she adds.

By automating indirect tax in the P2P process, the efficiency gains can be substantial. “Within a year,” Schwabenbauer comments, “you’ll easily see the return on your tax automation investment.” At the same time by using a tax calculation system, the tax department is empowered with right tools to do their jobs more effectively while reducing potential errors, she says.

Another benefit of automating indirect tax in the procure-to-pay function is the positive impact it can have on supplier relationships. As Schwabenbauer explains, “Most suppliers have net 30 or net 45 payment terms and if you’re constantly dragging your feet to pay your invoices and there are issues with the tax amount or with other inaccuracies in the invoices, that’s going to strain your relationship.”

Challenges, Benefits and Tips for Automating Indirect Tax in the P2P Process

Common challenges of indirect tax in the procure-to-pay process

- Procurement activities and indirect tax processes intersect at numerous junctions, including the purchase requisition and purchase order, receipt of goods/services, invoice verification and posting of that invoice to the general ledger
- Tax teams must ensure the accuracy of master data; manage tax variances; post final and accurate tax amounts to ERP; and fulfill reporting requirements
- Manual processing and reporting can lead to costly errors and higher audit risk
- Correcting manual errors can consume days of time for the tax department

Potential benefits of automating indirect tax in the procure-to-pay process

- Eliminate manual work and thereby reduce tax compliance related costs and risks
- Generate reports to support regulatory demands and business decision-making
- Understand the total spend amount, including tax, before you issue a purchase order.
- Reduce tax leakage including overpayments, underpayments, and time spent on indirect tax recovery and audit activities.
- Get a more complete picture of indirect tax throughout your P2P lifecycle and enable a traceable, standardized process for indirect tax reporting to authorities
- Improve supplier relations with more accurate indirect tax processes to assist with more timely payment

Tips for indirect tax automation planning

1. Implement a tax engine at the same time as you are implementing or upgrading your ERP/Procurement Platform
2. The earlier you partner with your solution provider the better
3. Make sure the tax department and procurement department understand each other's needs
4. Be aware of how many different processes indirect tax touches.

Choosing an Indirect Tax Automation Solution



Companies need to ensure they can pass tax relevant data elements from the procure-to-pay system over to the tax engine through an integration, explains Kristin Schwabenbauer. “Vertex, for example, integrates with SAP Ariba and Coupa which can make the P2P process easier.” That can help companies improve tax performance by increasing transparency, reducing tax-related risk, and streamlining the audit process, she says.”

For any given tax department, keeping up with changes in indirect tax rates and regulations is next to impossible. This is something the tax solution provider will handle as part of their ongoing subscription service. “At Vertex for example,” says Kristin Schwabenbauer, “our clients depend on our team of over one hundred tax researchers to know of any changes to tax regulations, in jurisdictions across the globe.”

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Kristin Schwabenbauer
Global Partner Leader at Vertex, Inc.

Conclusion

Indirect tax management is a complex process. By automating indirect tax in the procure-to-pay process, companies can gain efficiencies and improve accuracy by eliminating manual tasks. Automation can also reduce audit risk and risk of overpayments of tax; empowering the right technology to empower the tax department and allow them to devote time to other more strategic activities. Meanwhile, by reducing error and allowing for on-time payment of invoices, supplier relations can be improved.

Best practices in automating indirect tax in your P2P process include implementing your tax engine at the same time as you implement or upgrade your ERP/ Procurement Platform; making sure the tax department and procurement department understand each other's requirements; the earlier you involved your solution provider in the conversation, the better.

Finally, choose a technology solution that can integrate with your existing systems, and a solution provider that offers on-going updates to any changes in indirect tax, codes and regulations, anywhere in the world.

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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 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.

For more information on automating tax in the procure-to-pay (P2P) process, contact Vertex today at www.vertexinc.com.

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