MARKET TRENDS REPORT

The future of AI in finance and tax compliance

How companies worldwide are driving efficiencies



Avalara

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INSIGHTS

Finance and tax professionals are under increased pressure to operate more efficiently while remaining strategic business advisors. The growing importance of their ability to shape the overall direction and success of their organizations is demonstrated by how companies worldwide are investing in technology to improve how finance and tax teams perform their jobs.

Avalara worked with Hanover Research to find out the top challenges finance and tax departments face today, with a specific focus on tax compliance, and how technology including artificial intelligence and automation is helping them achieve their goals.

A total of 400 managers, directors, vice presidents, and C-suite executives at companies based in Australia, Canada, the United Kingdom, and the United States responded to the survey.[1] They represent more than 21 industries, including retail, manufacturing, and software. The respondents work in accounting, finance, tax, compliance, and IT departments at companies with at least $4 million in annual revenue.

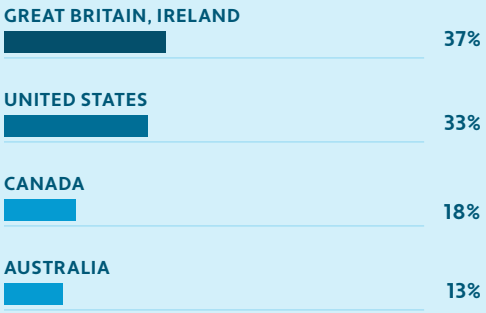
Insights from Avalara and supporting research are included to give a comprehensive view of how the study findings fit with current trends impacting finance and tax teams.

[1]Results are based on the number of survey respondents and not necessarily the number of businesses surveyed.

07
COUNTRIES



Countries



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KEY FINDINGS

1



INITIATING AUTOMATION

Businesses report they're most efficient at finance and tax tasks they've automated including real-time reporting and e-invoicing, managing receivables and payables, and researching and calculating sales tax and value-added tax (VAT). Many IT teams are initiating automation for these tasks and others such as preparing and filing returns and managing audits. They believe artificial intelligence will aid their efforts. Automating these essential tasks can help organizations save time and reduce audit penalties.

2



EMBRACING AI

The study shows 90% of organizations agree that artificial intelligence is uniquely suited to make the day-to-day operations of their finance and tax departments run more efficiently. More North American businesses strongly agree with this sentiment compared to those in Australia. At present, North American businesses are less likely to consider themselves efficient at many tasks. But the aggressive adoption of AI and other technologies in North America may position these organizations to better navigate tax compliance challenges.

3



PRIORITIZING TAX MANAGEMENT AND COMPLIANCE

Respondents were asked to describe the main priorities for the finance and tax teams over the next 12 months. Transactional tax management and compliance ranked second and was nearly on par with integrating emerging technology solutions. Manufacturers and software companies are particularly likely to prioritize transactional tax management and compliance. These industries tend to be regulated by especially complex rules.

DOING MORE

THEIR QUEST FOR EFFICIENCY

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DOING MORE

Finance and tax departments are tasked with a variety of responsibilities and generally feel confident in their ability to execute these tasks. However, they acknowledged room for improvement in all areas including tax compliance.

Organizations believe they're most efficient at tasks that they've automated. Finance and tax teams believe they're most efficient at managing payroll, real-time reporting and e-invoicing, managing receivables and payables, and researching and calculating sales tax and VAT. Notably, respondents of the survey indicated the tasks that are most frequently automated include managing payroll (76%), managing receivables and payables (62%), real-time reporting and e-invoicing (60%), and researching and calculating sales tax and VAT (57%).

In fact, almost all tasks are more likely to be fully or mostly automated than they are to be fully or mostly manual, with the exception of managing audits, which is fully or mostly manual for 37% of organizations.

Avalara insight

Penalties from tax audits can substantially impact a company's bottom line. Companies may prefer human oversight during audit management, believing it reduces the risk of missing critical details or making costly mistakes. However, automation tools can optimize key steps in the audit process including gathering documents and generating reports. Finance and tax teams can also use artificial intelligence and other technology to conduct their own compliance checks, in a similar manner to how tax authorities are using AI for enforcement.

