# Tax Transformation's New and Improved Playbook

Leading practices that drive successful, global tax engine implementations

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Indirect tax groups need a new tax transformation game plan in a year fraught with geopolitical, social, environmental, and economic risks. Thanks to these disruptions and their ripple effects, tax compliance risks and complexity are surging. Of course, compliance complexity represents just one of many formidable challenges that indirect tax teams confront. Volatility, uncertainty, complexity *and* ambiguity (VUCA) target all parts of global enterprises – placing a premium on resilience, agility and risk management.

Tax teams contending with fluctuating tax rates and rules changes (U.S. sales and use tax rate changes reached a 10-year high in 2023[1]) and major policy-making volatility (the European Union's VAT in the Digital Age proposal and the global proliferation of new e-invoicing requirements[2]), should consider the far-reaching improvements that tax transformation delivers. Getting the optimal tax automation – and supporting applications – in place requires a new approach, one that:

- **Recognizes the advantages of a tax engine**

- **Centers on a bullet-proof business plan that assesses costs, payoffs, time-savings and risks**

- **Leverages automation to enhance the tax group's ability to help generate more revenue, reduce costs, and enhance strategic planning activities**

- **Reduces risk and supports audit defense**
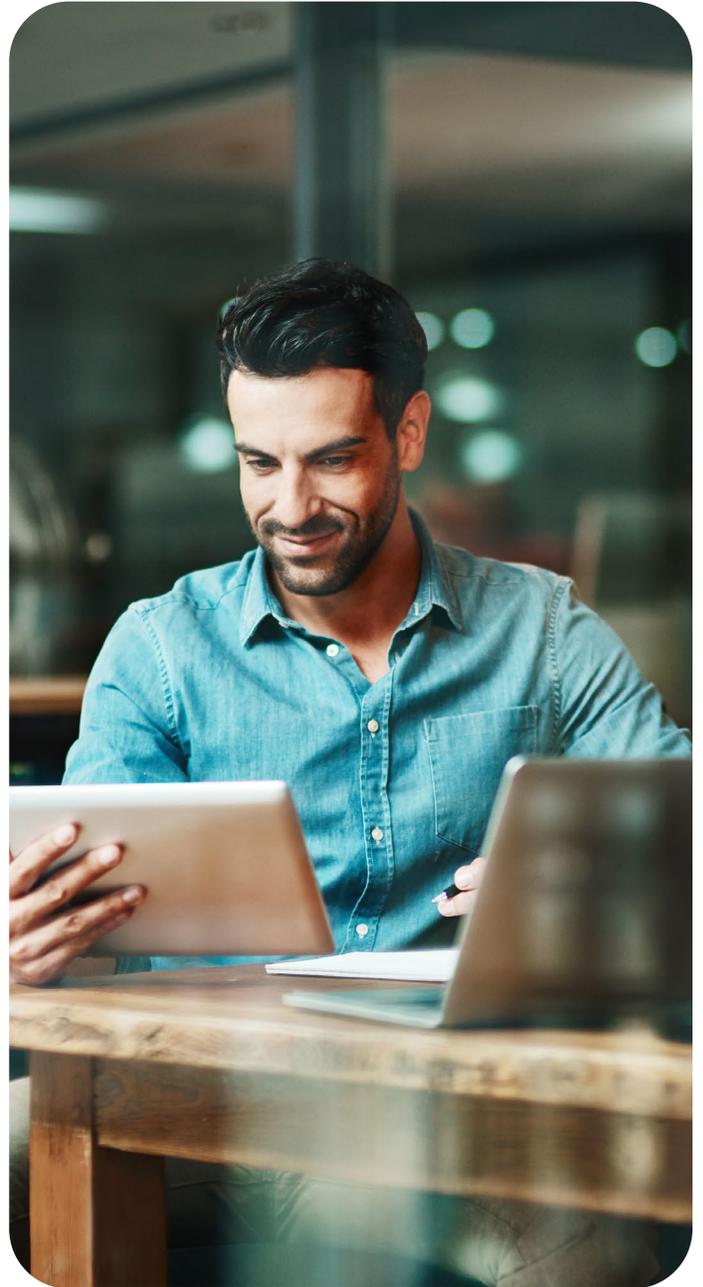
Tax Engines Top ERP Tax Functionality

Indirect tax compliance complexity inflicts pain; tax engines alleviate the discomfort

Manual processes, data overload and related hindrances exacerbate the challenges posed by extreme indirect tax rates and rules volatility *(see Top Tax Pain Points side bar)*. Tax engines overcome those challenges. It's that simple. This truism is important to consider as new e-invoicing and real-time filing requirements come online in more global tax jurisdictions.

