VERTEX

FACT OR FRICTION?

Indirect Tax Management Agility in the New Normal

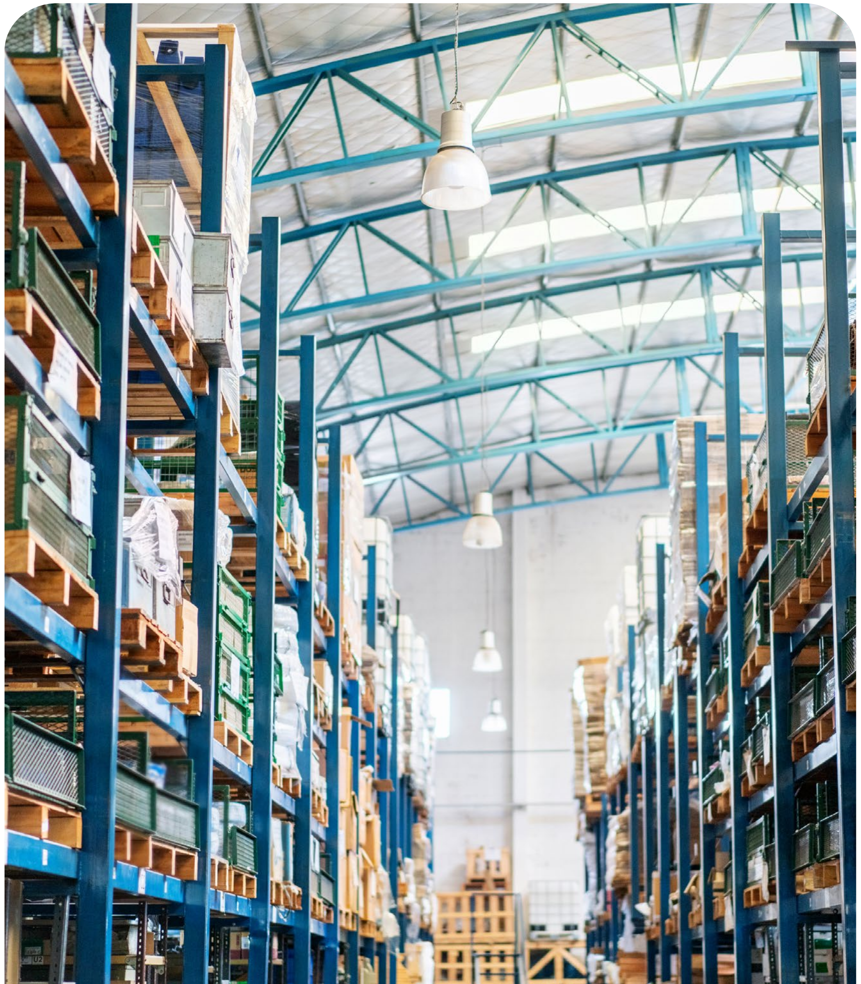
Executive Summary

Indirect tax groups can exert an underappreciated, and underutilized, influence on the speed and efficacy of the organization's strategic responses to trade wars, a military war, port snarls, spikes in energy and commodity prices, long-term talent shortages and other disturbances.

By understanding the value that indirect tax agility delivers across a range of strategic activities, executive leadership teams and boards of directors can better support indirect tax leaders' efforts to conduct tax transformation efforts that reflect the organization's unique characteristics and align with business strategy.

INTRODUCTION

The Strategic Value of Rethinking Tax Transformation



We live in transformative times. Major upheavals affect most aspects of life and business as well as nearly every area of the organization, including tax functions. Spikes in energy and commodity prices, supply chain snarls, global trade skirmishes, rising interest rates, rapidly changing regulatory requirements, increasing global tax transparency and other external disruptions require C-suite executives and corporate directors to call on all of the tools in their strategic kits.

That said, an especially valuable strategic mechanism, indirect tax agility, remains underappreciated by many senior leadership teams and underutilized in many organizations.

Making value added tax (VAT) compliance as accurate, automated and smoothly as possible enables tax leaders to allot more time, resources and data-driven analysis that support the strategic shifts executed in response to external disruptions.