TASKS FINANCE AND TAX TEAMS BELIEVE THEY'RE MOST EFFICIENT AT



84%

of organizations say their team is most **EFFICIENT AT MANAGING PAYROLL**

79%
REAL-TIME REPORTING AND E-INVOICING

78%
MANAGING RECEIVABLES/ PAYABLES

73%
RESEARCHING/ CALCULATING SALES TAX AND VAT

71%
CUSTOMS DUTY AND TARIFFS

North American businesses are significantly less likely to find their finance and tax teams efficient at a variety of tasks than those in other countries.

While 78% of respondents from Great Britain and Ireland and 72% of Australian respondents ranked their department as very or extremely efficient at managing audits, just 56% of North American respondents did. In addition, only 51% of organizations in North America believe their finance and tax department is very or extremely efficient at preparing and filing tax returns compared to 68% of Australian businesses and 74% of Great Britain and Ireland organizations.

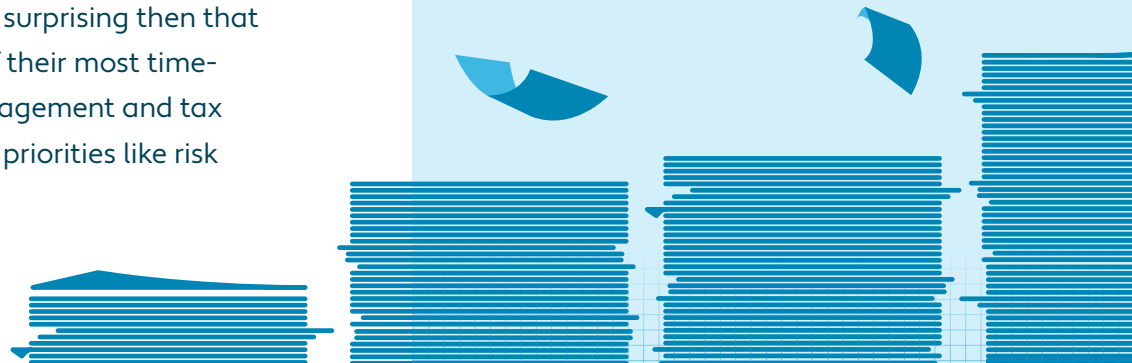
The study shows 26% of businesses still prepare and file tax returns manually or mostly manually despite increased risk of errors and potential audit costs and 34% employ an even mix of manual and automatic processes. It's not surprising then that 22% of respondents said preparing and filing tax returns is one of their most time-consuming responsibilities. Automating processes like audit management and tax return preparation and filing can free up teams to focus on other priorities like risk management and strategic growth.

5%

OF COMPANIES
handle their processes
MANUALLY

76%

OF COMPANIES
have their processes
AUTOMATED



AUTOMATION RESPONSE

CLOSING EFFICIENCY GAPS

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Companies are turning toward technology to become more efficient.

Hanover Research found 68% are investing in more tools and solutions and 67% are automating and optimizing processes.

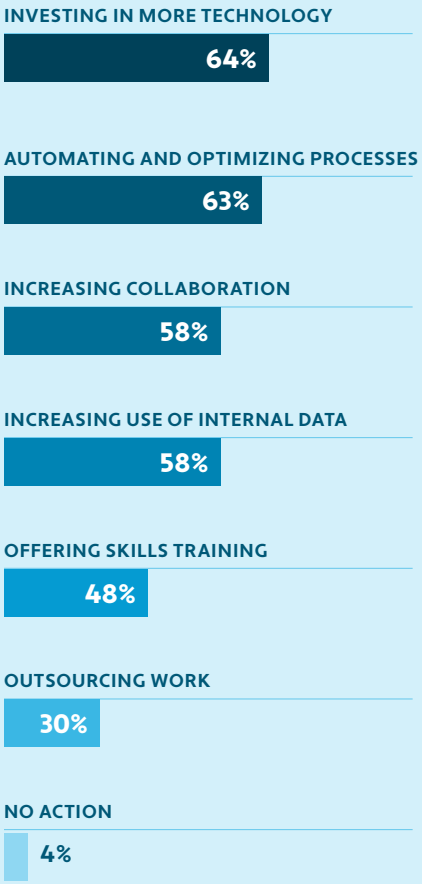
Finance and tax teams are also relying more heavily on technology to close efficiency gaps related to tax management specifically. To achieve this goal, 64% are investing in more technology and 63% are automating and optimizing processes, with North American organizations leading the way.

