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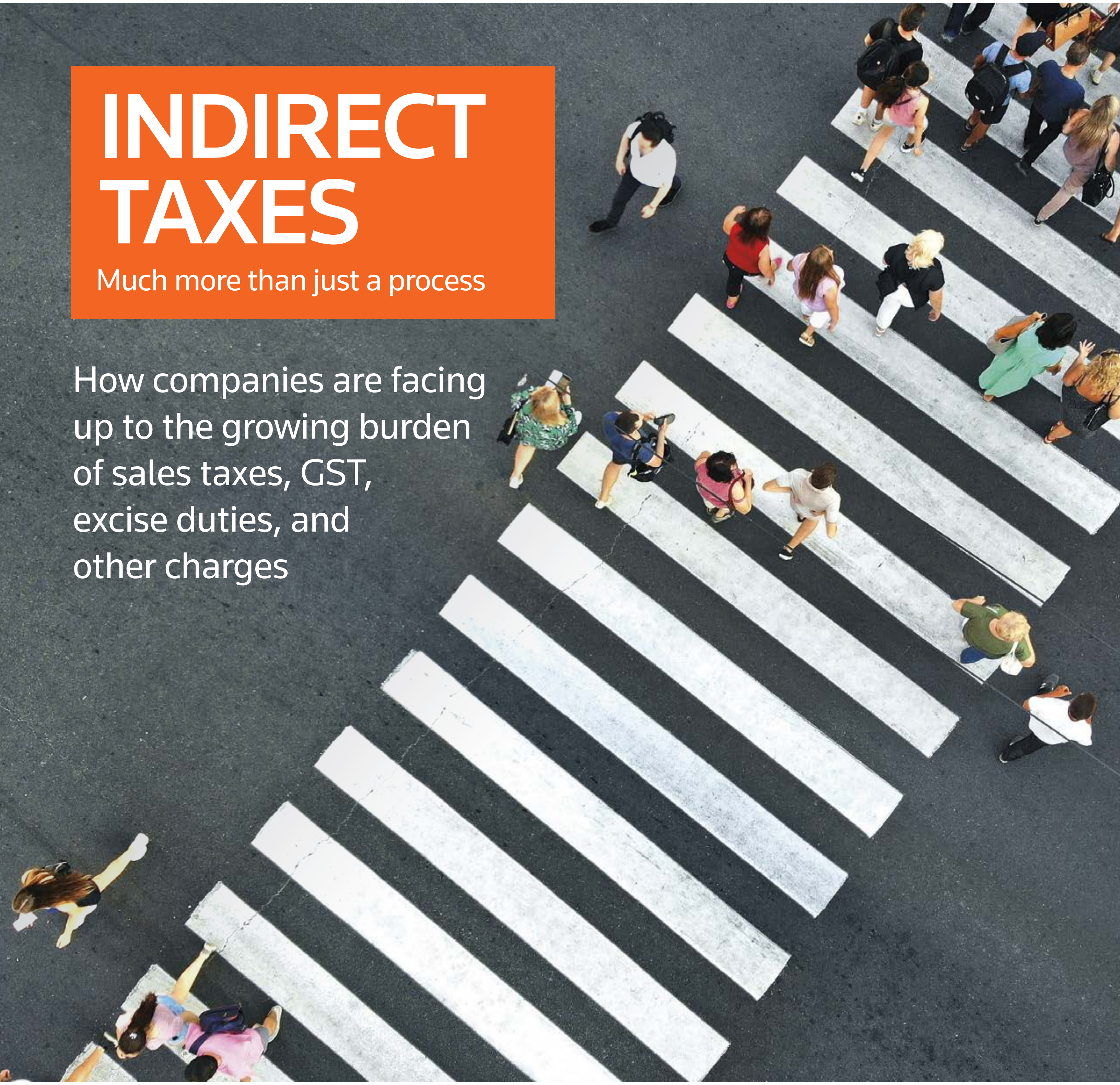

INDIRECT TAXES

Much more than just a process

How companies are facing up to the growing burden of sales taxes, GST, excise duties, and other charges

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> “They can actually affect the bottom line — it’s not just in and out, which is what a lot of people think.”

We interviewed more than 30 tax directors around the world, some responsible for all taxes, some just for indirect taxes, in a variety of industries:

- 6 Energy & Natural Resources
- 6 Retail, Consumer & Distribution
- 5 Technology
- 4 Automotive & Manufacturing
- 3 Business Services & Media
- 2 Financial Services
- 2 Construction
- 2 Healthcare/Pharmaceutical
- 2 Not For Profit

Our thanks to all who participated, and to the *Tax Executives Institute* for their support.

EXECUTIVE SUMMARY

Indirect taxes pose an increasing risk to companies, but with the right investment in talent and technology, indirect tax teams can move beyond compliance to add value by improving customer relationships, cashflow, and risk mitigation.

When we ran our annual *State of the Corporate Tax Department Survey* in March, a significant number of respondents (80%) told us that they see particular challenges in the world of indirect tax, especially around people, process, and technology. To investigate this further, we had in-depth discussions with a number of tax managers in large companies around the world, to identify what these challenges are and how best companies can deal with them.

Based on these conversations, there is no doubt that for companies operating in multiple jurisdictions with a variety of products and services, the indirect tax burden is increasing. It's not only a question of governments wanting to raise more money — they are also expecting companies to collect it on their behalf, quickly and accurately. Penalties for late or inaccurate filing can be severe and will hit both cashflow and the bottom line. And the rise of e-commerce and digital products brings added complications.

Many tax teams are under great pressure as they try to ensure compliance, while battling internally with manual processes and poor data, and, externally, with demands from the tax authorities.

Risks — financial and reputational — are high.

The indirect tax burden is increasing.

But our interviews also revealed significant opportunities. The indirect tax teams work with almost every other department within the company, and their expertise and knowledge can add real value beyond simply complying with indirect tax regulations. Handled properly, the wealth of data the teams manage provides a unique insight into a company's supply chain, customer behavior, and cashflows. These tax pros also have an important role to play in acquisitions and new product development. Almost all the people we spoke to were eager to move from a pure compliance function to a more advisory role; however, this would probably only happen if they were fully confident that they were compliant everywhere.

This usually means more automation. It also means investment in people; and in our conversations, there was considerable debate over whether tax department leaders wanted more tax expertise or — in an increasingly digital reporting world — more technology expertise. Generally, the preference was for tax expertise, but everyone felt that tax specialists would need to develop their technology skills, especially those who struggle to get support from their IT departments.

Respondents were clear on the benefits of automation: reduced risk of human error, time savings, fewer or no penalties, and an improvement in reclaims. They also highlighted some of the key issues they had experienced with implementing technology and the lessons learned, such as, crucially, getting their data sources in order, minimizing customization, and involving all users as early as possible.

