



From Surviving to Thriving:

Real-World Insights on Tax Compliance and AI-Driven Tax Automation in the Manufacturing Sector

Tronconi Segarra & Associates and Vertex partner to help manufacturers automate their sales and use tax and exemption management capabilities

Tax, finance, IT and business leaders at manufacturing companies are facing unprecedented demands on their time and resources. They must navigate a challenging environment shaped by unpredictable global trade, geopolitical tensions, rapid technological change—including advances in AI—a constantly evolving sanctions landscape, and ongoing economic uncertainty. These factors create a complex set of disruptions that require quick, strategic decisions and agile responses.

Most manufacturers were “reacting in real time to every policy change and tariff adjustment while simultaneously testing new AI-driven tools” in 2025, according to West Monroe’s ongoing survey research of 250 mid-market manufacturing, distribution, and retail executives. “It wasn’t strategy—it was survival.”¹

This is especially the case for small- to medium sized enterprises (SMEs) because “small” no longer translates to “parochial.” By leveraging e-commerce automation, AI, and other advanced technologies, mid-market manufacturers can go toe-to-toe with larger competitors in customer acquisition and revenue acceleration. However, the playing field is rarely level when it comes to sales and use tax compliance or exemption management. That’s because manufacturing SMEs typically operate with extremely lean tax departments—staffed by one, two, or maybe two-a-half tax professionals—if they even have a dedicated tax group. Stretched controllers and accounting managers frequently take on tax compliance responsibilities.

Resource-constrained tax departments combined with everchanging sales tax rates and rules, complicated exemption requirements, and manual compliance processes do not add up to a sustainable tax compliance capability. This is the case on the purchasing side, where use tax accruals loom large, and the sales side, where rapidly changing tax rates and rules must be reflected in tax determinations and calculations. The management of tax exemption certificates also challenges tax and finance groups.

The good news is that there are effective solutions to these problems: external tax expertise, integration-friendly tax automation solutions, and related AI tools and functionalities. Before exploring these fixes, it helps to zero in on tax compliance challenges in manufacturing.

“We see a lot of manufacturers struggling to keep up with their nexus exposures. Rather than proactively managing their tax compliance obligations, some companies are waiting for states to come in and do an audit.”

Gerad Levey
Principal
Tronconi Segarra & Associates



A Never-Ending Math Equation

In addition to manual processes and resource constraints, tax groups in the manufacturing industry contend with:

- **Fluid sales tax rates and rules:** In 2024, there were a total of 12,120 state and local sales and use tax jurisdictions in the U.S. Since 2014, those tax authorities have enacted an annual average of 610 new and updated sales and use taxes each year.²
- **Nexus-monitoring and registration difficulties:** Economic and transaction-volume thresholds that establish nexus vary by state. Some requirements differentiate between retail sales and gross sales. Some nexus requirements apply to transactions within the current calendar year; others are based on the trailing 12 months. Once a company's sales in a state exceed the economic nexus threshold, it must register to collect and remit sales tax. The timing of those registration requirements (e.g., by the next transaction, with four weeks, or within two months) also varies across jurisdictions.
- **Elevated auditing activity:** A report from the National Conference of State Legislatures (NCSL) indicates that states are grappling with slowing revenue growth, reduced federal funding, and pressure to rainy day funds.³ This budget pressure is driving increased auditing activity. Escalating enforcement can take the form of state auditors cross-referencing income and withholding registrations against sales tax registrations to identify non-compliant businesses.
- **Use tax over- and under-accruals:** Vendors and suppliers can apply incorrect rates or even fail to charge sales tax on taxable purchases. Manufacturers also under-accrue use tax by over-applying production exemptions to utilities, replacement parts, and post-production activities. Use tax is often overlooked because it is self-assessed rather than collected. Yet, use tax non-compliance creates significant audit exposure for manufacturers without proper accrual processes in place.
- **Exemption complexity:** States vary in their interpretations of where production ends and administrative activities begin from a tax exemption perspective. Exemptions on utilities and grocery operations are particularly headache-inducing to decipher.
- **Manual exemption management:** The manual issuance, collection, and storage of exemption certificates is prone to errors. Certificates get lost or are never requested (or received.) Certificates can also contain incorrect information and/or become invalid when renewal requirements are neglected.

A Tax Compliance Quality Assessment

If your organization responds “yes” to more than two or three of the following questions, it’s time to consider implementing a new tax automation solution:

- Does the tax group deal with resource constraints?
- Does a function other than a dedicated tax group manage tax compliance?
- Are tax filings completed manually?
- Is it difficult to monitor and comply with changing sales tax rates?
- Does the organization “wait” for audits rather than proactively assessing potential tax compliance improvements?
- Is there uncertainty regarding nexus exposures and state-specific registration thresholds?
- Do questions arise concerning registration due dates once nexus has been triggered?
- Are use tax accruals too high or too low?
- Are exemption certificates stored in folders or filing cabinets?
- Does the company have exemption certificates that need to be renewed?
- Do questions arise regarding which production activities qualify for tax exemptions?
- Does the organization qualify for utilities-related tax exemptions?



'Permanent Flexibility' via Agile Tax Compliance

Sales and use tax compliance and exemption management accuracy are table-stakes requirements. By executing these obligations in an accurate and efficient manner, tax and finance groups can devote more time and attention to tax planning and other strategic priorities. The best way to do so is via a blend of expertise and automation.