IT departments are initiating automation for a variety of tasks and believe artificial intelligence would greatly benefit their efforts to do so. Teams are automating tasks typically done manually, including financial analysis and reporting (42%), preparing and filing tax returns (33%), and managing audits (31%).



64% of companies are investing in more technology to close efficiency gaps directly related to tax management.

Actions taken to close efficiency gaps in tax management



Avalara insight

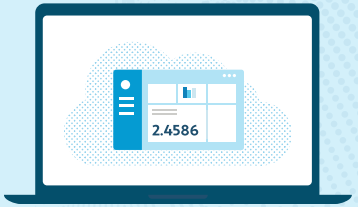
Over 60 countries worldwide have announced the intention to require – or already require – e-invoicing. Companies will need to think globally and strategically to meet current and future mandates. Real-time reporting and e-invoicing tied for third place alongside both invoicing/payment collection and managing audits among the top functions that IT departments are initiating automation for. This rate could climb as more countries mandate real-time reporting and e-invoicing, with artificial intelligence playing an important factor. The study found 77% of respondents believe AI would be very impactful or extremely impactful in helping them automate these tasks. To find out more about where we're headed with real-time reporting and e-invoicing, read **The future of e-invoicing** from Avalara.

Respondents believe artificial intelligence would also help them automate finance and tax compliance tasks such as financial analysis and reporting (78%), managing receivables and payables (77%), preparing and filing tax returns (74%), and managing exemption certificates (74%).

Besides investing in more technology, businesses are increasing collaboration and their use of internal data. The study found more organizations in Australia Great Britain, and Ireland are offering skills training and outsourcing work to close efficiency gaps than those in North America.

77%

OF RESPONDENTS
believe AI would help automate real-time reporting and e-invoicing



TOP TASKS
COMPANIES SAY AI WILL HELP AUTOMATE



TOP PRIORITIES

THE GROWING IMPACT OF AI

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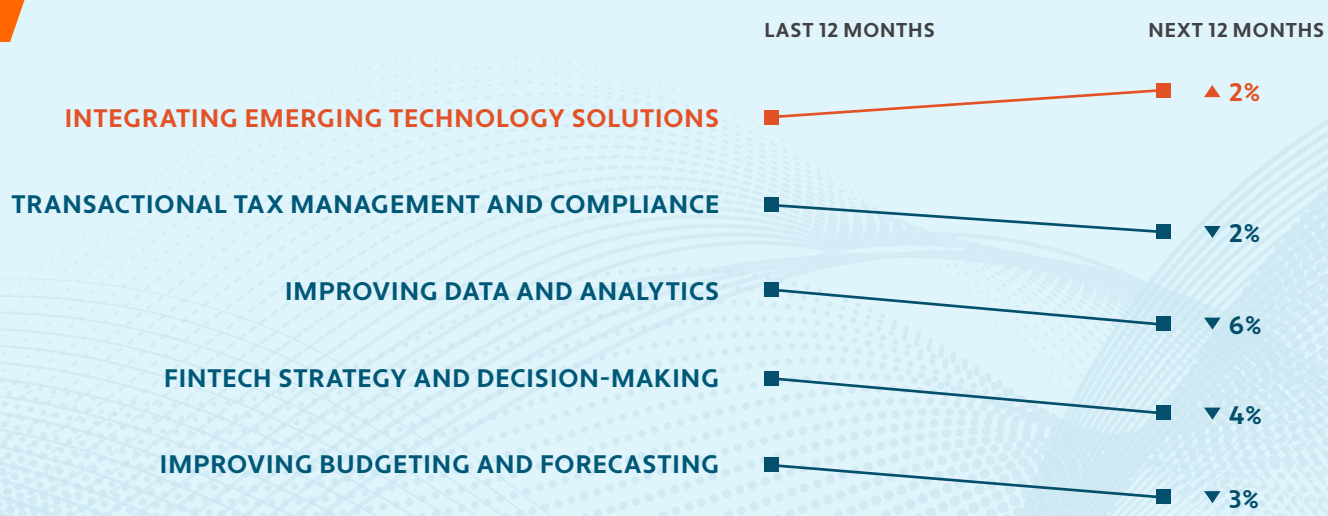
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TOP PRIORITIES FOR FINANCE/TAX TEAMS



