
BENCHMARK REPORT
by Ogo Nwanyanwu **June 2023**

GLOBAL TAX MANAGEMENT



Insider Perspective

“The budget for tax is mostly flat, but we allocate funds towards projects that need immediate attention and hence prioritize — for example digital invoicing, transfer pricing, VAT, sales and use tax, and the minimum global tax proposal.”

— FINANCE MANAGER,
HEALTH CARE COMPANY,
NORTH AMERICA

THE COMPREHENSIVE research on global tax management conducted last year highlighted the significance of digital transformation in finance and tax operations enabled by SAP S/4HANA migration, automation, and AI/ML. This report aims to explore the evolving priorities of SAPinsiders in various aspects of taxation and technology, and to understand how organizations have adapted their global tax management strategies and approaches in a continuously evolving landscape.

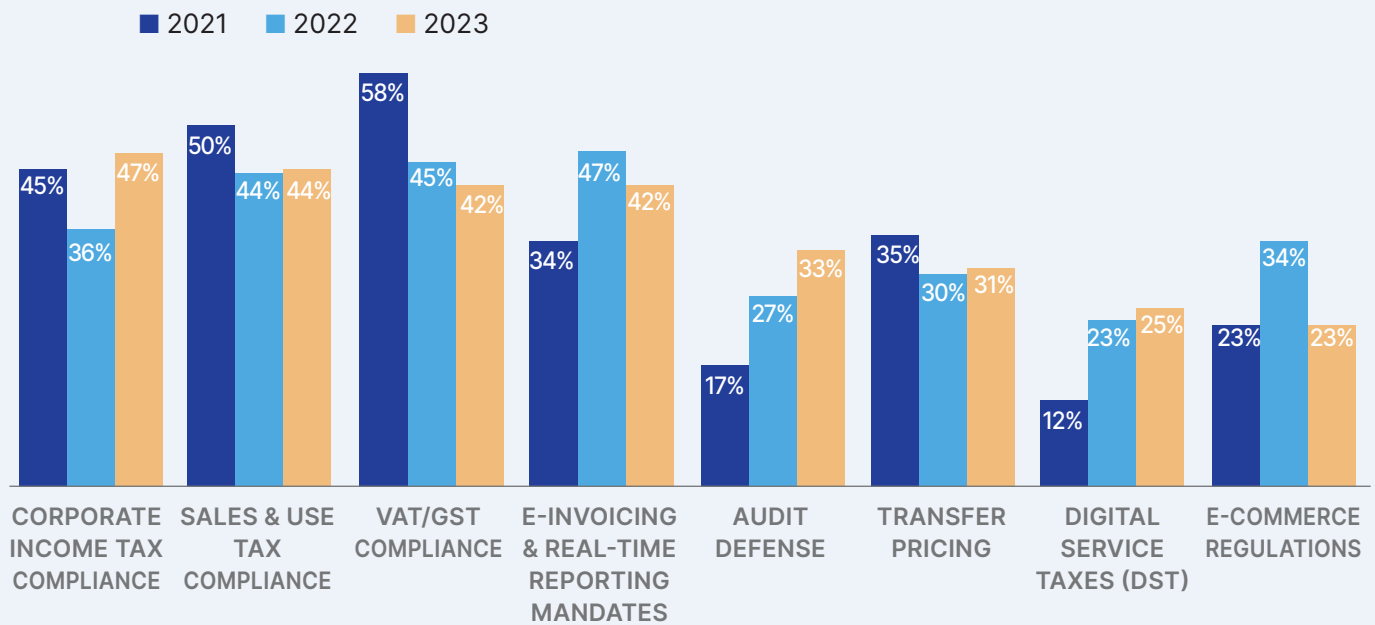
To gain a holistic understanding of the factors shaping global tax management strategies within SAP organizations, SAPinsider conducted a survey involving 128 members of its tax community from April to June 2023. While digital transformation of the finance and tax functions emerged as a significant driver (32%) for the second consecutive year in the research, the tax community elevated the growing complexity in compliance management, governance, and regulations (35%) to the top spot, highlighting the challenging compliance environment. As governments expedite digital tax administration initiatives such as e-filing, B2G/B2B/B2C invoicing, and real-time transaction level reporting, tax teams face mounting pressure to ensure compliance as regulators demand added transparency and granular level data for reporting.

