Market
Pulse

Simplify indirect tax processing: Move it to the cloud

Survey finds cloud-based services significantly reduce compliance challenges while improving consistency and promoting business growth.

CIO

Taxes are a fact of life for all companies. Compliance is unavoidable and consumes a significant amount of time and expense for most organizations. Indirect taxes, such as sales and use tax, value-added tax (VAT), and goods and services tax (GST), can be complex to properly administer, especially since various critical business systems — including enterprise resource planning (ERP), customer relationship management (CRM), procurement, and more — perform indirect tax calculation. The average organization has four such systems, according to a new Foundry MarketPulse survey.[1]

To cope with indirect tax compliance, many organizations are moving to cloud-based tax determination engines. Because cloud-based solutions greatly reduce the challenges organizations face, there is strong momentum behind this trend — half or more of the systems that require indirect tax calculation are cloud-based today, according to the Foundry research.

SaaS tax engines on the rise

Foundry surveyed 216 technology decision-makers in the U.S. and Canada who are involved in indirect tax solution purchases at companie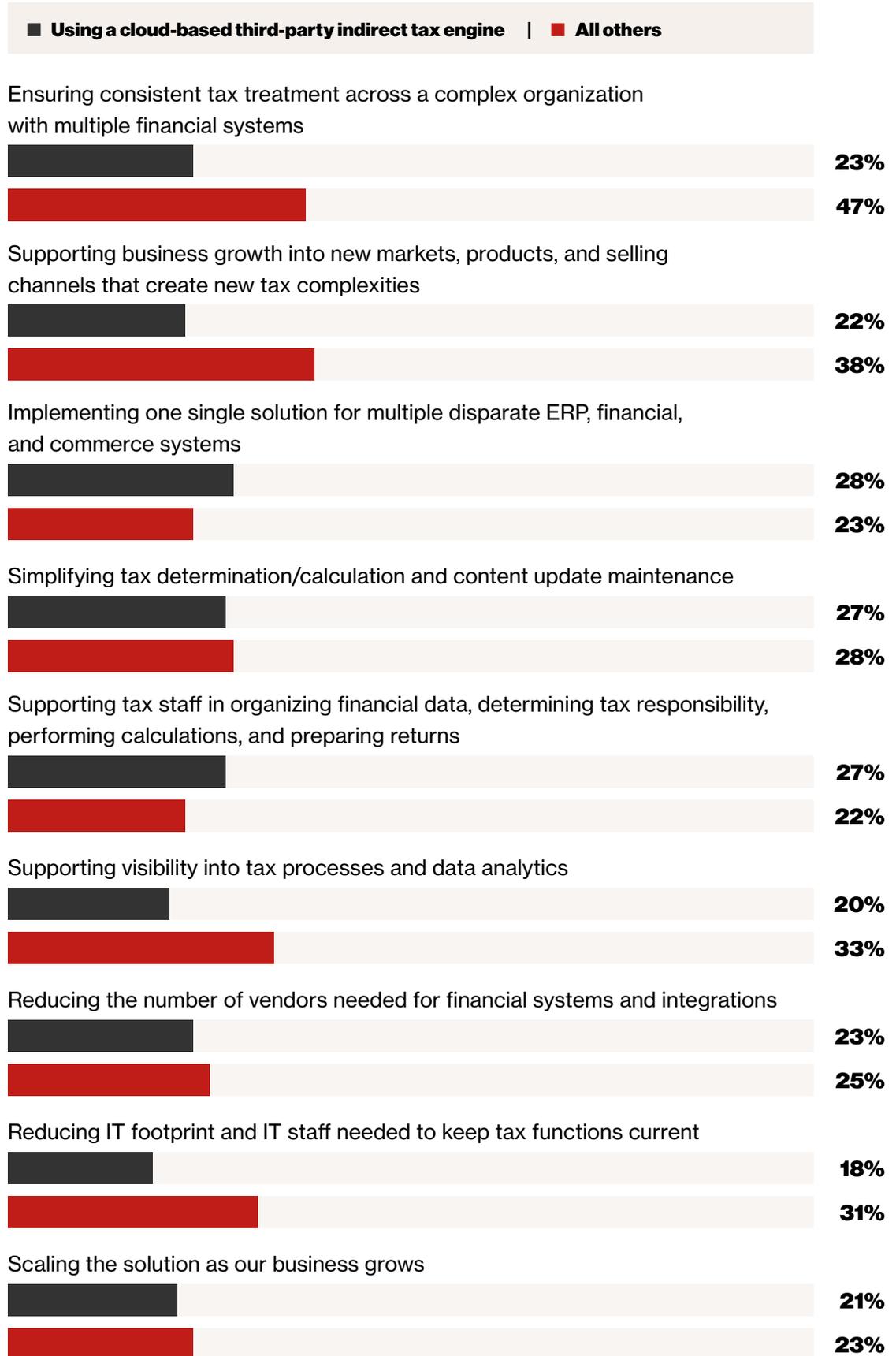s with an average annual revenue of nearly $3 billion. Their responses clearly show that software-as-as service (SaaS) indirect tax solutions in the cloud are on the march: 42% of the decision-makers are using a third-party tax engine, and most of these are at least partly cloud-based. Further, 73% of those who have not deployed a cloud-based third-party indirect tax engine have plans to do so.

