



Compliance's complexity: Attitudes and barriers to getting it right in indirect tax

Introduction from Peter Boerhof

Senior Director VAT, Vertex

The correlation between people, systems, processes, and organisation is central to the success of the tax function. Understanding this interplay is vital for businesses if they are to navigate the ever-changing taxation landscape, remain compliant and make informed financial decisions. As tax laws continue to evolve, these concepts will remain fundamental in shaping business tax strategies. These concepts have already evolved in response to globalisation, the speed of commerce and the need for businesses to navigate the intricacies of tax laws and regulations – all while being heavily influenced by advances in technology.

The interconnections between people, systems, processes, and organisations within the tax function are clear. They result in:

- **Efficiency**, as well-designed processes supported by advanced systems and skilled professionals can reduce the burden of manual work and minimise errors
- **Compliance**, as the complexity of tax regulations necessitates a structured, end-to-end approach. The speed of global commerce and real-time reporting mandates increase reliance on automation, with expert input on settings and requirements
- **Cost management**, as effective tax management can result in reduced tax liabilities which ultimately impacts a business's bottom line. Traditionally, tax management was primarily a 'people' effort, which can be costly and prone to human error. Where possible, routine activities are increasingly being replaced by automated processes, creating more room for tax specialists to focus on controls and strategic planning
- **Strategic planning**, which is the result of a holistic view of all these elements. Businesses can optimise their tax positions, manage tax risks and plan for the future while remaining compliant by deploying their people, systems and processes effectively

Our aim with this survey was to discover how global enterprises value and integrate people, systems, processes and their tax organisation to manage their indirect tax obligations. We sought to understand the risks they take with their compliance and their perspectives on compliance gaps and barriers. Additionally, we aimed to gauge the importance they attribute to data in maintaining compliance, alongside people, systems, processes and organisation.

To understand how businesses mitigate compliance risks, we commissioned a global research study to gain a better understanding of indirect tax risk and whether businesses can avoid it or are forced to embrace it. We also wanted to learn more about the tools they used or felt they needed to use, to achieve true compliance.

We hope you find the results of the study interesting.

Peter Boerhof, Vertex



Overview

This survey consisted of 25 questions and was carried out in June 2023, to a sample of 580 people from around the world with influence over decisions made about indirect tax in their business:



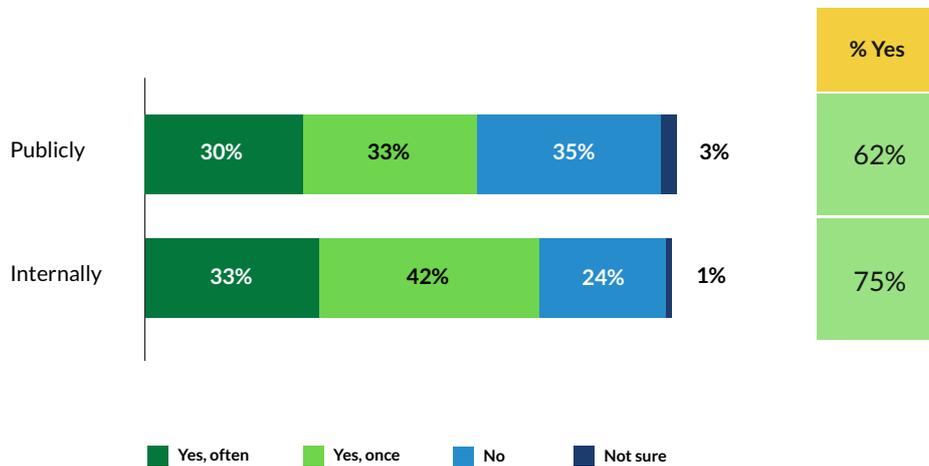
*please note that throughout the PPT, Southern Europe refers to France, Italy and Spain

- 51% of the respondents' businesses had a global revenue of between \$50million and \$500million, defining them as small or medium enterprises (SMEs), while 49% had a global revenue of more than \$500million, which defines them as large enterprises
- 17% of those questioned were owners of a business, 17% held the role of director or VP, 28% held a role in the C-suite and 38% held a managerial role
- The highest proportion of respondents – 36% - worked in a business with between 1,000 and 4,999 members of staff
- The top three sectors of respondents' businesses were retail/wholesale trade (20%), IT/tech (17%) and manufacturing/distribution (14%)

Three principal themes uncovered in the study will be further analysed in this report:

- Attitude to indirect tax risk
- Skills and talent
- Technology and data quality and their importance

Indirect tax compliance and its associated risks are undoubtedly a major issue for businesses in all territories. Three-quarters of all respondents' businesses have been found to be internally non-compliant, meaning mistakes were found and fixed internally [Figure 1]. In terms of public non-compliance, when errors were found following tax authority audits, 62% of respondents' businesses were found to be non-compliant [Figure 1].



[Figure 1] To your knowledge, has your organisation ever been found to be non-compliant in regard to indirect tax, either publicly or internally?

This non-compliance can have a material impact on the business, as 75% of those whose businesses have been found to be non-compliant acknowledge [Figure 2].

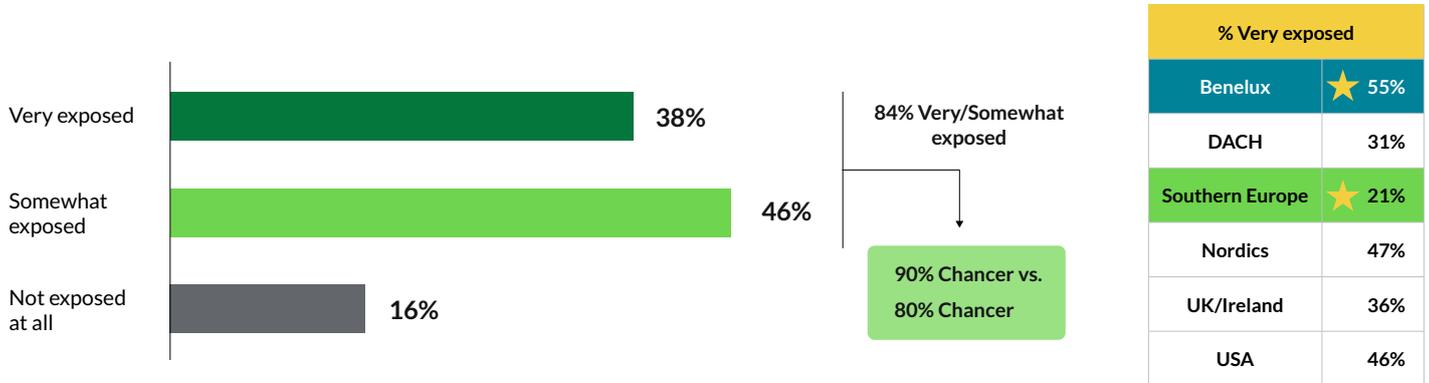


★ Represents a significant difference

[Figure 2] Was this non-compliance financially material for your organisation? Select one