This was evident in last year’s SAPinsider Global Tax Management benchmark report, where e-invoicing and real-time reporting mandates were found to be the top regulatory concerns. However, this year, the focus has shifted to global corporate tax reform efforts, considering the OECD’s two-pillar plan targeting global corporate minimum tax reform. Corporate income tax emerged as the top priority for SAP organizations (47% of survey respondents) (**Figure 1**).

This continues a three-year trend of survey respondents prioritizing a new regulatory mandate as their top concern, illustrating the rapidly changing tax compliance landscape that poses challenges to the tax teams. The dynamics around Pillar Two tax reveals that SAP organizations are not only aware of these changes but are also preparing for the upcoming regulations.

Global tax reform efforts, such as the OECD’s Pillar Two plan, have the potential to drastically transform the international tax landscape. Despite the absence of immediate U.S. legislation to

Figure 1: Regulatory Updates Affecting the Tax Teams Workloads



Source: SAPinsider, June 2023

implement Pillar Two, U.S. companies with operations in countries adopting Pillar Two will not be exempt from its mandates, including reporting requirements. This exposes these companies to the risk of double taxation, further complicating the already complex task of managing international taxes. With the anticipated implementation of these changes in 2024 and 2025, SAP organizations need to proactively ensure compliance with these mandates.

The survey findings also show a consistent focus on indirect tax regulatory updates, particularly Sales & Use tax (44%) and VAT/GST compliance (42%), despite a slight decrease in their impact on tax team workloads over the past three years. This suggests that increased automation across Sales & Use tax and VAT/GST compliance has resulted in positive business outcomes and organizations are continuing to prioritize investments in tax technology across the indirect tax lifecycle. This aligns with the findings on the adoption of cloud-based tax management systems, which saw a significant increase from 6% in 2021 to 25% in 2023. Additionally, the number of organizations without plans to migrate to cloud-based tax management systems has halved from 23% in 2021 to 11% in 2023, showing the widespread acceptance of cloud-based solutions in global tax management.

SAP provides a cloud-based platform for managing global taxes that facilitates real-time e-invoicing, reporting, and tax controls. This cloud delivery model enables compliance with the changing legal requirements. SAP's partner network, including Vertex, Thomson Reuters, Sovos, and Avalara, allows for efficient global tax engines integration with embedded tax determination capabilities. This corresponds with the survey findings as a quarter of respondents reported their organizations using a third-party tax engine to manage SUT or VAT/GST compliance (**Figure 2**).

The time consumed by indirect tax compliance can limit the capacity of tax teams to provide strategic value. By utilizing global tax engines, organizations can reduce manual tasks and enhance visibility into indirect tax determination workflows, thereby allowing for a more efficient use of resources. With an additional 58% of respondents either currently implementing, planning to implement, or evaluating a global

Figure 2: Current Handling of Indirect Tax Compliance (VAT/GST, Sales & Use Tax)

