



THE CASE FOR IT AND TAX TEAM ALIGNMENT:

Accelerating Business Value with Automation

IT and tax departments have a significant opportunity to align and bring business value to the enterprise.

IT and tax functions have historically inhabited separate organizational domains, often linked only by their shared relationship with the finance or accounting department. As digital transformation strategies take hold and organizations embrace a philosophy of data-driven decision-making, many functions that have traditionally communicated little with each other are coming together around a shared need for current and relevant information.

IT has traditionally fulfilled the technological requirements of finance and purchasing departments, given the critical nature of those functions to the business and their need for timely information. Tax, in contrast, has historically been treated as a cost center, even though it is one of the largest consumers of data within any organization. Consequently, IT departments may not have prioritized the tax team's information requirements.

"IT departments are often tasked to work on projects that drive revenue," Larry Mellon, Tax Director in the Chief Tax Office at Vertex, says. "Most times, tax departments are not involved in those tasks until they are completed, potentially leading to tax exposures."

The tax department's need for data access—and the means to derive value from it—is becoming more pronounced amid digital transformation efforts. Many organizations are overhauling their core financial and enterprise resource planning (ERP) applications to enhance agility. Their decisions can impact the tax function directly. The COVID-19 pandemic also accelerated the need for tax departments to digitize and shift to more automated operations.

Involving the tax department in digital transformation initiatives is critical, according to Lane Leskela, Senior Director, Americas Business Development for SAP Signavio Global Center of Excellence. "While the finance area is often an early-stage adopter of new capabilities, it seems that the tax department is often at the tail end of those discussions and sometimes not involved until after major decisions have been made," Leskela told [SAPinsider](#). "Getting the tax organization to be respected and to argue for a seat at the table is very important, especially now."

Why tax matters

Tax teams can contribute business value in multiple ways if their expertise is applied strategically. For example, bringing tax professionals into the loop up front around an impending large transaction enables them to identify potential tax implications and advise on strategies to mitigate exposure. In the case of mergers and acquisitions, this can result in significant tax savings.

Tax teams may be able to improve ROI through automation. Traditionally, they spend a significant amount of time gathering and validating data, running reports, calculating adjustments, and populating forms. Automation can reduce the time spent on mundane tasks and can take many forms, ranging from advanced spreadsheet features to data-wrangling applications, database integration, and artificial intelligence.

One way to derive greater value from existing processes is to automate data flow so tax teams can focus on delivering insights that may save the company money, rather than wrangling data. Many tax departments rely heavily on software. They need to be up to speed on all the features of the applications they use, as well as new features that are coming down the line.



“The speed of technology advancement is only accelerating,” Steve Bonck, a Managing Director at Deloitte Tax LLP, says. “The challenge for many tax professionals is how to move the business forward as opposed to simply grinding data.”

Consider, for example, a national frozen food retailer that has been in business for more than a century. Its business leaders recognized that their homegrown ERP and tax engine was not ready for growth and change because the risks were too large to manage.

More value-add opportunities

The complex real estate environment that has emerged in the wake of COVID-19 illustrates another way that tax organizations can add value. As many businesses have consolidated office space and opened new satellite facilities, some have confronted a dizzying array of local tax rules with potentially far-reaching consequences.

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Steve Bonck
A Managing Director
Deloitte Tax LLP

For example, some municipal jurisdictions impose taxes on a company’s total global sales, even if only a small part of the operation is within their borders. Planning for payroll, real estate, and other taxes can also be far more complex in today’s hybrid work environment.

By including tax professionals in the decision-making upfront process, businesses can analyze taxation and operational overhead expenses when changing their real estate footprint. They may also be able to better identify potential credits or incentives that can help inform their choices about where to locate people and operations.

In addition, engaged tax management can help the business avoid budget overruns or administrative overhead caused by miscalculations. For example, a purchasing department may issue a purchase order (PO) to cover the base cost of a piece of machinery but fail to factor in indirect taxes. Those extra charges can inflate the total cost, create a budget overrun, and trigger a finance department intervention.

Tax planning is also increasingly critical for regulatory compliance. Tax accounting may help reduce regulatory risk by providing documented evidence that transactions have been properly accounted for and taxes have been paid. A disciplined tax organization may attempt to reduce overhead and limit audit risk exposure by ensuring that basic reporting tasks are automated, where possible, so that executives can focus on strategic issues rather than filling out compliance forms.

With many companies now moving toward the next generation of ERP systems, adding a robust tax automation engine may enable them to gain better data transparency and an improved ability to analyze and deliver key insights to various parts of the business. The role of the tax leader can change from largely compliance-focused to one that contributes long-term strategic value while mitigating risk.



Regulatory issues add to complexity

Even the smallest businesses are subject to local, state, and federal tax regulations, as well as jurisdiction-specific business taxes and license fees. Many organizations must also track and pay sales and use taxes.

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The picture may be more nuanced for companies that do business across state or international boundaries—a category that includes most e-commerce firms. With more than 19,000 different sales and use tax rates worldwide, keeping up with tax rules and changes requires an increasing amount of corporate resources and has become more difficult to manage manually. E-retailers, for example, must assess sales tax based on the destination to which an item is shipped. That amount may vary depending on whether the business has a “nexus”—or a strong affiliation—to a particular jurisdiction.

Tax regulations are constantly evolving and expanding. [Vertex reported](#) that in July 2021 alone, 36 new district taxes were levied in the United States, along with 22 new city taxes and 54 changes in city tax rates. Also that month, [a sweeping set of changes](#) to value-added taxes on e-commerce transactions in the European Union went into effect, requiring companies that do business online to charge value-added tax (VAT) at the applicable rate in the country of each customer.

According to a recent [Deloitte survey](#): “Nine in 10 (92%) respondents say that shifting revenue authority demands on digital tax administration will have a moderate or high impact on tax operations and resources over the next five years—and several heads of tax said the trend is moving faster than expected.”

This increasing complexity may put companies at a higher risk of becoming ensnared in tax disputes between competing jurisdictions. Such litigation ties up working capital, drives legal fees higher, and can result in fines and penalties. Tax disputes can interfere with business-critical operations such as closing deals with major customers and completing mergers and acquisitions.

The case for tax-IT alignment

Tax departments should have a technology roadmap that sets priorities based on regulatory requirements and business impact. The plan should account for the licenses of all software the organization uses. It should also accommodate anticipated changes in the tax landscape, as well as any new technology the company may acquire. For all these reasons, the tax department should be at the table when changes to the company’s technology portfolio are being considered.

IT organizations need to better understand the needs of tax professionals—but tax teams must initiate the discussion. “Because tax teams track the dollars going out the door, they need to educate IT on the value of their function,” Mellon says. “If IT understands the tax department’s needs, that in turn benefits everyone in the company who works with tax.”

One approach is to reach out with an offer to educate IT on the value of tax to the organization, how the landscape is changing, and the challenges those changes present. IT should also be aware of the types of data and reports that enable tax professionals to make decisions, and their impact on the company.

IT needs to understand what tax teams do with the information they collect—in particular, the often-complicated aggregation and transformation processes that are needed to make data usable for analysis and reporting. IT can contribute by ensuring that data is delivered in a format that reduces time requirements and the risk of errors.



Demonstrate how tax considerations are becoming more strategic and how companies can benefit from bringing tax professionals into more discussions. The strategy should also include equipping tax teams with better tools to collect and report real-time data, and automate repetitive tasks, while providing analytics that support better decision-making. Senior IT and tax officials should meet regularly, and representatives of both departments should be invited to strategic, technology-focused discussions.

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