



# Why Tax and IT need to work together when connecting a tax engine to an ERP system.

The benefits of collaboration, cooperation, and partnership



A modern office interior with glass walls and people working at a table. The scene is brightly lit with natural light from large windows and modern pendant lights. Several people are seated around a long wooden table, engaged in work. One woman in the foreground is using a laptop. The office has a clean, professional aesthetic with wooden floors and glass partitions.

Many businesses today are looking to transform their operations. IT is driving these technology changes, but they have tight budgets and timetables to adhere to.

**One of the impacted areas that is often overlooked is tax.**

## Why Tax and IT need to work together



Alignment of the ERP landscape brings an opportunity for the IT and tax departments to work together. This provides momentum for the tax department to optimize the company's tax determination processes, while IT can accomplish standardization and eliminate numerous tax customizations across their ERP instances. The challenge for the tax department is to convince the IT department that moving to a 3rd party tax engine instead of native ERP tax calculation is the best solution, both from a tax and an IT perspective. For IT, there is a desire for a smooth and risk-free process for ERP maintenance or upgrades. Adding a new 3rd party application may appear to add risk since the company has managed tax determination with native customizations for many years.

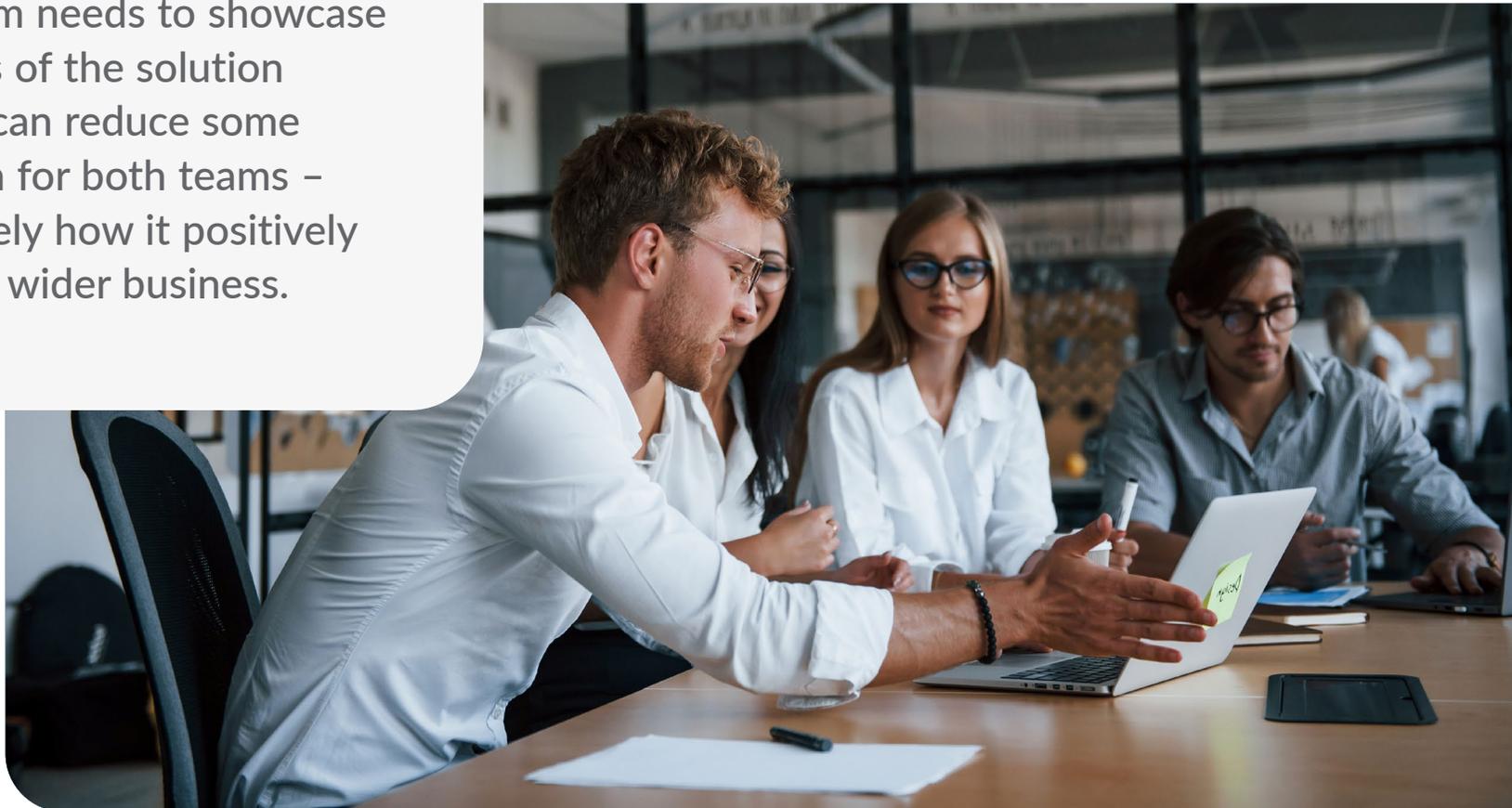
This is where the tax department needs to work with IT to create a joint business case for adding a tax engine. The tax team needs to showcase the benefits of moving to a 3rd party application instead of native ERP tax calculation, how it can reduce some of the strain for both teams – and ultimately how it positively impacts the wider business – most notably by reducing audit risk. Timely communication between the teams is critical since adding a tax engine to an ERP implementation or upgrade project is much easier than adding such a solution outside those projects when budgets are already set in stone.

