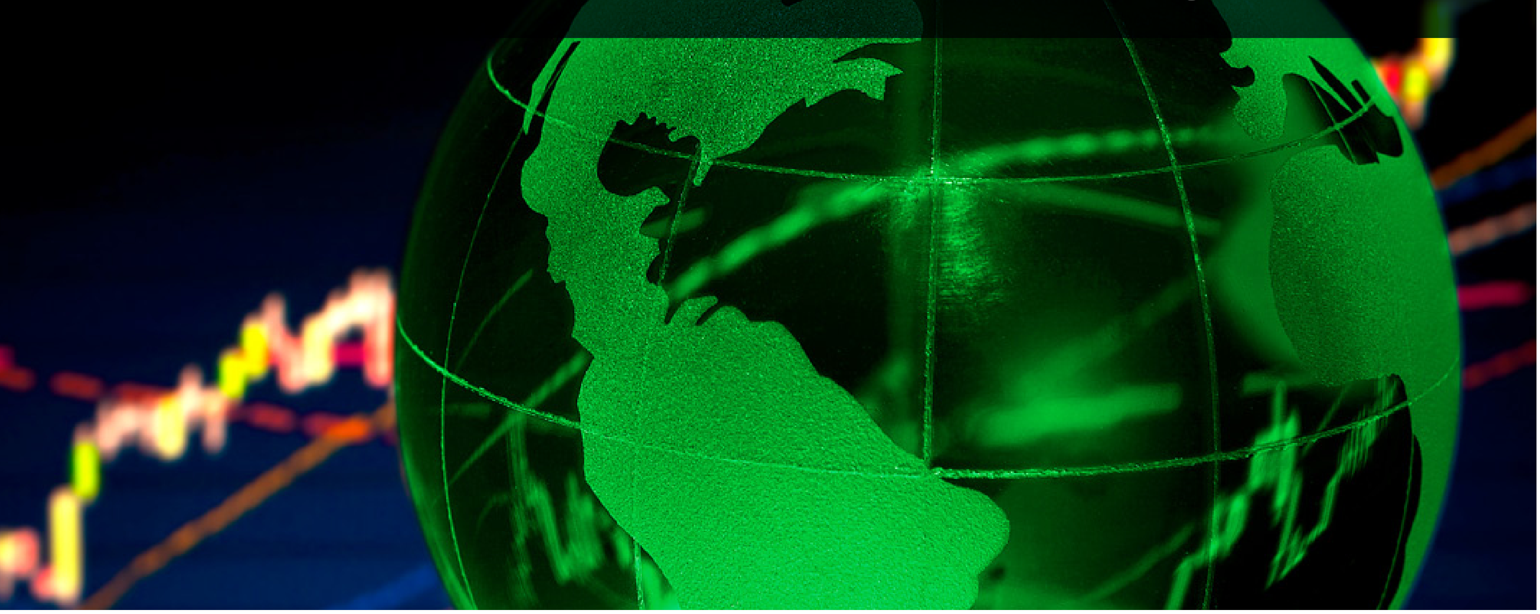
Ease Global Tax Burdens with Automated Indirect Tax Management



EXECUTIVE SUMMARY

Companies of all sizes face a common challenge—the increasing complexity of business operations and immense volumes of data coupled with a need to calculate tax effectively. This challenge calls for a new way of thinking about how taxes affect their business. The world of international tax law is daunting to say the least, and rarely more so than it is with indirect tax; the most pervasive of taxes. Indirect taxes have a direct impact on the entire supply chain because the taxes are imposed on a transaction-by-transaction basis with a series of tax, exemption and credit mechanisms.

Facing these many layers of tax, multinational organizations must navigate complexities to ensure compliance with multiple national and local tax laws often applied within a single transaction. Indirect taxes are typically calculated on many, if not most, business transactions with the calculation, reporting and payment varying by jurisdiction. It's essential for businesses to effectively manage their tax burden to protect resources such as cash and employee productivity. All the while they must ensure regulatory compliance and mitigate risks of penalties imposed during tax audits.

Technology and business executives, regardless of their physical location, must collaborate closely with their corporate tax professionals to ensure the organization is meeting corporate governance, financial reporting and tax compliance requirements. To effectively manage this process, multinational enterprises are devising strategies that integrate tax management with existing ERP systems to ensure comprehensive coverage and appropriate levels of capability.

