How to future-proof your tax team

The vision of a thriving transactional tax compliance department

Avalara
Tax compliance done right

GUIDE

Introduction

Your tax team has successfully navigated a rapidly changing regulatory landscape and the surge in online sales from global consumers – a trend that promises to only intensify in the years ahead.

As a result, your people face more manual and time-consuming tasks related to compliance, such as rate calculation, exemption management, returns filing, and electronic invoicing, for a number of tax types: sales and use tax, income and property taxes, value-added tax (VAT), and goods and services tax (GST). The list is seemingly endless.

Even as your team adapts, tax complexity is evolving. What's expected of a tax team today? What do they need to know in addition to tax? Keeping up means getting help, like automation and outside resources.

Since the United States Supreme Court's decision in South Dakota v. Wayfair, Inc. in 2018 opened the floodgates to expand tax obligations, the complexity of tax compliance has grown and automation has become an increasing necessity to save time and money. At the very least, with automation, teams will be able to concentrate on staying up on ever-changing tax laws and work that adds value.

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.

TAX INDUSTRY

Complexity and a changing tax landscape

There was a time when businesses had more control over their sales and use tax obligations than they do today. They could more easily oversee a small liability footprint, often by maintaining a limited number of physical locations in a few states. A controlled footprint made keeping up with changes to sales tax rates, regulations, and reporting requirements fairly straightforward.

Tax departments of all sizes now face a changed landscape. In the U.S., the Wayfair decision ignited a state-by-state wave of economic nexus legislation that laid the groundwork for increased sales tax obligations. At the same time, organizations of all sizes embraced an ecommerce business model.

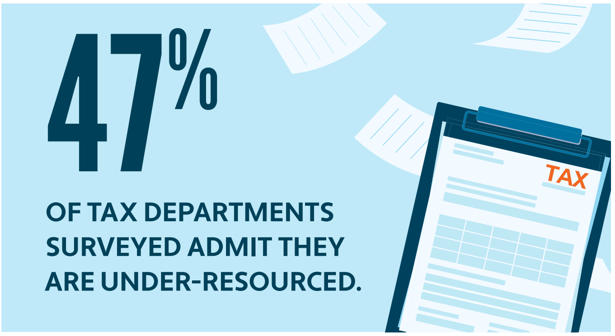
EVEN DEPARTMENTS THAT ONCE HAD THE SMALLEST BASES OF TAXABLE ACTIVITY NOW HAVE ACCESS TO NEW SALES OPPORTUNITIES – AND NEW TAX OBLIGATIONS – ACROSS THE U.S.

In Europe, value-added tax (VAT) is applied all through the supply chain to the end user, unlike sales tax in the U.S. which is applied at the point of sale. VAT continues to evolve even as the Organisation for Economic Co-operation and Development pushes for cross-border taxation changes, including the growing concept of digital taxes.

Within certain industries, such as technology and telecommunications, tax departments must consider situs, the location in which a taxable event occurs. A technology company selling online support, for instance, must consider where it has individual customers, support personnel, and support centers, and even where the physical infrastructure exists to provide the company's products. Any one of those locations could trigger a different taxable event.

COVID-19 AND OTHER RECENT DEVELOPMENTS HAVE NOT HELPED.

In a study for Avalara, market researcher **Hanover Research** found that organizations surveyed claim the ongoing pandemic (61%), economic events like recession and inflation (45%), and supply chain disruption (44%) impacted their tax or finance departments within the past 12 months. According to another recent report by Thomson Reuters, a leading source of news and information, nearly half (47%) of corporate tax departments surveyed admit they are under-resourced for technology, resources, and hiring, particularly in firms with revenue of $50 million to $6 billion.



More importantly, almost three-quarters (72%) of businesses with under-resourced tax departments surveyed incurred a tax audit in the previous year, compared to 61% of overall tax departments. Nearly half (47%) also incurred tax penalties, with an average value of $40,000 – double the median penalty of $20,000 incurred by all tax departments Clearly tax departments have complex challenges – and need tools to meet them.

TAX AUTOMATION

How automation addresses teams' increasing needs

Global trends signal a shift in how companies are doing business and how other kinds of organizations are conducting themselves.

AUTOMATION IS A BIG FACTOR IN MORE EFFICIENT OPERATIONS AND PROCESSES, INCLUDING TAX COMPLIANCE.

No matter the type of organization, most tax departments have largely similar responsibilities, such as tax returns and compliance, internal support and tax consulting, transaction taxes, and income taxes. Recognizing these and other task areas specific to organizations is the first step in applying technology and automation.

According to the Hanover study, organizations are likely to find these tasks time-consuming – yet only a quarter of tax or finance departments surveyed automate budgeting and forecasting. IT departments are initiating automation for this task in the future, especially at North American organizations. Clarifying how the tax team supports the overall organization is the first step in determining what areas can and should be automated, especially as organizational leaders consider how to free resources for other initiatives. Increased automation and reliance on shared service centers are the top choices for tax leaders looking to leverage lower cost resource models for routine tax compliance work. Automation can also help solve the everyday tax challenges that cost a team time and money.

