



Tax Challenges Affecting the Manufacturing Industry

How Your Business Can Use Vertex Tax Solutions
for Microsoft Dynamics 365 to Alleviate Burdens
and Fuel Growth

»» Introduction

This white paper will explore the major tax challenges facing the manufacturing industry, including how manufacturers can leverage cloud-based platforms, such as Vertex for Microsoft Dynamics 365, to increase efficiencies throughout the manufacturing and supply chain pipeline, reduce audit risk, streamline tax and IT operations, and advance business scalability.

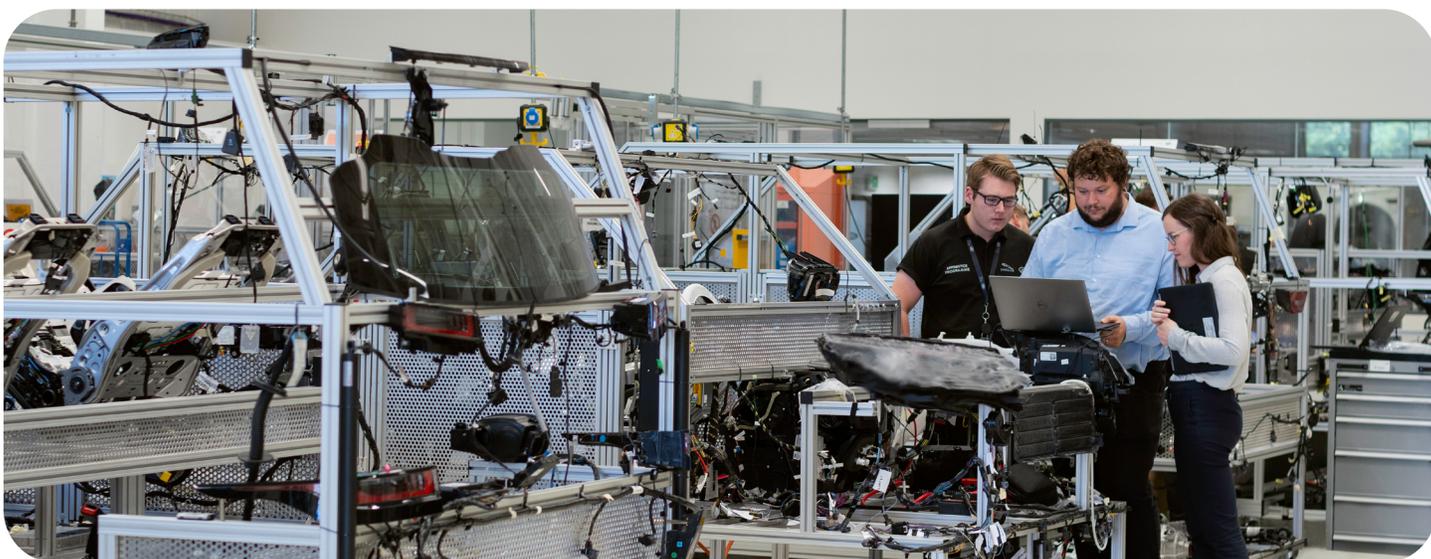


In recent years, the global manufacturing industry has faced a tremendous shakeup driven by supply chain disruption, pricing increases across commodities, and labor shortages. As a result of this disruption, manufacturing organizations are: going global (scaling data, operations, and infrastructure accordingly); embracing ecommerce and choosing the right digital platforms to make it easier; selling more services and types of services to a greater variety of customers, and adopting cloud-based solutions to reduce costs and complexity compared to on-premises solutions. In fact, Manufacturing & Distribution (M&D) companies in particular are turning toward cloud-based tax technology in pursuit of lower costs, better integration between applications, and the opportunity to make more strategic use of data. According to IDG research of manufacturing executives, nearly all respondents (97%) report plans to migrate business/financial applications to the cloud at some point. Nearly half (43%) plan a hybrid approach, and around a third (31%) will migrate as many applications as possible. Echoing that sentiment is [The Future of Manufacturing Trends Report from Forrester Consulting](#)¹: “Although technology leaders in the manufacturing sector have been slower to adopt cloud than their peers in other industries, cloud computing is part of most conversations with our manufacturing clients today. Edge computing, cloud computing, and the IT and operational technology (OT) networks that connect them are enabling capabilities for any digital project in the manufacturing sector.”

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¹ Forrester, [The Future Of Manufacturing](#), Paul Miller, September 9, 2022

² IDG, [Manufacturing, Finance, and the Cloud: Research Insights](#), 2022



Why Tax Should Move to the Cloud

One major business area in which organizations struggle, and where cloud technology can be a solution, is tax compliance. With governments imposing various types of tax requirements across each step of the supply chain, manufacturers must pay special attention to ensure they are complying with tax laws and reducing costs and complexity at every stage.