A small number of the tax leaders we spoke to have made the transition to a strategic advisory role, with compliance fully automated, either in-house or externally. Their concerns are about how they can help the business grow in the future. For the majority, however, their immediate concerns are more about being compliant in an ever-changing world, with imperfect systems and processes. They are still on the journey.

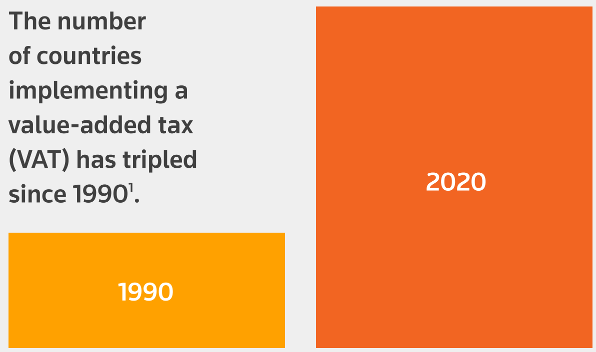
INTRODUCTION

Indirect taxes have a long history — the ancient Greeks and Romans had consumption taxes — and the number of countries implementing a value-added tax (VAT) has tripled since 1990. As a proportion of the overall tax take, sales taxes have risen to an average of between one-quarter and more than one-third across countries that are members of the Organisation for Economic Co-operation and Development (OECD). As governments seek to repair their balance sheets after the pandemic, we can expect an even greater role for indirect taxes as they shy away from more politically sensitive taxes, such as those on income or corporate profits. In addition, some governments see indirect taxes as a way to change behavior — witness the U.K.'s so-called "sugar tax" and the much-discussed carbon tax.

With governments seeking to extract every additional dollar possible without upsetting voters, indirect taxes offer a relatively easy way to change and add rules quickly, as well as forcing the burden of collection on companies rather than on individuals or the state. Further, governments are applying stiff penalties for firms that fail to comply with ever-changing and ever-increasing regulations.

Small wonder, then, that leaders of corporate tax teams view the growth of indirect taxes with such concern.

The number of countries implementing a value-added tax (VAT) has tripled since 1990[1].



Definitions of indirect taxes

"*The art of taxation consists in so plucking the goose as to procure the largest quantity of feathers with the least possible amount of hissing*," said Jean-Baptiste Colbert, the French Finance Minister, 1665-1683. In many ways, indirect taxes represent the pinnacle of Colbert's art, generating fewer headlines than income tax or corporate taxes but still representing a significant proportion of the tax take.

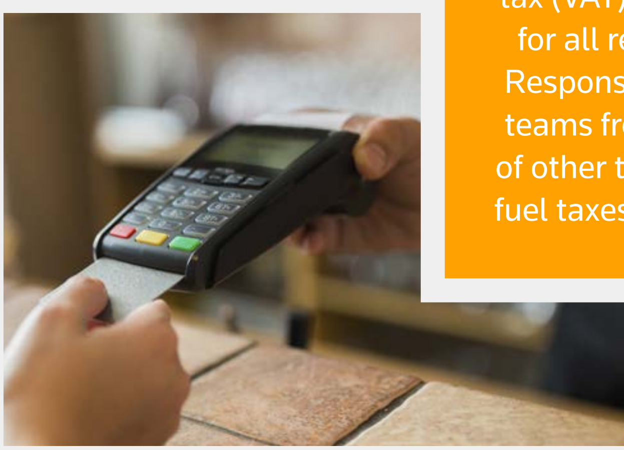
Indirect taxes are generally defined as those that are collected on behalf of the tax authority by one entity, but actually paid by another. Although VAT and goods and services tax (GST), and equivalent sales and use taxes, were the primary concern for all respondents in the survey, their responsibilities within indirect tax teams frequently included a range of other taxes such as excise duties, fuel taxes, royalties, and land taxes. In the U.S., many states apply additional charges, such as Washington's Business and Occupation Tax, or Oregon's Corporate Activity Tax. And although these are not, strictly speaking, transaction taxes, they still fall within the remit of many indirect tax managers, adding to their burden. Several of the companies we spoke to are also bringing environmental taxes — such as those levied on the use of carbon or plastic — into the remit of the indirect tax team.

This report on indirect taxes and their impact on corporate tax teams is broken down into three parts:

1. The growing challenges faced by indirect tax teams
2. The role of indirect tax teams in the organization and the skills needed to meet the challenges
3. The use of technology to support indirect tax teams

[1] OECD (2020), Consumption Tax Trends 2020 : VAT/GST and Excise Rates, Trends and Policy Issues / Annex A. Countries with VAT - (Accessed on October 12 2021)

Sales and use tax and value-added tax (VAT) were the primary concern for all respondents in the survey. Responsibilities within indirect tax teams frequently included a range of other taxes such as excise duties, fuel taxes, royalties, and land taxes.



PART ONE: A GROWING CHALLENGE

Respondents highlighted four areas that present a particular challenge in indirect tax, including:

- Keeping up with global and regional changes and growth
- Managing the increasing power and reach of the tax authorities
- Understanding historic unknowns
- Handling the impact of e-commerce and digital products

Let's look at each of these challenges in turn.

Keeping up with global and regional changes and growth

"My major worries are around extra-territorial VAT and GST rules — I have 150 different tax jurisdictions to keep track of and some, such as Russia and India, can be very difficult."

Consistent with the larger *State of the Corporate Tax Department Survey*, which found that keeping up with tax reforms was the most common challenge faced by tax teams, our indirect tax conversations showed the pace and scale of change in indirect tax regulations to be the number one concern for most indirect tax managers.

Within this there were many variations. For multinational corporations, for example, the biggest challenge tends to be the number of different countries that tax teams have to follow, each with its own regulations. Certain countries came up regularly as being a source of anxiety due to the complexity of their rules, the frequent changes, or the difficulties in dealing with the authorities. This was compounded by the number of different products companies sold, many of which would have different rates of tax or even exemptions, varying from one jurisdiction to another.

> "Never underestimate how hard and challenging keeping up with tax regimes can be."

In the U.S., respondents highlighted how quickly individual states would add or change rules. Indirect tax "*is a very fast changing area of taxation*," said one respondent. "*States are always finding new ways to pull more taxpayers into the tax rolls. Once one state has an idea that seems to work, you can expect the other states to do something similar*."

For those companies experiencing significant growth — either by acquiring companies in new jurisdictions or expanding their sales into new markets — the challenge for tax teams was keeping up with their company's move into countries with tough penalties for late or inaccurate filing. If the tax department wasn't brought into discussions early, it often meant fast remedial action to ensure the company was "*registered and compliant before the authorities get to us.*"

Managing the increasing power and reach of the tax authorities

"Tax authorities are becoming more aggressive, so there are challenges there we need to address — the compliance burden is increasing worldwide — how do we mitigate that burden? That brings you into automation, so we can be more responsive to the authorities."