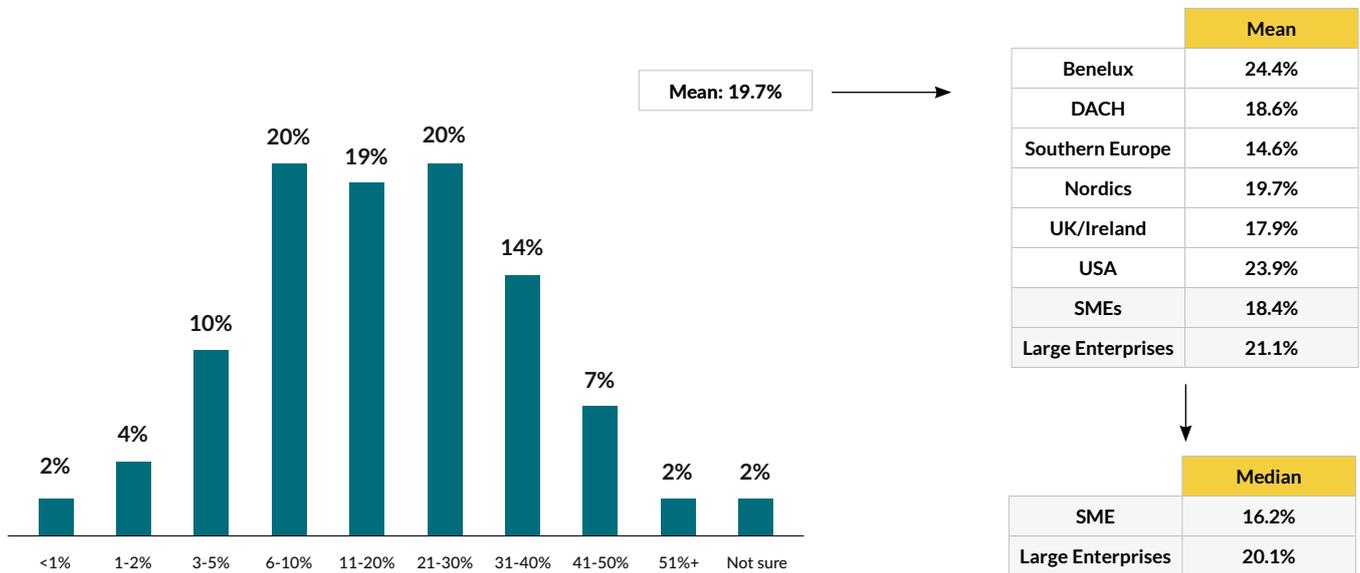
N.B. All the percentages are rounded to the nearest whole number, so this means sometimes when these whole numbers are added together, the total sums up to slightly more or less than 100%.

Meanwhile, 84% of respondents say they feel a degree of personal exposure by the level of indirect tax compliance in their business [Figure 3].



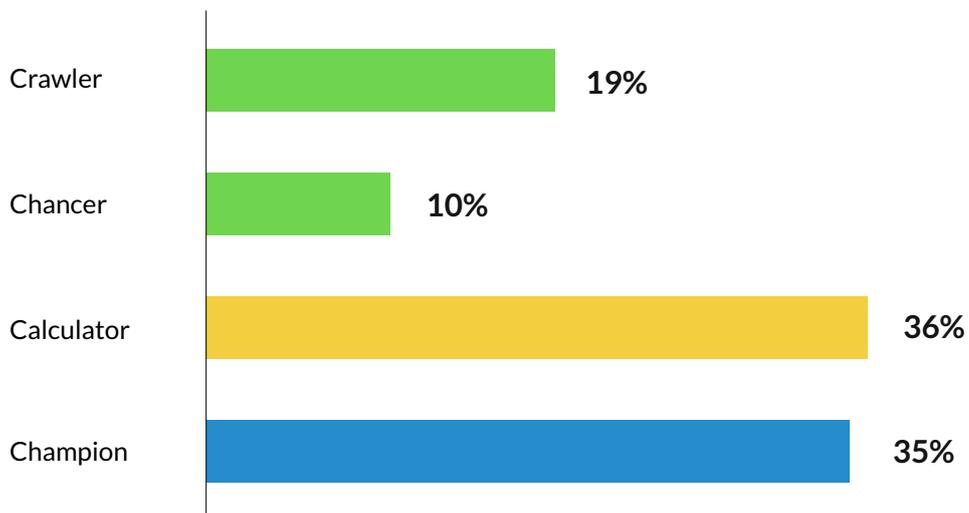
[Figure 3] Do you feel personally exposed at all by the current level of indirect tax compliance in your organisation? Select one

Indirect tax compliance is also a costly process, as our respondents estimate that compliance with regulations costs their business, on average, 20% of their business's revenue [Figure 4].



[Figure 4] As a percentage of your organisation's revenue, how much do you think it costs your organisation to comply with indirect tax regulation? Select one

When asked to best describe their business's current indirect tax compliance capability, respondents self-identify as follows [Figure 5]:



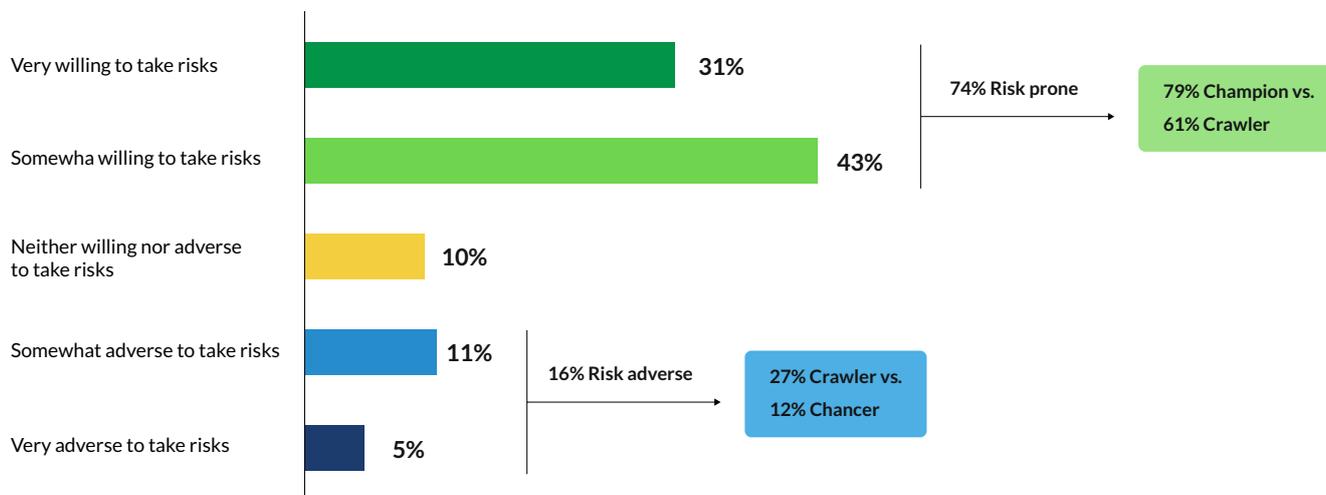
Definitions:

-  Crawlers - compliance is slowing their business down
-  Chancers - can't fear what they don't understand
-  Calculators - with a good strategy they are willing to take some risks
-  Champions - protected and future proofed with an efficient tech-ed approach

[Figure 5] Which of the following do you think best describes your organisation's current indirect tax compliance capability? Select one