According to PWC, 50% of M&D COOs want to prioritize managing tax impact of changing production location and suppliers in the near future.³ The identification and prioritization

of this challenge illustrates a clear need among M&D business leaders. However, the complex nature of M&D operations means in an ideal scenario, M&D leaders would be empowered to focus on key decision-making, rather than being burdened due to disruptions caused by tax calculation and compliance complications. Fortunately, moving critical technology infrastructure to the cloud allows IT and tax departments to collaborate and remedy complex tax challenges — registering and filing in multiple jurisdictions, calculating tax on sales orders, maintaining exemption certificates, etc. — through automation and data-driven intelligence.

In fact, according to IDG research of manufacturing executives, cost savings (35%) is the top appeal of cloud-based tax solutions. Respondents also cite the ability to scale globally (32%) and to access powerful data management capabilities (32%).⁴

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³ PwC, [US insights on the future of the manufacturing industry](#), Bobby Bono, 2021

⁴ IDG, [Manufacturing, Finance, and the Cloud: Research Insights](#), 2022

5 Reasons manufacturers need more than ERPs

ERP software has been a mainstay in manufacturing for decades, and it is often among the most critical pieces of technology infrastructure. Manufacturers rely on ERPs to increase organizational efficiency by carefully managing resources, activities, scheduling, and critical business functions. They can help streamline supply chains, enhance customer service, and unify various departments by enabling a single source of truth for impactful data. While ERPs provide an abundance of value, they have limitations when it comes to tax.

1) ERPs often aren't flexible enough

Many manufacturers have found that the tax functions built into legacy ERP systems are ill-suited to handle indirect taxation across borders. They don't always provide the flexibility needed to deal with complex tax logic within the ERP's native tax functionality. Often, the native tax functions are too limited and don't match up with exactly what manufacturers need.

Michael Bernard, VP Tax Content and Chief Tax Officer at Vertex explains, "ERPs typically only configure tax rules based on what's being purchased and don't account for other parameters such as item code or item description, or even how the item is being used. For example, when purchasing equipment, it may be used exclusively for production and therefore may qualify for more exemptions than equipment only partially used for production."

This means standardized required fields may help for simple tax scenarios, but as a manufacturer scales its operations the complexity of its tax requirements increases beyond what a typical ERP can do natively. As a result, companies can end up overpaying or underpaying — causing an audit liability and subsequent financial risks.

2) Custom solutions become a necessary burden

Most manufacturers overcome this limitation by developing customizations within the ERP, leveraging IT resources or manual processes to enable tax professionals to review and adjust tax decisions based on specific requirements. To achieve this, IT would most likely purchase services from a development shop to create the customizations in the software. This custom logic would then require ongoing testing and maintenance going forward and typically act more as a static solution. While this approach does work, as rules or tax policies change, their configuration cannot be easily changed or may even be overlooked. It simply cannot scale due to the reliance on manual effort and potential bottlenecks from limited IT or development resources. In addition, it can become costly to continuously develop customizations that will ultimately need to be altered again as new tax requirements become known.

3) Maintaining customizations never ends

Maintaining such customizations also requires further effort due to reliance on research to understand how tax rates and rules have evolved over time. Given how tax requirements can dramatically alter based on geography, an organization with a wide operating area can quickly become overwhelmed by the scope of complexity. It's essential to understand their tax requirements and ensure those requirements are adequately reflected in the ERP tax calculation systems on which they depend.

4) Qualifying exemptions and regional requirements are unclear

Beyond ensuring tax calculations are correct, another area of frustration for manufacturers centers around government-mandated exemption certificates and the need to manually verify exemptions by region. As a result of the economic nexus change *South Dakota vs. Wayfair*⁵ that went into effect in 2018, manufacturers need to be careful to make sure they register and file taxes in any jurisdiction they may have economic nexus to. Generally, the ruling only applied to retailers selling taxable sales in those states, but some certainly do consider wholesale revenues applicable for their economic nexus thresholds. This means companies must be registered in those states, and they must have all exempt for resale certificates to support their exempt sales. Otherwise, they could be exposed. This includes monitoring them to ensure they do not expire.



Bernard emphasizes, “Some states are broad where they cover the full manufacturing workflow, whereas other states limit it only to the specific direct production. Some states allow for a full tax exemption for any qualifying purchase or sale, and other states only allow a partial exemption. This means that in some cases, even if they qualify, they are still charged tax, but it’s at a lower tax rate. Organizations must verify each state’s specific requirements and adjust accordingly.”