All survey respondents referred to the growing burden imposed by indirect tax authorities. This wasn't just about the amount of money due, though as governments try to balance their books this is clearly going to increase. It is also about the speed with which government tax agencies expect the tax to be reported and paid by companies — in real time, often in advance; and more and more governments are relying on companies to act as tax collectors on their behalf.

But there's a bigger issue that several respondents — especially those with a more sophisticated approach to indirect tax — mentioned, and that is that indirect taxes provide the authorities with a huge amount of data on a company's activities. Increasingly, tax authorities are using this data, in combination with other data, to build a comprehensive picture of a business's tax liabilities, and even share it with tax authorities in other countries. Companies that don't have, or don't fully utilize, the technology to track their own transactional data may find that the tax authority has a better visibility of their business than they do themselves.

Many respondents saw the building of a trusted relationship with tax authorities as a key part of their role, and several highlighted the importance of their reputation with governments and the wider public in being a good corporate citizen. Paying the right amount of tax at the right time in a transparent way is a crucial part of this — even more important than any corporate and social responsibility initiatives.

"Remember that tax authorities have all our indirect tax data and will link it to other tax data. We need to be on top of our own data because the tax authorities are."

"The truth of the matter is now tax authorities are using a lot of different indirect tax reports to hoover information out of a business."

Understanding historic unknown unknowns

"We had a sales tax audit in a state, and there was some exposure there. So, what keeps me awake is, what else is out there?"

Another leading cause for concern, especially for those tax leaders who may be relatively new in their role or in a company that's growing by acquisition, was the risk of hidden and historic problems. These include errors in reporting or complying with local tax rules that haven't yet come to light, and which might lead to government audits, controversies, and penalties.

For most respondents, this concern is rooted in lack of confidence in the underlying data upon which they rely. This was particularly true of those who do not use tax technology — but even those who do use tax technology had concerns around this. "The tax engine is only as good as the data that comes into it." Although many firms have sophisticated central enterprise resource planning (ERP) systems from which they draw data, they still struggle with multiple legacy systems and different sources of data. Tax teams are also often dependent on colleagues in other departments to input data correctly — for example, deciding whether or not a particular sale is VAT exempt. "*The sales teams vary in how accurate they are at inputting the data*."

"I expect to recover $150 million in indirect taxes in the next two years now that we have addressed inaccuracies in our ERP system.**"**

Continual education of other teams is required. "*You can't expect customer service operatives and people in the sales team to have that level of knowledge and expertise — that's why we are here to support them*." Even where all teams have agreed upon the mandatory data fields in purchase and sales ledgers, tax teams can't always be sure that data has been completed correctly.

Additionally, for tax teams in large companies with multiple legacy systems, cleaning up the data before it enters the tax process takes up a lot of their time. "*That is our main pain*," said one respondent. Another commented that the company's tax team "*spends too much time checking spreadsheets and handling data, not interpreting or analyzing it*."

A leading cause for concern was the risk of hidden and historic problems, rooted in a lack of confidence in the underlying data upon which they rely.

Handling the impact of e-commerce and digital products

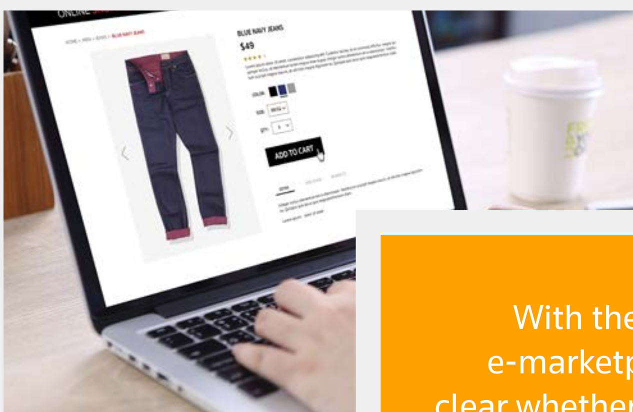
"Any country planning a Digital Services Tax is problematic, because you don't know how they are implementing it."

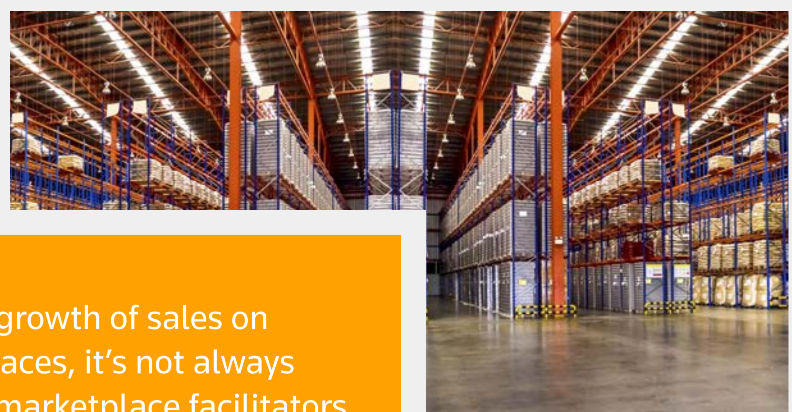
The fourth area of concern, which affected about one-quarter of firms we interviewed, is the impact of e-commerce and digital products. And while this has grown in importance in the past year due to changing buying patterns caused by the global pandemic lockdowns, for many it dates back to the 2018 *Wayfair* case, in which the U.S. Supreme Court ruled that a company does not need to have a physical presence in a state in order to be liable for local sales tax collection. The selling of digital products or services adds further complications as firms have to decide which legal or regional entity to use. With the growth of sales on e-marketplaces, it's not always clear whether marketplace facilitators (such as Amazon, Microsoft, etc.) are responsible for indirect taxes and, if so, whether they have applied the correct VAT or sales tax rate. And with facilitators' use of fulfillment centers in different countries, it's not always clear which country's rate should be applied.

"Human or non-human intervention – that's a huge topic today.**"**

For companies without a physical product and in cases where there may be no real-time human interaction — for example, with online training or gaming — it's often difficult to know what rates should apply in which jurisdiction. As one respondent put it, while governments usually differentiate such sales by the level of human interaction, "*there is no unified or consistent definition of electronic services worldwide*."

For most respondents, meeting these four challenges was fundamental to ensuring full compliance; and only at that point could they move confidently from a compliance process to a more advisory role, involved in all major strategic decisions.