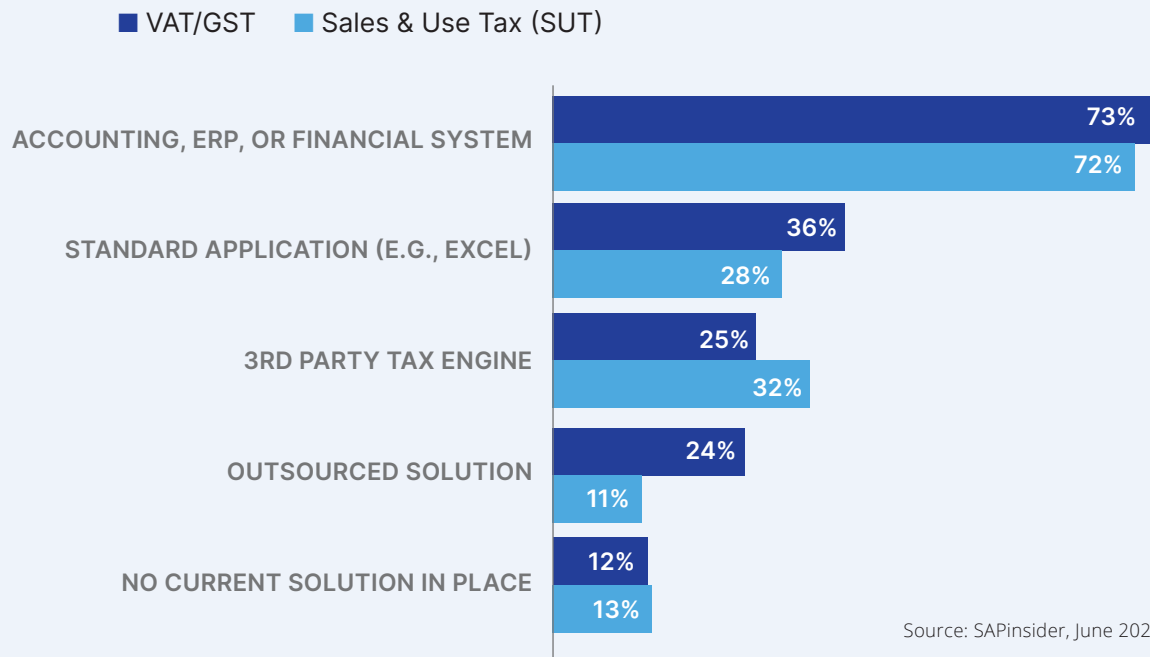
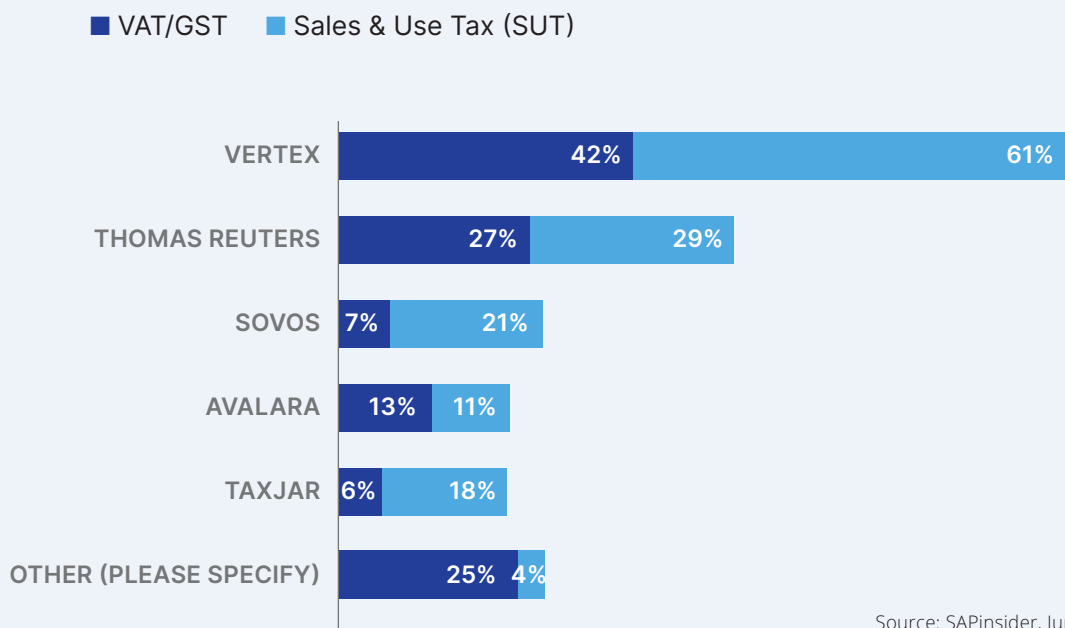


Figure 3: Third-Party Tax Engine Utilization for VAT/GST, Sales & Use Tax



Insider Perspective

“Preparation for global minimum tax is still in discussion and remains in the early stages to share any details. What we have at this point is an understanding of the implications and are brainstorming how to address Pillar Two implementation, especially with the projected impact to the supply chain that serves as a manufacturing hub in countries like China, India, Mexico, Hungary to name a few.”

