COMMUNICATIONS TAX AGILITY IN THE FACE OF CHANGE
DIMINISHING RISK AND POSITIONING FOR GROWTH

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As businesses of all types expand their product and services mix to include voice, video, SMS and connectivity services, the complexity of their tax structure changes. Business are seeing increased tax complexity, but also an increased prevalence of their taxes, resulting in an increased need to account for changes, particularly the addition of communications taxes. Best-in-Class companies have positioned themselves well to handle these changes, both internal and external. In addition to the benefits Best-in-Class companies are experiencing from calculation and reporting automation, cloud-based tax management solutions, and unified platforms, this report covers the building blocks for organizations to remain agile and compliant in today’s dynamic communications environment.

The Changing Communications Environment: Internal and External

The footprint of communications tax is rapidly expanding. Due to business growth, expanding product portfolios, and regulatory changes, the only constant for many companies is change. These shifts, especially internal ones, are abundant. For instance, many companies are integrating new features subject to communications tax into their non-communications products, while others are merging or acquiring other companies or undergoing other internal infrastructure changes exposing them to communications taxes that they wouldn’t have encountered previously.

Externally, these businesses must remain agile to keep up with changing technology, innovation, and new regulations. New technology means improvements for products or entirely new ones, which in turn is likely to cause increased confusion and complexity for taxes, especially communications taxes. With these changes, many policymakers are coming up with additional ways to expand taxes to include new technology and innovations. Ultimately, as trends shift, companies need to be aware of the possibility that they may someday become liable to communications taxes.

As a result of this fluctuating landscape, Aberdeen’s survey shows 67% of companies rate their concern with keeping up with tax and regulatory

Communications Tax Management in 2021

In Oct./Nov. of 2021, Aberdeen surveyed 254 individuals with knowledge of communications tax management activities. Top industries included:

- Business or industrial equipment platform with IoT – 28%
- Managed service provider – 26%
- General software or SaaS provider with integrated communications features – 13%
- Other (including collaboration tools, cable/ISP, connectivity & cloud, streaming, etc.) – 34%

The Aberdeen maturity class framework is comprised of three groups of survey respondents. This data is used to determine overall company performance. Classified by their self-reported performance across several key metrics, each respondent falls into one of three categories:

- Best-in-Class: Top 20% of respondents based on performance
- Industry Average: Middle 50% of respondents based on performance
- Laggard: Bottom 30% of respondents based on performance

There may be references to a fourth category, All Others, which is Industry Average and Laggard combined.
changes a seven or higher on a 1–10 scale, and 81% expect to be required to collect and file communications taxes in the next two years. Common challenges to overcoming the daunting task of remaining compliant with communications tax include determining which services are subject to tax and lack of internal expertise (Figure 1).

**Figure 1: Top Internal Challenges with Communications Tax**

<table>
<thead>
<tr>
<th>Challenge</th>
<th>% of respondents experiencing each challenge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficulty determining which services are subject to tax</td>
<td>29%</td>
</tr>
<tr>
<td>Lack of internal expertise</td>
<td>26%</td>
</tr>
<tr>
<td>Lack of efficiency in tax calculation and reporting processes</td>
<td>25%</td>
</tr>
<tr>
<td>Inability to stay up to date on regulatory changes (e.g. rules &amp; rates)</td>
<td>24%</td>
</tr>
<tr>
<td>Difficulty managing exemptions/certificates</td>
<td>22%</td>
</tr>
</tbody>
</table>

% of respondents rating each challenge a “4” or “5” on a 1–5 scale of difficulty

As they incorporate new features or merge solutions to then make certain products taxable from a communications standpoint, these organizations need help controlling their tax environment and determining what they are required to calculate and report. Difficulty determining which services are subject to tax is not only the most common challenge—it is also rated as one of the most difficult challenges (see sidebar). With a lack of internal expertise resulting from the widespread skills gap between experienced tax experts who may be leaving the workforce and newcomers to the communications tax world, these organizations should look for SaaS partners who provide the support they need to effectively manage their communications taxes.

In addition to these two common struggles, organizations responsible for communications tax also lack efficiency in tax calculation and reporting processes, as well as the ability to stay up to date on regulatory changes, which is another top challenge in terms of difficulty (see sidebar). To remain agile in today’s tax and business environment, these organizations need to invest in technology to reduce time spent on tedious, manual tasks and improve their ability to quickly incorporate new...
regulatory requirements into their tax management processes. Tax exemption software can also help improve efficiency and accuracy for sales and tax assessments.

