STREAMLINE TAX REPORTING AND CALCULATIONS
THE POWER OF AUTOMATION FOR EXCISE TAX MANAGEMENT

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Tax professionals at organizations that operate in the energy, tobacco, and vape industries struggle with costly and lengthy tax calculation, filing, and reporting processes. They need modern solutions to support their excise tax management activities and ensure accuracy for higher-than-standard tax liabilities. Prioritizing automation and integration along with other key data management, tax calculation, and tax reporting capabilities has placed Best-in-Class companies above the rest. These top-performing energy, tobacco, and vape organizations have set themselves up for success in today’s dynamic business environment by streamlining their tax compliance processes, reducing their operating costs, and improving employee satisfaction.

**Now Is the Time to Upgrade Your Excise Tax Management Processes**

The energy industry is still recovering from the sharp decline in sales as a result of the COVID-19 pandemic. In addition, supply chain disruptions have affected organizations at all stages of fuel production, from upstream field services to midstream shipping, storing, and processing plants, to downstream distribution and retail locations. These companies need to have systems in place to remain agile and prepare for whatever comes next. Similarly, tobacco and vape organizations need to optimize flexibility as they address fluctuations in demand resulting from COVID-related economic shutdowns and changing regulatory requirements like the PACT Act. Having this increased agility in excise tax management is critical for these organizations to succeed.

Aberdeen Strategy & Research conducted a study of 159 tax experts at energy, tobacco, and vape organizations to discover the challenges and best practices associated with excise tax management (see sidebar). **Excise tax**, for the purposes of this Aberdeen study, is defined as an indirect tax on tobacco, vape, and energy products, is often dependent on the product type, volume, and mode of transport, making it very complex and difficult to calculate accurately and efficiently. Excise tax rules and rates also vary state-to-state, so as organizations grow, they need to
comply with more and more regulations. Tax professionals at energy, tobacco, and vape organizations are feeling pressured by the costly and lengthy tax filing and preparation processes as well as the ability to effectively calculate and report these complex excise taxes (Figure 1).

Figure 1: Pressures Driving Approaches to Excise Tax Management

Disorganized, manual, spreadsheet-based tax calculations and reporting are error-prone and often lead to additional costs and time spent on reconciliation and review. These inefficient excise tax management processes can result in audit penalties and interest, which place a financial burden on the organization. Out of all the energy, tobacco, and vape organizations, 42% of them incurred penalties or interest from audits over the past year, mainly because of:

- Excise tax liabilities, 54%
- Excise tax rate or rule errors, 49%
- Failure to register and file appropriately in certain states, 36%
- Late payments, 36%

The higher-than-standard tax liability for excise taxes puts more pressure on tax professionals to ensure the accuracy of their excise tax calculations, but with a varied product mix and changing compliance regulations, it’s hard to keep up. That is why many organizations are turning to solution providers to support their excise tax management and compliance processes.
Drivers to Invest in Tax Compliance Management Solutions

The need for support, accuracy, and modernization is driving companies to invest in excise tax compliance solutions (Figure 2).

**Figure 2: Criteria for Deciding to Implement a Tax Solution**

<table>
<thead>
<tr>
<th>All Respondents</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easily accessible support</td>
<td>30%</td>
</tr>
<tr>
<td>Taking the daily burden off your tax team</td>
<td>28%</td>
</tr>
<tr>
<td>Calculation accuracy</td>
<td>28%</td>
</tr>
<tr>
<td>Reporting accuracy</td>
<td>24%</td>
</tr>
<tr>
<td>Taking the burden off your IT team</td>
<td>23%</td>
</tr>
</tbody>
</table>

Having support that is easily accessible is the number one quality companies look for in a tax solution provider. This could be due to the loss of tax expertise as experienced tax professionals transition out of the workforce, leaving many organizations with a lack of excise tax knowledge. As a result, companies are turning to software providers for guidance on tax rules and rates. 94% of companies in Aberdeen’s sample are leaning toward implementing a SaaS solution over an on-premises solution for tax compliance. The greater support and expertise available from a SaaS vendor help organizations stay on top of their excise tax management amidst internal changes, such as expansions of product lines and sales channels, and external changes, such as tax rule and rate changes.

Calculation and reporting accuracy are critical for companies looking to implement a tax solution. As stated earlier, the higher-than-standard tax liability for excise taxes places even more pressure on tax professionals to accurately manage their excise taxes. A solution that relieves the stress of calculation and reporting accuracy improves employee experience as well as reduces audit penalties and interest. Easing the burden on tax and IT teams is another top reason for investments in...
excise tax management technology, further confirming the positive impact of tax management solutions on employee experience.