For example, a manufacturing company may lease a forklift in a state that chooses not to charge tax, as some of these forklifts may be used as part of the manufacturing process, rather than sales. Other states, however, may choose to charge tax on these forklifts, making it difficult for manufacturers to apply common exemption rules across their operations. According to an article by Cherry Bekaert, other common hot spots where sales tax exemptions are frequently inapplicable include maintenance items, production supplies, storage, safety apparel, and janitorial supplies.⁶

Results from IDG research show that nearly 57% of financial professionals said they find the collection, tracking, and storage of exemption certificates extremely or very challenging, while 46% said the same of generating signature-ready returns.⁷

5) Accelerating global requirements

The pace of changes to global tax rates and requirements is accelerating. The volume and complexity of tax regulations is increasing globally. And as business models, supply chains, and suppliers change — and cross-border transactions increase — M&Ds are subject to more tax regulations than ever before. Existing systems have only limited capabilities to support these changes, and often require manual processes to fill the gaps, leading to an increased risk of errors and a higher risk of audits and possible penalties.

⁵ Tax Foundation, [South Dakota v. Wayfair](#), 2018

⁶ Cherry Bekaert Guidance, [Five Hot Spots for Manufacturing Sales Tax Exemptions](#), August 20, 2021

⁷ IDG, [Manufacturing, Finance, and the Cloud: Research Insights](#), 2022

As government approaches to taxes have shifted, there has been an increase in the pace at which tax codes are altered, which translates to a different tax burden than manufacturers may have initially estimated. As a manufacturer scales, this challenge becomes incredibly burdensome due to the near-constant state of change and the need to reflect those changes within the tax calculation system and in the ERP. Beyond audit risks and potential penalties, 62% of tax leaders are communicating with management and the board about the impact of US and global tax policies to help inform business strategy, according to PwC.⁸ With tax and compliance challenges looming overhead, the uncertainty it causes can stifle critical business decisions among company leadership, leading to potential long-term negative effects and reduced opportunities for driving innovation. PwC also highlights that 36% of business leaders are not adequately prepared to easily adapt to global tax policy changes.⁹

To overcome these challenges, manufacturers are looking for a tax solution that directly integrates with their ERP to provide tax calculations automatically based on all available data points from both systems. Alongside automation, manufacturers looking to adopt new tax solutions expect greater cost savings and the ability to streamline future operations and tax workloads.

Additional research from IDG

60%

of manufacturing organizations plan to upgrade or replace their ERP system

34%

of manufacturing organizations have recently upgraded or purchased new tax solutions

51%

of manufacturing organizations plan on upgrading or purchasing a new tax solution

43%

of manufacturing organizations cite automation as the top driver for tax solution upgrades and purchases

IDG, [Manufacturing, Finance, and the Cloud: Research Insights, 2022](#)

⁸ PwC, [Tax leaders latest findings from PwC's Pulse Survey](#), November 2022

⁹ PwC, [Tax leaders latest findings from PwC's Pulse Survey](#), November 2022

How Vertex helps Manufacturers

Vertex tax solutions enable manufacturers to digitize the entire tax process, allowing the organizations to:

- Streamline tax and IT operations to increase efficiency
- Reduce audit risk
- Advance business scalability

By integrating Vertex's tax solutions with an ERP, M&D organizations will be able to keep up with the ever-increasing changes to their global tax regulatory requirements. In addition to critical tax workstreams, Vertex can help specific job roles in their day-to-day operations.

Tax teams using Vertex can:

- Give a business deeper insights to improve strategic planning and decision-making.
- Leverage tax-specific data visualization, risk management, and business planning solutions to empower an organization to accelerate strategic insights and outcomes, and influence growth and innovation.
- Take advantage of the most advanced tax technologies and best reporting solutions to help make the tax department a strategic asset to a business.

Finance and Procurement teams using Vertex can:

- Support growth and improve agility across sales and purchases with indirect tax solutions.
- Nimble manage growth across new products, sales channels, suppliers, and geographies.

IT teams using Vertex can:

- Easily integrate Vertex with their ERP, procurement, and e-commerce systems.
- Accelerate digital transformation and help future-proof indirect tax determination and compliance across the enterprise.
- Unburden IT teams so they can spend fewer resources on tax infrastructure and maintenance and more time on core issues and tech strategy.

Ultimately, Vertex enables Tax and Finance teams to take control of tax decisions without needing to rely on costly or over-burdened IT resources. With less interdependence between Tax, Finance, and IT teams when dealing with tax and compliance, each team is given greater flexibility and ownership over their domains of expertise without needing to make sacrifices in other areas.