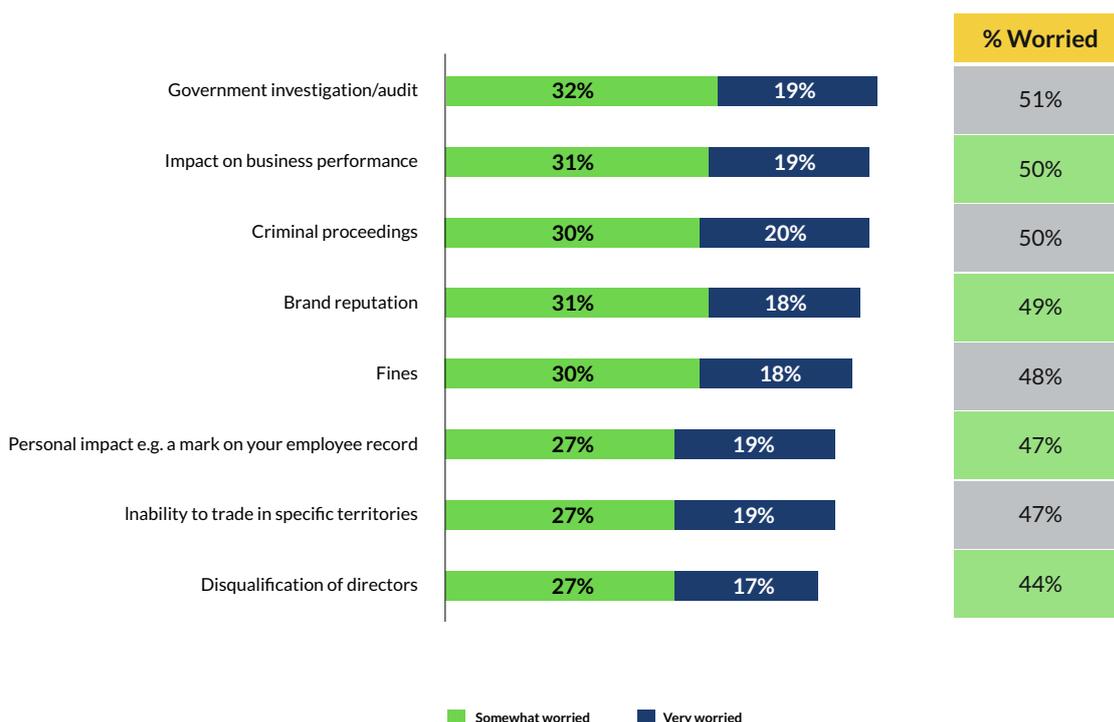
Attitude to indirect tax risk



[Figure 6] How would you best describe your organisation's attitude to indirect tax compliance? Select one

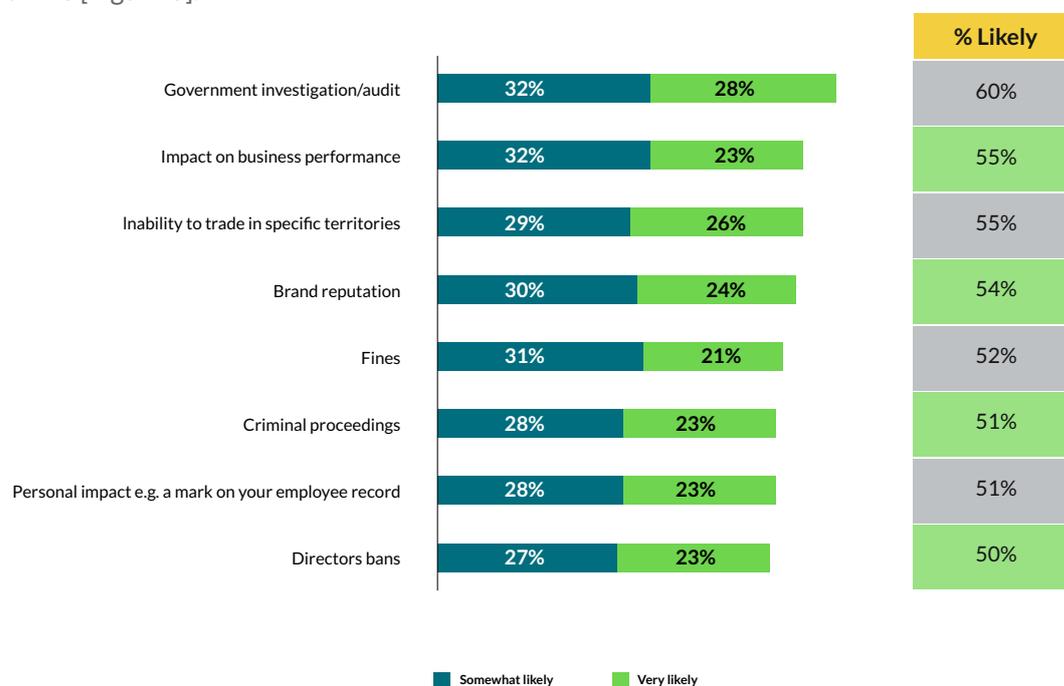
74% of respondents claim that their business's attitude to indirect tax compliance is risk prone and only 16% claim they are risk averse [Figure 6]. This perceived or real attitude towards risk is puzzling, as at the same time 75% of respondents signalled non-compliance having a material financial impact on their business [Figure 2]. This indicates businesses are balancing the cost of compliance against risk.

When asked how worried they were about certain impacts of non-compliance, the respondents primarily had concerns about audits, impact on the business's performance and criminal proceedings being lodged against the business [Figure 7]:



[Figure 7] How worried are you about the following impacts of indirect tax non-compliance? Select one per row

Six out of ten respondents also believe it is somewhat likely or very likely that their business may face government investigations or audits because of indirect tax non-compliance, whereas 55% see a possible negative impact on business performance, with a similar number feeling that non-compliance may make it impossible for their business to trade in certain territories [Figure 8].



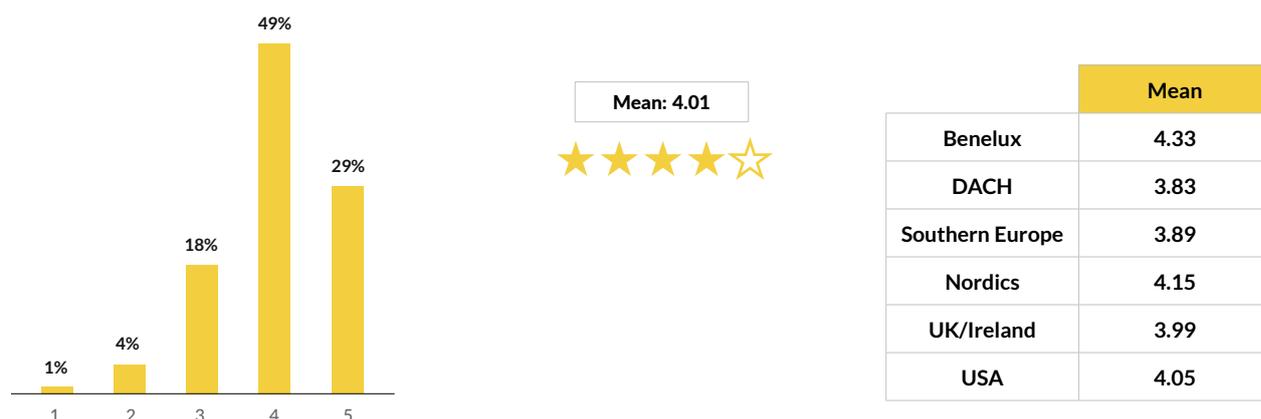
[Figure 8] How likely do you think it is that your organisation could be at risk of the following for indirect tax non-compliance? Select one per row

“It is intriguing why so many businesses seem to have accepted a certain level of risk when it comes to indirect tax compliance,” says Peter Boerhof from Vertex.