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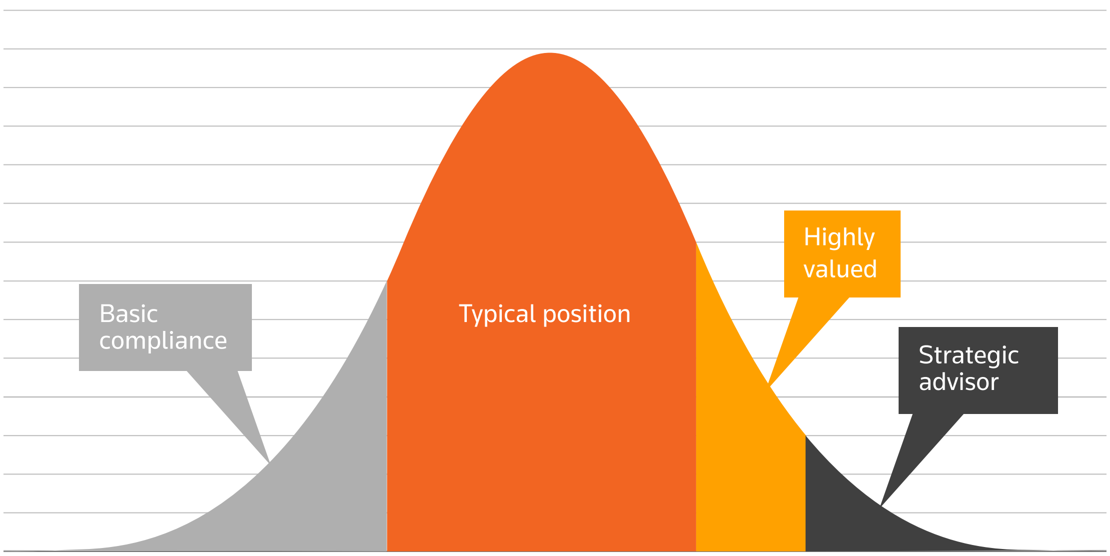
PART TWO: THE ROLE OF THE INDIRECT TAX TEAM

Discussions with tax team leaders on the role, status, and skills of the indirect tax team raised three issues:

- Their relationships with, and involvement in, other departments' activities, especially at a strategic level
- The move from compliance to advisory
- The changing skills required, especially technology



Again, let's look at each of these issues in turn.

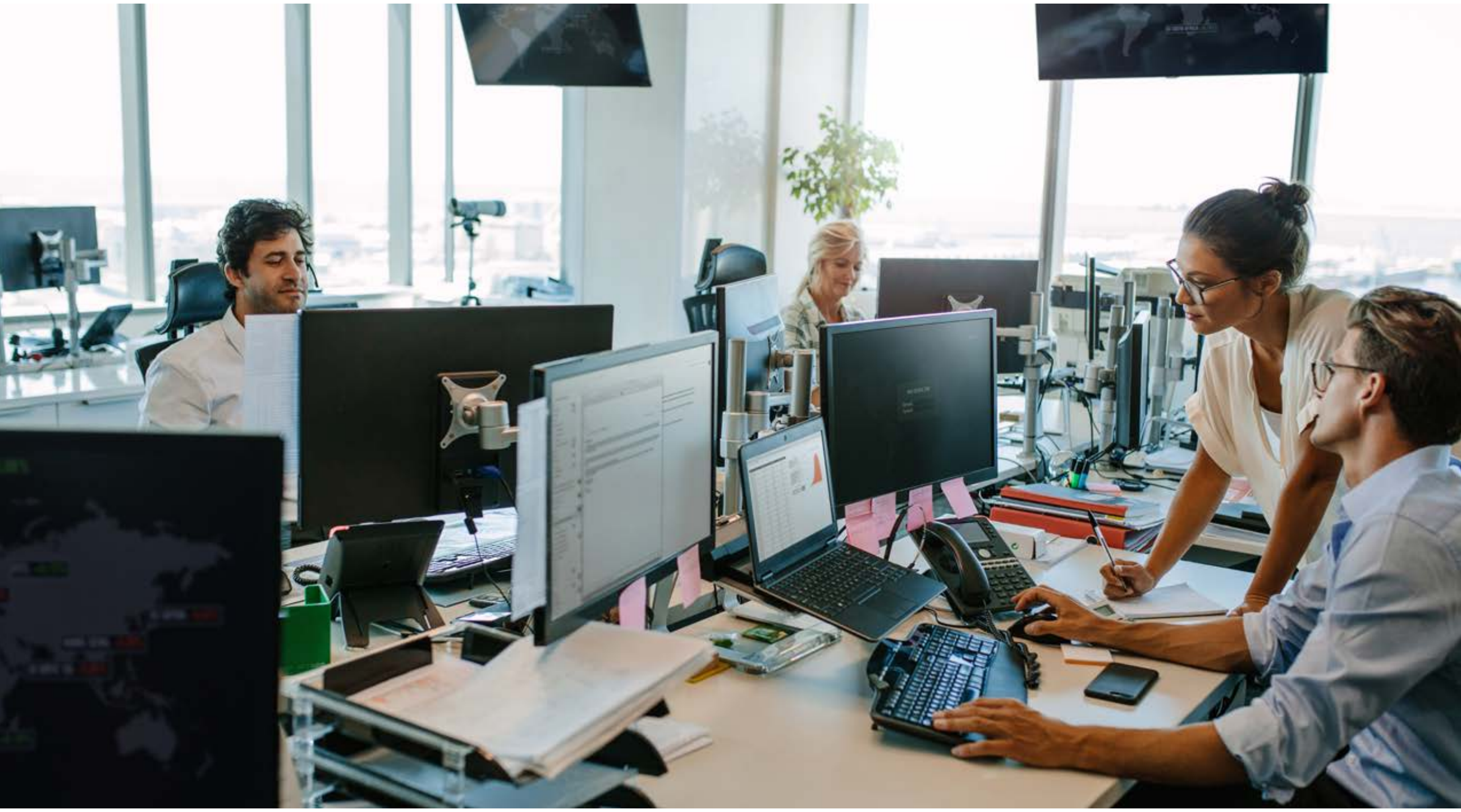
Status of the indirect tax team: Working with the business

A few respondents said they felt their tax function was not really appreciated within the organization, instead being seen as a necessary but bureaucratic burden on the business. At best, it was not noticed because it was all going smoothly, at worst it was a source of time-consuming requests for data and explanations for something that added nothing to the bottom line.

"I doubt it's even noticed as long as nothing goes wrong."

"We're probably seen as a bit of a burden, which is frustrating because it affects career development and bonuses, etc., if your role is seen as a burden."

But these views were in the minority. Most respondents said they felt respected and valued by colleagues, and several were closely involved in strategic discussions on acquisitions, new product launches, and market entry early on in the process. This was partly due to being able to focus on value-adding advice once the business had ensured full compliance with regulations (usually through the application of a technology solution); and partly due to being able to demonstrate financial returns in the form of reclaimed taxes. Indeed, one firm leader talked about reclaiming $150 million in back taxes that had not been possible before they had introduced a new system. Another said the team is looking at recovering up to $500,000 a year in VAT that was too tedious and time consuming to reclaim before they, too, brought in a new service.