AS TAX COMPLIANCE COMPLEXITY GROWS, SO DOES THE NEED FOR AUTOMATION.

Three-quarters of organizations recently surveyed have invested in new technology in response to external factors and half of those organizations have worked to increase automation:

- Organizations are investing in more technology tools and solutions to close overall gaps in efficiency (71%) and efficiency gaps directly related to tax management (69%).
- Enterprise organizations (85%) are more likely to invest in new technology in response to external factors than small and midsize organizations (64%).
- Enterprise resource planning (ERP) systems are also gaining popularity, with the major advantages being centralized data, easier collaboration, and less process time.

According to the Avalara guide **The future of business**, many companies are entering a second stage of their digital transformation, leveraging technology that can analyze and contextualize data while breaking down data silos created from legacy infrastructure.

While artificial intelligence is the obvious next wave in tax department technology, its applications are still in the development stage. Avalara is the first tax compliance software provider to work with OpenAI to build an integrated plugin for ChatGPT. The plugin will allow users to ask the platform to calculate and research sales tax rates based on their location.

Suppose an East Coast buyer or seller wants to know how much sales tax applies to the sale or purchase of $150 of taxable goods in Seattle? A simple question to ChatGPT and it will leverage the Avalara sales tax calculator plugin to get the answer: $15.37.

TAX AUTOMATION

Automation blueprint

According to consulting and accounting firm Deloitte, initial ways automation can help a tax department might include:

- Using natural language processing and machine learning to make classifying data faster, more accurate, and with clear audit trails
- Saving labor costs for rote tasks and to balance workloads
- Analyzing and tracking data from thousands of employee activities for cost savings and to find other pain points
- Redeploying work hours of tax departments who typically spend much of their time gathering and manipulating data

Hanover Research notes that one-third of organizations in its survey have IT departments initiating automation for budgeting and forecasting (31%), which is time-consuming, and managing audits (31%), which is usually done manually.

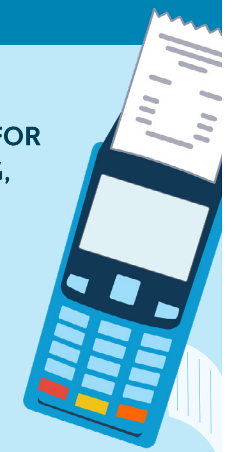
SOME DEPARTMENTS ARE NOT ADOPTING AUTOMATION.

Organizations are most likely to automate payroll management (41%), yet more than half of organizations manually manage audits (59%) and sales tax exemption certificates (53%), to name two typical compliance-related tasks.

Technology is ranked one of the most effective ways to reduce risk for a corporate tax department, but it requires a plan for the most effective – and long-lasting – application. Disappointment can come easy in the wake of initial success. After identifying areas where automation is needed, defining clear, expected outcomes from the implementation (with timelines) comes next.

31%

OF IT DEPARTMENTS ARE INITIATING AUTOMATION FOR BUDGETING, FORECASTING, AND MANAGING AUDITS, WHICH IS USUALLY DONE MANUALLY.



SOURCE: HANOVER RESEARCH

Though details of implementation will be different with every organization, there are a few general guidelines:

TEMPER EXPECTATIONS	ASSESS SKILLS AND CAPACITY	CONSIDER SCALABILITY	LOOK FOR MORE THAN SOFTWARE
Effective metrics need to be meaningful, measurable, and reasonable.	Engage with employees that are interested in training or are tech-enthusiastic.	Automated solutions are scalable to the needs of large or small operations.	Accounting and tax departments must consider strategic partnerships in every external interaction.

TEMPER EXPECTATIONS

High hopes for deep or organization-wide savings will likely not be met – making abandonment of the new technology almost inevitable. From the start, tax departments should be careful to not sabotage the benefits of automation for tax information flow and the potential to free tax departments to concentrate on both internal and external value adds.

A **recent report** from American multinational technology corporation IBM maintained that effective metrics provide transparency to the impacts of automation and enable team members to monitor how they are progressing against expectations. Effective metrics need to be meaningful, measurable, and reasonable, often using quantifiable values, such as 10% or one-third rather than vague verbs like improve or streamline.

ASSESS SKILLS AND CAPACITY

Not everyone on a team needs to be trained on the new technology. Train only those that will work with it. Alternatively, ask employees if they are interested in this training or whether they would want to work on some other job function that may not require the training. Making these assessments can also help minimize adoption failure.

When deploying new technology, be prepared to encounter five groups of employees: tech-enthusiastic innovators (2.5% of workers), more cautious but still enthusiastic early adopters (13.5%), the pragmatic, evidence-minded early majority (34%), the wait-and-see late majority (34%), and laggards (16%). Tailor an approach for each group, with the first three being your priority.