— FINANCE MANAGER,
HEALTH CARE COMPANY,
NORTH AMERICA

tax engine, organizations that do not consider this may risk lagging behind their peers.

For the third year in a row, the findings spotlight third-party tax engine provider, Vertex, as the leader for both sales and use tax determination and VAT/GST. It's followed by Thomson Reuters, Sovos, and Avalara. As one Finance Manager from a North American healthcare company stated, “Vertex is a robust solution and is well integrated within the SAP eco-system and can address global requirements, helping the organization stay on top of tax transactions, compliance, and reporting.” **(Figure 3).**

This feedback underscores the importance of integrating robust, reliable tax solutions into an organization's systems. Such integration not only ensures compliance but also allows the organization to focus on strategic initiatives.

While the number of organizations planning to adopt third-party tax engines continues to increase, fewer organizations reported using these engines for managing indirect tax compliance. This stagnation in usage reflects the ongoing struggle of integrating ERP and applications with a global tax engine. For three consecutive years, this issue has consistently been identified as a top pain point in the research, emphasizing the persistent challenge of aligning tax management with broader business systems.

Discussions with SAP users and industry experts reveal difficulties in transitioning customizations that facilitate tax compliance from traditional ERP environments to modern cloud-based ERP financial systems. Overall, this underscores the need to ensure smooth integration of tax functions with SAP systems, enabling real-time access to reliable, tax-sensitized data, and the application of advanced tax determination logic.

Interestingly, this year, respondents ranked Control and Governance as the top pain point, surpassing the challenges associated with integrating ERP and application with a global tax engine. This shift highlights the increasing importance organizations are placing on having robust control and governance systems in place for effective tax management **(Figure 4).**

The dynamic nature of tax laws and mandates presents businesses with a multitude of control and governance challenges. One of the primary tasks is the ongoing need to update tax management processes and systems to maintain compliance with new regulations. This involves regular risk assessments, audits, and system updates, all of which can be complex and consume significant resources.