A small number of individuals play a much more strategic role, solving issues around compliance by outsourcing or offshoring those duties alongside investment in technology, allowing them now to concentrate on more value-adding services to the business. Unlike the majority of those we interviewed, the worries of these more strategic individuals are about the future ("*What are the implications of environmental taxes?*") or providing the right advice ("*Am I doing as much as I can to help them make well-informed decisions?*").

Relationships with other departments varied, again often dependent on whether systems allowed tax leaders to focus on value-adding advice or whether they spent their time fielding or issuing requests for data clarification. All said they had close working relationships with Accounts Payable and Accounts Receivable, but many also worked closely with customer-facing teams, Procurement, and Legal colleagues.

"I don't know if they [M&A advisors] have proper tax officials on their teams and know the laws of all the different countries but they do miss stuff."

There was a clear sense from many that they can, and are seen to, add value by advising on how best to structure contracts for the benefit of customer relationships, or how to organize new market entry and pricing.

Many also were involved in mergers and acquisitions (M&A) work, and a common plea was that CEOs should involve the tax function early as part of the due diligence team. "*Indirect taxes won't stop a deal going ahead, but they might change the way we do an acquisition.*" One commented that the team's role in acquisitions too often involved remedial action after the deal was done and indirect tax problems came to light.

Moving from the compliance process to strategic advice

Many of the tax team leaders we interviewed talked of their desire to develop a more strategic role. Indeed, when we asked about their five-year goals, two-thirds of respondents said they planned to increase automation. For most, however, this was simply a stepping stone to becoming more strategic, using the technology to improve the analytics and reporting they can offer the business. Almost half also talked about developing the skills within their own team to do much more than simply crunch the numbers. Technology, one said, would free up resources to "*do better analysis to find the root cause of discrepancies and fix it at its source*."

This reflects respondents' recognition of the wealth of business information they have at their fingertips, if only such data could be accessed easily and if the team had covered its basic challenges of compliance. As several pointed out, this data not only provides an insight into tax-related issues, but also provides visibility of the company's whole supply chain and significant parts of its customers' journey. Few other data sets in the organization would allow you to drill right back to individual transactions across the whole business, said one.

Some of the areas where respondents indicated that indirect tax teams can add value include:

- Avoiding penalties and maximizing reclaims
- Supporting customer service with accurate invoicing
- Predicting cashflows and providing visibility on supply chains and customer behaviors
- Offering due diligence and structuring advice on acquisitions and new ventures
- Crafting pricing strategy on new product development
- Addressing indirect tax challenges early while preparing for change
- Leading relationships with tax authorities

Tips for making the transition

- It takes time, training, and constant communication.
- Get a C-suite champion — it helps if there's a larger scale digital transformation process going through all tax or even finance.
- Make sure compliance is under control by using as much standardization as possible, with clear standard operating procedures and checks in place for whomever is running compliance.
- Understand the business: Know your colleagues, know their business strategies, and their needs beyond tax.
- Develop soft skills within the team, such as analytical and communication skills. Ensure that the mindset is "*How can I help the business?*", not just "*This is what the tax rules say.*"
- Create a single "source of truth" — a single data hub.
- Combine tax expertise with tech expertise.

"You can't do indirect taxes properly if you have no real contact with the business."

Attracting and retaining talent, and the need for technology skills

"When you are paying tax professionals a lot of money you want them to do activities that reflect their expertise, not just extracting and manipulating data — they're tax professionals, that's not what they want to do."

One of the consequences of the focus on data handling, rather than analysis and planning, is frustration with career opportunities. Most of the companies we interviewed ran fairly small indirect tax teams, but many planned to increase their headcount and wanted to be sure that they could offer interesting work and an attractive career path to prospective hires.

For many companies, developing their tax team was a key goal over the next few years. This is likely to involve working on soft skills — strategic analysis and communication in particular — as well as hard skills in tax and technology.

Several respondents talked of the three skillsets they want to see in their indirect tax team members — legal, accounting, and technology — and highlighted that it was technology where they had the greatest skills gap.

"*That's the big debate,*" said one of the respondents to a question about whether to hire tax experts and teach them about technology, or technology experts and teach them about tax. Generally, there was a preference for the former: "*Understanding tax is more important, they can learn about technology*."

There was also a strong sense that the new generation of tax experts are already well qualified in technology. "*Smart tax people can understand the basics of IT*."

However, a few respondents said they welcomed the idea of a different perspective and felt that the tax technicalities were not so complex. "*I can teach anyone the tax technicalities; I can't teach them the technology*." Another said, "*One advantage is that tech people bring a new perspective*."

Discussion of technology skills brought in the role of the IT department in indirect taxes, and it was interesting to hear a mix of views on the relationship with and involvement of IT departments in supporting the indirect tax function. For many respondents, it was not always a positive or satisfactory arrangement. They often felt they were a low priority for the IT team which did not recognize their regulatory obligations.

"We must have control of what we are reporting [to the authorities] — we cannot compete with other teams for IT time or resources as we have to report on a monthly basis."

The feeling of missing support was not universal, and some tax team leaders spoke highly of their relationship with the IT team and the support they received. One referred to working with the head of IT on a daily basis to identify and reclaim millions of dollars in overpayments. Overall, however, many prefer to establish their own IT expertise within tax. "*I'm still waiting for IT support — I'm now trying to do it within our team, so I don't have to rely on IT*."

The recognition of the importance of technology skills highlights the value respondents see in much greater automation, a key goal for almost all corporate tax departments.

"I would love to have people thinking about the business more strategically — how to reduce tax burden and protect us from controversy — instead of just bureaucratic processing going through different files, spreadsheets, and data sources."

"We've both implemented software on our own before — we're millennials, and tech is not a scary thing for us. We need more tax support, not software support."

"People who are handling indirect tax compliance will need to change from being tax experts and start hiring system people who understand what the systems are doing and can translate that into the compliance process."

"I cannot choose not to deliver to a deadline just because another department had priority over me."

PART THREE: INDIRECT TAX AND TECHNOLOGY

Almost every tax team leader we spoke to recognized the potential of technology to improve things, but noted the difficulties of getting approval and the challenges of implementation.

Making the business case for a technology solution

All respondents who wanted to move their tax function to a more value-adding role saw technology as fundamental to improving their work. Automation brings two crucial benefits: first, it minimizes the risk of human error; and second, it saves time by reducing the need for cross-checking and manipulating spreadsheets.

Most companies we spoke to use some form of indirect tax software, but there were significant variations in what such software was used for, whether it was a global or local solution, and the extent to which it was fully utilized. There's no particular pattern as to which firms use technology and which don't, although larger businesses — especially those in the technology sector and those with U.S. headquarters — tended to be more likely to use technology.