Vertex and Microsoft Dynamics 365

Microsoft Dynamics 365 is a world-leading ERP built on Microsoft's enterprise-proven cloud platform, leveraging the global scalability, security, and reliability that Microsoft Azure has become known for. Vertex seamlessly integrates with Microsoft Dynamics 365 to intelligently retrieve data to make accurate tax calculations. Vertex's tax solutions automatically identify and retrieve specific data points, send them through Vertex's tax calculation engine, and then return a calculation that is automatically imported into Microsoft Dynamics 365. This integration makes it easy for rules to be identified and applied when appropriate, and exemptions to be determined for applicable purchases. Manufacturers can work with their clients to configure the appropriate attributes and then ensure that information is posted to the General Ledger, enabling the creation of invoices and similar documents in Microsoft Dynamics 365. This functionality lets manufacturers quickly determine accruals, sales figures, collected taxes, and more. Manufacturers can easily file tax returns to countries or specific states, and reconcile or file tax returns to the respective authorities.

For many organizations, even beyond the manufacturing industry, an ERP often acts as the central repository for critical business data. With Microsoft Dynamics 365 and all the various deployments and configurations it comes in, organizations can fine-tune their ERP capabilities based on their specific needs. Vertex's integrations across Microsoft Dynamics 365 ensure that regardless of how complex an organization's operations are, the correct tax data and calculations will appear within Microsoft Dynamics 365 automatically in the appropriate fields of the dashboard.

Tax professionals can easily pull up any sales orders in Microsoft Dynamics 365 and dive into each line item's specific tax requirements, providing ease of mind and rapid auditing when needed. Taxes on orders can even be re-calculated on the fly if a sales order needs to be adjusted, making it easy to resolve issues where a purchase may need to go to a location with different tax requirements. This degree of automation allows businesses to scale with ease across new states, new countries, and new lines of business.



Vertex integrations with Microsoft Dynamics 365 include:



Microsoft Dynamics 365 Business Central

Connect Microsoft Dynamics 365 Business Central to Vertex solutions for more accurate sales tax calculations on every transaction. Improve your accuracy, reduce audit risk, and have the confidence needed to grow your business.



Microsoft Dynamics 365 for Finance and Supply Chain Management

Integrate Finance and Supply Chain Management with Vertex's trusted tax solution and enjoy the automatic posting of sales tax, use tax, and VAT (value-added tax). Maintain exemption certificates, maintain tax data in the platform you already use, and generate signature-ready PDF returns.



Microsoft Dynamics 365 for Commerce

Improve sales tax compliance with Vertex's integration for Microsoft Dynamics 365 for Commerce. In one comprehensive solution, Vertex offers signature-ready PDF returns. Improve compliance knowing your tax rates and rules are up-to-date.



Microsoft Dynamics 365 Sales

Vertex provides a seamless integration to Microsoft Dynamics 365 Sales, simplifying tax determination and compliance for sales tax, reducing audit risk, and increasing efficiency. Developed and maintained by Vertex, the integration offers flexible deployment options.



Microsoft Dynamics GP

Vertex offers a standard connector to Microsoft Dynamics GP, allowing you to follow a few simple steps to link to the solution and configure your setup once you've installed Vertex. The intuitive online tools support everything from performing tax calculations to generating signature-ready PDF returns.

40+

years in tax technology

130+

countries supported

4,000+

customers

59%

of the Fortune 500 use Vertex

Vertex and Microsoft

Our shared story

For more than a decade, Vertex and Microsoft have worked together to develop and deliver solutions to help their joint customers:

- Extend the value of Microsoft investments
- Streamline global tax determination and compliance
- Accelerate business growth

Built to meet Microsoft standards and guidelines, the innovative design of the Vertex tax integration allows companies to quickly take control of tax decisions and make changes with minimal IT assistance. As a member of the Microsoft Partner network, Vertex offers a proven suite of Microsoft-validated tax solutions for Dynamics 365 — all available via Microsoft AppSource.

Vertex is a tax technology company built on trust

Vertex is a pioneer in tax automation and has been connecting great people and partners to deliver trusted tax solutions for decades. It proudly serves its global customers with distinction and provides reliable, comprehensive indirect tax solutions that enable more consistent and accurate tax management.

How Vertex does it



- ✓ Powerful technology and content built for enterprise-grade scale and speed.



- ✓ Flexible, configurable solutions to meet the complex requirements of tax compliance.



- ✓ Deep integrations with the major applications powering global commerce.



- ✓ People who care deeply about your success.



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 1,300 professionals and serves companies across the globe.

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