“Principally, the survival or commercial expansion of the business may be its top priority ahead of its indirect tax compliance strategy. The business may also have a high-risk tolerance and take the materiality view, believing that the worst outcome is fines and penalties while lacking the resources to tackle compliance at present” he continues.

“Similarly, there are reasons to be risk averse. Tax authorities always catch up with a business via audits and look at how on top of its accounts it was, so the business will have to defend the position it took at the time,” he adds.

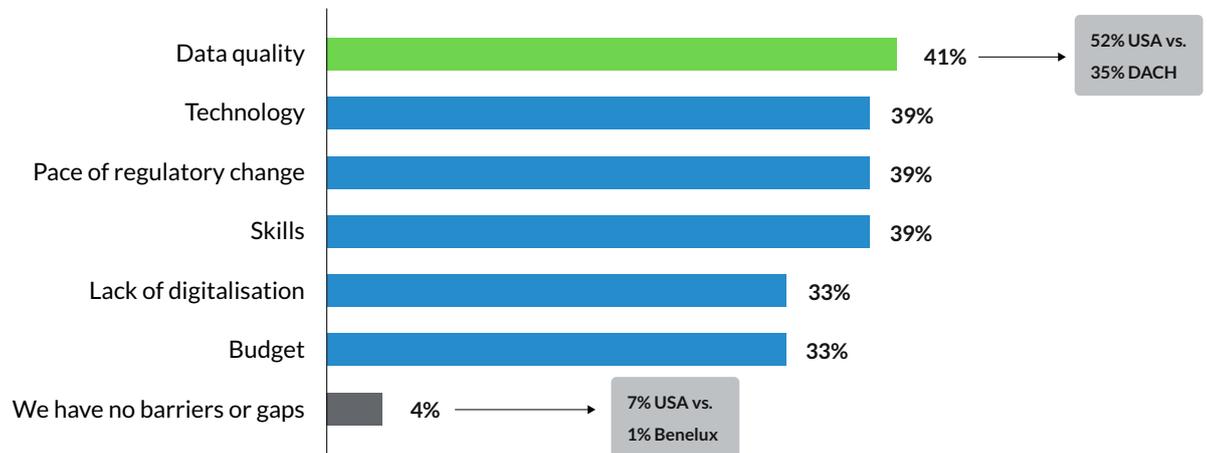
When asked to rate their business’s indirect tax compliance out of five, with one being the lowest rating and five being the highest, 78% of respondents rate their business with either four or five stars [Figure 9].



[Figure 9] Out of a maximum of 5, how many stars would you give your organisation for indirect tax compliance? Select one

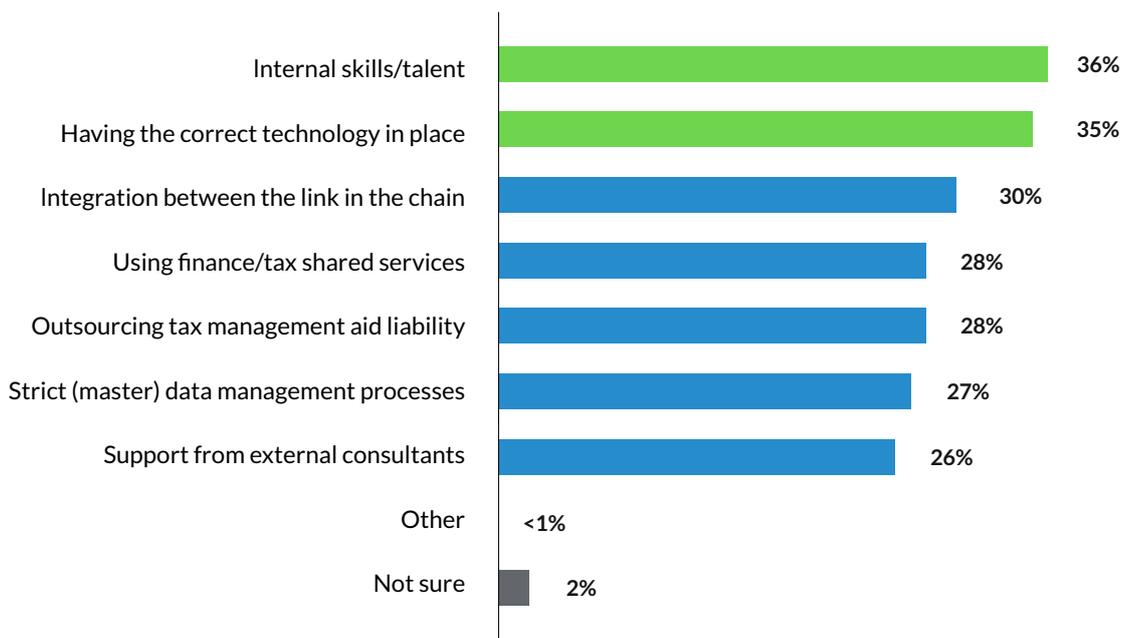
Skills and talent

When presented with several options of what acted as a barrier to compliance, 39% say the skills of their employees, with the same percentage also selecting technology and the pace of regulatory change [Figure 10].



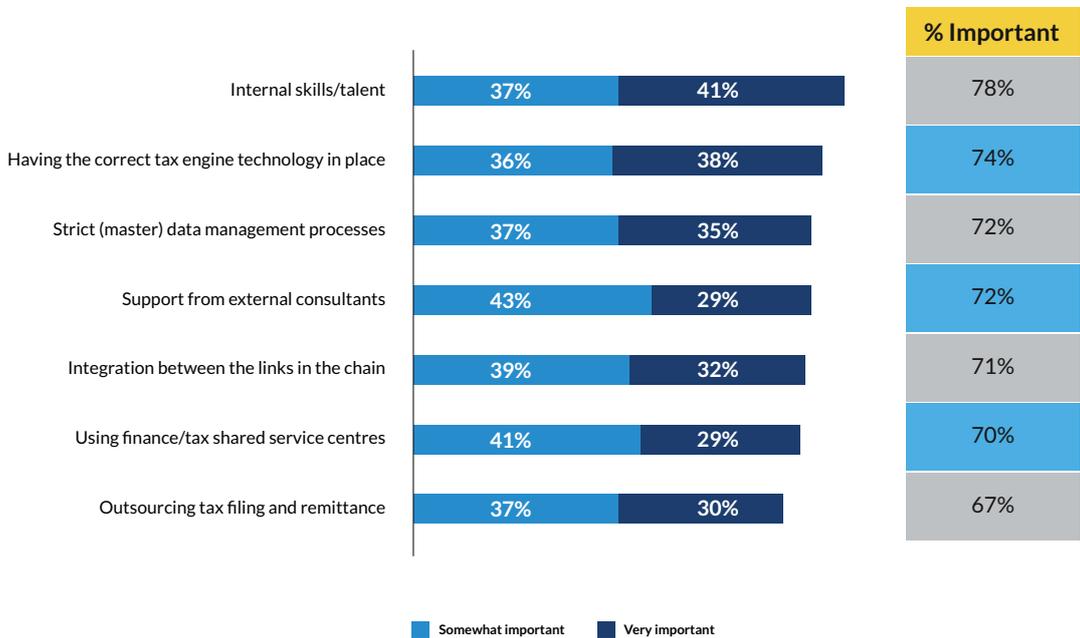
[Figure 10] What are your business's biggest barriers/gaps in indirect tax compliance? Select up to three

Similarly, when asked where they saw the biggest gaps in compliance, 36% replied that it is in the field of skills [Figure 11].