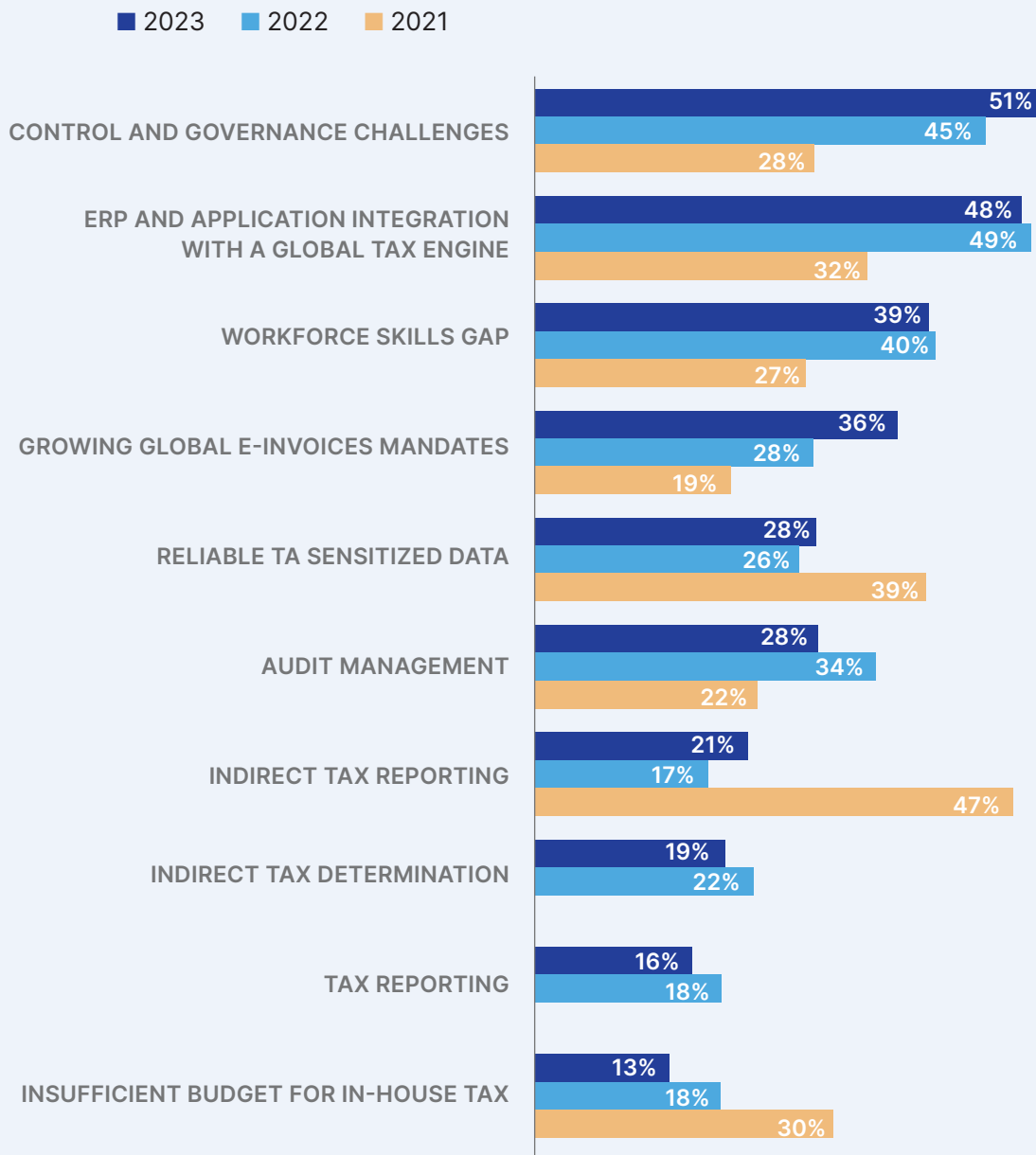
The shift towards digital tax reporting and e-invoicing mandates further compounds these challenges, requiring real-time and accurate tax data. Ensuring data integrity across multiple transactional systems becomes a significant obstacle given disparate data sources, outdated systems, and third-party applications.

The situation is made even more intricate as global tax authorities intensify their enforcement efforts, raising the risk of non-compliance penalties for businesses. The reaction to this has

been an increased demand for enhanced tax controls, more comprehensive reporting, and improved visibility across transaction systems.

For SAP companies, this means aligning tax strategies with ongoing enterprise transformation initiatives. However, the current climate calls for more than just alignment. Finance and tax transformation should be prioritized and integrated into the broader framework of global tax management strategies. This requires greater collaboration with tax experts whose insights are crucial for effective control and governance over new global tax management systems. Ideally, the responsibility for this should lie with

Figure 4: Top Pain Points Across Global Tax Management



Source: SAPinsider, June 2023

tax experts rather than IT departments. The research backs this trend, showing increased collaboration between tax teams and business leaders to prioritize tax and finance transformation as part of larger ERP modernization initiatives. **(Figure 5).**

As the research indicates, companies are recognizing the significant benefits that can be achieved by integrating their tax functions into their broader business transformation strategies. Initiatives involving SAP S/4HANA migration have provided these organizations an opportunity to rethink and revitalize their tax processes, creating a more streamlined, efficient, and compliant tax function.

However, the journey doesn't stop at ERP migration. The data reveals an increased adoption of additional tools and services used alongside SAP S/4HANA to meet specific tax management needs. These tools include third-party tax engines, AI/ML tools for data management, and cloud-based platforms for real-time e-invoicing and reporting. These tools are assisting organizations not just in maintaining compliance, but in transforming tax into a strategic advantage.

Interestingly, the data indicates a shift in responsibility for these initiatives. Instead of being driven solely by IT departments, there is increased collaboration between tax experts, business leaders, and IT teams to ensure tax considerations are incorporated into the broader business transformation strategy.

