



# Advanced Tax Automation Strategies

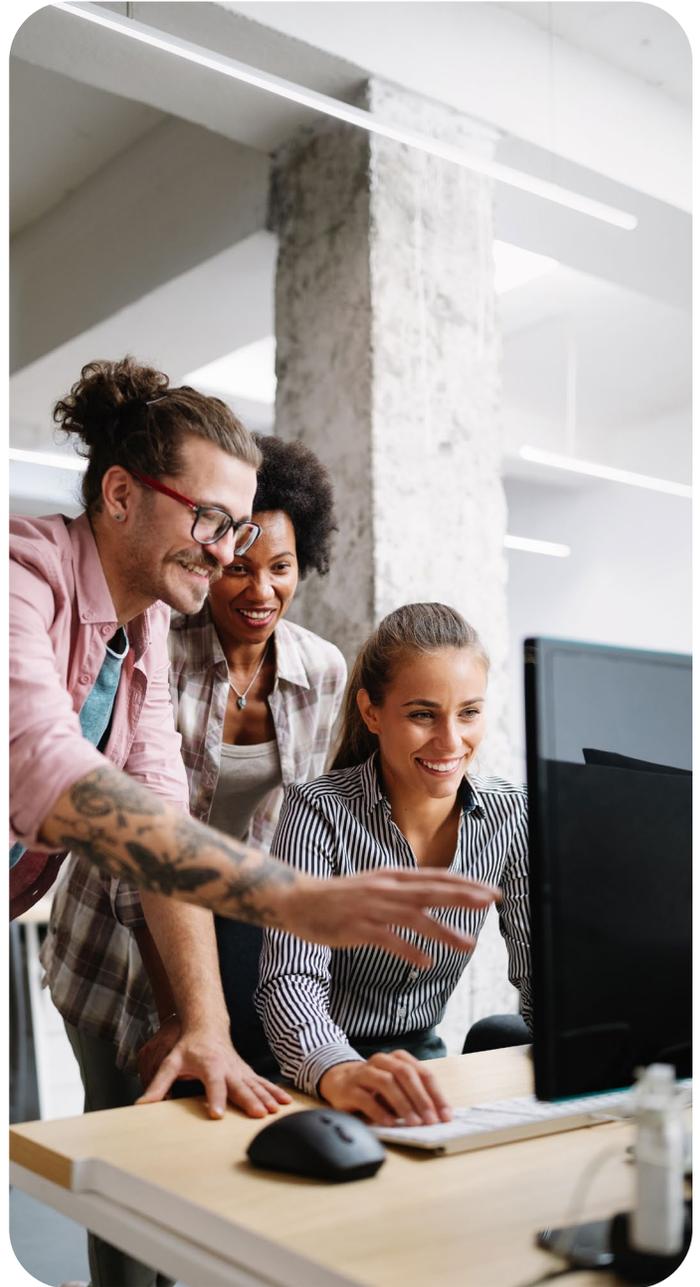
How small to mid-sized companies conquer tax compliance complexity

**From a budgeting perspective, small and mid-sized companies tend to punch above their weight class when it comes to global expansion, business model and process innovation, and the launch of new products and services.**

Yet, these “middleweight” companies are subject to the same tax compliance regulations that the largest global enterprises manage via advanced indirect tax automation (e.g., a tax engine), well-resourced tax groups, and distinct recruiting advantages (e.g., the ability to pay the market rate for tax technologists).

Fortunately, this one-two combination of compliance complexity and resource limitations has an upside: small to mid-sized organizations can gain outsized returns from investments in advanced tax automation and tools -- including those equipped with artificial intelligence (AI), robotic process automation (RPA), edge computing and other emerging technologies. To do so, indirect tax leaders should:

- Assess the limits of legacy tax solutions (including the native tax functionality in an ERP system)
- Get a feel for the current and future states of tax technology
- Understand what features to prioritize when selecting a tax engine
- Integrate automation and other leading practices into the implementation process



## Pushing the Limits

### Indirect tax compliance complexity is soaring; is your current tax technology sufficient?

Post-Wayfair tax rules and rate changes recently surpassed a 10-year high in terms of the sheer volume of changes. U.S. state and local jurisdictions continue to recalibrate nexus thresholds, update marketplace facilitator rules while implementing new fees, sales tax exemptions, and digital taxes. Post-pandemic omnichannel advancements deliver substantial revenue, customer experience, and profitability improvements but also add to compliance complexity. These forces are pushing the limits of legacy tax technology solutions in small to mid-sized organizations.