There is good reason for this trend: Ensuring consistent tax treatment across financial systems is a top challenge companies face when processing indirect taxes, but those using cloud-based third-party indirect tax solutions have significantly less difficulty (see Figure 1). That's because a cloud-based solution that automates and centralizes sales, use, and VAT tax determination does away with reliance on native tax calculation in each individual business system that may deal with taxes.

Cloud solutions also perform significantly better in other areas, including supporting business growth, facilitating visibility into tax processes, and reducing IT footprint.

- **Growth.** Many organizations grow through acquisitions, making it necessary to assimilate different tax systems. A cloud-based tax engine can solve this problem by enabling new business units and their transaction systems to

Figure 1 | **Those using cloud-based third-party indirect tax solutions are less likely to report difficulty ensuring consistent tax treatment across the organization**
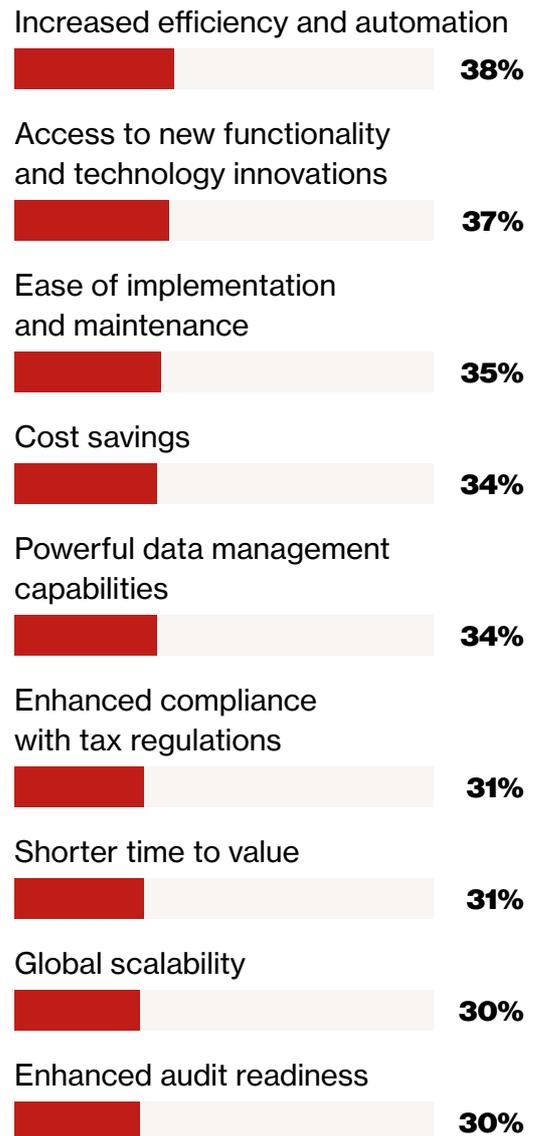
■ **Using a cloud-based third-party indirect tax engine** | ■ **All others**