These internal process difficulties demonstrate the need for businesses to have more visibility and control over their taxes. But internal challenges are not the only thing standing in the way of better managing communications taxes. Companies have many external shifts in their business environment that impact their communications tax requirements. The most common environmental change organizations plan to experience in the future is regulatory changes (see sidebar), understandably so as legislation surrounding communications products and services has been developing recently within states and across the country. Expanding product portfolio is also a top anticipated change, however, Aberdeen’s research shows it is the change companies are most prepared to handle, with 92% of companies saying they are very or somewhat prepared to address the tax implications. Looking at level of anticipation and preparedness for change is interesting, but business impact plays an important role as well. Expanding sales footprint and M&A activities are expected to have the biggest impact on tax environments (Figure 2), as they often result in the expansion of rules and rates for various locations and products.

Figure 2: The Level of Impact Due to Environmental Changes

<table>
<thead>
<tr>
<th>Environmental Change</th>
<th>Significant Impact</th>
<th>Moderate Impact</th>
<th>Little to No Impact</th>
<th>Don't Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanding sales footprint into more states and countries</td>
<td>48%</td>
<td>43%</td>
<td>8%</td>
<td>2%</td>
</tr>
<tr>
<td>Merger and acquisition activities</td>
<td>47%</td>
<td>41%</td>
<td>11%</td>
<td>1%</td>
</tr>
<tr>
<td>Expanding sales channels</td>
<td>46%</td>
<td>39%</td>
<td>14%</td>
<td>1%</td>
</tr>
<tr>
<td>Expanding current product portfolio</td>
<td>45%</td>
<td>45%</td>
<td>11%</td>
<td>0%</td>
</tr>
<tr>
<td>Regulatory changes</td>
<td>44%</td>
<td>43%</td>
<td>13%</td>
<td>1%</td>
</tr>
<tr>
<td>Risk of an audit</td>
<td>37%</td>
<td>46%</td>
<td>16%</td>
<td>1%</td>
</tr>
</tbody>
</table>

% of respondents planning to experience each environmental change in the future

n = 254, Source: Aberdeen, November 2021

A higher level of impact is worth looking at for several reasons. Expanding products, footprints, portfolios, and changing legislature are all
far more complex issues than the risk of an audit. These are the changes that will affect the organization or environment the most, having the largest effect on day to day business. These changes are difficult to manage, making dedicated tax solutions a good way to help mitigate potential risks. With more jurisdictions, more sales channels, and more products and services to manage, many organizations are finding a need to invest in technology to support their existing or newfound communications tax management activities.

**Automation Boosts Tax Management Efficiency & Accuracy**

To identify the most influential solutions, it is important to look at the investments of those who are outperforming others in communications tax management. These top performers, defined by Aberdeen as the Best-in-Class by two key tax management metrics (see sidebar), are implementing automated to alleviate top internal challenges and remain resilient in the face of future external changes to their tax environment. Specifically, the Best-in-Class are more likely than All Others to have several automated tax solutions implemented, especially for processes like tax rate calculations, registration/taxability evaluation, and audit control (Figure 3).

**Figure 3: Best-in Class Tech Stack for Communications Tax Management**

<table>
<thead>
<tr>
<th>Solution</th>
<th>Best-in-Class</th>
<th>All Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax rate calculation solution</td>
<td>70%</td>
<td>58%</td>
</tr>
<tr>
<td>Registration/taxability evaluation tool</td>
<td>69%</td>
<td>49%</td>
</tr>
<tr>
<td>Audit control solution</td>
<td>61%</td>
<td>47%</td>
</tr>
<tr>
<td>Automated tax returns and filing</td>
<td>61%</td>
<td>50%</td>
</tr>
<tr>
<td>Tax exemption/certificate management</td>
<td>57%</td>
<td>51%</td>
</tr>
</tbody>
</table>

% of respondents with each solution currently implemented at their organization

n = 254, Source: Aberdeen, November 2021

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**Defining the Best-in-Class**

Percentage of respondents rating their overall tax compliance risk as negligible or slight:

- Best-in-Class – 81%
- All Others – 20%

Year-over-year decrease in total cost of audits, including fines / penalties / corrective labor:

- Best-in-Class – 26.2%
- All Others – 4.4%
Leveraging these tax management tools is critical for staying on top of the rapidly changing communications tax environment. The Best-in-Class can quickly and accurately prepare their taxes no matter what new products they offer or what state they offer those products in. These tools help take the complicated world of communications taxes and turn it into something far simpler and efficient.