**Automation Eases Tax Management Burdens**

It’s clear that tax management burdens are a challenge for energy, tobacco, and vape organizations, and tax compliance management solutions are designed to alleviate these burdens. But which technologies and capabilities are the most influential at streamlining and improving the accuracy of calculation and reporting processes? To answer this question, let’s look at the Best-in-Class. These organizations are defined by Aberdeen as the top 20% of companies based on their performance in key excise tax compliance management metrics (see sidebar for more information on Aberdeen’s Best-in-Class research methodology). Best-in-Class companies have faster tax compliance processes and greater accuracy than All Others, resulting in fewer audit costs and greater operating margins (Table 1).

**Table 1: Maturity Matrix for Excise Tax Compliance Management**

<table>
<thead>
<tr>
<th>Year-over-Year Performance Metric (n=159)</th>
<th>Best-in-Class</th>
<th>All Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease in <strong>cycle time</strong> of tax compliance processes over the past 2 years</td>
<td>31.5%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Decrease in <strong>cost of audits</strong>, including fines / penalties / corrective labor over the past 2 years</td>
<td>28.4%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Increase in <strong>operating margins</strong> over the past 2 years</td>
<td>40.4%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

With streamlined processes in place for managing their excise taxes and implementing updates in accordance with legislation changes, Best-in-Class companies saw on average a 31.5% decrease in the cycle time of their tax compliance processes over the past two years. On the other hand, All Others barely saw any decrease in these processes year-over-year. Best-in-Class companies also had more accurate excise tax calculations and thus were less likely to incur fines and penalties from audits. These time and cost benefits for top performers contributed to an advantage in overall operating margins.

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.
To achieve these higher levels of performance, the Best-in-Class have implemented a comprehensive suite of technologies to support their end-to-end excise tax compliance management activities. They are investing in automation to ease the burden on their tax and IT teams and minimize time spent on tedious filing processes. Figure 3 shows that Best-in-Class companies are 44% more likely to have an automated solution to manage excise tax calculations (79% vs. 55%) and 34% more likely to have an automated solution to manage excise tax returns (55% vs. 41%).

Figure 3: Best-in-Class Solution Adoption for Tax Management Activities

<table>
<thead>
<tr>
<th>Activity</th>
<th>Best-in-Class</th>
<th>All Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excise calculations</td>
<td>79%</td>
<td>55%</td>
</tr>
<tr>
<td>Content management</td>
<td>64%</td>
<td>44%</td>
</tr>
<tr>
<td>Excise returns</td>
<td>55%</td>
<td>41%</td>
</tr>
<tr>
<td>Business license management</td>
<td>55%</td>
<td>47%</td>
</tr>
<tr>
<td>Sales &amp; use returns</td>
<td>52%</td>
<td>41%</td>
</tr>
<tr>
<td>Certificate management</td>
<td>34%</td>
<td>42%</td>
</tr>
</tbody>
</table>

% of respondents using an automated solution to manage each activity

n = 159, Source: Aberdeen, June 2021

Greater automation for excise tax calculations reduces the number of manual errors and thus costly penalties. Automation for excise and sales and use tax returns eliminates manual data entry and alignment with changing tax structures, which improves reporting accuracy and frees up employee time for more strategic activities. Business license, content, and certificate management are key capabilities for excise tax management that pair well with calculation and reporting automation. Automation in these areas can streamline the implementation of updates as legislation changes occur, ensuring the organization remains compliant across states and jurisdictions. When combined into a single-source tax management solution, these capabilities become even more powerful.

Adoption of a Single-Source Solution for All Tax Management Activities

- Best-in-Class: 61%
- Average: 54%
- Laggard: 42%

Best-in-Class companies are 23% more likely to implement a single-source solution compared to All Others (61% vs. 49%)
The Power of a Single-Source Tax Management Solution

In addition to investing in automation for tax compliance management, Best-in-Class companies are integrating their tax management technologies into a single-source solution. Compared to All Others, the Best-in-Class are 23% more likely to implement a single-source solution (see sidebar on previous page).

Having a single-source solution is a common characteristic of the Best-in-Class, but it is also interesting to isolate all companies using a single-source solution and compare their performance to companies that aren’t using a single-source solution. Organizations that have already invested in a combined platform for all tax compliance management activities are experiencing greater improvements in operating margins, report accuracy, and time-to-decision (Figure 4).