Ensuring consistent tax treatment across a complex organization with multiple financial systems

23%

47%

Supporting business growth into new markets, products, and selling channels that create new tax complexities

22%

38%

Implementing one single solution for multiple disparate ERP, financial, and commerce systems

28%

23%

Simplifying tax determination/calculation and content update maintenance

27%

28%

Supporting tax staff in organizing financial data, determining tax responsibility, performing calculations, and preparing returns

27%

22%

Supporting visibility into tax processes and data analytics

20%

33%

Reducing the number of vendors needed for financial systems and integrations

23%

25%

Reducing IT footprint and IT staff needed to keep tax functions current

18%

31%

Scaling the solution as our business grows

21%

23%

SOURCE: FOUNDRY

connect quickly to a single tax engine that provides web-based access to users worldwide.

■ **Visibility.** A centralized tax engine consolidates tax policy management, analytics, and filing processes, making it possible to securely configure, monitor, review, and evaluate your tax picture from anywhere.

■ **IT footprint.** Running an indirect tax engine in the cloud eliminates the expense and labor required by on-premises infrastructure. There is no need to periodically upgrade applications, keep an IT team on call 24/7, and recover from possible downtime.

Decision-makers are aware of the benefits of a cloud-based indirect tax engine. Overall, survey respondents see increased efficiency, access to new functionality, and ease of implementation as the top expected gains of a cloud-based engine (see Figure 2). Access to new functionality in particular is made easier in cloud-based solutions, because the provider of the SaaS tax engine includes regular upgrades as part of the service. Similarly, it is generally easy to configure and launch a cloud-based tax engine.

Figure 2 | **Increased efficiency, access to new functionality, and ease of implementation are top perceived benefits of a cloud-based indirect tax engine**

Increased efficiency and automation

38%

Access to new functionality and technology innovations

37%

Ease of implementation and maintenance

35%

Cost savings

34%

Powerful data management capabilities

34%

Enhanced compliance with tax regulations

31%

Shorter time to value

31%

Global scalability

30%

Enhanced audit readiness

30%

SOURCE: FOUNDRY

The cost-of-ownership advantage

Cost savings, cited as a benefit of a cloud-based tax engine by 34% of the respondents, reflect that a cloud-based indirect tax engine reduces an organization's total cost of ownership. For example:

■ The cloud-based engine incorporates the knowledge of tax experts in complying with ever-changing tax laws, so there is no need to hire hard-to-find tax experts or contract with high-priced consultants.

■ The SaaS provider handles software and hardware maintenance, enabling organizations using a cloud-based service to eliminate the technical debt that may be associated with tax compliance.

■ The SaaS provider handles customizations, overrides, and tech stack maintenance, freeing up organizations from these burdens.

■ The cloud-based engine replaces an organization's default tax rate overpayments with product-based tax rule assignment to enable accurate payment.

The security and compliance conundrum

Security and compliance, always major concerns of IT leaders, are again top-of-mind for survey respondents when they are relying on a third-party cloud provider. However, with a hybrid approach, decision-makers cite *improved* data security as their top perceived advantage.

That makes sense for two reasons:

■ A hybrid approach offers all the benefits of the cloud while still allowing significant control over sensitive data and business processes.

■ A hybrid cloud enables highly flexible options for redundancy, backup, and performance tuning across cloud and on-premises environments.