Advancements in artificial intelligence and machine learning are pushing finance and tax teams worldwide to reshape how they operate. The Hanover study found that 40% of respondents say these factors had a major impact on their finance and tax departments within the previous 12 months. Another 41% reported moderate impacts.

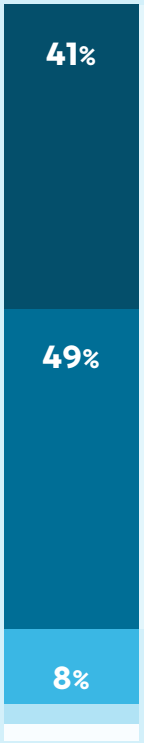
Artificial intelligence is at the forefront of technological investments. The Hanover study found 68% of finance and tax teams will make integrating emerging technology solutions a main priority in the coming 12 months. Among those, 93% say artificial intelligence is a top priority and 78% are prioritizing automation.

Transactional tax management and compliance ranked a close second, with 67% of all organizations surveyed declaring this a main priority in the next 12 months for their finance and tax teams. This priority is especially prominent in industries like manufacturing and software, where tax regulations can have significant impacts.

Conversely, only 17% of businesses said regulatory readiness is a top priority for the next 12 months. This response may indicate that finance and tax teams aren't giving tax compliance requirements sufficient attention.

Many finance and tax departments have already embraced AI. Businesses in North America (60%) are significantly more likely than those in Great Britain and Ireland (34%) or Australia (30%) to report a high or very high usage of artificial intelligence by their finance and tax teams. While 90% of organizations across these geographies agree that artificial intelligence is uniquely suited to make the day-to-day operations of their finance and tax departments run more efficiently, more North American businesses strongly agree with this sentiment.

Organizations are using artificial intelligence for a variety of finance and tax functions including real-time reporting and e-invoicing (44%), researching and calculating sales tax and VAT (39%), and monitoring changes in tax regulations and compliance (31%).



90%

OF COMPANIES SAY

ARTIFICIAL INTELLIGENCE

is uniquely suited to make finance and tax teams more efficient

Avalara insight

The expanding adoption of artificial intelligence and other technologies in North America may position these organizations to better manage the complex tax compliance landscape. AI can reduce the time it takes to do routine tax compliance tasks. For instance, Avalara uses machine learning to assist in validating exemption certificates and customers will soon be able to use generative chat to help research tax rates and laws. Businesses are already using AI for many purposes with positive results. For example, **research** found that manufacturers are increasingly leveraging digital technologies, embracing a smart factory approach, and exploring the industrial metaverse to improve agility. With companies like **Mastercard** adopting AI to better detect credit card fraud and **Coca-Cola** investing in generative AI to boost efficiency and foster innovation, we may see more businesses turn to artificial intelligence to streamline their finance and tax processes.

Australian organizations are significantly more likely to use artificial intelligence for managing receivables and payables (55%), compared to those in the U.K. (38%) and North America (37%). North American businesses are lagging behind in using AI for financial analysis and reporting (35%), compared to their counterparts in the U.K. (52%) and Australia (47%).

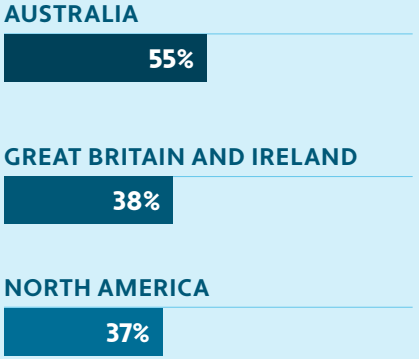
As artificial intelligence becomes more integrated into finance and tax department operations, many organizations report concerns surrounding data security and privacy. Australian organizations are particularly likely to struggle with a lack of transparency on how artificial intelligence is using data (55%).