The tax technology tools available today bring improved capability and functionality over earlier, first generation applications. These tools are laser focused on the things that matter greatly to U.S. and global companies. The combination of an established team of professional tax service providers and an automated tax management solution can aid organizations in their efforts to mitigate tax burdens by automating determination and payment processes, reducing overpayments and other carrying costs, maintaining tax audit data files and identifying tax risk profiles. This paper will help explain the indirect tax landscape and how organizations can utilize automation to elevate their tax management processes.

INTRODUCTION

Managing a multinational corporation presents many challenges, including communications, business processes, logistics and staffing. One particularly challenging area for international businesses is managing tax obligations and compliance for global offices in various countries. International tax structures vary. Ensuring timely and efficient tax management is a complex process.

CIO
Strategic Marketing Services

KPMG

THOMSON REUTERS

Companies transacting business in the United States and Canada are subject to sales and/or use tax (SUT) imposed at the state and/or local authority level. These taxes are single stage transaction taxes imposed only on the final consumer of the good or service and collected by the seller or accrued by the purchaser depending upon ever changing rules on who is the final consumer, where the transaction occurs, and all parties that have an obligation to taxing authorities in that location. SUT rates vary by product and intended use and are different among different states and provinces.

Enterprises operating outside of the United States and Canada must deal with equally complex multistage international indirect taxes, broadly referred to as value-added tax (VAT). These taxes are generally imposed on all participants and supply chain components including vendors, suppliers and business partners. The multistage nature operates to tax the "value added" into the supply chain by businesses in a specific transaction through an imposition of an indirect tax due with the liability reduced by indirect taxes already paid. The tax rates and availability of credit for taxes already paid vary based on product, pricing and the countries spanned by the transaction. These variable tax structures make it challenging for multinational companies to accurately calculate, report and file those indirect taxes on sales transactions. And with tax rates approaching as much as 25 percent or more, errors can be prohibitively costly.

"The challenge companies have is determining how indirect tax rules in different jurisdictions impact their supply chain," says Stephen James, indirect tax partner with KPMG.

There are also other business factors that drive the complexity of the indirect tax landscape for large global companies. Logistics, for example, presents challenges as well.

"It has everything to do with the complexity of international business. Companies have complex supply chains, sales channels, and are working with customers, vendors and partners in multiple jurisdictions," says James. "They have complex distribution strategies. All that creates transaction flows, goods and services touching multiple countries in different ways and at different times."

Most multinational companies are also in a constant state of change, with business growth in new locations. Tax jurisdictions, frequent changes in the supply chain configuration, and product and service distribution all have an impact on indirect taxes.

"High levels of tax complexity are often driven by rapid business evolution and expansion, such as launching new products and services or moving into new markets with new ways of doing business. Another shift in this area comes from companies undertaking operational and financial transformation projects," James says.

"The main drivers are often efficiency, standardization, streamlining work or process flows, risk reduction, cost reduction and the like. This is why tax automation can help drive organizational value through the use of automated systems, including well developed, dynamic content-driven tax products. Multinational companies can drive

THE VARIABLE TAX STRUCTURES MAKE IT CHALLENGING FOR MULTINATIONAL COMPANIES TO ACCURATELY CALCULATE, REPORT AND FILE THOSE INDIRECT TAXES ON SALES TRANSACTIONS. AND WITH TAX RATES APPROACHING AS MUCH AS 25 PERCENT OR MORE, ERRORS CAN BE PROHIBITIVELY COSTLY.

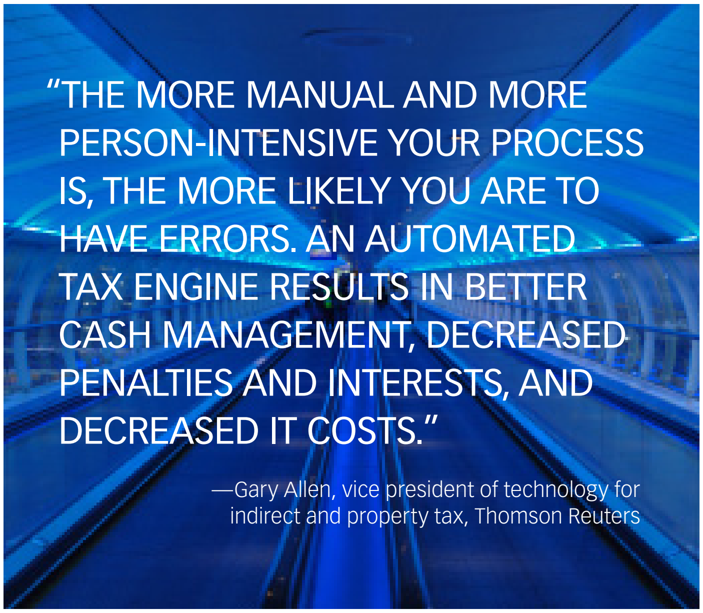
increased performance metrics for tax departments in line with transformation goals," he explains. "A skillfully designed and implemented automated system utilizing tools that automatically maintain up-to-date complex tax rules and reporting mechanisms across multiple jurisdictions can reduce costly errors. It also allows experienced tax teams to drive tax policy no matter the geographic location and increases the availability of better data points for management reporting and planning purposes."