Figure 4: Business Improvements for Single-Source Solution Users

A single-source solution reduces the manual errors and time spent reconciling and aggregating information from multiple disparate data sources. This has helped single-source solution users achieve a 2.2x greater improvement in the accuracy of financial reporting, including general ledger, tax reports, and expense reports, over the past two years. Acting as a centralized location to access information on tax rules and
Rates, a unified solution makes it easy to keep up with legislation changes. On average, companies that are currently using a single-source solution for all tax management activities are 26% faster at implementing changes to system requirements (see sidebar). The time saved by integrating all tax management technologies into one platform can be diverted to decision-making and more strategic initiatives.

Having a unified solution streamlines integration with other business applications such as ERP and BI/analytics systems. The centralized platform is a single source of truth for disseminating tax information to other parts of the organization. Companies using a single-source solution are experiencing a 25% greater decrease in time-to-decision over the past two years, which will help them get ahead of their competitors. With faster, more accurate delivery of tax data, executives are better equipped to make decisions and take advantage of new business opportunities. As companies look to scale their business and integrate their solutions into a single platform, partnerships with SaaS vendors can be extremely influential. SaaS for excise tax management helps organizations grow and develop new products and services without the fear of miscalculating tax rates, missing filing deadlines, and failing audits.

**Best-in-Class Results**

Prioritizing automation and integration along with other key data management, tax calculation, and tax reporting capabilities has placed the Best-in-Class above the rest. These top performers rate themselves higher than All Others on overall compliance, ease of use, and how well their solutions meet their indirect tax needs (Table 2).

**Table 2: Rating of Excise Tax Compliance Performance (1-10 scale)**

<table>
<thead>
<tr>
<th>% of respondents rating their performance an 8, 9, or 10 (n=159)</th>
<th>Best-in-Class</th>
<th>All Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>How well do you feel your organization's solutions meet its indirect tax needs?</td>
<td>67%</td>
<td>45%</td>
</tr>
<tr>
<td>How compliant do you think your organization is?</td>
<td>76%</td>
<td>54%</td>
</tr>
<tr>
<td>How easy is it to maintain your excise tax calculation solution as your business and legislation changes?</td>
<td>70%</td>
<td>44%</td>
</tr>
<tr>
<td>How easy is it to maintain your excise tax reporting solution as your business and legislation changes?</td>
<td>82%</td>
<td>51%</td>
</tr>
</tbody>
</table>

Higher ratings in ease of maintaining tax calculation and reporting solutions as business and legislation changes occur show that the Best-
in-Class are better positioned to expand their business and advance into new jurisdictions. A unified platform for all tax activities, including sales and use tax, helps to support a single source of truth for the entire organization. These top performers are better equipped to handle legislation changes affecting all types of taxes as they increase their distribution locations and expand product lines.

With systems that are easy to maintain and meet their needs, tax professionals are more satisfied with their solutions. Compared to All Others, Best-in-Class companies are 71% more likely to be extremely satisfied with their current tax compliance solutions. Greater employee satisfaction leads to greater retention and prevents the loss of tax experts.

**Summary & Key Takeaways**

During times of uncertainty and economic volatility, energy, tobacco, and vape companies can’t afford to lose money to inaccurate tax payments or audit penalties or interest. They need modern solutions to support their excise tax management processes and alleviate the tax burdens on their IT and finance teams. Best-in-Class companies are an example of modern tax solutions in action, and they deploy comprehensive, unified tax solutions to streamline excise tax management activities. When reflecting on the importance of optimizing excise tax management processes, there are three key points to highlight:

► Automation saves companies time and money throughout their excise tax compliance management processes.

► Integrating tax compliance processes into a single-source solution streamlines updates from regulation changes and improves accuracy in tax calculation and reporting.

► Modern excise tax compliance management software sets organizations up for success and enables them to expand into new markets (new products, jurisdictions, locations/regions).

As energy, tobacco, and vape organizations continue to recover from the effects of the COVID-19 pandemic and grow their businesses, they need an excise tax management solution that is going to effectively meet their indirect tax needs. By following in the footsteps of the Best-in-Class and investing in automation and integration, organizations can prepare for the future.

Compared to All Others, Best-in-Class companies are 71% more likely to be extremely satisfied with their current tax compliance solutions.
Related Research

- *Strategically Manage and Leverage the True Value of Finance Data*; May 2021
- *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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