The decision to adopt a technology solution was usually triggered by two issues. First, recognition that something was badly wrong — for example, a negative audit resulting in penalties, realization of significant and continual overpayments, awareness of time being wasted on correcting errors. This was often compounded by pressure, either explicit or implied, from tax authorities, such as following an audit that highlighted shortcomings in control processes or more generally with a national drive to greater automation such as the U.K.'s Making Tax Digital. The second issue was the company's business growth outstripping the capacity of the indirect tax team to manage workflow using the existing systems. While M&A played a significant role for some tax departments, the rise of e-commerce tended to be the major driver in this category. In a small number of cases, the decision to adopt technology was part of a wider upgrade of systems across the finance function.

There was widespread agreement, however, that too often any move to adopt technology solutions in fact required a *burning platform* — something going wrong — to get management's attention.

For management teams used to approving technology investments on the basis of headcount reduction, intangible benefits such as greater control and being able to focus on more value-added work may not matter as much. "*It's very hard to quantify the value of a greater sense of control and visibility*," said one respondent. Alongside the sense of frustration that it might take a major problem for technology investment to be approved was an acknowledgment that it didn't help to keep quiet about problems that were being managed, if not solved, on a daily basis. "*We must get better at communicating our needs in real time*," said another. "*It's no good mentioning it long after you've managed to solve the problem.*"

Nonetheless, once the danger had been identified, making the business case for introducing a technology solution tended to be fairly straightforward. For most, it simply required a clear cost and time versus benefit analysis. Once a firm recognized the current approach was inadequate for a changing world, approval was usually quickly given. "*It was easy when we could show consistent overpayments of over $1 million hitting our cashflow.*"

"Management realized the existing system of localized manual data gathering was full of inconsistencies and inaccuracies and under constant time pressure, which meant the team could not serve the business properly.**"**

"If we had a huge bottom-line hit [from a penalty], then … we will get more attention.**"**

Recommendations for making the business case

"It's not about hard savings — [it's] more about control and risk mitigation, which are very hard to quantify. But they will want to see hard data. We were helped when we found an $8 million gap due to miscoding of tax rates."

If you're going to make the business case for additional investment in technology solutions for the tax department, it is critical to follow a few key steps:

- **Create the *burning platform*** — Tax teams should be ready to show the risks of waiting until something goes wrong, such as the penalties for inaccurate filing, or the impact on customer relationships if invoices are wrong. Teams should also highlight the benefit of a good reputation with tax authorities for being a reliable tax-paying company.
- **Perform a cost/benefit/risk analysis** — Team leaders should show how much time individual tax team members are spending on checking spreadsheets, data handling, and correcting errors. Also, highlight the bottom-line cost of any penalties incurred or tax that cannot be reclaimed, and compare this to the cost of a subscription to a software package.
- **Highlight the tangible benefits and opportunities** — The opportunity to improve efficient cashflows, add to the bottom line with fewer costs or penalties, and identify more tax credits should all be highlighted. Teams should show how they will be able to create the ability to reach and serve customers easily in more markets by having the right tax technology in place.
- **Demonstrate the intangible benefits and opportunities** — Team leaders should also be able to demonstrate how reduced risk, greater visibility at a transactional level – including an audit trail for every transaction – and reduced time spent dealing with errors and queries will allow the tax team to focus on more value-adding work by advising the business on strategic tax issues. They can also point to supporting talent development and retention, with well qualified tax staff no longer spending time on mindless data checking but engaged in more interesting work.

"The cost is insignificant compared with the hit of a Significant Global Entity penalty if we get it wrong or file late."

Key features

Expectations of an indirect tax system are much the same as for any IT system. Tax team members want something that is user-friendly, easy to learn, and accessible with a limited number of layers or clicks to go through before getting to the key data. Survey respondents said they also wanted something that takes into account the complexities and peculiarities of their business without requiring excessive customization.

In addition, respondents highlighted several features specific to indirect taxes that they would like to see in any new solution, including:

- A single, global solution, preferably available in the cloud
- Automatic updating of rates and rules, especially on e-invoicing and e-filing
- A single source of data on indirect taxes for all countries
- Data on how digital services and e-marketplaces are being handled by authorities
- Real-time reporting, both internally (management) and externally (tax authorities)
- A single dashboard, such as a "tax cockpit" of analytics
- Allow for scalability — making it easy to add markets or products
- Exemption certificate management
- Synergies with other systems

Those that don't have technology

The reasons for not using technology — offered by about one-third of the companies we spoke to (and excluding those that had built their own system or outsourced it to an accounting or consulting firm) — ranged from skepticism that new technology solutions would add value through to the common dilemma of waiting behind other priorities, often the implementation of a new ERP system. And a few respondents questioned whether such systems could cater for their particular industry requirements.

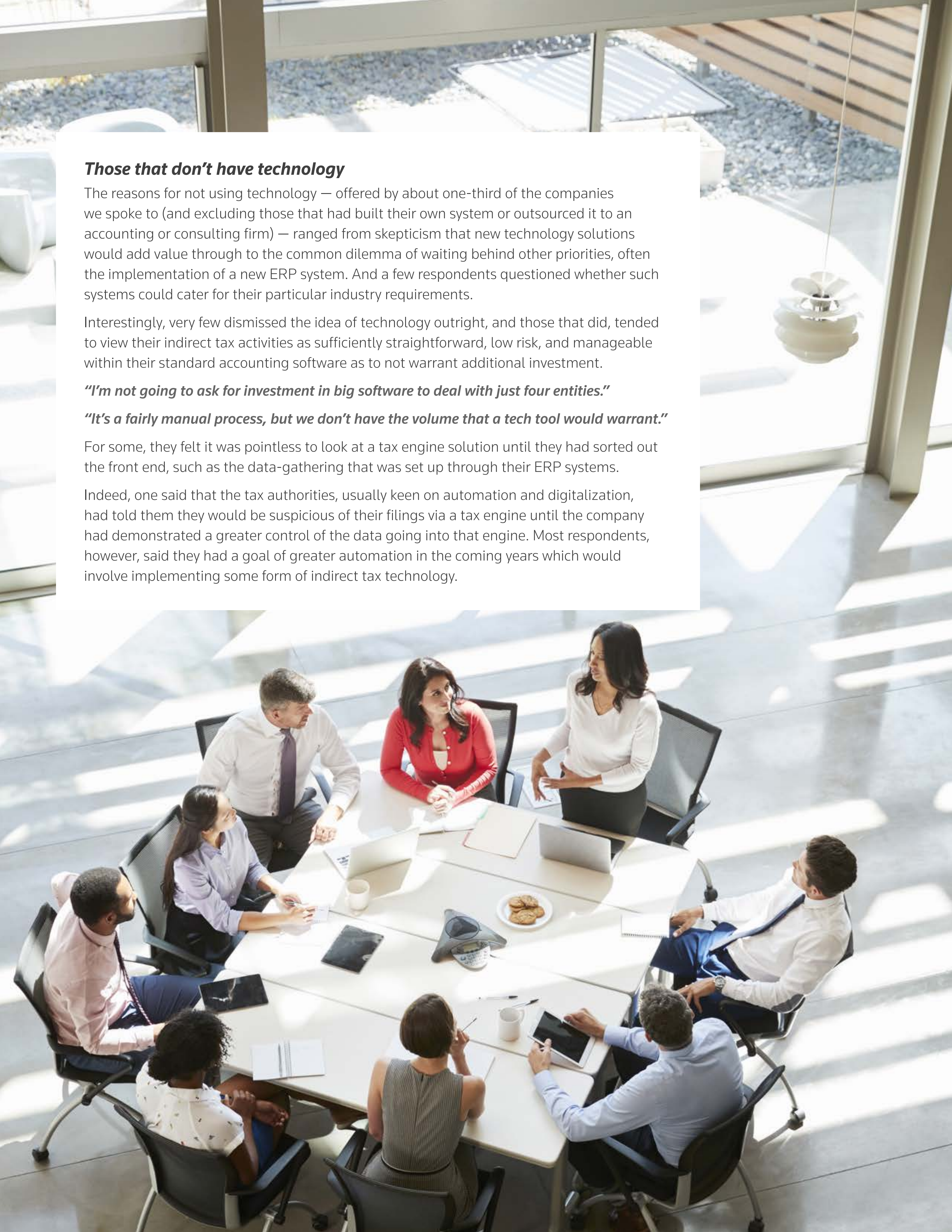
Interestingly, very few dismissed the idea of technology outright, and those that did, tended to view their indirect tax activities as sufficiently straightforward, low risk, and manageable within their standard accounting software as to not warrant additional investment.