CPA firms and other external tax experts can help manufacturers with:

- **Digital transformation:** Tax engines and related automation solutions streamline tax compliance and enhance reporting accuracy. Cloud-based platforms and AI tools also help identify potential audit triggers early.
- **Proactive troubleshooting:** Regular external reviews of indirect tax strategies and capabilities ensure that tax compliance processes and technology configurations keep pace with changing laws and tax rules and rates.
- **Documentation:** Maintaining clear, detailed and easily accessible tax records bolsters audit defense.
- **Specialized training:** Equipping tax, finance and accounting teams with updated knowledge of global, state and local tax regulations helps limit compliance risks—as do insights on emerging enforcement trends.

"AI is enhancing the CPA's role as an advisor."

Amy Merletti, Senior Marketing Manager, CPA.com



Some organizations such as Tronconi Segarra & Associates LLP that provide auditing, attestation and advisory services are certified to both implement and leverage tax automation solutions (e.g., the Vertex tax engine) in other tax compliance services (e.g., sales tax filings, use tax compliance, exemption management) they provide to clients.

"The idea is to leverage automation to make compliance as efficient as possible. That way, the tax group can add more value by contributing to strategic objectives."

Lee Irwin, Solutions Engineer, Vertex

Vertex's cloud-based tax automation software seamlessly integrates with major ERP systems like SAP, Oracle, and Microsoft Dynamics 365 to help manufacturers manage complex indirect tax compliance across global supply chains and multiple jurisdictions. The platform automates real-time tax calculations, reporting, and e-filing while streamlining exemption management. By centralizing data and providing full audit traceability, Vertex helps manufacturing companies reduce manual errors, minimize audit exposure, and adapt quickly to evolving global tax regulations.

Recent AI-driven improvements enable Vertex users to leverage:

- **Predictive compliance** that detects anomalies before filing, flags nexus exposure, and anticipates audit risks.
- **Intelligent automation** that classifies transactions with machine learning, updates rules and rates continuously, and reduces manual review and rework.
- **Data-driven insights** that turn tax data into actionable dashboards, highlight patterns for improvement, and empower tax and finance teams to operate more strategically.

The Filing Cabinet Fallacy and Other Compliance Insights

While a proactive approach to implementing or upgrading tax automation is optimal, compliance reviews and negative auditing findings also represent common drivers of tax engine investments.

When a manufacturer enlisted Tronconi Segarra & Associates to perform a review of its indirect tax compliance program, exemption certificates were eventually located in a filing cabinet. The folder, a thin one, contained several exemption certificates that were no longer valid. Several certificates referred to companies that had subsequently been acquired by other businesses. Another manufacturer—one that sold equipment to a larger retailer that stored the goods in a California warehouse—was subjected to an audit. When auditors requested the exemption certificate for that equipment, the tax team explained that the larger retailer recently went out of business and there was no way to obtain the certificate. The auditors ruled that the manufacturer was on the hook for sales tax, plus interest, on all sales to the now-defunct retail customer.

“The days of throwing exemption certificates in a folder or a filing cabinet are over. Exemptions should be managed with an automated tool that alerts you when renewals are required and provides immediate access during audits.”

Tom Mazurek, Jr., CPA, Partner, Tronconi Segarra & Associates

Two other real-world experiences are equally instructive.

1. The first—a direct distributor selling direct to customers in all 50 states—was registered to file taxes in 5 states when it requested assistance from Tronconi Segarra & Associates. The compliance assessment the firm completed determined that the company was required to file taxes in 25 states. That ah-ha moment also motivated the distribution company to act on Tronconi Segarra & Associates’ suggestion to automate its compliance process with a tax engine. Once Tronconi Segarra & Associates completes the Vertex implementation, it will regularly monitor the company’s tax compliance capability to ensure returns are filed in a timely manner and that the registration process is quickly completed when the company surpasses nexus thresholds in other states.
2. A different manufacturing client working with Tronconi Segarra & Associates had previously implemented a Vertex solution, but as the company expanded into new regions and faced additional sales tax requirements, it required specialized support to maintain and adjust the system accordingly. Because the company did not have a dedicated tax function, it enlisted Tronconi Segarra & Associates to use the Vertex solution to maintain tax compliance in tandem with providing compliance guidance, such as negotiating voluntary disclosure agreements (VDAs) with state departments of revenue when it is prudent to do so.





Conclusion: Be Deliberate

In 2026 and beyond, manufactures should strive for “permanent flexibility,” according to the West Monroe report.⁴ Developing this capability requires a deliberate approach to flexible supply chain networks, strong data governance, and valuable AI insights. This also makes it imperative to embrace a deliberate—and automated—approach to sales and use tax compliance and exemption management.

End Notes

¹ <https://www.westmonroe.com/insights/manufacturing-outlook>.

² <https://www.vertexinc.com/resources/resource-library/numbers-2024-us-sales-tax-rates-and-rules-changes>.

³ <https://www.ncsl.org/state-legislatures-news/details/state-budgets-2025-time-to-tighten-the-belt>.

⁴ <https://www.westmonroe.com/insights/manufacturing-outlook>.

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