[Figure 11] Where do you see the biggest gaps? Select up to three

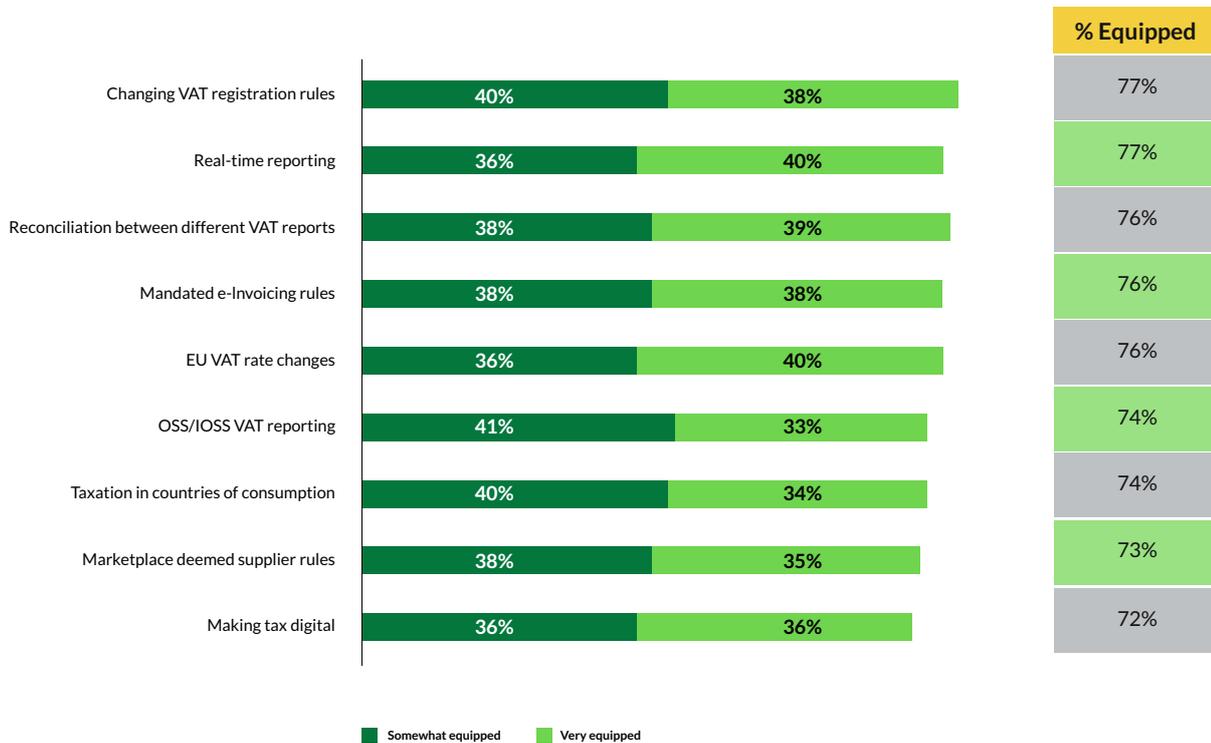
To rubberstamp the importance of skills, 78% of those questioned say that internal skills are somewhat or very important to achieve effective indirect tax compliance [Figure 12].



[Figure 12] How important are the following to achieving effective indirect tax compliance for your organisation?



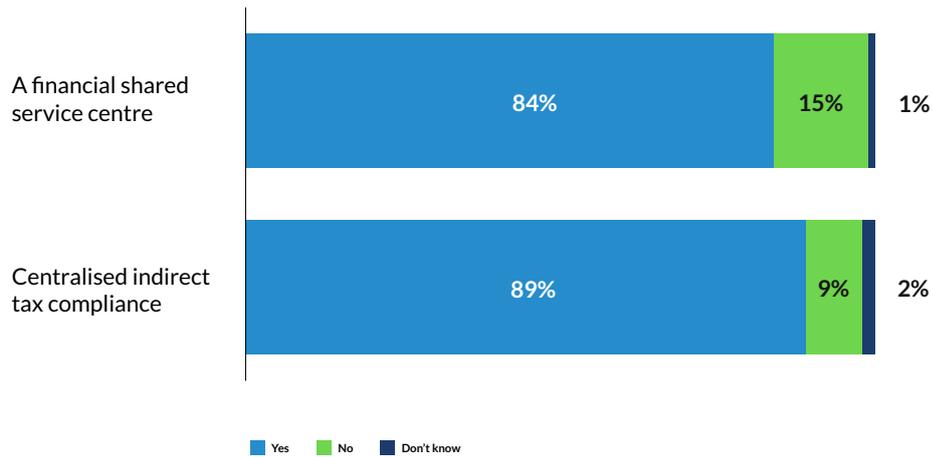
This hardly seems surprising, given that the already complex field of tax compliance continually evolves to include more and more regulations with which a tax specialist must keep abreast. However, by no means is the business of every respondent ready to deal with this. While 77% of them report that their business is equipped to manage changing VAT regulations and real-time reporting, this means that almost a quarter of them cannot [Figure 13].



[Figure 13] How well equipped, if at all, is your organisation for the following areas of indirect tax compliance?

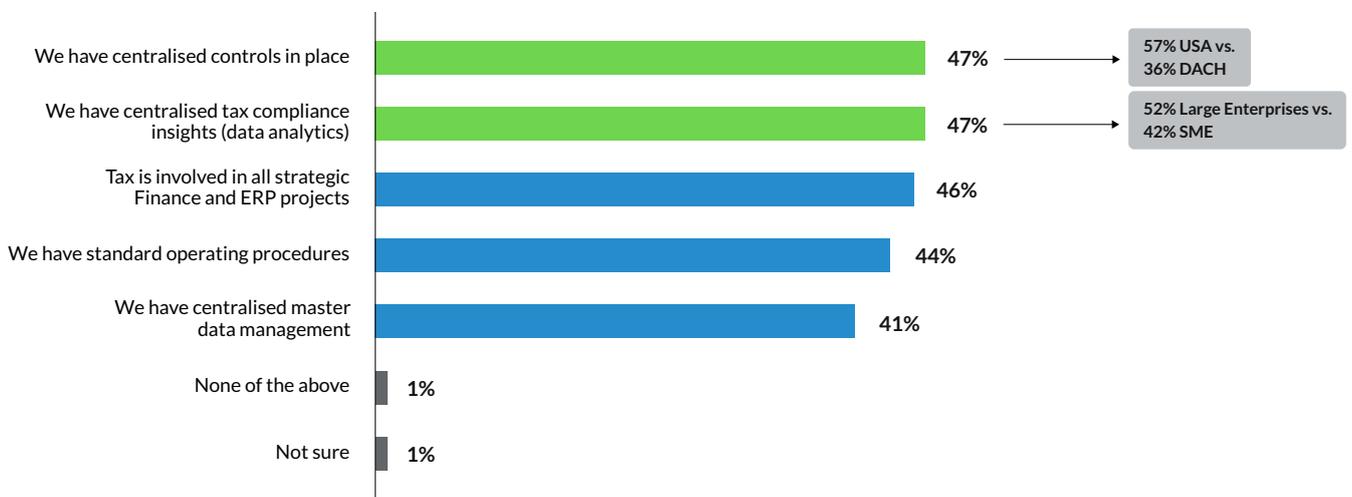
The complexity of tax compliance is not only increasing because of frequently changing rules, but also because of the growing scope of relevant jurisdictions owing to business expansion. The multitude and complexity of finance systems and data are also impacting compliance capabilities. All these factors require various skills, from those in tax to a degree of proficiency in the fields of IT, legal and accounting.