"I'm not going to ask for investment in big software to deal with just four entities."

"It's a fairly manual process, but we don't have the volume that a tech tool would warrant."

For some, they felt it was pointless to look at a tax engine solution until they had sorted out the front end, such as the data-gathering that was set up through their ERP systems.

Indeed, one said that the tax authorities, usually keen on automation and digitalization, had told them they would be suspicious of their filings via a tax engine until the company had demonstrated a greater control of the data going into that engine. Most respondents, however, said they had a goal of greater automation in the coming years which would involve implementing some form of indirect tax technology.



Implementation

Based on our interviews with corporate tax team leaders, there were two key lessons on implementation.

First, fix your data sources — The firms we spoke to that were furthest along the journey towards a more advisory role had created data hubs (or "data lakes") that pulled together all the necessary data from the various ERP systems that might exist. (Indeed, very few had a single ERP "source of truth.")

And while a new investment in an ERP system can be a good trigger for a new tax tech investment, it's unwise to run these complex implementation programs in parallel unless you have plenty of resources. Clearly, many thought it was better to delay the tax tech implementation. Almost all respondents stressed the value of sorting out problems upstream to better reduce problems downstream.

> "We have to position ourselves at the origin of the information to ensure that processes are VAT-sensitized."

Second, keep very close to the process so you know what's being done — Several respondents talked about running a successful implementation program, however, after the consultants left, the in-house team found it didn't know the full details of how the system had been customized. Their advice: Keep as much expertise in-house and within the tax team as possible.

Other recommendations from respondents included:

- Make sure you have a senior sponsor in both Finance and IT
- If you engage implementation consultants, ensure they have experience in both indirect taxes and your particular ERP system
- Establish a clear handover procedure from the implementation consultants
- Minimize customization
- Test every scenario you can think of
- Get the most up-to-date version of the software possible
- Educate and involve all users as early as possible, enlisting them from all functions and all geographies
- Allow more time and budget than you initially imagined

> "If you update or change something, you don't know what you might be breaking somewhere in the system."

CONCLUSION

Over the course of conducting the interviews and analyzing the results, several key takeaways have emerged through the data. First, the direction of travel is clear: For any business operating across borders, with multiple products and e-commerce channels, the indirect tax burden is going to increase.

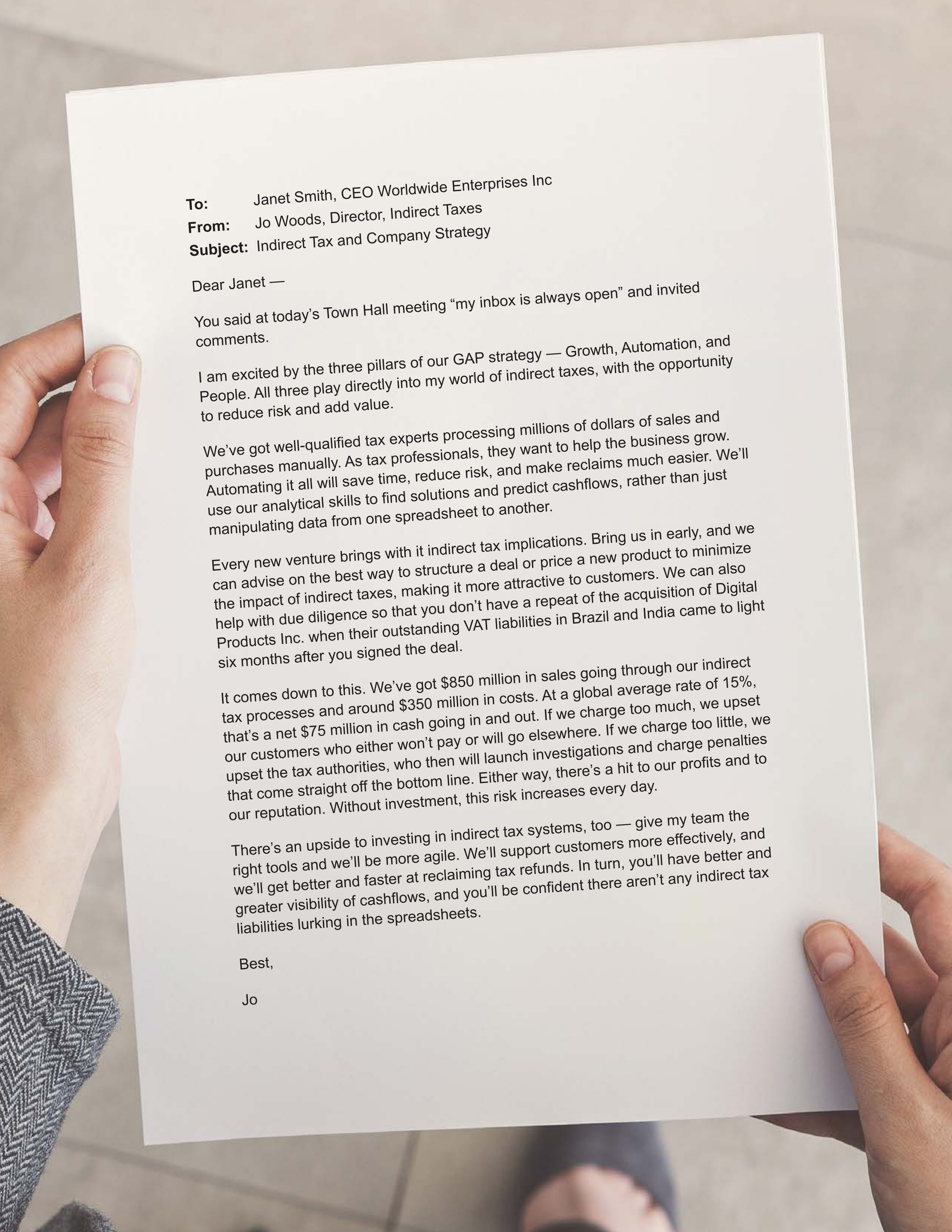
As a result, company boards need to wake up to this new reality and recognize that indirect tax — something they might have seen as a simple process in the backwaters of the finance function — is becoming more complex and more demanding of resources than in the past. They also need to be aware of the risk that lies in financial penalties, missed opportunities, and reputational damage with customers and with the tax authorities if indirect tax processes are insufficiently robust.