In the communications tax environment, automation is critical for eliminating tedious, error-prone manual tasks, which boosts process efficiency and accuracy. More specifically, automated solutions for certificate management reduce the strain of tax management by streamlining certificate collection to speed up sales times and reducing the time to verify and validate accuracy. This helps the Best-in-Class ensure that no matter how many new states they expand into or how many new products they add, the tax rates that they use for their calculations will be correct because they will be generated automatically based on their locations and product mix.

As regulatory or legislation changes come up, it is much faster to implement those changes, if not instantaneously, with an automated solution than it is to change the rules and rates for an on-premises or in-house/homegrown solution. Thus, by leveraging automated solutions, the Best-in-Class handle their taxes faster and more accurately, so they can avoid penalties and spend their time on more strategic initiatives.

With automated tax management tools, the Best-in-Class are also better prepared to manage internal infrastructure changes. Updates such as the adoption of new billing systems, cloud migration, and integration or consolidation efforts often take a long time and can result in a myriad of errors as one system may not be as up-to-date as another. Automation promotes efficiency in these migration processes by ensuring all rules and rates are accurate across all systems even during infrastructure changes. Looking at all respondents, 87% plan to experience internal infrastructure changes in the next few years. However, among those planning on experiencing change, the Best-in-Class are 61% more likely to feel very prepared to handle changes, as they are leveraging efficiency-boosting technology such as automation.

Cloud Infrastructure is the De-Facto Standard

Leveraging the cloud is another great way the Best-in-Class as well as All Others are improving their tax management processes. Among Aberdeen’s survey sample, there is an infrastructure move to the cloud, with over 60% of all respondents using SaaS / Private cloud to deploy their tax management solutions. Furthermore, 51% of all respondents...
who are planning to implement new tax management solutions in the next one to two years plan to deploy those solutions in a SaaS or private cloud environment.

Utilizing the cloud gives organizations numerous advantages, ranging from data security to integration, that help them stay better positioned to handle changes (see sidebar). Since tax data is safely stored on multiple remote servers by utilizing the cloud, organizations that are responsible for communications tax and have invested in SaaS or private cloud for their tax management solutions don’t have to be as concerned about the safety and confidentiality of their tax data. By making the switch to cloud computing, the companies can also reduce operating costs, as well as take advantage of the cloud’s massive flexibility advantages. By leveraging SaaS, companies anticipate benefits such as increased security, improved reliability, and increased accuracy (see sidebar). While all respondents seem to be shifting to the cloud, the Best-in-Class in particular have recognized the value of the cloud for tax management and are more likely to deploy their calculations, reporting, and billing solutions via SaaS or private cloud (Figure 4).

**Figure 4: Deployment of Tax Management Solutions in the Cloud**

<table>
<thead>
<tr>
<th>Solution</th>
<th>Best-in-Class</th>
<th>All Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax calculations</td>
<td>76%</td>
<td>67%</td>
</tr>
<tr>
<td>Tax returns and filing</td>
<td>72%</td>
<td>67%</td>
</tr>
<tr>
<td>Billing platform</td>
<td>61%</td>
<td>61%</td>
</tr>
</tbody>
</table>

% of respondents deploying each solution with SaaS or Private Cloud

n = 254, Source: Aberdeen, November 2021

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**Top Anticipated Benefits of Leveraging SaaS for Tax Management**

- Security – 32%
- Reliability – 29%
- Quick set up – 18%
- Accuracy – 18%
- Processing speed – 17%

% of respondents
Another trend among the Best-in-Class is their usage of single platform solutions for their tax management activities. The Best-in-Class are 23% more likely than Laggards to use a single platform for their tax management activities. By keeping everything on the same platform, tax professionals can work faster, file earlier, and easily update data as they encounter new tax challenges. Single platform solutions help the Best-in-Class stay organized, work more efficiently, and thus make fewer costly mistakes while handling taxes.