Centralisation of compliance operations and standardisation of processes is one potential strategy to resolve parts of the skills gap. It is interesting to see that 84% of respondents use a financial shared service centre. Even more respondents – 89% - make use of centralised indirect tax compliance. [Figure 14].



[Figure 14] Do you use...?

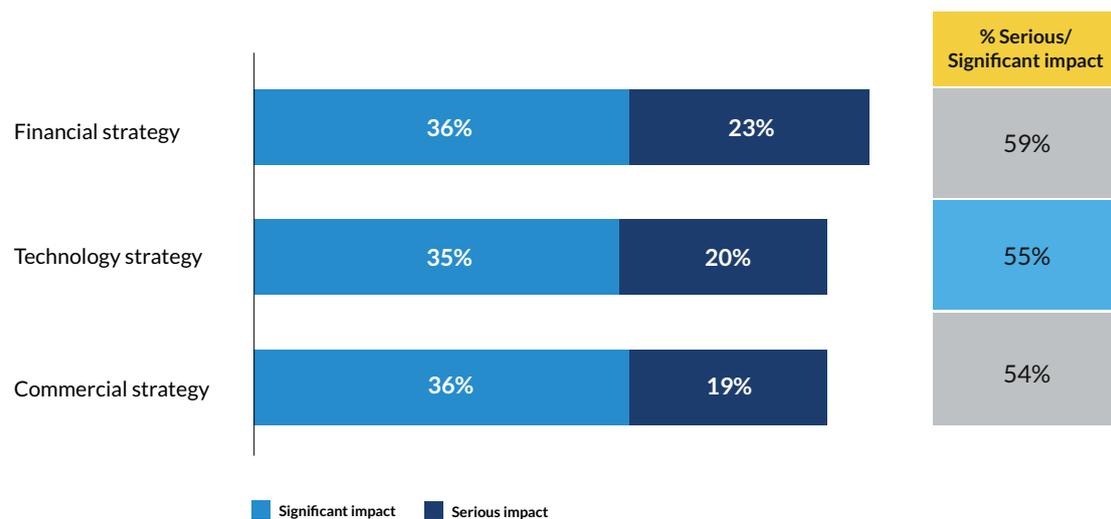
Despite this centralisation of processes, its use has not yet helped to boost centralised insights or standardisation, as only 47% of respondents confirmed they had centralised insights, such as data analytics, in place. Meanwhile, only a little over 40% confirmed having standard operating procedures or centralised data management [Figure 15].



[Figure 15] How centralised is your indirect tax compliance operations? Select all that apply

»»» “The moment you have a repository for a business’s data in place, then you can slice and dice it and look for trends which may pre-empt how tax authorities might look at it.” - Peter Boerhof

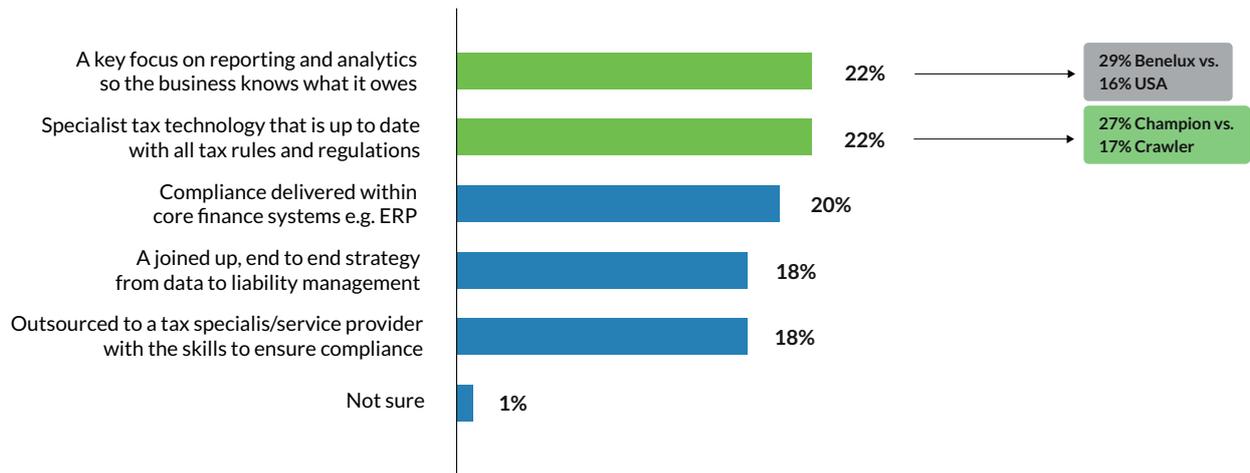
Getting compliance right is important given its impact on other business areas. Almost 60% of respondents say that compliance has an impact on financial strategy within their business, with fewer saying it impacts the technology strategy and the commercial strategy. [Figure 16]



[Figure 16] What level of impact, if any, does compliance with indirect tax legislation have on the success of your business's...?

The increased integration of indirect tax compliance with core business processes, combined with an ever-changing regulatory landscape and technology solutions, results in the emergence of new roles, such as the tax technologist. There is no set definition of this role, with the position taking many different forms and being largely dependent on the pre-existing nature of tax professionals already employed by the business and the business's present position concerning compliance. This specialist brings with them a dual focus: the skills and knowledge of both tax and technology, embracing compliance through automation.

There is certainly an appetite for specialist tax technology to work in tandem with a suitably skilled workforce. While 22% of respondents say their business requires a key focus on reporting analytics so that it is clear what was owed in tax and when, the same percentage also claim that specialist tax technology that is up to date with all rates and rules would be their most significant problem-solver [Figure 17], which dovetails into the third and final theme uncovered in the research.