Frequent changes and updates from numerous tax jurisdictions is often a blind spot for multinational businesses. Tax law changes must be identified in a timely fashion, their impacts considered and any necessary changes implemented throughout the entire organization sometimes with limited advance notice by authorities who continue to modify new requirements right up to and past the legally mandated time for imposition. Many countries are also employing sophisticated audit techniques using automation themselves, especially in the data analytics space by matching buyer and seller activities and information sharing.

The accuracy of tax determination and reporting is essential not only to successfully comply with the tax liabilities and avoid penalties and fines, but also to avoid overpayment. "There are complex tax algorithms and rules coupled with the way businesses need to operate," says Gary Allen, vice president of technology for indirect and property tax for Thomson Reuters.

MULTI-FACETED STRATEGY

One proven strategy for managing these types of complex tax calculations is to integrate a dedicated tax management solution to handle the wide variety of applicable indirect taxes with the data generated by an organization's existing ERP system. This helps break the big picture down into the individual components that drive tax for each point along the transaction lifecycle. The challenge with this approach comes in selecting a tax solution that will efficiently and effectively integrate with its corporate transaction data from the ERP system.



An ERP system on its own is usually not equipped to handle the complexities of international tax management. Many organizations consume vast amounts of resources when attempting to use them in just that fashion. ERP systems out-of-the-box struggle to deliver and maintain accurate tax logic, rules and rates for today's increasingly complex business transactions and the expanding web of tax rules and regulations that apply to those transactions. They're not designed to manage tax issues related to multilevel transactions, product and component shipments and other complex logistics that are part of doing business on an international scale.

On top of the challenges of accuracy and timeliness of updates, handling tax management with an ERP system isn't necessarily a cost savings. It can be expensive to build and maintain an indirect tax solution within a corporate ERP system, including the maintenance of on-going large local tax teams or advisors needed to detect and remediate law changes. The data that drives an automated tax management system already exists. It's the data upon which the business runs. Data around product component costs, logistics and transactional counter-parties all along the supply chain are essential for business operations.

This is also the data that drives an accurate automated tax management system. "Companies need this data for reasons other than just tax determination, and that's the real value of solutions such as automated tax engines," James says. "Leveraging data that companies have to manage anyway means everything flows from the master data."

By leveraging the master data coming from an ERP system like SAP or Oracle in the tax decision process, companies can optimize the use of available data to drive tax management. This greatly reduces the risks inherent with manual data entry and decision making and frees up valuable human capital. This improves efficiency and helps eliminate errors. A far more effective strategy is to centralize and automate managing tax-specific functions, including tax rate calculation, tax form preparation and filing, audit control, tax remittance and tax recovery.

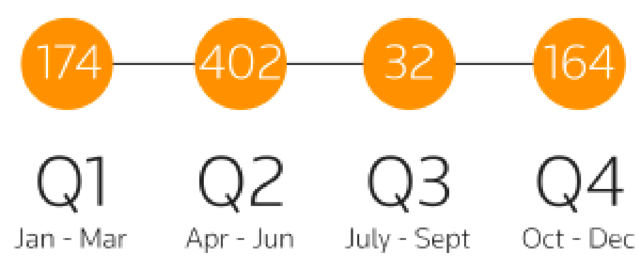
Automating tax management also removes non-tax team members from tax workflows. Those staff members might be processing orders, handling payroll or managing inventory. Their primary function is not tax management. Taking the non-tax people out of the equation and automating tax management returns control of the tax function to the corporate tax professionals. "You have non-tax professionals choosing codes and making tax decisions," James says. "We're taking those non-tax people out of the tax business and letting the system make the decision."

