A problem shared is a problem halved.

Why Tax and IT need to work together when migrating to SAP S/4HANA

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Many of today's multinational businesses are looking to transform their business operations. One to these is the technical landscape and the move to SAP S/4HANA, IT are driving this change and have tight budgets and timescales to adhere too – but one of the impacted areas is often overlooked - tax.

Why tax and IT need to work together

Alignment of the ERP landscape, such as a move to SAP S/4HANA brings an opportunity for IT and the tax department to work together as this is a good momentum for the tax department to optimise the company's VAT determination technology whilst IT can accomplish standardisation and eliminate numerous tax customisations across their ERP instances.

The challenge for the tax department is to convince the IT department that including a 3rd party tax engine is the best solution, both from a tax and an IT perspective. For IT there is a desire for a smooth and risk-free transition and adding a new technology into the overall migration program appears to be a distraction and may add unnecessary risk while the company has managed tax determination with native customisations for many years.

This is where the tax department needs to work with IT to create a joined business case for including a tax engine into the project. The tax team need to showcase the benefits of the solution and how it can reduce some of the strain for both teams and ultimately how it positively impacts the wider business. Timely communication between the teams is of the essence in this process as including a tax engine to an ERP implementation project is much easier than adding such a solution when budgets are already set in stone.

Tax Challenges

The move to SAP S/4HANA - the opportunity for tax to finally regain control.

Implementing a tax engine as part of an SAP S/4HANA implementation may seem to be a threat but it is actually an accelerator for the implementation. Next to that, it is also the perfect momentum for you to transform and automate the indirect tax operations. By adding a 3rd party tax engine you can centralise, optimise and automate VAT operations and regain control at a central level.

The tax team need to showcase the benefits of the solution and how it can reduce some of the strain for both teams and ultimately how it positively impacts the wider business.

Tax Challenges

Non-Compliance

Drivers	Problem
Coding errors	Tax coding errors due to human errors in AP (invoice processing) or AR (order entry or invoice creation) process.
	Tax coding errors due to incorrect settings in ERP caused by lack of involvement of expert staff during implementation and maintenance.
	Missed input VAT deduction as a result of coding (complex) invoices as not relevant for VAT.
Master data errors	Master data issues are not flagged due to creative workarounds.
	Master data is (temporarily) manipulated to facilitate a perceived required outcome.

Poor efficiency

Drivers	Problem
Manual process	VAT coding often is a manual activity that requires skills and knowledge and as a result manual VAT coding often is a hurdle in centralisation, outsourcing or automation of the Purchase to Pay and Order to Cash (PtP) and/or Order to Cash (OtC) activities.
Correction of errors	A manual process often executed under time pressure is prone to errors. Both detection and correction of these errors is a labour intensive and thus costly activity.
Customer or vendor experience	Errors in invoice creation results in unhappy customers as they need to follow-up on this in order to receive correct invoices. Also, slow or incorrect coding of vendor invoices can result in late payments and unhappy vendors.
Content maintenance	The indirect tax legislative world is under constant change and these changes need to be monitored, investigated, communicated and implemented. This often requires access to local sources and becomes quite a burdensome task without local resources as changes are often only communicated in local language.

Tax Challenges

Lack of control

Drivers	Problem
Decentralised non-standard operations	In case of decentralised indirect tax processes people often operate locally developed and badly documented operating procedures.
Accountability	The person being accountable for the end-to-end indirect tax process (the indirect tax manager) lacks both insights and impact on the underlying PtP and OtC processes.
Audit risks	Dispersed non-standard processes that heavily rely on the indirect tax appetite of individuals create a risk in case of a VAT audit.

Changing landscape

Drivers	Problem
Business operations	Changes in business operations impact VAT determination and processes. A change in supply chain operations may be left unnoticed for several years resulting in systemic VAT errors. Non-standard local processes hamper initiatives to automate invoice processing or centralisation of finance operations.
Legal landscape	The global landscape of VAT compliance is under constant change with increased (real-time) reporting requirements. As a result, the required level of quality of a company's end-to-end VAT process should also increase. With tax authorities tapping into transactional information on an (almost) real-time basis there is little room for processing errors and the need for a first-time right solution/process is inevitable.

Why Vertex?

Vertex O Series improves VAT determination accuracy and is more robust than the native tax determination in ERPs and other financial systems.

An ERP, e-Commerce or procurement system typically supports a VAT decision based on only a few pieces of data for each transaction e.g., billing country, vendor country, ship-to country, invoice date. Vertex O Series can consider (and prioritise) 100+ data elements that are passed from the ERP, e-commerce or procurement system for VAT determination on a transaction.

Vertex O Series embeds the required skills and knowledge in a dedicated automated environment facilitating centralisation or automation

IT Challenges

The value a tax engine can bring when including in your ERP migration/ implementation.

When your tax department comes to you with this request you think that this is an unnecessary risk – you have the pressure to make sure that this project has minimal disruption and to run as smoothly as possible or this could bring unwanted surprises.