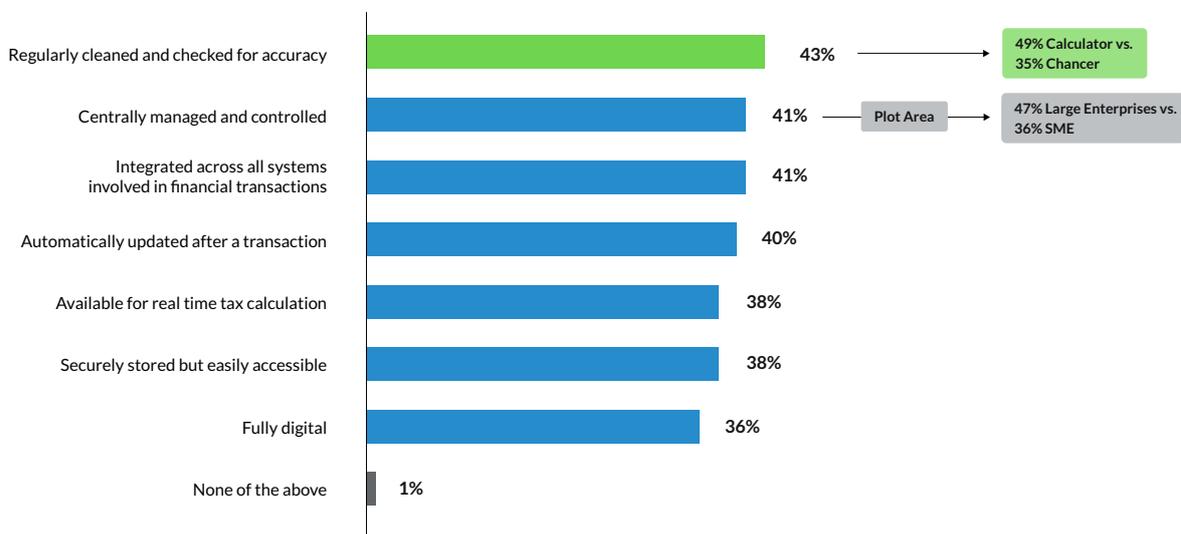


[Figure 17] What do you think an indirect tax compliance strategy needs most to alleviate the challenges and worries the business has around this? Select one

Technology and data quality and their importance

Although technology ultimately has the potential to make our lives easier in many ways, our reliance on it still requires human influence, because the output is only ever as good as the input and technology for tax compliance purposes thrives on tax sanitised data.

More than four out of ten of the respondents claim that the data held as part of their indirect tax compliance is checked regularly for accuracy and cleaned, while slightly fewer say that the data was automatically updated after a transaction [Figure 18]. This hints at data not always being accurate for indirect tax compliance purposes.



[Figure 18] Which of the following is true about your organisation's data for indirect tax compliance? Select all that apply

That said, the quality of data is regarded as the most significant barrier to compliance, with 41% of respondents citing it as the area containing the most gaps. Emerging as the joint-second biggest barriers, at 39% each were the triumvirate of technology, pace of regulatory change and skills [Figure 10].

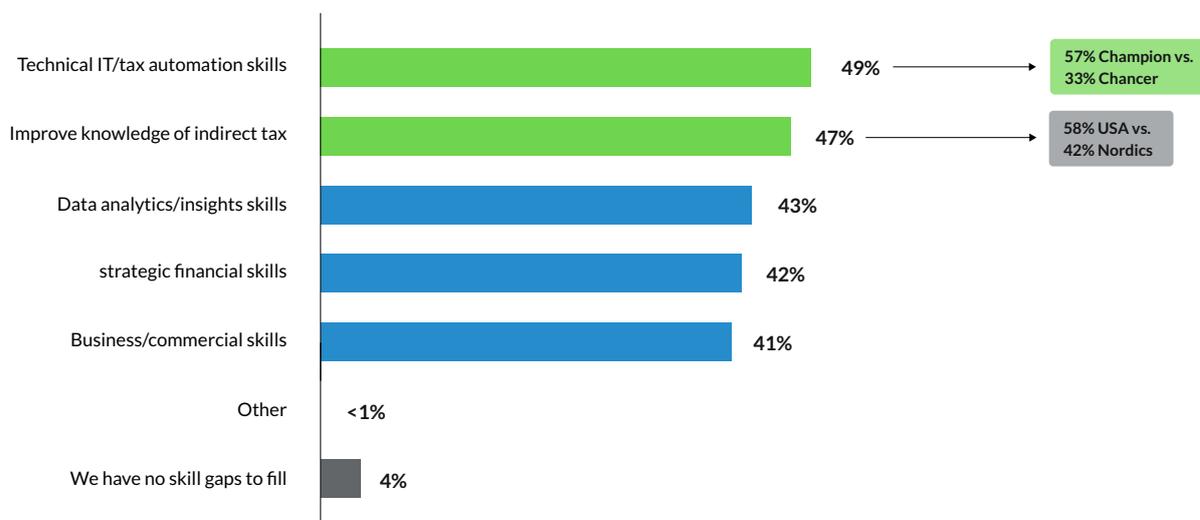
In addition to people and systems, the respondents understand the importance of data processes, as 72% of them say that they were important to achieving effective compliance. This was the third-most popular answer to the question [Figure 12] and though the most popular answer – skills – has already been analysed, the second has not: technology. Having the correct technology in place was important to 74% of respondents [Figure 12].

“There are different levels of impact in different territories,” says Peter Boerhof.

“If, for instance, you were a reasonably-sized business in the US, it would be impossible not to use tax determination technology because of the complexity of applicable rates and rules in different states and counties.

“However, if a business in the UK sold only one product with a single indirect tax rate, it is of course much easier. The more complex or more multi-regional business, the more paralysed it is when not using a solution. There comes a point when tax technology becomes business critical,” he adds.

Skills and technology came together when the survey reached its final question. When asked about the skills gaps that needed to be addressed in the specific tax and finance teams to improve a business's indirect tax compliance, 49% of respondents say that the biggest gaps were associated with using technology and technical IT systems in the field of tax automation [Figure 19].



[Figure 19] What skills gaps (if any) do you need to fill within the tax/finance team to improve indirect tax compliance? Select all that apply

This clearly shows how closely aligned people, systems and process aspects need to be when evaluating strategic and operational solutions to enhance indirect tax compliance.

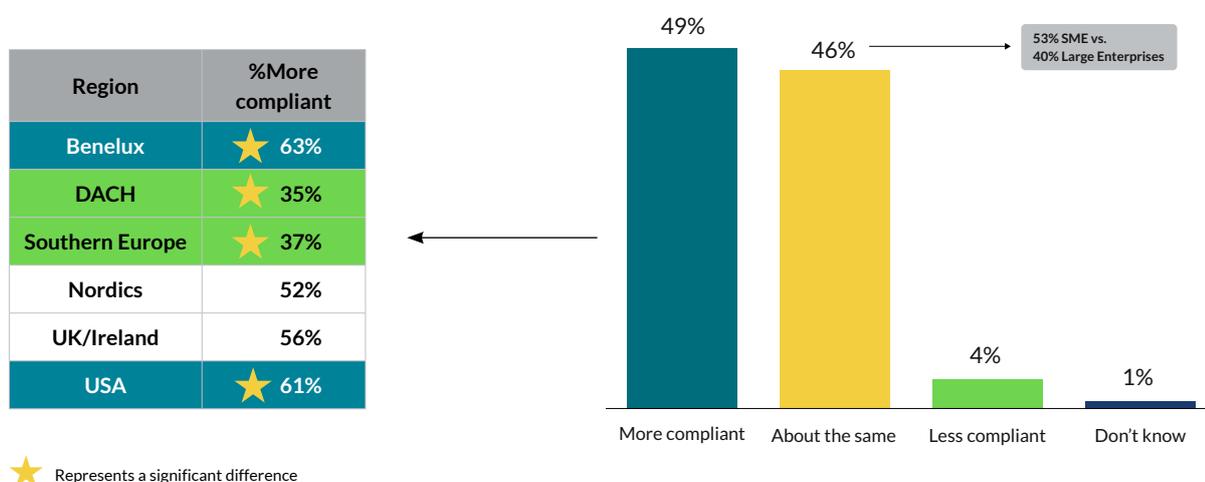
“Tax solutions keep compliance ticking, even if personnel resources are available or not,” says Peter Boerhof.