When compliance is not optimized, it can hold up a valuable merger, slow a pivot to a new supplier in a new country, tarnish the omnichannel customer experience, run afoul of real-time VAT compliance mandates and/or impede organizational progress on digital transformation. Proactive indirect tax teams equipped with the latest tax automation help facilitate strategic pivots and responses by quickly identifying tax-related threats and opportunities associated with different scenarios and strategic decisions. By leveraging the right technology, indirect tax groups can reduce compliance risks and produce sharp analyses that deliver strategic insights and benefits procurement teams, supply chain groups, sales teams and other parts of the organization.

As inflation rates notched record highs in successive months this spring, strategic-minded indirect tax teams sprang into action. They proposed immediate responses to address rising prices, such as making changes to global sourcing mixes to lower customs duties and global trade taxes, while working with their supply chain, pricing and treasury colleagues to assess the tax implications of other adjustments.

INTRODUCTION

The Strategic Value of Rethinking Tax Transformation

The journey to indirect tax management success begins by ensuring that senior executives and board members recognize the pivotal role indirect tax management can play in facilitating strategic priorities.

This understanding helps tax functions and the business align on how to develop a next-generation indirect tax management capability supported by the right processes, skills and technologies. **Advanced tax automation often serves as the primary engine that propels the development of indirect tax agility.** Agile tax groups take care to deploy these solutions – which often integrate with ERP systems and other applications (procurement, A/P, etc.) in the ERP “ecosystem” -- in the service of tax compliance and analysis capabilities that directly support business strategy. Agile tax leaders avoid implementing “technology for technology’s sake,” and they select and work with external technology and services partners who share this perspective. Doing so requires starting any improvement initiative by aligning it with business strategy and then selecting which talent, technology and process-improvement levers to pull to fulfill strategic objectives.

Agile tax leaders also keep in mind that:

- Each organization and tax function differs, making it imperative to define what tax transformation means for their organization
- Indirect tax agility enables risk reduction and value creation
- Agile tax teams are unique but share a handful of common enabling attributes

Before assessing the enablers of indirect tax agility, business leaders should consider the ways in which tax-related risks and opportunities figure into the top risks their companies face as well as organizational responses to these threats and opportunities.

Risks, Responses and Tax

C-suite executives and corporate directors possess deep and nuanced understandings of the disruptions hindering organizational performance. Yet, senior leaders in many companies remain less acquainted with how these issues affect indirect tax compliance risks. Nor do they fully appreciate how data-driven tax planning and analysis, when incorporated into strategic decision-making activities, can blunt the negative impacts of the external disruptions while helping organizations respond to these drivers of change.

Conference Board research shows that the C-level executives based in the EU expect the following risks to pose the greatest challenges to their organizations this year:

1. Rising inflation
2. Recession risk
3. Supply chain disruptions
4. Labor shortages
5. Global political instability
6. Volatility in commodity prices
7. Volatility in energy prices
8. Cybersecurity
9. Regulation
10. COVID-19 disruptions

Most of these risks also have a link to indirect tax. **The pricing changes, capital restructuring and cost-cutting measures companies implement in response to inflation and a rising rate environment can have major impacts on indirect tax liabilities, risks and opportunities.** Bankruptcies, delays in payments and trade wars also have a tax impact on businesses. **Organizations increasingly respond to supply chain disruptions by forging relationships with new suppliers in other countries and regions, which also come with new indirect tax challenges that must be immediately and accurately satisfied.**

Other research focused on how EU-based companies are responding to these challenges suggests that leadership teams view automation and the data analysis it produces as fundamental enablers of effective responses to these issues.

Protiviti's current survey report of the top global risks indicates that leaders of Europe-headquartered organizations anticipate a need to address the following issues throughout the next 10 years if their companies are to mount effective responses to external risks:

- Legacy IT infrastructure;
- The need to adopt advanced digital technologies;
- Leveraging big data for market intelligence; and
- Regulatory change and scrutiny

Risks, Responses and Tax

Executive teams and corporate boards should recognize that the regulatory changes confronting tax functions range from extensive to extraordinary. The EU Commission's sweeping VAT in the Digital Age effort seems assured to result in major changes to the VAT system. A raft of new tax rules related to the 2021 agreement on the Organization for Economic Cooperation and Development's (OECD) digital tax project are scheduled for implementation beginning next year.

