



The Hidden Cost of Complexity

How Manufacturers Can Turn Tax Into a Margin Lever



Margin pressure meets operational reality

For a multitude of reasons, global manufacturers face persistent margin pressure driven by cost volatility, supply chain shifts, and competitive pricing, among other factors. While many of these margin pressures are visible, some are embedded and harder to detect. An often-overlooked contributor is tax.

Tax touches nearly every part of the business—where transactions, pricing, sourcing, or cross-border activity are involved. When calculated accurately and consistently, manufacturers can reduce rework, improve visibility, and limit downstream disruption. When it's not, costs show up as overpayments, underpayments, audit exposure, delayed recoveries, higher cash reserves, vendor friction, customer pricing issues, and even slower decision-making.

This matters because manufacturers are already operating under pressure. At the same time, many tax, finance, and IT teams are being asked to do more with fewer experienced staff and fragmented systems. **This playbook explores how tax complexity affects cost, operations, and decision-making across manufacturing.**





The overlooked margin drain: Tax in everyday operations

Tax affects nearly every transaction involving goods and services. It also applies across sourcing, production, transfer, and delivery. Consequently, it directly influences true landed cost, not just the reported cost.

For multinational companies, this complexity scales quickly—spanning 22,000+ jurisdictions, each with its own unique rules and regulations governing VAT, sales, and use tax. Manufacturers also face added complexity from duties, fees, environmental charges, and incentives depending on what is being bought, where it is sourced, how it is used, and where it is delivered. Furthermore, there's tremendous variability by product classification, customer type, and use case, and the level of complexity increases significantly.

“The constant change of the tax rates, rules, and laws makes it very difficult for the tax department—which is usually a smaller team—especially when you're talking about indirect tax versus direct tax,” says Sheriff Raghavan, a consultant at Vertex. “Tax teams must make sure those rules are correctly applied in their ERP. When you add international requirements—such as how often reporting has to be done and at what level of detail required—that burden increases even further on an already small and stressed tax organization,” he adds.





Operational decisions such as supply chain redesign, intercompany activity, and high transaction volumes all carry tax consequences. Small tax inaccuracies compound across thousands of transactions, quietly eroding margin over time. A small error at the front does not stay small. It can flow through invoices, procurement records, ERP data, reporting, filings, remittance, analytics, and eventually AI-enabled workflows.

Once bad data enters the system, it undermines confidence in every downstream process, from invoicing and procurement to reporting and analytics. There's also an impact on vendor relations. "If you've overpaid a vendor, that's difficult, because once the money has walked out the door, you've got to go chase it," says Raghavan. Additionally, the need to retain cash reserves to reconcile tax inaccuracies and cover potential fines/audit costs means less budget to invest in the business and to improve operations.



When tax falls behind the business

Many organizations still treat tax as a downstream calculation and a periodic reconciliation exercise. As a result, they rely on manual processes, spreadsheets, and heavily customized ERP tax logic, resulting in disconnected systems across regions or business units.

The consequences are inconsistent tax treatment across jurisdictions, limited visibility into tax's impact on margin, a lag between regulatory changes and system updates, and increased audit exposure and compliance risk. This model shifts the burden to IT teams, forcing them to manage ongoing rate and rule updates through manual uploads.

In practice, that burden extends well beyond IT. "Oftentimes, companies will have the buyers making decisions, and they're not tax people. They're kind of put on the line and don't know if this is taxable in this jurisdiction, and so they're expected to determine whether something is taxable in a given jurisdiction and effectively act as tax experts," says Deborah Boone, sales engineer at Vertex.

With this in mind, tax becomes more than an administrative burden; it can act as a barrier to growth. A manufacturer may hesitate to enter a new market, add a supplier, expand a product line, or complete an acquisition because tax risk and operational complexity are not fully understood.





From compliance function to operational input

Leading manufacturers are rethinking tax as a strategic, real-time input into business decisions. The goal is to bring tax into the decision before the commitment is made, not after the transaction needs to be corrected. With this approach, tax is a factor in planning, not just reporting. For manufacturers that adopt it, tax becomes part of core operational workflows, from purchasing and order management to supply chain and logistics decisions.

For this approach to materialize, manufacturers need real-time, transaction-level tax calculation and consistency across entities and geographies. They also need the ability to reflect ongoing regulatory change, and intelligent automation to increase efficiency, boost accuracy, and reduce resources needed to optimize tax and compliance processes.