“They remove key dependencies and even let users without regional specialisations work in geographies with which they are unfamiliar. There are standardisations in place, so an individual familiar with one territory could cover for a colleague more familiar with another territory, and so on,” he adds.

Conclusion

'Risk' and 'exposure' are words which have several negative connotations. This is particularly applicable in the field of indirect tax compliance, where the consequences of a business taking risks can leave it exposed to negativity in the form of audits and reputational damage.

Despite a propensity to take the inherent risks involved in indirect tax compliance, and the possible impact of non-compliance, fulfilling indirect tax requirements is set to be taken very seriously in the coming years. Almost half of the respondents to our survey expect their business to be more compliant by 2030. However, 46% say they expect their business's levels of compliance to be about the same [Figure 20].

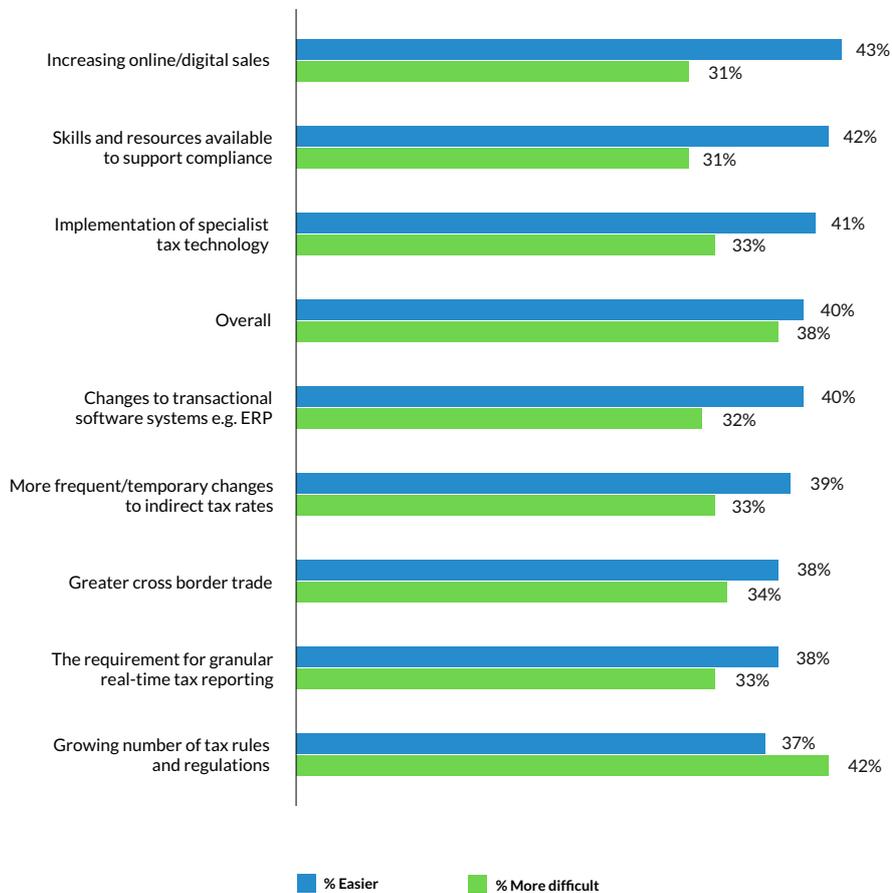


[Figure 20] Do you think your organisation will be less compliant, more compliant or about the same, in regard to indirect tax by 2030? Select one

It may be the case that the respondents who think their business's compliance will remain around the same may already be using technology solutions, which those who expect their business's compliance to increase are not yet using.

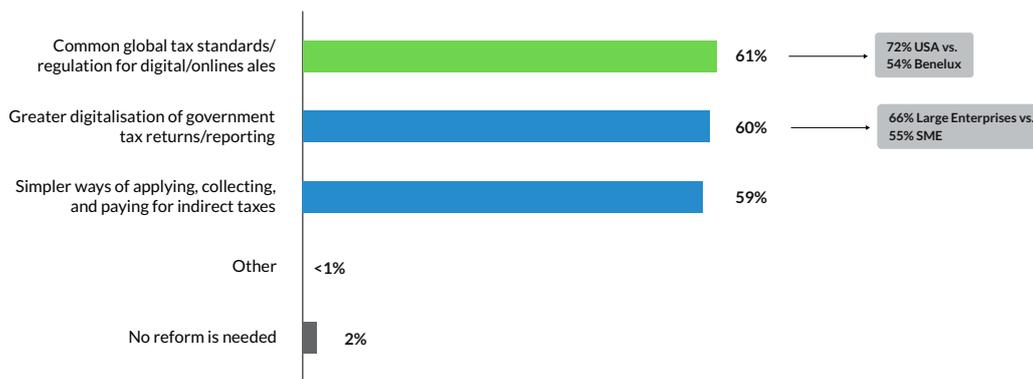
"Solutions make compliance seamless," comments Peter Boerhof. "In the future there will be fewer touch points. Technology will become part of a business's DNA and its processes," he predicts.

The overall expectation around future complexity of compliance was that it would become more difficult, because of the growing number of tax rules and regulations [Figure 21]. This suggests that technology and the upskilling of the tax compliance unit at the businesses surveyed – and presumably those in the wider business world – needs to evolve in line with these constant changes if expectations surrounding an increase in compliance are to be met.



[Figure 21] Is indirect tax compliance getting easier or more difficult for your business in relation to the following measures and challenges?

Global indirect tax reform and harmonisation would be a welcome development to help businesses achieve compliance. When asked if it was required across three separate themes of indirect tax compliance, just 2% of respondents felt that no reform was needed while 61% agreed that it was required around common global tax standards and regulations for digital and online sales. Six out of ten respondents stressed that reforms in the field of digitalisation of government tax returns and reporting would enhance compliance, while 59% would appreciate reforms in the application, collection and payment of indirect taxes [Figure 22].



[Figure 22] Do you think the current global tax system needs reforming in any of the following ways to make compliance easier? Select all that apply



»» “The lack of consistency and harmonisation creates a lot of work for in-house teams” - Peter Boerhof

“Many processes use a lot of similar data, so theoretically they are trying to make similar declarations, but the processes can be as different as night and day in terms of formats used or the technological or reporting barriers that have replaced physical borders,” he continues.

Skills go hand-in-hand with technology, but the need for the need for the two to be married together is paramount. Having a technological solution which solves the issues of indirect tax compliance is worthless if staff are not skilled enough to use it.

“Upskilling is certainly possible at smaller businesses. However, as they increase in size and diversify into different offerings, services or regions, tax and finance are no longer a mathematical challenge. They are a technological challenge, which results in the need for an integration application to maintain compliance,” concludes Peter.

The outcomes of the survey reflect that the complexity of the legislative landscape and the mismatch between “old” VAT rules and modern businesses make it hardly possible to be fully compliant. As a result, many businesses must admit they are not fully compliant. The severity of the financial impact is often increased by how tax audits are traditionally performed. The approach is often based on statistical sampling on the outcomes to the full audit period, which is often 5-7 years.

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 1,200 professionals and serves companies across the globe.

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