Important factors when choosing tax solutions

As decision-makers evaluate third-party indirect tax solutions, perhaps unsurprisingly, cost savings and efficiency rank first among "very important" factors, cited in 47% of the survey responses. Business and technology leaders are seeking to do away with the inefficiency of relying on the native tax functionality of

ERP and other transaction systems, the extra work required of IT teams to update systems to comply with changing tax laws, and the unnecessary consolidation of tax data from disparate systems for monthly returns.

For choosing a vendor, meanwhile, positive industry reputation jumps to the fore, cited by 58% of respondents. The reason seems clear: Tax compliance is an activity in which the overriding goal is to reduce risk. Consequently, it's more important that a vendor of tax solutions have a long, proven track record and high-profile clients.

The Vertex advantage

Vertex, an industry leader with more than 45 years' experience building tax technology, answers the need for a trusted partner with an unmatched reputation. Currently, the company serves more than 4,000 customers, including 60% of the Fortune 500.

Vertex O Series is a global solution that calculates U.S. sales and use tax (SUT), consumer use tax (CUT), VAT, and GST, based on more than a billion tax rates and rules for products and services, including location logic for place of supply and custom rules for flexibility. The tax engine delivers the latest tax content, fast processing speed, enhanced usability, security,

and the deployment flexibility to meet a company's unique business needs.

Vertex O Series can be deployed to align with each organization's digital transformation strategy — on-premises for maximum control, in the cloud to benefit from scalability, or in a hybrid cloud environment that balances cost and flexibility. Regardless of the deployment model, the solution reduces audit exposure, enables global scalability, improves compliance, centralizes control, and increases productivity.

To meet the security, data residency, and data transmission requirements of many organizations, O Series Edge nodes can operate entirely offline for extended periods yet complete tasks upon reconnection. Edge clusters can be set up locally to reduce risk and latency.

Building on Vertex O Series with its own cloud architecture, the SaaS solution delivers automated support and maintenance, including updates, patches, and upgrades — freeing up IT teams for more strategic tasks. O Series Cloud also delivers a high level of business continuity and disaster recovery, with geographically dispersed data centers.

Vertex's multicloud approach enables you to deploy Vertex O Series in a way that aligns with your needs —

with O Series Cloud available fully in AWS or with the option to run your calculation in Microsoft Azure — providing greater control over tax calculation processes and where your tax calculation is hosted.

Flexible application programming interfaces (APIs) allow for integration with homegrown systems as well as prebuilt integrations with popular ERP, financial, e-commerce, or procurement systems to provide consistent tax treatment across an organization. In addition, Vertex O Series Cloud is offered with transparent fixed pricing to make budgeting and growth planning predictable.

The cloud tax engine also includes address cleansing and integrated tax analytic dashboards for U. S. transactions, enabling proactive decision-making with nexus threshold monitoring and real-time insights into risk exposure and system drift.

Vertex not only offers a complete tax solution but also serves as a partner to help each organization understand and adapt Vertex solutions to its own unique business needs, whether it's a growing business seeking to expand globally or an established enterprise seeking to implement highly efficient, cost-effective operations.

The future points to cloud

As the Foundry survey illustrates, cloud-based deployments are emerging as a preferred tax compliance solution for organizations seeking lower costs and greater consistency for tax compliance organization-wide. Hybrid cloud deployments, meanwhile, are emerging as the favored paradigm for businesses seeking to balance flexibility, control, and cost-effectiveness.

The perceived benefits of cloud-based services for indirect taxation are significant, led by increased efficiency and automation. Most importantly, organizations that have adopted cloud-based tax engines see significant improvement in consistent tax treatment, the ability to grow into new markets, support for analytics, and reduction of IT footprint. With these findings in mind, it's clear that adopting cloud-based and hybrid tax solutions is essential to stay competitive, agile, and compliant now and in the future.

To learn how Vertex can help you support your organization, contact us at vertexinc.com/contact-us.

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1   "Unlocking Benefits with Hybrid Cloud and Third-Party Tax Engine Integration," Foundry Custom Research for Vertex, October 2024.