**The Best-in-Class Realize Repeatable Results**

Prioritizing automation and improving internal operational metrics, along with other tax calculation, audit control, and certificate management solutions has placed the Best-in-Class above the rest. The Best-in-Class companies are more likely to have automated processes in place for calculating and filing taxes, as well as the ability to quickly pivot to support various internal and external changes. Because of leveraging SaaS and these automated processes, the Best-in-class can quickly and accurately scale and adjust their tax solutions as their needs change. SaaS allows for quick set up and deployment, as well as lower upfront costs. As a result, the-Best-in-Class are seeing greater decreases in time spent dedicated to monthly tax processing and tax filing compared to All Others (see sidebar).

Best-in-Class companies also have significantly less risk when it comes to tax calculations, tax returns, and tax exemptions compared to All Others. They are much more likely to rate their risk in tax returns, tax exemptions, and tax calculations as negligible or slight (Table 1).

**Table 1: Best-in-Class Risk in Communications Tax Compliance**

<table>
<thead>
<tr>
<th>Communications Tax Management Processes</th>
<th>Percent of respondents rating risk a 1 or 2 on a 1–5 scale</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Best-in-Class</td>
</tr>
<tr>
<td>Tax calculations</td>
<td>59%</td>
</tr>
<tr>
<td>Tax returns</td>
<td>70%</td>
</tr>
<tr>
<td>Tax exemptions/certificates</td>
<td>67%</td>
</tr>
</tbody>
</table>

Best-in-Class companies are 23% more likely than Laggards to use a single platform for all their tax management activities.

**Best-in-Class companies experience:**

- **7.4x** greater year-over-year decreases in time/resources dedicated to monthly tax processing and reconciliation
- **3.5x** greater year-over-year decreases in time/resources dedicated to monthly tax filing
By minimizing manual errors through automation, increasing agility to keep up with modifications to tax rules and rates through the cloud, and relying on a single source of truth with a unified platform for all tax management activities, the Best-in-Class feel more confident and secure in their tax compliance. These top performers are better positioned to eliminate inefficiencies and internal challenges, as well as address environmental changes to help them grow their business while remaining compliant.

Summary & Key Takeaways

With many companies expanding their product portfolio and sales footprint, they are now being exposed to ever-changing communications tax requirements. Additional taxes bring many challenges to companies that are unprepared to handle them. When reflecting on the changing communications environment and the impact a Best-in-Class technology stack has on offsetting tax challenges, there are three key points to highlight:

- **The communications tax environment is rapidly changing.** This is leading to and resulting in roadblocks to tax management efficiency and accuracy. Calculation and filing accuracy and threat of audits are increasing challenges and worries for organizations. With internal growth plans and ever-changing landscape of communications innovation, the communications tax environment is complicated and unpredictable. Many are utilizing tools to help mitigate these challenges, but they still feel underprepared to handle anticipated future changes.

- **Automated, cloud-based, unified platform solutions are key.** The Best-in-Class organizations are managing their challenges by supporting communications tax management processes with the proper technology solutions. The Best-in-Class successfully leverage automated, cloud-based, single platform solutions to minimize their time and resources spent on tax processing and filing. They can quickly, confidently, and accurately tackle the many challenges they face in the communication tax environment, easing worries of failing audits and company growing pains.

- **The Best-in-Class are more prepared to remain agile.** They are better prepared to take on environmental changes as their organization thrives in today’s dynamic business environment. As technology, product portfolios, sales footprints,
and legislation requirements change, the Best-in-Class are prepared to handle these changes and have an edge over their competition. They don’t need to worry about micro or macro changes to their environment and business, as their leveraged solutions keep them agile and thriving.

Utilizing automation, migrating tax management solutions to the cloud, and utilizing single source solutions are all ways to help handle communications tax challenges. Best-in-Class companies perform better with leveraging these technologies, and they stay ahead of their competition by effectively implementing SaaS solutions to help manage their communications taxes. Aberdeen recommends following the lead of the Best-in-Class to bring automated, single-source tax management solutions to your organization.
Related Research

- *Communications Tax Compliance: Preparedness Drives Performance*, November 2019
- *Maximize Your Tax Management Performance with Superior Analytics Capabilities*, January 2019

About Aberdeen Group

Since 1988, Aberdeen Group has published research that helps businesses worldwide to improve their performance. Our analysts derive fact-based, vendor-neutral insights from a proprietary analytical framework, which identifies Best-in-Class organizations from primary research conducted with industry practitioners. The resulting research content is used by hundreds of thousands of business professionals to drive smarter decision-making and improve business strategies. Aberdeen Group is headquartered in Waltham, Massachusetts, USA.

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