With the expected global corporate tax reform and digitization of tax authorities, the pressure on organizations to ensure tax compliance is greater than ever. The need for robust control and governance systems is apparent, and technology plays a crucial role in this aspect. By utilizing modern ERP systems, cloud platforms, and global tax engines, organizations can gain improved visibility, control, and agility in their global tax management processes.

As tax laws and regulations continue to evolve, the ability to adapt will become an increasingly crucial competitive advantage. The pathway to successfully digital tax transformation and effective global tax management lies in an integrated, technology-enabled approach with early tax expert collaboration.

Our study this year also revealed several key findings regarding how SAPinsider organizations approach strategic priorities around global tax management.

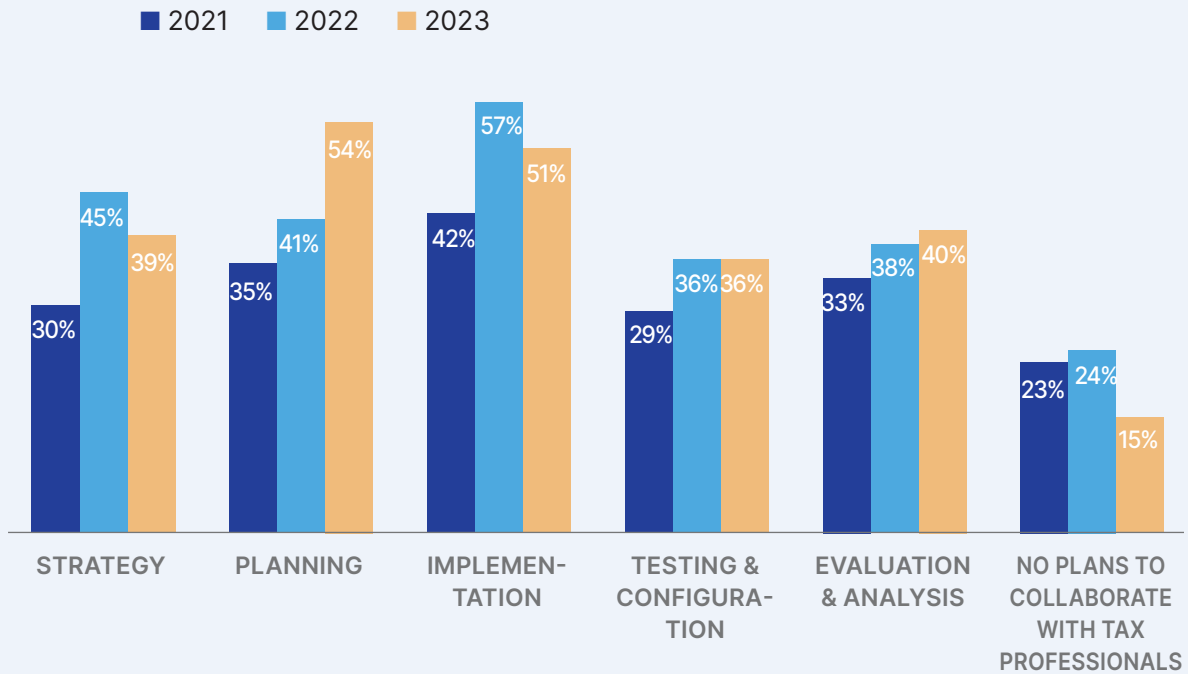
A small percentage, 8%, viewed their organizations as very immature regarding level of tax compliance maturity, while 14% perceived theirs as somewhat immature, indicating room for significant improvements. The majority, 30%, chose a neutral stance, suggesting a moderate level of tax compliance maturity. Meanwhile, 25% of respondents believed their organizations were somewhat mature, and a close 23% felt they had reached a very mature stage. Overall, these findings suggest a varied level of confidence among SAP organizations in their global tax compliance management capabilities.