And it's not just about mitigating a growing risk. There's also an opportunity in a company's indirect tax function, especially for those companies looking to benefit from digitalization and the potential use of large volumes of data paired up with artificial intelligence-driven tools. Used properly, the data underlying indirect tax systems provides a unique, up-to-date insight into a business — its cashflows, its supply chains, and its customer activities.

While maximized use of a company's indirect tax function will take an investment in time, technology, and talent, for those tax teams and their boards that make such an investment, the returns are clear: reduced risk, improved financial performance, and better use of professional expertise.

"If you don't have a system in place today, I can't imagine the amount of time, effort, and risk mitigation that's needed," said one respondent. "If you're a decent sized business, you've got to have a sales tax management solution in place — get it done ASAP — the subscription is cheap compared to the value it provides."

Many respondents talked about what they'd like to say to their CEO. We imagined what the email might look like in this sample letter to a CEO, shown on the next page.


To: Janet Smith, CEO Worldwide Enterprises Inc
From: Jo Woods, Director, Indirect Taxes
Subject: Indirect Tax and Company Strategy

Dear Janet —

You said at today's Town Hall meeting "my inbox is always open" and invited comments.

I am excited by the three pillars of our GAP strategy — Growth, Automation, and People. All three play directly into my world of indirect taxes, with the opportunity to reduce risk and add value.

We've got well-qualified tax experts processing millions of dollars of sales and purchases manually. As tax professionals, they want to help the business grow. Automating it all will save time, reduce risk, and make reclaims much easier. We'll use our analytical skills to find solutions and predict cashflows, rather than just manipulating data from one spreadsheet to another.

Every new venture brings with it indirect tax implications. Bring us in early, and we can advise on the best way to structure a deal or price a new product to minimize the impact of indirect taxes, making it more attractive to customers. We can also help with due diligence so that you don't have a repeat of the acquisition of Digital Products Inc. when their outstanding VAT liabilities in Brazil and India came to light six months after you signed the deal.

It comes down to this. We've got $850 million in sales going through our indirect tax processes and around $350 million in costs. At a global average rate of 15%, that's a net $75 million in cash going in and out. If we charge too much, we upset our customers who either won't pay or will go elsewhere. If we charge too little, we upset the tax authorities, who then will launch investigations and charge penalties that come straight off the bottom line. Either way, there's a hit to our profits and to our reputation. Without investment, this risk increases every day.

There's an upside to investing in indirect tax systems, too — give my team the right tools and we'll be more agile. We'll support customers more effectively, and we'll get better and faster at reclaiming tax refunds. In turn, you'll have better and greater visibility of cashflows, and you'll be confident there aren't any indirect tax liabilities lurking in the spreadsheets.

Best,

Jo

APPENDIX:

Here is a more detailed view of the sample demographics for our survey:

Interview sample:

In March 2021, we undertook our annual survey of corporate tax departments, receiving replies from more than 800 companies — mostly in the U.S. and Europe. Our survey covered all sectors, but included a particular focus on manufacturing and technology. We followed the survey with a series of in-depth interviews on indirect taxes with more than 30 organizations across the world and across different sectors:

Respondent location

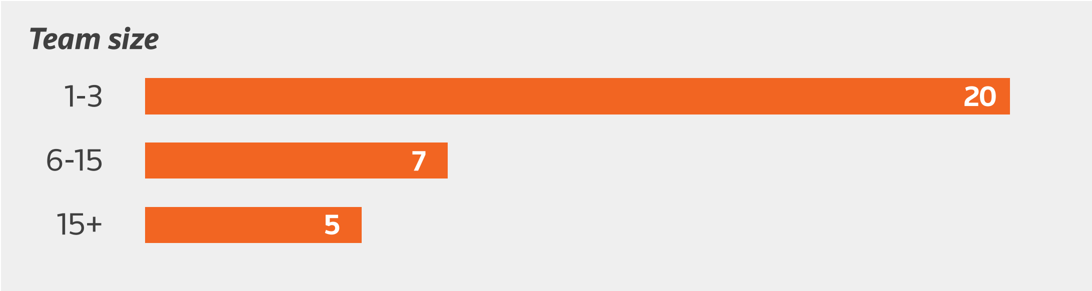
Economic sectors

- 6 Energy & Natural Resources
- 6 Retail, Consumer & Distribution
- 5 Technology
- 4 Automotive & Manufacturing
- 3 Business Services & Media
- 2 Financial Services
- 2 Construction
- 2 Healthcare/Pharmaceutical
- 2 Not For Profit

Revenue size

About one-half of our interview respondents had been in their current role for at least three years and were responsible for all taxes, not just indirect taxes; and most had come from a previous indirect tax or in-house corporate tax position. For those with a particular focus on indirect tax, several also had responsibility for tax technology across all taxes.

The majority of companies had very small teams dedicated to indirect taxes — usually between 1 and 3 individuals. In a few of the largest companies, day-to-day indirect tax activities were handled by a finance operations team sitting in a shared service function, while a senior individual oversaw indirect tax planning and strategy.



The companies to which we spoke were evenly split when it came to those going through significant change and those whose businesses have been relatively stable over the past year. Almost all had embarked on a process of digital transformation; some with a specific, company-wide project, and others either focused on one area or still in the planning stages of the transformation.

For the companies that said they were experiencing considerable change, there were two main drivers: a great increase in digital activity and e-commerce, often accelerated by pandemic-related lockdowns; and a burst of fast growth, usually through M&A activity.

Both of these factors — e-commerce and M&A — have had a significant impact on the indirect tax function.

Use of indirect technology

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