



# Global Indirect Tax Complexity: Staying Ahead of Compliance

How to address global VAT compliance challenges

## Ever-shifting VAT rules and rates. The EU's VAT in the Digital Age (ViDA) proposal, whose scope rivals the breadth of GDPR, the Basel accords and the introduction of the Euro. A stream of country-specific e-invoicing mandates...

While it's tempting to describe the current period of VAT complexity as posing the most intense indirect tax compliance challenges in decades, just wait. Many, if not most, of today's VAT compliance processes and challenges will look completely different in the not-too-distant future: regulation, technology, and other disruptors are rewiring the compliance compact between tax jurisdictions, businesses, and their indirect tax groups.

This combination of complexity, fluidity and uncertainty raises the stakes on corporate tax, finance, and IT groups when it comes to selecting and optimizing the technology systems required to satisfy VAT compliance requirements as accurately and cost-efficiently as possible. Plus, the need to leverage the full capacity of powerful ERP systems has never been greater; this aim can be achieved by integrating dedicated indirect tax software (i.e., a tax engine) with the financial system.

While VAT compliance challenges are formidable, they do not exist in a vacuum. Numerous external risks require businesses to pivot on a dime by reconfiguring supply chains, standing up relationships with new trading partners, beating competitors to market with new product and service offerings, and venturing into new geographies. These moves also expose the organization to new and/or additional VAT compliance complexities. Whether the tax group accelerates or impedes on these strategic urgencies depends on:

- It's ability to anticipate and address VAT complexity
- The tax compliance solution it deploys

Getting optimal tax technology in place requires a well-supported argument along with implementation considerations and actions that enable the achievement of the benefits outlined in the business case.

## Indirect Tax Compliance Challenges

1. Bad data and/or incorrect tax calculations
2. Audits
3. Returns filing and reconciliations
4. A shortage of tax professionals
5. E-invoicing
6. Overall VAT compliance

*Based on January 2024 online survey of global tax executives asked to identify their single biggest indirect tax pain point.*



## VAT Compliance Complexity: A Quadruple-Edged Sword

### VAT compliance challenges are driven by four (at least) sources of complexity

In the past year, KPMG's global e-invoicing team has identified and tracked more than 400 changes related to current and emerging e-invoicing requirements worldwide. These changes range from the introduction of new proposals and rules to dozens of subtle technical tweaks those requirements undergo as they evolve. Most of these alterations have (or will have) implications on various aspects of VAT compliance, including data structures, reporting formats, documentation requirements, and more. Combined, these modifications have substantial implications on an organization's tax automation environment, which must adjust in response.

This rapid rate of change and evolution crystallizes as state of VAT compliance as follows: (see *Responding to E-invoicing Requirements side bar*),

1. **Ever-changing:** Country-specific tax-determination and reporting requirements change frequently. So, too, does the intensity of compliance enforcement – usually by becoming more stringent. These realities require tax groups to remain vigilant in their monitoring, adaptable in their processes and current in terms of their tax automation.
2. **Unharmonized:** The difficulty of complying with fluctuating VAT rules and rates is compounded by the lack of standardization and harmonization among different VAT compliance regimes. This issue marks one of the toughest challenges that indirect tax groups currently confront. The EU's ViDA effort is driven by the need for harmonization. While greater standardization of compliance requirements is a welcome development, it may increase the compliance burden for organizations as many tax authorities institute additional filing requirements to make their approaches uniform with the practices in other jurisdictions.
3. **Uneven in terms of impact:** VAT compliance difficulties vary by industry and depending on each organization's structure and operating model. Some companies buy goods from far more trading partners and sell to far more customers than other companies. In these organizations, cross-border transactions (including those subjected to the EU's deemed supplier rules) often give rise to more indirect tax compliance challenges.
4. **On the verge of transformation:** While ViDA lays out a long-term plan for a fundamental modernization of VAT compliance requirements in the EU, the accelerating pace of digital transformation promise to overhaul indirect tax compliance requirements and processes throughout the world. As e-invoicing and related real-time reporting requirements are implemented and updated, prefilled tax returns will become more common. This will require indirect tax groups to perform reconciliations between their own financial and transactional records and the data the tax authority possesses.

## Responding to E-invoicing Requirements

As new e-invoicing requirements in the EU and around the world multiply, indirect tax groups need to respond. The following steps can help organizations craft an effective e-invoicing strategy:

- **Define the scope:** Assess immediate compliance requirements as well as any related needs, or mandates, that might arise in the future (e.g., new countries and tax authorities) and translate these needs into objective. Choose technology and services partners that can provide support in all regions in which the company operate while staying current with evolving legislation and rules.
- **Assess which systems are involved:** Ensure that all financial, accounting and tax platforms are covered.
- **Understand your data-retention needs:** Archiving rules vary across jurisdictions. Review your archiving needs and make sure your service and technology partners can satisfy them.
- **Don't neglect paper invoices:** Paper invoices will remain use for years and should be addressed in the project scope and plan.
- **Assess scalability:** While the current need for e-invoices may be limited to a single jurisdiction (or even only a handful of customers), this need will almost assuredly expand as the business evolves.
- **Involve, and align, stakeholders:** E-invoicing success requires extensive coordination among internal stakeholders, including teams within tax, finance, procurement, accounts payable, accounts receivable groups.