The tax team's ability to contribute to the organization's strategic responses to risks and disruptions hinges on the same factors that other functional and operations leaders grapple with: speed, data and compliance: "A tax function's ability to deliver value depends on how well it is able to adjust to today's ever-evolving regulatory changes, while supporting the company's business strategy," according to a PwC assessment of tax transformation. "Too many corporate tax functions are struggling to address operational ineffectiveness. Expanding regulatory requirements and limited resources means that most tax departments are trying to accomplish more with less and senior executives are taking notice."

Business leaders who understand the value of indirect tax agility are going a step further. An EY survey of 650 executives whose companies operate in a total of more than 40 global tax jurisdictions shows that "95% of organizations plan to reallocate some of their tax and finance budget away from routine activities (such as tax compliance) to strategic activities (in areas such as tax policy, planning and controversy) during the next two years." Achieving this goal requires processes and systems to facilitate the shift.

The value that indirect tax teams derive from these budget reallocations depend on execution, and the following enablers will help increase the odds of success.

5 Attributes of Indirect Tax Agility

Leaders of agile tax teams continually recalibrate the talent, processes, automation required to maintain compliance accurately and cost-effectively while maximizing the time and effort their group allocate to strategic planning and analysis. **Agile indirect tax leaders and their teams also invest in relationship-building throughout the organization; their collaborations with colleagues in accounts payables, procurement, information technology, treasury and operations yield mutual benefits.**

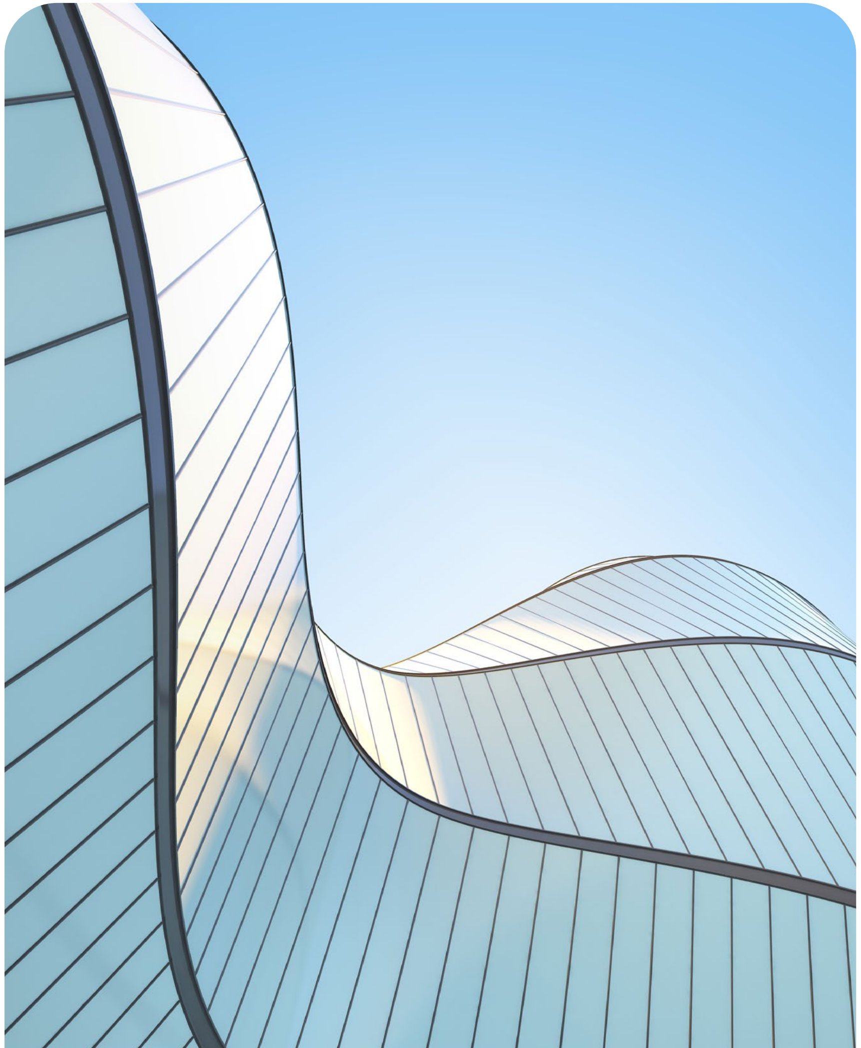
AGILE TAX GROUPS...