Avalara insight

While artificial intelligence can be helpful in handling large amounts of sensitive data, it makes companies attractive targets for cyberattacks. Businesses need to ensure platforms have proper encryption and access controls in place to prevent breaches. Failure to comply with stringent data protection laws like Europe's General Data Protection Regulation (GDPR) and the California Consumer Privacy Rights Act (CCPA) can result in fines and reputational damage. It's also important that businesses understand how sensitive data is used, shared, or retained by vendors who provide solutions. When choosing a tax compliance automation solution, look for a vendor that has procedures in place to ensure that data is handled with the utmost security and privacy.



Australian companies are most likely to use AI for managing receivables and payables





Nearly half of North American businesses struggle with scalability.

NORTH AMERICA

49%

GREAT BRITAIN AND IRELAND

20%

AUSTRALIA

20%

Hanover Research found 49% of businesses in North America struggle with scalability, compared to 20% of businesses in Australia and 20% in Great Britain and Ireland. Other challenges include finding the right AI solutions or partners plus training and upskilling employees.

Avalara insight

McKinsey research shows that generative AI could potentially enable the automation of tasks that currently account for 70% of employees' time, across most industries, by 2030. McKinsey provides suggestions for how organizations can **prepare employees** to embrace the technology. Avalara recommends that businesses integrating tax automation software ensure vendors provide access to training and support tools to help users fully leverage the solution's potential.

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Economic disruption is also driving technology investments

Technology is also helping finance and tax departments respond to external pressures. The economy is taking a toll on businesses, with 79% of respondents reporting their finance and tax teams have been majorly or moderately impacted by economic disruption, the recession, or inflation. Interest rates are also a significant concern for many businesses, although respondents were more likely to report moderate impacts (47%) than major effects (29%).

Many finance and tax teams continue to struggle to find employees. The study found 78% of respondents say they've been majorly or moderately impacted by a shortage of talent or workers with the right skill set. Research by **Deloitte** supports this finding, declaring the "elusive tax unicorn" to be the employee who combines technology skills with deep knowledge of tax and finance processes and data analytics.

Businesses in many countries continue to be hard hit by geopolitical disruption. Hanover Research found that 70% of Great Britain and Ireland organizations and 72% of Australian businesses say their finance and tax teams have been severely impacted by these issues, compared to 45% of companies in North America.

The study found 67% of finance and tax teams are investing in new technology and 66% are increasing their use of automation in response to these external factors and advancements in artificial intelligence. North American organizations are significantly more likely to be investing in new technology (75%) than those in Great Britain and Ireland (61%) and Australia (56%), and more likely to be increasing their use of automation.



67%

OF FINANCE AND TAX TEAMS ARE INVESTING IN NEW TECHNOLOGY

Only 32% of companies indicated they're executing tasks with fewer people in reaction to external factors and AI advancements.

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TECHNOLOGY SERVICES

Snowflake

The Snowflake Inc. Data Cloud solution enables organizations to unite siloed data, securely share data, and power data applications for diverse artificial intelligence/machine learning and analytic workloads. As Snowflake expanded globally, the company turned to Avalara to enhance accuracy in tax calculations and boost operational efficiency.

Avalara has bolstered client relationships for Snowflake by ensuring accurate and dependable tax handling. Snowflake makes well-informed decisions using the detailed tax performance and compliance analytics available in Avalara solutions.

READ THE FULL STORY >



"Avalara has significantly reduced manual tasks, errors, and custom, complex regulations for us, minimizing the time our team spends maintaining data workflows."

RICARDO RODRIGUEZ
SENIOR MANAGER OF INDIRECT TAX

MANUFACTURING

Firewire Surfboards

Since 2006, Firewire Surfboards has been dedicated to improving the surfing experience with innovative and quality products built with the conscious minimization of impact to the planet. As Firewire grew its market presence across states and international borders, the company chose Avalara for its ability to scale and make navigating a complex tax landscape easier.

