MODERNIZING YOUR TECH STACK

Setting the pace for the future while automating your current tax compliance

GUIDE

Avalara
Tax compliance done right

Introduction

As enterprises and their technology departments embark on bringing their tech stacks into shape to face modern tax compliance obligations, they face a multitude of challenges.

Rigid and outdated legacy ecosystems, disparate data sources, and hundreds of vendors and solutions: These are the obstacles that enterprises need to overcome as they embrace indirect tax compliance automation.

In this report, we'll explore why enterprises and upper mid-market companies should consider automated tax solutions during such catalyzing events as global taxation changes and M&As, emphasizing how critical indirect tax compliance automation is and will be in the future of business operations.

We'll also talk about why tax and finance departments deserve more than an occasional seat at the table during this transition so they can voice their tech needs, helping them shift from unheralded manual management and retro assessments to value-added, future-facing activities.

Enterprises are unique and must customize their ERP and connectors to their needs. It's not just about an ERP upgrade. It's about the future of indirect tax automation and how it can impact an enterprise.

Content

DISCLAIMER

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.

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Impetus for tax transformation:

What are the newest Global compliance law changes and industry trends?

The limitations of manual, on-premises solutions in managing complexity are as clear as the ongoing changes in tax compliance requirements worldwide. Global tax authorities are ramping up their efforts to go digital and embrace technology, perhaps as much as businesses and customers, to make international trade easier, combat fraud and, at least in some parts of the world, move toward global standardization.

Another area where manual tax processes fall behind is modern ecommerce operations domestically and internationally. After the U.S. Supreme Court expanded thresholds for economic nexus in most U.S. states for online sellers with its 2018 South Dakota v. Wayfair decision, companies had to scrutinize and refine their tax automation and technology platforms to maintain compliance across the country's thousands of state and local tax jurisdictions.

Ecommerce continues to evolve into such new forms as curbside and **G-Commerce**, producing even more complex sales tax and nexus obligations not only in the U.S.

AMONG EXAMPLES:

Many governments, especially in Europe, are implementing digital hubs and systems that simplify and expedite cross-border trade without compromising national and international security – a critical factor given the current geopolitical climate. The European Union's (EU) customs data hub allows businesses to disentangle the administrative side of importing goods. The EU also plans to modernize its existing value-added tax (VAT) systems to keep up with the huge amount of online transactions.

Whether in or outside the U.S., businesses that already do or plan to trade internationally need to understand how technology and international tax compliance are driving each other.

What is the ViDA (VAT in the Digital Age) initiative? aims to level the playing field for all businesses operating within the EU. Changes that go into effect will impact e-invoicing, ecommerce sellers, and the platform economy. ViDA is designed to close the VAT gap and will also extend VAT

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obligations for marketplaces and ecommerce platforms by making them liable for charging and remitting VAT within the EU.

E-invoicing is creating and providing an electronic invoice in the form of structured data (instead of a more traditional paper version or an emailed PDF) to digitally exchange invoice data between a supplier and a buyer. It's the preferred method of collecting tax information by governments in an increasing number of countries and for businesses of all types and industries, it allows for streamlined finance departments and an opportunity to revamp and update financial and accounting systems. The U.S. is among the many nations considering e-invoicing requirements.

Climate issues are becoming a higher priority for nations, with one example being the U.K.'s Plastic Packaging Tax on packaging with less than 30% recycled plastic. The U.K. government estimates that the tax affects some 20,000 packaging producers and importers.

Recent EU customs reforms mean that marketplaces and ecommerce platforms will become "deemed importers" responsible for ensuring that VAT and customs duties are paid. Parcels valued up to €150 are currently exempt from customs duties; this exemption will be removed in 2028.

Deals among enterprises also don't wait on tax laws. From what analysts have termed "2021's record-breaking recovery" after the pandemic to a steep decline in 2023, the global M&A market has offered "**something of a masterclass in volatility.**" Expect this to change as varied factors support the global M&A market's durability. With such seismic shifts as the rise of AI to the growing importance of sustainability and the emergence of a more demanding, tech-enabled consumer class, M&A is a more vital strategic lever than ever. A jump in activity in Q4 2023 points to increasing optimism returning to the market.

In such an environment, only the best tools – and best practices in selecting those tech tools – will help tax technologists and their teams keep up.

Challenges of accommodating tax regulation changes

One of the biggest problems for multinationals is that tax regulations change frequently **country by country.** Lack of standardization is clear in the variations in tax rates, tax structures, product classification, filing processes and deadlines, and incentives and exemptions.

Ongoing tax compliance has an impact on various organizational areas, and legacy systems can quickly become unable to meet modern standards of compliance in an ever-changing regulatory landscape as tax technologists must keep up with the vast amount of tax information, as well as the associated administration and cost burdens.



Upgrading your ERP: Why tax automation matters

AS ONE GROUP OF ANALYSTS PUTS IT,

"How your tax department approaches generative AI and other advancing capabilities, such as data analytics, robotic process automation and machine learning, will go along way toward determining whether your tax function serves as an engine oran anchor for your organization."

Managers, directors, vice presidents, and C-suite execs of companies in eight countries agree. Among those recently **surveyed** at companies in the U.S., Canada, Denmark, Finland, Iceland, Norway, Sweden, and the U.K., 29% of the North American business leaders said tax compliance management was a "most time-consuming" responsibility.

(Specific to sales tax obligations, few of the business leaders surveyed have automated any aspect of exemption certificate management, and just 3% of accounting, tax, and finance professionals have **fully automated exemption certificate management.** Respondents, especially in North America, also identified exemption certificate management as the least efficient activity for their tax and finance teams.)