Know their company – and their customers

Leaders of agile tax functions are organizationally intelligent. They are fluent in their company's power dynamics. They know who wields authority and influence regarding budgeting decisions and the prioritization of technology investments, and they know how to advocate their need for additional resources to their finance and IT partners. These tax leaders also understand how they and their function are perceived by the rest of the organization, ideally as a part of the business that generates value rather than as a cost center. Finally, leaders of agile tax teams know their "customers," a broad set of stakeholders that includes the CFO, procurement, accounts payable (A/P), finance, sourcing and supply chain colleagues, the senior leadership team, the board and tax authorities. They understand what each stakeholder needs from tax and how to meet those expectations. A/P and supply chain partners may need more education and information concerning the tax risks lurking in their processes. A rapidly growing number of tax jurisdictions need tax reporting requirements to be satisfied in an increasingly real-time manner.

AGILE TAX GROUPS...

Generate value above and beyond risk avoidance



The conventional business case for investing in advanced tax automation centers on risk avoidance and cost reduction: we will avoid €X in penalties for non-compliance while reducing VAT compliance costs by X% by automating time-consuming manual work. Agile indirect tax teams supplement their business cases by identifying how new investments in technology and talent investments can generate additional value to the business by contributing to cashflow increases, working capital improvements, net income gains and similar benefits.

Make investments that benefit other areas of the organization

As they develop business cases for additional resources and manage their own performance, agile indirect tax leaders extend their focus beyond their own domains to consider how their work can benefit other parts of the business. Tax automation can substantially reduce the amount of time and effort finance teams spend on VAT-related work; these investments can also prevent tax professionals from peppering their business and IT colleagues with requests to clean up master data or lend a hand in generating VAT reports. Similar improvements can reduce the frequency of invoicing errors and help improve A/P processing efficiency. "Access to up-to-date data and technology is key to achieving transparency in today's fast-changing global tax landscape," according to EY. "... Tax and finance functions can also bring more value to the entire enterprise when they have advanced technology and data at their disposal because they are able to better project the tax implications of broader business decisions ranging from acquisitions and dispositions to the impact of tax law changes."

AGILE TAX GROUPS...

Spend more time on planning and analysis

Indirect tax teams that leverage automation to improve compliance efficiency have more time to devote to planning and analysis that can benefit scenario planning activities and lead to better decisions concerning supply chain improvements. "Today, the CFO and their tax and finance teams are continuing to play an increasingly critical role in real-time modeling and business structuring," according to a Deloitte report on the Harvard Business Review site. "These elevated activities require the ability to unlock capacity to meet both compliance requirements and the strategic demands being placed on the tax function. Tax leaders have become an essential strategic advisor to propose and defend business model changes and supply chain restructuring and to model desired outcomes in response to global economic recovery scenarios."

“Draft” of finance transformation and ERP implementations

As part of their digital transformations, finance functions are migrating to cloud ERP systems and their expanding ecosystem of integrated applications that support treasury, procurement, accounts receivable, accounts payable and tax functions. Migrating ERP ecosystems to a cloud-based environment requires a comprehensive effort, and one that savvy indirect tax executives seek to leverage by including new tax automation in the finance systems implementation effort. This requires early involvement, according to a Deloitte report: “If tax isn’t at the table (and with its own digital road map) at this stage in the planning process, it should be. 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.”

CONCLUSION

Are You Agile?

As part of their digital transformations, finance functions are migrating to cloud ERP systems and their expanding ecosystem of integrated applications that support treasury, procurement, accounts receivable, accounts payable and tax functions. Migrating ERP ecosystems to a cloud-based environment requires a comprehensive effort, and one that savvy indirect tax executives seek to leverage by including new tax automation in the finance systems implementation effort. This requires early involvement, according to a Deloitte report: "If tax isn't at the table (and with its own digital road map) at this stage in the planning process, it should be. 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."

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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