



# How IT Can Manage Enterprise Risk by Supporting a Tax Control Framework



In the era of digital business operations, your IT department is on the frontlines of managing enterprise risk. Whether that be by ensuring data privacy or by safeguarding your organization's digital environment from cyber threats like ransomware and phishing, your goal is to create a secure environment where your organization can operate safely and seamlessly.

An area often overlooked, but is a crucial component of risk management, is tax. Why? Because if not addressed and monitored, it can invite a host of problems for your organization such as:

- **Audit risk:** Incorrect tax can result in audit penalties, potentially resulting in further legal actions.
- **Financial loss:** Incorrect tax calculation (or no calculation) can lead to financial loss as your organization may have to bear the cost of any underpaid taxes or defend overcharges.
- **Loss of Business:** Ordering systems with real-time payment options do not leave room for inaccuracies nor look good if requiring follow-up. Inconveniences can impact the long and short-term life of your customers.
- **Reputation damage:** Inaccurate taxes can detrimentally affect your organization's market competitiveness, projecting an image of unreliability or unprofessionalism to your customers and partners.

For your IT team this boils down to the burden of **addressing inaccurate tax data across systems and channels, inefficient processes, security and privacy concerns, resource allocation challenges, training/skill development of the IT team, audit trails, and more.**

The good news is you can mitigate these issues by taking a proactive approach – by systematically automating your tax department's tax control framework.



# What IT needs to know about a tax control framework (TCF)

What is a tax control framework (TCF)? It's a comprehensive set of guidelines that enables an organization to deal with its tax obligations efficiently and effectively. It encompasses all the policies, procedures, and actions that businesses use to manage their tax affairs and to ensure that they're adhering to all legal and regulatory responsibilities related to taxation.

This includes complying with diverse indirect tax laws, managing process and data risk related to taxes, preparing for audits, and planning for potential changes in tax policy. More than just ensuring your organization collects and remits the right amount of taxes, it's about managing risk, ensuring accuracy, maintaining a good standing reputation, and optimizing tax-related activities for better financial efficiency.

In the digital age, tax control has a significant technological component. Many elements of a TCF, such as data collection, tax determination, process controls, regulatory reporting, automatic compliance checks, risk analytics, and security safeguards, are enabled or greatly enhanced by IT systems – that's where you come in.



# How IT can support their organization's tax control framework (TCF)

Your IT department can support your organization's TCF in seven key ways.

- 1. Implement end-to-end technology:** One of the critical ways your IT department can bolster a TCF is by helping to identify, implement, and manage software tools and technology that automate and streamline tax-related processes to help ensure they are efficient, accurate, and compliant. By leveraging technology, you can cut down manual work, minimize errors, and save significant time and resources – essentially bringing about a strategic advantage in managing tax obligations.

You'll want to implement an end-to-end (E2E) software portfolio that addresses all the tax-related segments of business operations – sales, purchasing, billing, tax exemptions, invoicing, e-invoicing, periodic and real-time filings, and audit management. Doing so provides your organization with the following benefits:

- **Streamlined Operations:** An E2E software portfolio addresses the tax implications of each business process in a centralized and integrated way. It automates tax processes, allows smoother data flow, minimizes potential bottlenecks, and enables streamlined and efficient operations.
- **Data Accuracy and Compliance:** By automating tax processes – from calculation to invoicing to returns – tax software minimizes the risk of human errors that may lead to misreporting or non-compliance with regulations. It improves the accuracy of data at every stage and simplifies the otherwise complex task of regulatory compliance.
- **Insightful Analytics:** With a best-of-breed E2E tax solution, your organization can tap into the power of data analytics. It makes it easier to track and analyze business performance across different stages and gain crucial insights for strategic decision-making.
- **Cost and Time Efficiency:** An integrated E2E software solution can reduce the time spent on duplicative manual work between the various departments. It reduces operational costs by enhancing overall efficiency and productivity.
- **Audit Preparedness:** With an E2E software portfolio, your organization has a thorough record of transactions and activities that can be easily reported on during an audit. It streamlines audit management by helping to provide clear, accurate documentation, helping to stand up to scrutiny while reducing the stress and disruption of audit activities.

**2. Integrate your systems:** Another crucial facet where your IT department can support a TCF is through effective systems integration. You should look for technology providers with E2E solutions that can be integrated across all transaction systems – from Enterprise Resource Planning (ERP), financial systems, e-commerce platforms, to procurement systems. Leveraging a single structured tax solution across multiple business operations reduces siloed tax processes for each system. This eliminates redundancy, improves consistency, and reduces risk.

