WHITE PAPER

Automated Indirect Tax Determination and Reporting from Inside the ERP

EXECUTIVE SUMMARY

For companies that sell products and services across a wide geographic range, indirect taxes are a nightmare to manage manually. The laws in thousands of state and local jurisdictions are constantly changing, and they include a wide array of complex exemptions that require documentation to take advantage of. And while enterprise resource planning (ERP) is a vital, powerful financial platform, its tax capabilities are limited. To calculate indirect tax accurately and rapidly, the enterprise needs an automated tax engine that stays up to date with changes to tax laws everywhere they do business.

Taxes are one of the only two things that are certain in life,

according (most famously) to Benjamin Franklin. Modern businesses know this saying can be amended: indirect taxes are both certain and increasingly complex. The tax code is constantly changing. Rates differ depending on the state, county, and even city where business is conducted, and there are a dizzying array of exceptions and conditions. It's already challenging to apply indirect tax without factoring in the need to stay current on thousands of different tax codes, and the penalties for mistakes can be severe.

Companies need to automate and simplify tax processes for both sales (customer invoices) and purchases (supplier invoices). No one wants to lose a sale or delay an order because the tax process is slow and cumbersome.

CIO KPMG workday. VERTEX

Companies also need to free up employees so they can focus on tasks that increase customer satisfaction and yield opportunities for growth. Researching and understanding the ongoing indirect tax law changes at the state and local level is a more than full-time job—bigger than any one person can handle. Traditional, largely manual tax solutions are simply not able to match the pace of the modern business.

Organizations must be able to calculate the sales and purchase process workflow automatically and accurately. Unfortunately, technological solutions at many organizations tend to be fragmented and localized. A piecemeal process makes it almost impossible to gather data on indirect taxes in a way that provides management with a holistic view of the entire organization. Ultimately, one small tax error, when scaled across hundreds or even thousands of transactions, can wind up being extremely costly.

The benefits of automation

An automated, enterprise-wide approach has the dual benefit of avoiding human error while enabling organizations to keep up with tax law changes in the more than 15,000 jurisdictions in the U.S. alone. Seventy-seven new tax laws hit the books in the U.S. in the second half of 2022, and there were 255 changes made to existing laws. In 2021, there were 606 new and changed tax laws, the highest number of changes since 2018.[1]

But these raw numbers don't fully capture the head-spinning complexity of indirect taxes, because the laws themselves often require the application of many different conditions and exemptions. During certain times of the year, for example, local jurisdictions may enact tax holidays to increase economic activity or select products may be exempt from taxes if they are bought for a specific purpose.

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"When it comes to not collecting sales tax due to exemptions, the burden of proof is on the seller and the taxpayer," Jason Warren, Partner Solution Engineer at Vertex, says. "You'd better have documentation of the exemption if the state audits, but it can be difficult to know which documents to collect. Some states have different types of documents for different exemptions in different industries. Plus, these exemption documents have a lifespan, so there needs to be a renewal plan in place. If you're doing it on your own you have to be an expert in what documentation to collect, how to collect it, and how to maintain it."

For instance, let's say an organization wants to buy software "seats" for employees that are based in different states. These are taxable in some states, but non-taxable in others, so without current information on the respective states where the software seats will reside, the software vendor may charge too much or not enough for taxes. If a company purchases equipment in one state but then transfers it to another, that movement must be tracked and accurately assessed to ensure the proper amount of tax is paid.

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[1] Vertex. "2022 Mid-Year Rates and Rules Report." 2022. https://www.vertexinc.com/resources/resource-library/vertex-inc-2022-mid-year-sales-tax-rates-and-rules-report. Retrieved 10 January 2023.

There's no room for error, as mistakes can lead to serious consequences where indirect tax is concerned. Lag time in processing taxes can delay sales transactions, and in an e-commerce situation, it may cause the buyer to abandon their cart. Inaccurate tax calculations can also harm customer relationships, especially if it's an enterprise customer who discovers they face back taxes and penalties because of a seller error. Even small errors can cascade across numerous transactions and result in considerable over- or underpayments. Mitigating and recouping these payment errors is complicated and time-consuming.

Role of the ERP

ERP platforms are a foundational financial and operations system for most enterprises, but their tax capabilities are limited. They typically include tax rates for tangible personal products only, summarized tax reporting, and the manual creation, maintenance, and assignment of the tax table to customer, supplier, and item records.