Insider Perspective

“Investing in tax compliance capabilities is a key focus for us. With tax laws and mandates becoming more complex, we’ve seen a direct impact on the projected budget for global indirect tax compliance. Investments are primarily focused on enhancing tax management systems and processes, with a special emphasis on data accuracy and reporting.”

— TAX DIRECTOR, MINING CORPORATION, LATAM

Figure 5: Organizations Collaborating with Tax During ERP Adoption Journey



Over the past three years, organizations' projections for their global indirect tax compliance budgets have shifted considerably. In 2023, only 11% of organizations projected a decrease in their budget, down from 16% in 2021 and 13% in 2022. A steady percentage, 34%, anticipated no changes to their budgets, like the 35% in 2022 but slightly higher than the 27% in 2021. The proportion of organizations forecasting a larger budget increased significantly from 12% in 2022 to 20% in 2023, although it is still below the 27% recorded in 2021. These trends suggest an uncertain economic climate and varying strategic approaches to tax compliance budgeting across organizations.

The member community identified core key performance indicators (KPI) for assessing the performance of their organization's global tax management processes, including penalties and interest charged tax returns filed on time (73%), due to tax audits (69%), and number of tax corrections from audits (51%). These key metrics were the only KPI's generating alignment by over half of the respondents surveyed.

Tax management leaders in 2023 predominantly rely on Outside Consulting Firms (55%) and Professional Associations (53%) to stay updated on tax regulation changes. While Software Vendors also play a critical role in educating about compliance (37%). These findings suggest that organizations are actively leveraging external resources to ensure they stay updated on shifting tax regulations and maintain compliance.

REQUIRED ACTIONS

Based on the survey responses, organizations should make the following plans around their global tax management strategies:

- **Leverage capabilities SAP S/4HANA to minimize errors due to manual processing.** This is the top action SAPinsiders are taking to address the top factors impacting global tax management strategic priorities. SAP S/4HANA can serve as a centralized, global repository for accurate data, which is crucial for reducing errors often associated with manual processing. It demonstrates how digital transformation in tax functions can lead to significant improvements in organizational performance and regulatory compliance.
- **Enhance tax controls and governance with advanced cloud analytics and reporting solutions.** This represents the second highest ranking action SAPinsiders are taking to address the top factors impacting global tax management strategic priorities. Advanced analytics and reporting can provide valuable insights into an organization's tax posture and expose potential compliance risks. Tools such as SAP Analytics Cloud can aid in visualizing tax data, identifying trends, and spotting anomalies that could trigger audits or penalties. A reporting solution like SAP Document and Reporting Compliance can enable the transition to continuous transaction controls, and support complete reporting with data-driven insights.
- **Prioritize tax partners with SAP certified tax management solutions built on SAP BTP.** The integration of ERP and applications with a global tax engine has consistently been identified as a major challenge for SAPinsiders, according to the annual study. However, leading tax solution vendors within SAP's partner network, such as Vertex, Thompson Reuters, Sovos, and Avalara, have developed robust global tax engines and tax management solutions that integrate smoothly with SAP S/4HANA systems. Vertex has been recognized as a leader in handling VAT/GST and Sales & Use tax compliance. Their tax determination solution, built on SAP BTP, is available through the SAP Integration Suite and has received certification from the SAP Integration and Certification Center. By opting for such certified solutions, organizations using SAP financial systems can ensure smoother integration and more efficient tax management processes. This approach can help overcome one of the most persistent pain points highlighted by SAPinsiders.



DRIVERS

- Growing complexity in compliance management, governance, and regulations (35%)
- Digital transformation of tax and finance (SAP S/4HANA migration, automation, RPA, AI/ML, etc.) (32%)
- Need to improve accuracy and reduce complexity around indirect tax determination (28%)
- Business growth and expansion (M&A, new digital business models, geographic expansion, etc.) (28%)



ACTIONS

- Utilize SAP S/4HANA capabilities to minimize errors due to manual processing (44%)
- Improve tax controls and insights through advanced analytics and reporting (43%)
- Centralize and automating tax data control framework across all transactional systems (42%)
- Streamline data management across order-to-cash (O2C), procure-to-pay (P2P), and record-to-report (R2R) flows (39%)