These dynamics force tax leaders to make a crucial choice regarding the automation they deploy to support the end-to-end tax compliance process: stick with the native compliance functionality resident in ERP systems or invest in a purpose-built tax engine to support the entire tax lifecycle? When assessing the adequacy of native ERP tax compliance functionality, tax professionals should weigh:

- **Scope of tax content:** Does the system contain all tax content needed for compliance across different jurisdictions?

- **Customizations:** While ERP systems can be customized to manage an organization's unique tax compliance needs, too many modifications often place an undue burden on IT resources and complicate subsequent changes that are required due to tax legislation, policy and rate changes.

- **Reporting capabilities:** Determine whether the system's tax functionality is sufficiently robust to produce the detailed reports tax compliance rules require.

- **Cross-border transactions:** Cross-border transactions subject companies to a tangle of tax rules; determine how well the system can address these complex tax determinations and calculations.

- **Business growth and related complexity:** The ERP system's tax compliance functionality may no longer suffice as the company enters new geographies, increases sales, adds new products and services, and sells its offerings through new channels (e.g., mobile) and new systems (e.g., e-commerce applications).

- **Maintenance:** Look closely at the time, effort and cost associated with manually adjusting tax configurations and content in response to rapidly changing indirect tax rules and rates,

When assessing the efficacy of a tax engine, tax teams should consider the same factors listed above and then ask questions about the following topics:

- **Automatic updates:** Can the tax engine automatically update all tax rates and rules content?

- **Control:** Regardless of which source systems contain transactions, will all of them be subjected to the tax engine's standardized controls and calculations to drive accuracy and consistency?

- **End-to-end process support:** Can the solution perform calculations, compliance, reporting, and related analysis in a single, integrated platform? Additionally, can the solution analyze previous transactions and uncover overpayments for recovery?

- **Configuration changes:** How quickly can the tax engine be reconfigured to support new products, transactions in new geographies and new businesses (including those acquired through consolidations)?

Top Tax Pain Points

1. **Manual processes**
1. **Bad data and/ or incorrect tax calculations** *(tie)*
2. **Returns and filing**
2. **E-invoicing** *(tie)*
3. **Real-time filing requirements** *(tie)*

Based on December 2023 online survey of global tax executives.

Signifiers of a Success: Lessons from a Global Implementation

Collaboration, country-level buy-in, clean requirements, careful roll-out planning and other steps to success

While each tax engine implementation differs depending on the unique tax, technology and structural characteristics of an organization, successful initiatives demonstrate similar planning, considerations, and practices. The following factors were instrumental in driving the success of a large, global (50-plus countries) implementation of Vertex tax engine (with an e-commerce platform) led by a team of Grant Thornton experts:

- **A compelling business case:** The business case provided specific ROI estimates based on quantifications of costs, time-savings, benefits, and risk-avoidance. The business case also helped elicit support from the board, the executive team, the project's steering committee and the project's sponsors.

- **Country-by-country buy-in:** Next, the project team (including Grant Thorton's tax technology specialists) gained buy-in (e.g., a commitment to active participation) from a key individual in each of the 50-plus country offices involved in the implementation. In most cases, these individuals were controllers with detailed understandings of local requirements and which validations were needed.

- **Detailed, location-specific requirements:** Accurately defining and documenting each location's technical, tax requirements upfront helped streamline subsequent phases of the rollout. Because many countries had unique needs, separate requirement documents were gathered for each location, and stakeholders signed off on their own requirements.

- **Attention to master data:** Attention to master data marks one of the most pivotal aspects of any implementation. Registration numbers, addresses, product codes and other tax-critical data must be confirmed for accuracy and cleansed.

- **Extensive testing:** Test cases addressed thousands of scenarios featuring different combinations of master data.

- **Constant collaboration:** The project team continuously collaborated with cross-functional stakeholders, including the information technology (IT) group, order-to-cash teams, members of the tax group not directly involved in the implementation and local Grant Thornton experts with extensive knowledge of jurisdictional tax requirements and nuances. Aligning these stakeholders early in the project helped ensure that requirements were comprehensive while producing a globally viable deployment design and rollout plan.