Many respondents said they still handle a host of tasks entirely or mostly manually, with only managing payroll, producing financial statements, and managing receivables and payables the tasks most likely to be automated. About a third of respondents found their finance and tax departments to be either "very efficient" or "extremely efficient" at any one task.

Remember too that generative AI will only be as good as your enterprise's effective management of data, specifically its quality and timeliness. Adhering to the garbage-in school of thought, for instance, outdated tax data may be worse than no data at all.

On the plus side, the survey found that 71% of the survey respondents are investing in tools and solutions to become more efficient overall, while about half are automating and optimizing processes, increasing cross-team collaboration and – significant to ROI, as we'll see – offering more staff training. As for tax and finance teams, 69% are investing in technology to close efficiency gaps, while 45% are automating and optimizing processes.

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Embarking on a new business paradigm for enterprises often ignites a review of enterprise technology platforms/ERP solutions and tech upgrades, usually after discovering that legacy ERP solutions suddenly fall short of scalability needed for a new business model. Yet automation

in tax administration and compliance offers the clearest path to reducing the cost and labor of tax compliance. The key is quick updating and dissemination of information – and enterprise-level AI seems like the headline new technology that tax technologists can deploy.

The key to any ERP selection lies in identifying software that closely aligns with your business processes for efficient workflow, productivity, and minimal disruption. Shop for industry-specific ERP solutions with features and functions for your business vertical (and its standards and regulations) and scalability to accommodate your business growth.

HOW DO YOU EVALUATE AN ERP?

Define needs. Engage stakeholders from different departments to discuss the challenges and gaps in your current system, along with your future business goals. You'll also want to start thinking of tax as "data" to bridge the gap between your tax technologies and your IT department.

Research and shortlist vendors. Focus on systems that cater to your specific industry and business size. Consider whether you are in the market for Tier 1, 2 or 3 niche ERP software.

Evaluate solutions. Check system functionality, ease of use, scalability, integration capabilities, and total cost of ownership. It's also crucial to check customer support quality and vendor credibility. Use vendor demonstrations to ask about your specific business processes. Involve end-users to assess the system's user-friendliness. Your ERP should seamlessly integrate with other business systems like CRM platforms, email systems, or ecommerce platforms. Discuss the pros and cons of cloud-based versus on-premises solutions, mobile solutions, and security.



SOURCE: *HOW DO YOU EVAUATE AN ERP?*

Negotiate the contract. Leave out no detail, including costs, implementation timeline, training, and support.

Bear in mind a few drawbacks to relying on an ERP to handle tax compliance automation, especially with ecommerce. ERP solutions can have limited tax filing, calculation or returns capabilities that don't provide the level of detail and granularity needed to meet the needs of a modern ecommerce enterprise. The tax rate calculations available on ERP platforms are typically at a ZIP code level, which isn't accurate enough to avoid taxation errors because ZIP codes can often encompass more than one tax jurisdiction.

Unlike cloud-based platforms, on-premises solutions aren't regularly updated and usually don't provide precise enough information to accurately calculate sales tax at the local level. Most non-cloud solutions require tax rate tables to be updated manually, which is **labor intensive and prone to error and missed updates.**

ROI benefits of ERP and tax automation upgrades

ERP systems deliver value by integrating core business functions with a single, unified platform – an appealing concept for enterprises looking to improve their tech stack, but the return on investment (ROI) of your ERP remains critical. Analysis of quantifying the ROI helps enterprises evaluate and anticipate the impact of the system both immediate and long-term.

UNFORTUNATELY, FOR AN ENTERPRISE-CLASS ERP SYSTEM, FIGURING THE ROI CAN BE COMPLEX.

Look first at the benefits. What does your enterprise hope to achieve with an ERP? First, your data (including tax data) will be in a common database, collected from across an organization. A unified view of the enterprise also breaks down data silos and saves time in decision-making. Eliminating manual processes, ERP systems help mitigate human error and waste of resources (including staff time) and improve timeliness of such functions as orders and payments.

GENERALLY, AMONG FACTORS ENTERPRISES SHOULD CONSIDER:

- The total cost of ownership, or investment, includes the upfront cost of the solution and costs thereafter. ERP ROI is often expressed as the ratio of the gains delivered by an ERP investment to the total cost of ownership or investment. (This formula has generally applied only to on-premises ERP but can be used to calculate ROI of cloud-based ERP, as well.)
- Deployment models will affect your ROI calculations. Cloud-based systems, which tend to have subscription fees, are usually not as expensive as the capital investment of on-premises systems.
- Factor in "hard" and "soft" ROI, too. "Hard" refers to traditional returns that can be assigned a quantifiable financial value; "soft" ROI is intangible gain, such as a rise in employee morale or improved brand equity with customers.
- Initial staff training to get the most out of ERP implementation will improve ROI, especially if staff are made familiar with how the ERP meets and exceeds their needs via easy interfaces and mobile functionality (or whatever criteria the enterprise staff have. Finding that out beforehand is another way to boost ROI). Prioritize training.
- Other factors influencing the ERP's future ROI include an enterprise's improvements in product, transportation, or inventory carrying costs, order volumes, consistency of evaluation and the measurement period of the ROI. Be realistic about your expectations and don't look at ERP as a traditional technology deployment.

Looking ahead

Embark on a seamless journey of tax compliance evolution with Avalara. Modernize your tech stack, break free from legacy constraints, and embrace the future with confidence. Because at Avalara, it's not just about tax compliance; it's about propelling your enterprise into a new era of efficiency and agility.

Avalara cloud-native solutions enhance customer experience and provide seamless integration (including better quality systems and lower total cost of ownership). They allow you to shift from manual management and retro assessments to value-added, future-facing activities.

Think ahead, whether for AI or generative AI infiltrating tax departments. It isn't just about your enterprise keeping pace but setting the pace for the future with enhanced feature sets, solutions, and products.