With these capabilities in place, organizations can make more accurate decisions at the point of transaction and reduce downstream corrections and surprises. Greater tax accuracy provides budget clarity, helps reduce audit exposure and unfavorable audit outcomes, and reduces the risk of fines, freeing up resources to invest in other strategic projects.

Raghavan has seen firsthand how improved accuracy helps the enterprise. “AP gets to focus on what they’re actually there to do, which is to process the invoices. The same with purchasing and AR. There’s less cleanup, fewer journal entries at the tail end of it, and I think there’s a whole lot more confidence involved when they’re going into an audit, that they have the proper backup and all the tools they need to answer the questions coming from the auditor,” says Raghavan.



Enabling the shift: **Integrated systems and tax intelligence**

Modern ERP platforms play a critical role in helping manufacturers adopt a more strategic view of tax. They provide unified data across finance, supply chain, and manufacturing, standardize processes and workflows across regions, and act as the system of record for transactions.

Dedicated tax automation technology complements this by applying granular tax rules based on jurisdiction, product type, and transaction type. It maintains up-to-date regulatory content and automates complex determinations at scale. It also provides the flexibility to meet unique business requirements and the scalability to handle spikes in transaction volume.

Within this environment, integration is critical. Organizations need a consistent tax system of record that applies tax accurately across the enterprise. Without it, taxes may be calculated differently across systems, leading to inconsistencies and increased risk.

Tax should be built into core workflows rather than handled separately through manual workarounds. This enhances tax data governance by increasing the completeness and accuracy of data within ERP and related transactional systems. It also reduces reliance on manual intervention and custom logic, creating a more scalable model for global operations and removing barriers to business growth and expansion.

What changes in practice: Functional impact

Given this change in approach, what changes from a functional perspective?

For **finance**, this approach improves tax accuracy and helps to reduce audit exposure. Finance teams can gain better visibility into tax's impact on cost and margin, while spending less time on avoidable corrections and reconciliations. It also provides clearer insight into how tax influences key margin drivers. With better processes and greater confidence in tax-related calculations, teams are freed up to focus on more strategic work.

For **supply chain**, decision making becomes more tax-aware in sourcing and routing. This results in more reliable landed cost calculations before execution. It also helps minimize disruptions tied to incorrect tax treatment and reduces friction related to supplier tax errors and downstream disputes.

For **IT**, there's a reduced need for custom tax logic within ERP systems, which lessens the burden on the department and the ERP solution itself. With less inherent complexity, there's simplified system maintenance and upgrades. In turn, this makes the prospect of expansion into new markets or entities easier to support.





Where to start:

A practical path forward

Changing the approach to tax should follow a practical path. Procurement is a high-impact area for manufacturers, as tax errors at purchase can affect cost, margin, and create downstream challenges across accounting, reporting, and compliance.

Procurement drives everything that follows. If raw materials, vendors, locations, fees, and tax obligations aren't clearly understood, a company may not know the true cost of what it's buying. That uncertainty affects pricing, margins, supplier decisions, and the ability to respond to supply chain disruptions.





Moving forward requires focusing on high-impact areas, such as regions with frequent regulatory change, processes with known complexity (e.g., intercompany billing), and product lines with variable tax treatment. From there, organizations should assess where tax is determined today, identify gaps or manual interventions, and determine where margin leakage or risk may occur. The next step is building a business case, including quantifying risk and efficiency gains and aligning stakeholders across finance, operations, and IT. To launch, start with a targeted use case, then scale based on results and learnings, all the while monitoring the time to value.

“We actually recommend reverse audits, which is a look back at past invoices that can help fund a software project,” says Boone. “If a company is doing its own reverse audit, it’ll not only look at whether it overpaid a vendor, but also whether it under-accrued as well.”

Complexity in both operations and regulation will continue to increase, making it unsustainable to treat tax as a static, back-office function. Manufacturers that embed tax into core processes gain better margin control, greater operational resilience, and more informed decision-making. The opportunity extends beyond risk reduction—it’s about operating with greater insight, efficiency, and control as complexity grows.

About Vertex

Vertex Inc., is a leading global provider of indirect tax software and solutions. The company's mission is to deliver the most trusted tax technology enabling global businesses to transact, comply, and grow with confidence. Vertex provides solutions that can be tailored to specific industries for major lines of indirect tax, including sales and consumer use, value added, and payroll. Headquartered in North America, and with offices in South America and Europe, Vertex employs over 1,700 professionals and serves companies across the globe.

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