THE **ONESOURCE** SOLUTION

Managing indirect tax calculations and payments can clearly be a complicated, time consuming and expensive process. To automate and streamline these processes, many larger multinational organizations rely on a "tax engine," a combination of tax management solutions coupled with experienced services delivered by an established provider. Companies have had success integrating corporate transaction data from existing ERP systems into these tax engines to automate the processes by which they identify, assess, report and comply with their tax requirements. "The more manual and more person-intensive your process is, the more likely you are to have errors," Allen says. "An automated tax engine results in better cash management, decreased penalties and interests, and decreased IT costs."

KPMG's Indirect Tax practice coupled with Thomson Reuters **ONESOURCE** Indirect Tax solution can convey a number of benefits for businesses operating in numerous countries and tax jurisdictions. By automating indirect tax calculations and management, and leveraging master data the organization needs to maintain anyway, companies can more accurately and efficiently satisfy tax obligations for all categories and classes of indirect taxes, including SUT, VAT, GST and other unique indirect taxes levied by individual jurisdictions.

INTERNATIONAL
PRODUCT TAXABILITY CHANGES FROM LAW CHANGES



SOURCE: https://tax.thomsonreuters.com/reports/indirect-tax-rates/2014_q4

The **ONESOURCE** Indirect Tax solution automates indirect tax determination, calculation, reporting processes and local tax compliance. Taxation calculations are as accurate as possible as the system relies on data from existing ERP systems and other corporate financial applications. Business-specific tax policies are consistently applied across multiple business systems. This results in greater accuracy and comprehensiveness, while reducing the risk of audits and the associated penalties

Thomson Reuters and KPMG have a recommended approach for adopting and deploying a tax engine such as **ONESOURCE**. This tax engine will replace the ERP configurations and content previously used for tax management with purpose-built tax determination and reporting solutions. It integrates with the transaction data the ERP system generates and manages, yet uses that data specifically for tax management functions. Combined with regular tax code updates, and the fact that the system is now managed and maintained by corporate tax professionals instead of IT, companies can be certain they're managing their tax obligations efficiently and in a timely fashion.

The decision to deploy an automated tax engine like **ONESOURCE** is a combined effort, typically involving a company's tax specialists, as well as the IT and finance departments. "The conversation normally starts with the tax professionals. They're the users with the business need," says James. "Generally speaking, the conversation migrates from tax into IT and finance." All those parties are stakeholders in system decisions, configuration options, operational requirements and ongoing system governance.

THE BUSINESS VALUE OF TAX COMPLIANCE

Working with both KPMG's Transaction Tax Systems practice and Thomson Reuters **ONESOURCE** Indirect Tax management solutions addresses many of the complex indirect tax management issues facing multinational organizations. The tax engine audit database, when managing the transaction data from the ERP system, provides current and well-maintained compliance data. The services and solutions that are part of the combined **ONESOURCE** system align with the data reporting multinational companies will need to undertake to maintain compliance with sweeping tax law changes, such as recently imposed changes in European tax law for Electronically Supplied Services and potential dramatically expanded sales tax collection responsibilities in the United States through proposals like the Marketplace Fairness Act.

The **ONESOURCE** tax engine is deployed with the most current and comprehensive tax rules, rates and logic. The system is updated as needed as country and jurisdiction tax regulations evolve. Therefore the system is better equipped to handle complex and constantly changing tax situations. Tax processes are established and automated, which greatly reduces the likelihood of error introduced by manual intervention. The system is also more scalable, so it is well suited to support business growth and expansion.

CONCLUSION

The benefits of automating indirect tax management are clear. According to Aberdeen Research, global organizations that are using automated indirect tax management solutions experienced a 7 percent decrease in audit costs, and a 9 percent decrease in the time it needs to spend addressing tax errors. A multinational enterprise that relies on an automated tax engine for its tax management can expect to realize the following benefits regarding the management of its indirect tax burden:

- A significant reduction in expenses, time spent, and resource allocation required for compliance-related activities within the global tax function.
- Global indirect tax determinations and decision are consistent and efficiently managed, as the system is regularly updated with new tax codes and can leverage existing corporate and transaction data from the ERP system.
- Achieving compliance with individual tax jurisdiction regulations is streamlined for greater timeliness and accuracy.

For more information on Thomson Reuters, KPMG and the **ONESOURCE** Indirect Tax solution, please visit these links:

www.kpmg.com/US/en/about/alliances/Pages/thomsonreuters.aspx

https://tax.thomsonreuters.com/products/brands/onesource/indirect-tax