With Avalara, Firewire significantly expanded its U.S. direct-to-consumer (DTC) business and reached new markets without additional personnel costs. This expansion yielded an astonishing ROI. Looking ahead, Firewire can leverage Avalara for global VAT needs as its business grows.

READ THE FULL STORY >



"Partnering with Avalara allows us to operate with enterprise-level sophistication while preserving small-to-medium-sized business agility."

FRANKLIN SHIRAKI
CFO

RETAIL

ICONIC London

When ICONIC London, a leading brand for makeup and luxury skincare, decided to establish a new subsidiary in the U.S., it turned to Avalara to support its growth.

“Overnight, we went from having no U.S. sales tax administration to having to be ready to file right away in those 28 states. It wasn’t a slow buildup, one at a time,” explains CFO Ann Masson.

Masson credits Avalara with being a key enabler of ICONIC London’s DTC expansion into the U.S. market.

READ THE FULL STORY >



“We couldn’t have achieved what we have without having that tool to help facilitate us building that business.”

ANN MASSON
CFO

PARTICIPATION

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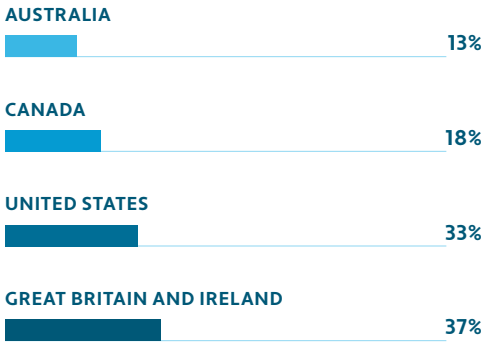
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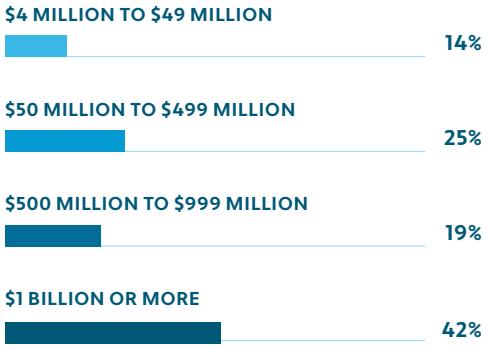
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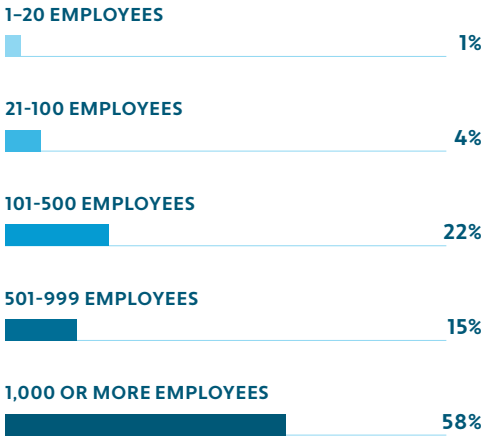
COUNTRIES REPRESENTED BY RESPONDENTS