## Indicators of Tax Technology Health

### Know when you reach the limits of existing – and how a tax engine can help

Regardless of whether it is embedded in the ERP system or provided via a third-party tax engine, tax technology must adhere to current tax rates and rules, fulfill all relevant reporting requirements and deliver accurate and timely returns-filing. In some companies (e.g., those that operate in a single country or VAT regime), the native ERP tax functionality is sufficient to address those needs; in other cases, it is not. The following challenges typically indicate that tax technology may not be satisfying the organization's primary tax compliance, reporting, and filing needs:

- Struggles to keep indirect tax rates and rules current
- Difficulty identifying tax liabilities
- Difficulty accessing all of the data needed to complete invoices
- Tax and IT teams devoting excessive time to system reconfigurations and customizations
- Tax-related delays when entering new geographies or launching new products or services

While an ERP solution's native tax functionality may prove insufficient from a tax compliance perspective, it is important to keep in mind that an ERP solution's value resides in its breadth and depth of functionality. Investing in an integrated tax engine can help organizations derive even more value from its ERP system while redirecting time and energy previously spent on manually updating tax rules and rates to higher-value activities. Other benefits a tax engine delivers include:

- A lighter tax compliance burden
- Improved compliance speed and accuracy
- Minimizing errors and audit risks
- Reductions in overpayments (i.e., savings)
- Improved support of mergers & acquisitions, IPOs and other growth initiatives
- Fewer IT support requests

## The Business Case and Beyond

### Making the case for indirect tax automation integration – and a (real or virtual) seat for tax on the project team

While new investments in indirect tax automation require a convincing business case, the financial returns organizations derive from these investments depend on the success of the ensuing ERP-tax automation integration. The practices that help drive this success should be appraised when the business case is developed; doing so will help convey the importance of addressing tax-related issues considered throughout the integration process.

Business cases are not necessarily complex. Compelling rationales for technology investments, including those related to tax engines, quantify the expected ROI, which include efficiency gains, liability, and risk reductions (e.g., lower audit risks, fewer overpayments), and the ability to replace manual work with higher-value contributions.

The most compelling business cases often go a step further. One way to do so is by linking tax technology investment to organizational growth strategies. While efficiency improvements and risk reductions are valuable, it helps to also point out that tax compliance capabilities help determine how quickly and easily companies complete a merger, acquisition, or initial public offering (IPO). Tax compliance issues can slow the close of an acquisition or, in severe cases, have negative impacts on the purchase price. Another way to enhance the business case is by including benefits related to customer experience and revenue. For example, overcharging taxes at a higher rate than competitors can degrade the customer experience and lead to defections (and revenue loss).

Once the tax automation investment receives a green light, the tax group should:

- **Engage the right leaders:** Identify and connect with the executive sponsors of the implementation/integration as well as operational stakeholders involved in tax-sensitive processes (e.g., accounting, IT, procurement, accounts payable, and accounts receivable among other groups).
- **Get involved:** A tax professional's inclusion on the project team from the start of the implementation helps ensure that tax considerations are addressed every step of the way, reducing the need for time-consuming and costly adjustments later in the project. For example, addressing crucial product-mapping decisions early in the configuration work helps drive tax calculation accuracy in a cost-efficient manner.
- **Propose a “placeholder” when tax does not have a seat:** When tax is not officially represented on the project team, try to establish a virtual seat reserved for tax issues, considerations, and questions. A member of the project team can discuss these issues with the tax group, which in turn can communicate additional tax considerations and questions back to the project team. It also helps for the tax group to document its needs, suggestions, and concerns and share those with the implementation team.
- **Embrace testing:** The testing of tax IDs, file and report layouts and other important elements helps project teams identify and address problems as they arise while avoiding the need for major corrective actions and rework toward the end of the project.

“When a business is targeted for an acquisition, tax liabilities bubble up to the surface. If you have tax automation that reduces compliance risks and minimize tax liabilities, it helps support valuable growth options. That’s something a business case should identify.”

Jason Warren  
Sr. Partner Development  
Engineer, Vertex, Inc.



## In Closing: Compliance Requirements Do Not Stand Still

Of all the VAT compliance challenges that indirect tax groups contend with, the variable nature of VAT rules and rates may be the largest driver of complexity. Even those rules overhauls designed to foster harmonization and standardization across country boundaries and tax jurisdictions (e.g., the EU's ViDA effort) give rise to new complexities (e.g., new e-invoicing rules and the reconciliation of pre-filled tax returns). This state of constant compliance change means that indirect tax leaders and their teams should take evaluate their current tax automation and be prepared to make the case for upgrades.

This paper is based on insights provided by:

- Nuno Bento, Principal Global Product Manager, Workday
- Joni Johnson-Powe, Partner - SALT, Transaction Tax Systems (TTS), KPMG LLP
- Jason Warren, Sr. Partner Development Engineer, Vertex, Inc

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