REQUIREMENTS

- Clean and harmonized master data (86%)
- Seamless data management across Order-to-Cash (O2C), Procure-to-Pay (P2P), and Record-to-Report (R2R) flows (81%)
- Single source of truth (visibility across all transaction data and business activity data) for reporting and audit purposes (78%)
- Enhanced accuracy of real-time indirect tax determinations (77%)
- Simplified tax data and document extraction processes for audits (75%)



TECHNOLOGIES

- Sales and use tax determination tool (27%)
- Tax controls framework (26%)
- Tax localization tools (25%)
- Audit management software (23%)
- E-filing and e-documentation management (22%)
- Universal Journal (20%)
- Global indirect tax reporting tool (20%)
- Intelligent mapping tool of tax data to ERP application (19%)
- RPA of routine tax compliance processes (17%)
- Visualization dashboard for real-time tax-related analytics (16%)
- Global Tax Engine (13%)

KEY TAKEAWAYS

SAPinsider's research reveals that SAP customers should apply the following key steps to ensure that their strategies for global tax management have the foundation for success:

ENGAGE TAX LEADERS EARLY IN THE TRANSFORMATION JOURNEY TO ENSURE SUCCESS. The research indicates a consistent trend towards involving tax experts early in SAP S/4HANA migration, automation, and AI initiatives to support global tax management strategic priorities. As organizations aim to remain competitive in the digital economy, incorporating tax expertise at the early stages of their transformation efforts becomes a crucial factor for success. By doing so, they can ensure that their strategies are not only technologically advanced but also tax-compliant. This approach can help avoid potential regulatory pitfalls, optimize tax management, and ultimately contribute to the overall success of their business transformation journey.

PRIORITIZE OPPORTUNITIES TO AUTOMATE INVOICE PROCESSES AND TAX REPORTING. E-invoicing and real-time reporting mandates have remained a significant focus for tax teams for the second consecutive year. Automating this process can ensure consistency, accuracy, and timely submission, reducing the risk of non-compliance and associated penalties. This not only streamlines operations but also reallocates resources for more strategic tasks. SAP Partners such as Vertex, Thomson Reuters, Sovos, and Avalara can enhance SAP Document Reporting and Compliance with up-to-date rate tables. These enhancements provide robust real-time tax reporting capabilities and streamline compliance across multiple tax regimes. With the approach organizations can automate their tax reporting processes, ensuring they remain compliant while also increasing efficiency and accuracy.

PREPARE PROACTIVELY FOR PILLAR 2'S IMPACT ON CORPORATE INCOME TAX COMPLIANCE. The implementation of Pillar 2's global minimum tax, set to come into effect in 2024, will have wide-ranging implications requiring companies worldwide to reevaluate their tax strategies and compliance procedures. As corporate income tax has been identified as the top regulatory update affecting tax team workloads in recent research, it's crucial for businesses to collaborate with tax experts to fully grasp the impact of Pillar 2.

Appendix: The Dart™ Methodology

SAPinsider has rewritten the rules of research to provide actionable deliverables from its fact-based approach. The DART methodology serves as the very foundation on which SAPinsider educates end users to act, creates market awareness, drives demand, empowers sales forces, and validates return on investments. It is no wonder that organizations worldwide turn to SAPinsider for research with results.

THE DART METHODOLOGY PROVIDES PRACTICAL INSIGHTS, INCLUDING:

DRIVERS	These are macro-level events that are affecting an organization. They can be both external and internal, and they require the implementation of strategic plans, people, processes, and systems.
ACTIONS	These are strategies that companies can implement to address the effects of drivers on the business. These are the integration of people, processes, and technology. These should be business-based actions first, but they should fully leverage technology-enabled solutions to be relevant for our focus.
REQUIREMENTS	These are business and process-level requirements that support the strategies. These tend to be end-to-end for a business process.
TECHNOLOGY	These are technology and systems-related requirements that enable the business requirements and support the company's overall strategies. The requirements must consider the current technology architecture and provide for the adoption of new and innovative technology-enabled capabilities.

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