# Tax Challenges

## The opportunity for Tax to finally regain control.

Implementing a tax engine as part of an ERP implementation, upgrade, or migration project may seem to be an additional task, but it is actually an accelerator for the implementation. It also provides the perfect opportunity for you to transform and automate the indirect tax operations. By adding a 3rd party tax engine, you can centralize, optimize, and automate tax operations and regain control at a central level.

The tax team needs to showcase the benefits of the solution and how it can reduce some of the strain for both teams – and ultimately how it positively impacts the wider business.



# Tax Challenges

## Non-Compliance

Drivers	Problem
Coding errors	Tax coding errors due to human errors in AP (invoice processing) or AR (order entry or invoice creation) process.
	Tax coding errors due to incorrect settings in ERP caused by lack of involvement of expert staff during implementation and maintenance.
Master data errors	Master data issues are not flagged due to creative workarounds.
	Master data is (temporarily) manipulated to facilitate a perceived required outcome.

## Poor efficiency

Drivers	Problem
Correction of errors	A manual process often executed under pressure is prone to errors. Both detection and correction of these errors is a labor intensive, and thus costly, activity.
Customer or vendor experience	Errors in invoice creation results in unhappy customers as they need to follow-up on this in order to receive correct invoices. Also, slow or incorrect coding of vendor invoices can result in late payments and unhappy vendors.
Content maintenance	The indirect tax legislative world is under constant change and these changes need to be monitored, investigated, communicated, and implemented. This often requires access to local sources and becomes quite a burdensome task without local resources as changes are often only communicated in local language.

# Tax Challenges

## Lack of control

Drivers	Problem
<b>Decentralized non-standard operations</b>	In case of decentralized indirect tax processes people often introduce locally developed and badly documented operating procedures.
<b>Accountability</b>	The person accountable for the end-to-end indirect tax process (the indirect tax manager) lacks both insights and impact on the underlying P2P and O2C processes.
<b>Audit risks</b>	Dispersed non-standard processes that heavily rely on the indirect tax appetite of individuals create a risk in case of a tax audit.

## Changing landscape

Drivers	Problem
<b>Business operations</b>	Changes in business operations impact tax determination and processes. A change in supply chain operations may be left unnoticed for several years resulting in systemic tax errors. Non-standard local processes hamper initiatives to automate invoice processing or centralization of finance operations.
<b>Legal landscape</b>	The global landscape of tax compliance is under constant change with increased (real-time) reporting requirements. As a result, the required level of quality of a company's end-to-end tax process should also increase. With tax authorities tapping into transactional information on an (almost) real-time basis there is little room for processing errors, and the need for a solution/process that is right the first time is inevitable.

## Why a tax engine?

A Vertex tax engine improves tax determination accuracy and is more robust than the native tax determination in ERPs and other financial systems. Native tax calculation in ERPs and other financial systems typically supports a tax decision based on only a few pieces of data for each transaction e.g., billing country, vendor country, ship-to country, invoice date. A Vertex tax engine can consider (and prioritize) 100+ data elements that are passed from the ERP, eCommerce, or procurement system to determine tax on a transaction. This enables more precise application of tax rules and more accurate tax determination.

Vertex embeds the required skills and knowledge in a dedicated, automated environment which facilitates centralization and automation. Additionally, moving the tax determination to a 3rd party tax engine means eliminating the costly and time-consuming process of updating the tax content in every ERP and financial system to reflect constant tax rule and rate changes. The Vertex tax engine maintains the latest tax content and can support tax calculation for multiple transaction systems from a single instance.



# IT Challenges

## The value a tax engine can bring when included in your ERP implementation/migration.

When the tax department requests the addition of a tax engine, the IT team may think that this is an unnecessary risk, but actually the tax engine request can accelerate your ERP project and reduce risks.



# IT Challenges

## Smooth ERP roll-out

Drivers	Problem
<b>Future proof</b>	In a traditional ERP environment, changes in legislation need to be implemented and tested by the IT department and for each change in tax legislation, an impact assessment needs to be made. This requires proper documentation of the tax settings in the system and some tax knowledge and awareness in the IT department. This is challenging with domestic resources but even more with central (off-shore) IT operations.
<b>No surprises</b>	Embedding tax requirements during an ERP implementation can be quite a hurdle as tax is often involved at a late stage but has to deal with legal requirements in multiple countries and can block or delay a rollout if not properly taken into account. Even if taken into account, there is a serious risk of miscommunication and incomplete requirement design due to tax people not understanding IT and vice versa.
<b>Expert tax input</b>	IT and tax often speak a different language, and this is not always resolved through IT services firms. Often, time and budgets can be wasted due to miscommunication or simply ignoring the problems.