Organizations that depend on the limited indirect tax capabilities within their native ERPs introduce significant risks, including audit exposure from manual processes and the likelihood of human error. The cost of staff hours spent on compliance can be enormous. And the manual maintenance of the complicated, changing nexus of tax laws is a heavy burden. Mistakes are almost certain to occur.

"As we're putting in a new ERP, too often we see that tax is an afterthought," Joni Johnson-Powe, CPA and Partner at KPMG, says. "Tax needs to be a part of the discussion up front, so the systems involved in making those calculations are configured accurately to minimize risk. Going back after the fact can be more costly than implementing it during the original deployment of the ERP."

Of course, as the central hub for finance operations, the ERP needs to reliably calculate, collect, and document indirect tax—but to do so in an automated way it will need to integrate with a tax engine that can provide additional capabilities. These capabilities include:

- Details on local tax jurisdictions
- Automated updates for changing tax laws, rules, and regulations
- Automation of complex indirect tax calculations on all products and services
- Exemption management
- Automated creation of tax returns and remission of sales and use tax collected

"The Workday ERP platform is a vital tool that provides a lot of advantages to the enterprise," Ted Chamberlain, Principal of Product Strategy at Workday, says. "Our entire ERP platform is built on a unified data core—you don't have all these different data stores that have to be stitched together—and we were born in the cloud, so it's very easy to scale up or down. With taxes, we do some basic calculations, but keeping track of all the different regions and authorities is not our specialty. That's why we partner with experts like Vertex."

Workday and Vertex

Vertex's indirect tax solution integrates effortlessly into Workday Financial Management. After installing the Vertex integration into Workday Financial Management, a user can add the Vertex tax calculation step at any point in the supplier or customer invoice process. Like Workday, Vertex is cloud-based, so it's not only extremely scalable, but also places almost no additional burden on IT teams. And with the help of integration partner KPMG, the deployment process is smooth and customized to meet each customer's individual indirect tax needs.

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Calculated tax is visible on both customer and supplier invoices, with the ability to drill down to line-level by rate and jurisdiction details. Vertex uses numerous factors to calculate indirect tax, including the revenue category, sales item, ship-to address, and cost center. And it's not only a valuable tool for vendors—the solution can self-assess taxes paid to suppliers to ensure that the buyer is paying the correct amount. All this data can be leveraged as a powerful sales analysis and forecasting resource.

But likely the most valuable and powerful feature of Vertex is its expansive tax content, which is constantly updated in real-time to keep current tax calculations for every state and local jurisdiction. All told, Vertex has more than 700 million ready-made, up-to-date, data-driven rules, so there's no need for the enterprise to spend time, resources, or money on tax research. Plus, these rules are easy to customize as needed. The customer is never locked into Vertex's rules alone.

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Because there's no research required to get up to speed on indirect taxes, Vertex and Workday remove barriers to expansion into new regions, even outside of the U.S. Vertex's tax content covers not only North America, but also Latin America and EMEA.

With Workday as their ERP and Vertex integrated into it as the tax engine, an organization can fully automate indirect tax calculation, even for extremely complex situations—and it all takes place from within Workday. And because automation increases accuracy, organizations will significantly reduce their tax audit risk. Tax friction is eliminated from the buying process because tax calculation is immediate and, of course, there's a complete, automated reporting system for compliance. Customers are happier because tax payment is fast and accurate, and in the case of an audit, Vertex's document and records management capabilities ensure smooth sailing.

Manual or siloed tax calculation carries significant risk for enterprises. By integrating an automated, consistently updated tax engine into an ERP such as Workday, organizations can increase accuracy and tax calculation speed and, ultimately, reduce risk.

To learn more about a comprehensive indirect tax solution for Workday, visit Vertex.

About Vertex
Vertex 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 1,300 professionals and serves companies across the globe.

About KPMG
KPMG is a global organization of independent professional services firms providing Audit, Tax and Advisory services. We operate in 143 countries and territories with more than 265,000 partners and employees working in member firms around the world. Each KPMG firm is a legally distinct and separate entity and describes itself as such. KPMG International Limited is a private English company limited by guarantee. KPMG International Limited and its related entities do not provide services to clients. Click here to learn more.

About Workday
Workday is a leading provider of enterprise cloud applications for finance and human resources, helping customers adapt and thrive in a changing world. Workday applications for financial management, human resources, planning, spend management, and analytics are built with artificial intelligence and machine learning at the core to help organizations around the world embrace the future of work. Workday is used by more than 10,000 organizations around the world and across industries — from medium-sized businesses to more than 50% of the Fortune 500. For more information about Workday, visit workday.com.