Besides looking closely at the current solution's ability to keep pace with ever-changing global indirect tax rates and rules, tax leaders should consider the extent to which the solution:

- Delivers reporting and analytics:** Does the solution proactively monitor the company's progress toward meeting tax-triggering transaction thresholds? How much time and effort does our tax professionals team spend on data cleansing, reclassifying transactions, reconciliation, and similar types of manual work?
- Supports business growth:** When organizations launch a new growth initiative (e.g., entering a new country) it often subjects them to new tax compliance requirements. The tax group can accelerate or impede these strategic initiatives, depending on the scalability of its indirect tax automation.
- Supports tax talent management objectives:** Most tax groups have few resources to assign to manually monitor changing tax rates and rules and then manually update tax content within the ERP system. An advanced tax solution not only manages complex, and changing, compliance requirements, but it also frees up talented tax professionals to deliver more value to the rest of the organization while helping attract and retain them.<sup>1</sup>
- Affects IT partners:** Assess IT time and expenses associated with maintaining, customizing, and updating the current tax solution.



**“An average of about 600 sales tax rate and rules changes have occurred annually in the past decade in the U.S. alone...If you're relying on the native tax functionality in your ERP to manage compliance, you're going to experience some gaps.”**

Lee Irwin  
Vertex Solutions  
Engineer

## Evolutionary Leaps in Tax Technology

### Compliance challenges and omnichannel adoption have driven tax automation breakthroughs

Post-pandemic business disruptions and record levels of tax rate and rules volatility have a silver lining: These challenges also helped drive indirect tax automation breakthroughs, such as edge computing functionality, advanced tax data analytics, and, most recently, AI tools (e.g., conversational co-pilots). AI figures prominently in a field of recent tax automation improvement focal points, which include:

- Advanced tax technologies abound:** The use of emerging tax technologies has rapidly increased in the past 24 months. Today, tax groups routinely deploy AI applications, RPA tools and other forms of machine learning to drive efficiency and efficacy gains. New, easy-to-use, tax-sensitive data analytics applications extend the tax group's focus beyond determination, calculation and reporting to work that generates real time insights from financial, transactional, and other business data. Edge computing solutions help tax groups, especially those in the retail industry, improve connectivity, availability, security, and customer experience by moving tax processing closer to the transaction. Cloud-based systems and tools lower infrastructure costs, support centralization, enable faster scaling, and deliver easy access to users.
- New tools enhance the entire tax lifecycle:** Tax groups are using emerging technologies across the board to improve tax automation implementations (including integrations with other transactional systems); tax determination (e.g., product mapping), calculation and reporting; audit defense; and planning and forecasting.
- The customer experience also benefits:** Tax-related processes are becoming more deeply integrated into omnichannel transactions – and exerting more influence on the customer experience. When tax accuracy issues arise (e.g., undercharging or overcharging indirect tax on transactions), the customer experience suffers.

### Tax Preparation for AI

According to BDO, tax groups can lay the groundwork for leveraging AI tax tools and functionality by:

- Assessing the quality of existing tax data
- Initially selecting smaller, low-risk AI use cases to stimulate learning and instill comfort
- Identifying where and how AI fits into tax technology strategies
- Evaluating how existing recruiting, retention, and training and development activities can benefit from AI
- Working closely with IT to ensure that AI-related risks are managed and effective governance is in place.<sup>2</sup>

**“There is a huge shift toward developing more technology-driven tax processes and using emerging tax technologies. Recent advancements in AI, RPA and machine learning make these technologies more affordable and easier to use across a wide range of tax activities.”**

Nick Skarlatos

BDO Tax Managing Director, National Indirect Tax Automation Practice Leader

## Workshopping the Tax Automation Evaluation

### Assessments of indirect tax pain points strengthens your solution selection.

Making an optimal tax technology investment decision requires a clear understanding of the organization's tax pain points, business requirements and tax compliance needs. Whether conducted internally or with the support of outside tax technology experts, these discovery sessions should produce a set of specifications that reflect the challenges that tax groups grapple with on a daily basis as well as tax compliance, reporting and planning challenges that may arise as the business evolves. The following areas require consideration:

- Scalability and flexibility:** What are the company's plans concerning expanding into new markets and/or product categories? The tax automation solution must be able to support these growth initiatives while smoothly scaling to manage sudden increases in tax and transactional data and exposure to new tax rates and rules.
- Ease of integration:** Indirect tax automation connects with different finance and accounting systems, including ERP, e-commerce, procurement, and point of sale (POS) systems among others. Integration with accounts receivable (AR) and accounts payable (AP) applications (which typically reside in ERP systems) is crucial. The most effective integrations are standardized. When standard integrations are not available, potentially costly and time-consuming customizations are required.
- Compliance capabilities:** Timely tax content updates that reflect changing legislation and tax rules are a table-stakes compliance requirement. Leading tax automation solutions also automate the filing of returns across all local jurisdiction in each country in which the company operates.
- Cost:** Evaluate annual licensing fees, implementation costs, ongoing maintenance fees, and any additional support fees and/or costs. Look closely when licensing costs are based on transaction volumes which can spike during periods of high growth. Compare transaction-based pricing to revenue-based pricing that locks in the licensing fee for up to three years.

“Business and tax groups with certain requirements for an indirect tax automation solution often don't know how to proceed. That's our bread and butter. We recommend conducting a workshop where we dig into each tax pain point and then assess all of the capabilities that are necessary to satisfy the organization's unique needs.”

Kerstin Janz  
BDO Managing Director  
– National Indirect Tax  
Automation Practice



## Automating, and Improving, Tax Engine Implementations

### AI, RPA and other tools accelerate tax engine implementations while reducing costs

Indirect tax automation and related tools offer valuable benefits to tax compliance, reporting and planning processes. While it may sound a bit meta, advanced tools (e.g., AI and RPA) also offer valuable benefits throughout the tax automation implementation lifecycle, from discovery, to objective-setting, to solution-selection, to the actual implementation and beyond.

While most of the actions described below focus on the implementation, keep in mind that some of these activities (e.g., discovery) can also be performed prior to a tax automation purchase to strengthen and focus the selection decision:

- Discovery:** Discovery fleshes out the business and compliance requirements that the tax engine should address. Finance and accounting processes that affect tax compliance activities should also be assessed, in part, to prevent the automation of ineffective processes. AI and analytics tools can help uncover anomalies, errors, process-improvement opportunities, and other needs that should be addressed during the ensuing tax automation implementation.
- Objectives and requirements:** Requirements and insights uncovered during a thorough discovery phase are used to define the objectives and requirements of the tax engine implementation.
- Planning and design:** During this work, it often helps to deploy AI-fueled implementation tools to run what-if scenarios that test the solution's tax compliance and reporting capabilities while helping to unearth any integration issues with other systems that require attention.
- Implementation:** A range of technology tools can help automate numerous implementation processes and activities (including those related to testing and configurations). Implementation automation approaches also expedite the integration of the tax engine to ERP, e-commerce and other transactional systems containing tax-relevant data.



**“BDO has automation tools that can accelerate the implementation and reduce costs. These tools can test every variation of transaction and also assist with system configurations and integrations.”**

**Nick Skarlatos**  
 BDO Tax Managing  
 Director, National  
 Indirect Tax Automation  
 Practice Leader



## Conclusion: Document and Engage

### Keep finance and IT in the tax technology loop

Regardless of the timing of a potential tax automation upgrade, tax groups should remain prepared to pull the trigger by 1) maintaining current documentation of all tax processes; and 2) sharing this information with finance and IT partners so that they remain informed for tax processes, challenges, and technology-investment opportunities.

Healthy, information collaborations among tax, finance and IT leaders will help give tax groups a fighting chance – along with sophisticated supporting technology – in the never-ending fight against tax compliance complexity.

### End Notes

<sup>1</sup> <https://www.vertexinc.com/resources/resource-library/advanced-tax-automation-recruiting-retention-benefits>.

<sup>2</sup> <https://www.bdo.com/insights/tax/the-future-of-ai-is-now-is-tax-ready>.

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