## Native ERP hurdles

Drivers	Problem
<b>Standard “customization”</b>	Standard ERPs often contain a limited set of rules for tax determination. In order to facilitate tax compliant transactions, country-specific customizations may need to be implemented. In the case where the ERP spans multiple countries, this often results in a patchwork of non-standard customizations.
<b>Outsourced maintenance</b>	Maintenance of tax settings in an ERP system can be a burdensome activity, and the limited set of available tax codes can even present serious risk. Understanding tax changes often is already challenging for local in-house IT employees but becomes a stretch when offshored. Communication on required changes is often hampered by a ticketing system, different time zones and language issues.

# IT Challenges

## Copy/paste settings

Drivers	Problem
Copy errors	In many ERP implementations, expert tax input is limited, and tax decisions/rules have been designed and implemented by non-experts based on earlier experiences with different business models. In new implementations/upgrades these settings are often copied and pasted into the new system without going through the process of a proper tax assessment. This could result in systemic errors.

## Changing landscape

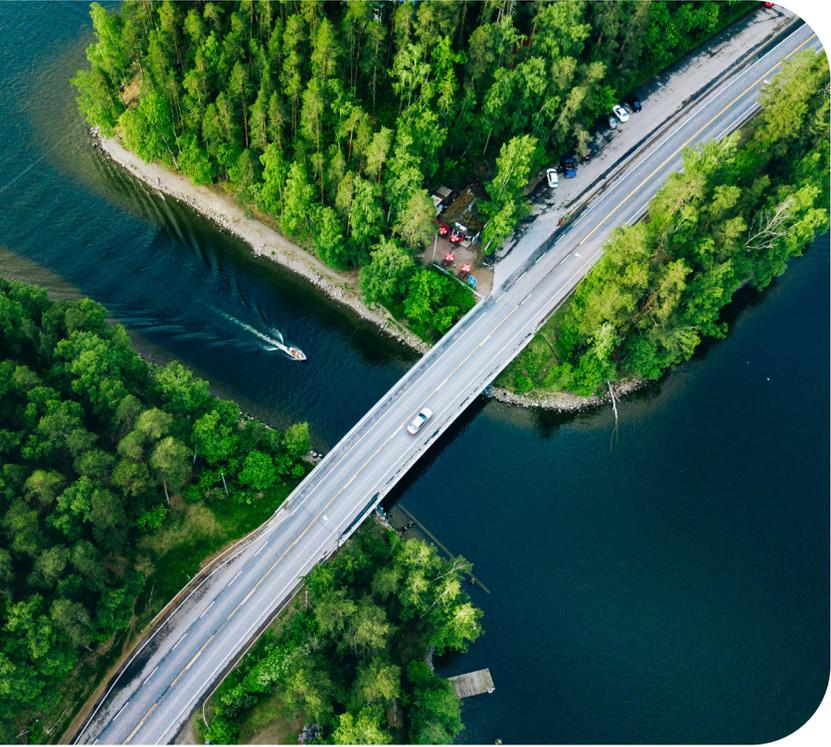
Drivers	Problem
Legal landscape	Tax authorities are increasingly tapping into transactional information on an (almost) real-time basis. Both the tax and IT department need to deploy knowledgeable resources in a timely manner to find and implement a compliant solution. Often this also requires local input due to official communications in local language.
IT Landscape	Changes in the ERP landscape with the creation of many API's creates a new world of connected purchases and sales. In all of these platforms, correct and fully automated tax determination needs to take place, and this becomes highly risky, costly, and cumbersome with homegrown, custom-built tax solutions. These IT changes ask for 3rd party tax engine solutions.

## Why Vertex?

Once tax and IT teams have agreed on the value of implementing a tax engine, the selection of provider should consider not only the technology but also the surrounding support and services that will help keep the solution operating at peak performance. Vertex provides:

- Market leadership with four decades of tax technology experience
- Global indirect tax technology solutions supporting all major ERP and financial systems
- Award winning product support
- A range of expert services to keep tax system operating at peak performance with minimal Tax and IT team involvement





## About the author

**Daniel Lemke, Principal Solutions Marketing Manager at Vertex Inc.**

Daniel Lemke has worked in indirect tax automation and business systems for more than 15 years, operating in several functions including application support, technical and functional implementations, project management, product management, documentation, and marketing. Throughout these many roles, Daniel's defining work values have always centered around (a) creating the best outcome for the customer and (b) customer education. His experience also includes managing enterprise and mid-market tax automation projects. As the Principal Solutions Marketing Manager at Vertex, Daniel is driving go-to-market activities and building resources for sales enablement and marketing.

## About Vertex

**Vertex** 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 1,400 professionals and serves companies across the globe.

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Latin America

Europe

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