- **Post-implementation support:** Once the tax engine is operational, it is important to continue to monitor its configurations to ensure ongoing alignment with the tax and business-related changes that occur within every organization. Periodic reviews of the business requirements, tax compliance changes and the tax engine configuration – what Grant Thornton tax technologists refer to as "health checks" – enable tax, finance, and IT teams to proactively adjust the tax automation as needed.
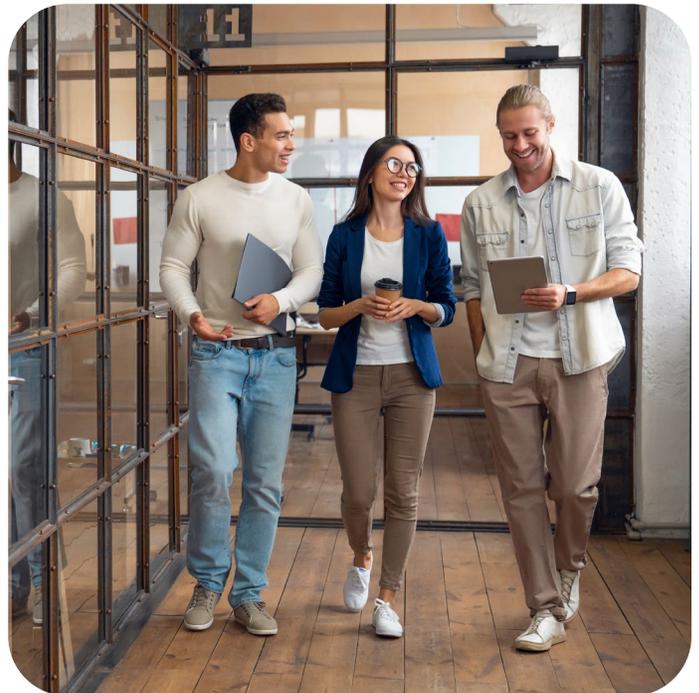
The Strategic (Tax) Benefits of Implementation Success

Treat the implementation as a starting point for elevating the tax group's value-added activities

Once the tax engine implementation is complete, the tax group's real (strategic) work begins. Automating larger portions of manual compliance activities gives tax groups opportunities to significantly enhance their strategic value to the organization by:

- **Fostering deeper collaborations with business leaders:** Relationship-building strengthens the alignment between tax and operating divisions, helps get tax leaders a seat at the planning table, and enables tax leaders to provide early input on the tax implications and opportunities of potential strategic initiatives.

- **Driving revenue growth and identifying profitability improvements:** Additional time and meaningful collaborations with business partners enable tax teams to more effectively pursue tax incentives and credits related to business expansions, new distribution centers, data center investments and other possibilities. Tax groups can also suggest ways to restructure large transaction to reduce tax liabilities.

- **Enhancing business agility:** A tax engine can help that tax group respond faster and more effectively to strategic changes. When a company begins selling in a new geography, for example, a tax engine enables that revenue to start flowing immediately because all the tax content required to support the sales in the new location is readily available and integrated with the financial systems.

- **Providing business insights derived from tax analytics:** The tax department uses some of the largest, most detailed, and diverse data sets in the entire organization. By applying tax data intelligence tools to this data, tax teams can generate new insights that optimize compliance and audit performance, mitigate risk, and improve tax outcomes across the business.

- **Strengthening tax talent management:** Spending less time on manual compliance activities frees up tax leaders and managers to recruit, upskill and re-skill tax professionals, while equipping them with prized "tax technologist" skills.

Business Case Requirements

An ROI-centric business case for a tax engine deployment covers a comprehensive set of considerations including:

- **Time savings:** How many hours of manual activities per month will process automation eliminate?

- **Cost savings:** How do manual validations, content updates, customizations and maintenance compare to the cost of operating the tax engine? What are the potential tax savings from reducing overpayments and/or using additional tax incentives?

- **Risk reduction:** What are the time and cost savings associated with reducing audit risk?

- **Revenue enablement:** What are the benefits of the tax group supporting geographic expansion, the rollout of new products, and acquisitions more effectively? How can tax resources be reassigned to value-added analyses and revenue-generation following the implementation?

- **Resilience:** What are the benefits of more effectively and efficiently addressing indirect tax rules and rate changes?

Conclusion

Tax transformation is a journey

Deploying advanced tax automation also means that tax groups will have more time to optimize their tax automation – by running periodic health checks on tax engine configurations, integrating complementary applications (e-commerce, e-invoicing, indirect tax intelligence solutions and more), and keeping current on leading tax technology management practices via outside experts.

External volatility, uncertainty, complexity, and ambiguity can place burdens on organizations and their tax functions. By adhering to leading practices on a global tax engine implementation, tax leaders and their colleagues will enjoy an alluring collection of benefits that staunch VUCA's ripple effects.

End Notes

[1] A record year for U.S. sales tax rate changes, Michael Bernard, Jan., 11, 2024: https://www.vertexinc.com/resources/resource-library/record-year-us-sales-tax-rate-changes.

[2] A Brief History of E-Invoicing, Peter Boerhof, Nov. 7, 2023: https://www.vertexinc.com/resources/resource-library/brief-history-e-invoicing.

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