**3. Prioritize data management and security:** Top-notch data management and security policies lay a solid foundation for the successful execution of a TCF. When it comes to data management, you will want a single tax solution with a unified data structure to consistently handle tax data across all commercial business operations. This will assist your team in collecting and processing tax-related information, ensuring it's cohesive, reliable, and up to date.

Additionally, enterprise-wide data security protocols need to be in place to protect tax data from potential breaches or misuse. These can include (but are not limited to):

- SOC 1 and SOC 2 compliance
- Federated security measures
- General Data Protection Regulation (GDPR) in Europe
- Putting cloud systems behind proxy servers



- 4. Create system redundancy and backups:** System redundancy and backups are essential to the continuity and smooth operation of TCF processes. Your IT team needs to help ensure that tax applications comply with your company's established policies for system redundancy and backup. When it comes to backups, the process must be seamless to prevent any negative impacts on the sale and customer experience. Downtime or disruptions in the tax process during peak selling periods (such as Black Friday and Cyber Monday) can have serious implications on revenue and customer relationships. You will want to create a well-crafted strategy that prevents data loss and supports quick recovery in the event of an unforeseen system failure.
- 5. Perform regular system audits:** One of the essential aspects of maintaining a robust TCF is conducting regular audits of technical systems to confirm that they're functioning as expected, and if not, identify potential issues and resolve them. Examples of this could include monitoring and uncovering data anomalies in the tax process, or creating a stop measure in the business process to validate tax accuracy (such as creating a requirement to create a new tax call before moving inventory). You should also troubleshoot issues in a timely, effective manner. By regularly checking your tax system's health, you can respond quickly to any arising problems, minimizing disruption to business operations. Finally, you should measure and optimize tax system performance and latency which can enhance your TCF's efficiency and effectiveness.



**6. Respond to regulatory changes:** There's a host of federal and local regulations that affect tax compliance and optimal performance of the TCF. While the tax team monitors some of these, your IT team may need to monitor others. And ultimately, they must ensure that tax applications and source systems (ERP, e-commerce, procurement) are in compliance with these regulations. These can include (but are not limited to):

- Jurisdiction location updates
- Product taxability and rate updates
- Tax code updates
- New integrations to local reporting entities
- Permitted customer exemptions and reason codes for filing
- B2B and B2G handling and point of title transfer
- Data security/protection regulations
- Local accounting standards and invoicing requirements
- Tax return/filing rules and regulations



**7. Look for the right vendor:** While you can work with your tax department to develop custom tools to automate specific tasks, generate useful reports, or provide other specific functionalities necessary for your organization's specific TCF needs, you can mitigate this extra work by choosing a vendor that offers four key things:

1. First, look for a vendor that offers pre-built applications that address a variety of business use cases out of the box (tax compliance, audit management, SEC governance filings, close of books, strategic corporate planning). This will help meet the needs of multiple business functions.
2. Second, choose a vendor that has standard templates but with flexibility to easily configure/pivot as your organization's needs change, without requiring custom code (not specific to implementation).
3. Third, look for a vendor that offers implementation and other professional services. This will accelerate implementation and increase the time to value.
4. Fourth, search for a vendor that can provide training and optimization by accommodating new business requirements as they arise. For instance, if your organization needs to adopt e-invoicing, a vendor who can seamlessly transition you to the new practice, help you understand potential issues, and trouble-shoot effectively can make the process significantly smoother.





## How Vertex can help

Vertex is a global tax technology provider with solutions that support a tax control framework across each step of the tax lifecycle, including:

- **Product categorization** to streamline the product mapping process
- **Address cleansing** to improve tax calculation accuracy
- **Complex tax determination** for sales and purchasing
- **Liability determination** to support accurate compliance on complex transactions
- **Exemption management** including tax calculation functionality and document management tools
- **Invoicing and billing** to meet local regulations
- **e-invoicing** to support emerging local mandates around the world
- **Periodic returns** to streamline monthly compliance
- **Audit defense reporting** to reduce workload and improve audit performance
- **Tax data and analytics** to support compliance and inform business decisions

We also offer flexible deployment models to fit your needs (on-premise, hosted, or public cloud all with hybrid Cloud-Edge extensions).

To learn how we can help you support your organizations' tax control framework, contact Vertex at [vertexinc.com/contact-us](https://vertexinc.com/contact-us)

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