But there as a valid reason for considering this request. Your brand-new ERP system does not come with an out of the box fully automated, end-to-end VAT process. With the implementation of the ERP you need to bring in IT resources to 'plug the VAT holes' - IT resources that you could be using to implement the core of your ERP system. And the solutions your IT resources need to build are not already proven solutions, which then bring risks of additional testing, rework of the solutions build and may become a VAT related showstopper for the entire project.

The request from your tax department might initially sound like an unnecessary risk, but actually the tax department is bringing you an accelerator for your implementation that removes risks.

IT Challenges

Smooth ERP roll-out

Drivers	Problem
Future proof	In a traditional ERP environment changes in legislation need to be implemented and tested by the IT department and for each change in VAT legislation an impact assessment needs to be made. This requires proper documentation of the VAT settings in the system and some VAT knowledge and awareness in the IT department. This is challenging with domestic resources but even more with central (off-shore) IT operations.
No surprises	Embedding VAT requirements during an ERP implementation can be quite a hurdle to take as tax is often involved at a late stage but has to deal with legal requirements in multiple countries and can block or delay a roll-out if not properly taken into account. Even if taken into account there is a serious risk of miscommunication and bad requirement design due to tax people not understanding IT and vice versa.
Expert tax input	IT and tax often speak a different language, and this is not resolved through IT services firms. Often time and budgets are wasted due to miscommunication or simply ignoring the problems.

Native ERP hurdles

Drivers	Problem
Standard "customisation"	Standard ERP often contains a limited set of rules for VAT determination. In order to facilitate VAT compliant transactions often country specific customisations have been implemented. In the case where ERP spans multiple countries this often results in a patchwork of non-standard customisations.
Outsourced maintenance	Maintenance of VAT settings in an ERP system can be a burdensome activity and with for example a limited set of available tax codes even a serious challenge. Understanding VAT changes often is already challenging for local in-house IT employees but becomes a stretch when offshored. Communication on required changes is often hampered by a ticketing system, different time zones and language issues.

IT Challenges

Copy/paste settings

Drivers	Problem
Copy errors	In ERP implementations often VAT expert input is limited, and VAT decisions/rules have been designed and implemented by non-experts based on earlier experiences with different business models. In new implementations/upgrades these settings are often copied and pasted into the new system without going through the process of a proper VAT assessment. This could result in systemic errors.
Copy to SAP S/4HANA not possible	When deploying SAP S/4HANA copying of settings from older ERP's is not possible and as a result, new settings need to be implemented. This grants for an excellent opportunity for an expert review and implementation of alternatives.

Changing landscape

Drivers	Problem
Legal landscape	Tax authorities increasingly tap into transactional information on an (almost) real-time basis. The communication on these changes is often late and as a result both the tax and IT department rapidly need to deploy knowledgeable resources to find and implement a compliant solution. Often this also requires local input due to official communications in local language.
IT Landscape	Changes in the SAP S/4HANA landscape with the creation of many API's creates a new world of connected purchase and sales platforms, which, independent from SAP create VAT relevant transactions. In all these platforms correct and fully automated VAT determination needs to take place, and this can no longer be supported by home grown, own built VAT solutions that are embedded solely in SAP. These IT changes ask for 3rd party tax engine solutions.

Why Vertex?

Vertex O Series improves VAT determination accuracy and is more robust than the native tax determination in ERPs and other financial systems.

Understanding VAT and embedding this in an ERP environment is an area for specialists ensuring proper settings and less time/budget will be spend during roll-out on discussions on VAT requirements and how to resolve them.

By implementing Vertex O Series research, maintenance and implementation of new VAT requirements is all outsourced and requires little involvement for your IT department.

About the authors

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Peter Boerhof is the VAT Director for Vertex. In his role he provides insight and thought leadership regarding the impact of tax regulations, policy, enforcement and emerging technology trends in global tax. Peter has extensive experience in international transactions, business restructuring, tax process optimisation and tax automation. Prior to joining Vertex, Peter was responsible for leading the indirect tax function at AkzoNobel. He holds an MBA from Rotterdam School of Management and a masters in tax law from the University of Groningen.

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Roger has over 30 years' experience working as an SAP VAT architect and senior consultant to large multinational companies such as, Philips NV, Essent Trading International, Shell NV and Meridian Global VAT services. Roger has acquired strong experience in international VAT, SAP, understanding business requirements and working with VAT automation solutions to translate highly complex business requirements into sustainable, future proof tax technology solutions. At Vertex Roger leads the SAP practice to ensure best in class solutions and implementation for all our clients that we work with.

About Vertex

Vertex Inc., has been a leading provider of tax technology and services, enabling companies of all sizes to realise the full strategic potential of the tax function by automating and integrating tax processes, while leveraging advanced and predictive analytics of tax data. Vertex provides cloud-based, on-premise, and hosted solutions that can be tailored to specific industries for every major line of tax, including income, sales and consumer use, value added and payroll. Headquartered in Pennsylvania, Vertex is a privately held company that employs over 900 professionals and serves companies across the globe.

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