CONSIDER SCALABILITY

Automated solutions are scalable to the needs of large or small operations, whether managing compliance for a handful of lower-complexity horizontal departments or thousands of employees throughout most departments in an organization. Simplified accessibility through easy-to-use tools and dashboards streamlines processes for licensing, research, internal dissemination of information, and other tasks of tax departments.

LOOK FOR MORE THAN SOFTWARE

Accounting and tax departments must consider strategic partnerships in every external interaction, including outside vendors that provide automation. These partnerships should be chosen bearing in mind additional training that a tax team might need and opportunities for collaboration with the vendor on external initiatives.

TAX TEAM

The modern tax team

What besides technology should the tax team of today (and tomorrow) need to know? And how can technology help those teams keep ahead?

- Even as 72% of companies worldwide have mandated a return to the office, remote work is here to stay in some form. Remote workers can create new nexus obligations, depending on where they are based. Therefore, tax departments need to stay on top of the evolving question of nexus. Here, automation can help.
- In addition to an eye for detail and an ability to handle deadlines, the tax department professional will have various skills. For instance, they will have deep tax technical knowledge, understand tax authority expectations, and know industry practices. The tax technologist will be tech savvy and data savvy and act as a translator between tax and tech specialists. The strategic advisor will be the forward-thinking translator between tax and business, with a commercial mindset and an ability to simplify the complex.
- Leading company executives (the C-suite) generally want many more tax specialists who can learn technology than technologists who can learn tax. Consulting and accounting firm KPMG noted, “While accountants and tax attorneys will always remain the backbone of the tax profession, C-suite leaders are realizing data is the key to unlocking value from their tax departments and are beginning to seek out technologists and data scientists for certain parts of their organization.”
- Though the C-suite may need overall education about automating the tax department, they seem eager to spend: A recent KPMG survey of C-suite executives revealed that almost three out of every five (59%) respondents are already using AI technology in their tax or finance department and that two out of five plan to invest $10 million or more for their tax function within the next year.

MOST TAX TEAMS ARE EAGER TO AUTOMATE

In short, “the modern tax department has a different seat at the leadership table than it did in the past,” said David Linke, Global Head of Tax and Legal, KPMG International. “As a department of versatile, tech-savvy strategists, the tax department of the future has its eyes around the corner and has the opportunity to be every company’s hidden advantage.”

72%

OF COMPANIES HAVE MANDATED A RETURN TO THE OFFICE, BUT REMOTE WORK IS HERE TO STAY IN SOME FORM.

SOURCE: *UNISPACE*

Solutions for the 21st-century tax team

Transactional tax compliance remains incredibly complex, and many businesses struggle to maintain compliance. Yet there are great opportunities for tax departments and their organizations equipped for these challenges.

Avalara has a vision for organizations looking to achieve these goals: a suite of purpose-built tax compliance automation solutions to enable tax teams to streamline and manage new client services. Avalara's indirect tax solutions cover domestic and international tax calculations across a range of tax taxes.

Avalara AvaTax uses automation to make tax determination faster, easier, and more accurate. The cloud-based tax calculation software applies regularly updated rates based on geolocation, item taxability, new legislation, tax regulations, and more. It automatically calculates rates for sales and use tax, customs and duties, VAT, GST, communications tax, excise tax, consumer use tax, lodging tax, and beverage alcohol tax.

Avalara Returns automates sales tax return preparation, filing, and remittance. It also allows a tax team to obtain detailed reports for state and local liability and can help minimize disruption if an organization should be audited.

Avalara Tax Research provides updates on transaction tax rules, rates, and regulations to help with tax decisions in both the U.S. and abroad. It helps a tax department stay ahead of potential audits with audit defense support and access to tax explanations and citations for relevant statutes and legislation.

Avalara Exemption Certificate Management (ECM) is a next-generation solution that helps tax teams reduce risk and drive efficiency in a key area of tax compliance. ECM Premium lets teams track certificate expiration and proactively request new ones, reduce potential errors through automated workflows, automate validation efforts to improve accuracy, and respond to audits quickly and with confidence.

It also reduces the time required to collect, review, and manage certificates, minimizes the effort to track tax laws and expiration dates, reduces administration time to review and validate certificates, and eliminates IT and security costs to maintain in-house systems.

In 2021, the European Union introduced the Import One-Stop Shop (IOSS) system to simplify VAT registration requirements for selling into the EU. With the Avalara IOSS solution, businesses can trade into all 27 EU member states with one VAT registration and get quicker, easier "green channel" customs clearance, among other features.

Avalara E-Invoicing and Live Reporting helps operations grow overseas in compliance with e-invoicing regulations for more than 60 countries.

Avalara Property Tax minimizes a team's time spent on data entry, maximizes accuracy, and automates appending property tax documents to tax bill payments.

About Avalara

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, ecommerce, and other financial management system providers, Avalara delivers cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, GST, excise, communications, lodging, and other indirect tax types. Avalara has offices across the U.S. and around the world in Brazil, Europe, and India.

More information at avalara.com.