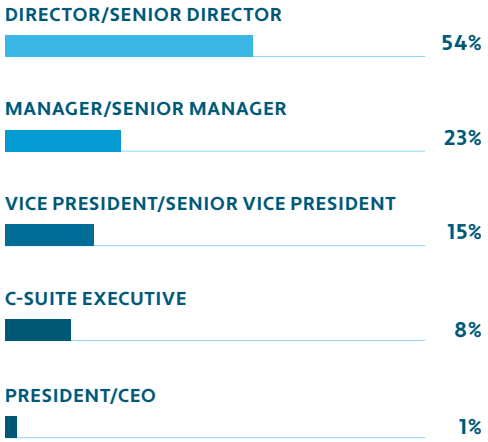
COMPANY ANNUAL REVENUE



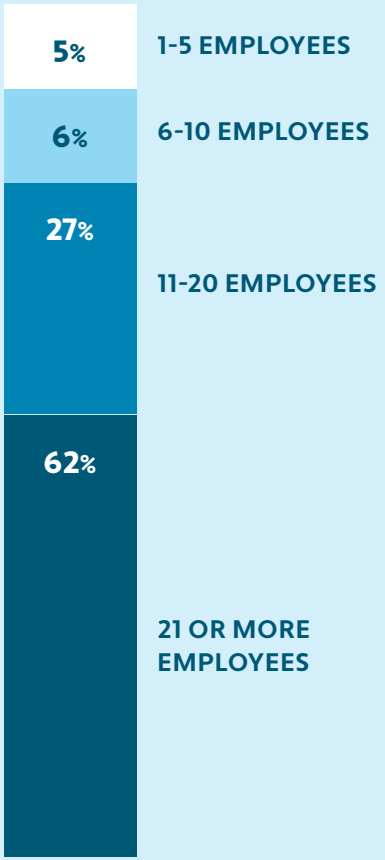
ORGANIZATION SIZE



JOB ROLES



NUMBER OF EMPLOYEES IN FINANCE OR TAX DEPARTMENT



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MAXIMIZE EFFICIENCY

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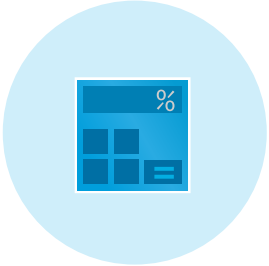
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Maximize efficiency.
Automate tax compliance with Avalara

Finance and tax departments can save time, improve accuracy, and reduce costs when they automate tax compliance. Avalara provides end-to-end tax compliance solutions that help global businesses of all sizes be more efficient. With more than 1,200 signed partner integrations, our cloud-based solutions seamlessly connect with your accounting, CRM, POS, and shopping cart systems:



CALCULATE TAX

Calculate and collect sales and use tax, VAT, GST, and other tax types when selling across thousands of tax jurisdictions. Save time researching and improve accuracy with regularly updated rates based on geolocation.

LEARN MORE >



FILE RETURNS

Offload the hassle of returns preparation, filing, and remittance for sales and use tax, VAT, and industry-specific tax types. Decrease potential errors and free up resources for revenue-generating tasks.

LEARN MORE >



MANAGE EXEMPTION CERTIFICATES

Streamline collecting and validating exemption certificates in all U.S. states to improve customer experience and reduce headaches for your team. A secure, centralized document repository allows you to generate reports and easily reference certificates during audits.

LEARN MORE >



ASSESS CONSUMER USE TAX

Help prevent audit penalties by automating consumer use tax assessment and compliance. Get alerted to overpayments and underpayments of vendor sales tax. Manage cost centers and purchases to capture tax based on where and how your purchases are used. Identify high- or low-risk purchases.

LEARN MORE >



ENABLE E-INVOICING AND LIVE REPORTING

Future-proof your compliance with a solution designed to comply with e-invoicing regulations in over 60 countries. Automate your finance operations while reducing risk of fines and audit penalties.

LEARN MORE >



COMPLY WITH CROSS-BORDER COMPLIANCE REGULATIONS

Overcome global compliance challenges with a range of solutions to support international growth. Get Harmonized System (HS) code support for 180+ countries. Determine duties upfront. Navigate trade restrictions to drive cost efficiency and reduce reverse shipping charges. Accept local payment methods and clear customs smoothly.

LEARN MORE >

CONDUCT TAX RESEARCH

Easily search for, understand, and reference tax information to address tax concerns specific to your organization. Access to rates, rules, and regulations for both U.S. sales and use tax and global transaction taxes saves you time and helps reduce errors. Validate tax decisions with direct access to expert tax researchers.

LEARN MORE >

Explore how Avalara can help your business streamline tax compliance.



About Avalara

JOIN AVALARA'S

41,000+

CUSTOMERS

ACROSS

75+

COUNTRIES



Avalara makes tax compliance faster, easier, more accurate, and more reliable for 41,000+ business and government customers in over 75 countries. Tax compliance automation software solutions from Avalara leverage 1,200+ signed partner integrations across leading ecommerce, ERP, and other billing systems to power tax calculations, document management, tax return filing, and tax content access. Visit **avalara.com** to improve your compliance journey.

More information at avalara.com

Tax rates, rules, and regulations change frequently. Although we hope you'll find this information helpful, this report is for informational purposes only and does not provide legal or tax advice.