THE ADVANTAGES OF AUTOMATING VAT DETERMINATION & COMPLIANCE

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ONESOURCE® INDIRECT TAX

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Many users of the world's most sophisticated and widely embraced enterprise resource planning (ERP) systems still use desktop spreadsheets to manage their value-added tax (VAT) and statistical filing processes. Behind the scenes, multiple departments supporting those ERPs spend hours building and debugging manual VAT processes, as well as creating and maintaining tax codes in the ERP.

It's labor-intensive work that may not catch every error and leaves the VAT processes without rigorous controls. That's an expensive proposition in a world where constant changes in tax regimes call for repeatedly rebuilding the VAT processes and tax codes. It also puts companies at increased risk at a time when global economic pressures are triggering greater regulation and more government scrutiny of tax compliance.

Using software to automate the VAT determination and compliance processes relieves some internal pressures on company resources without disrupting existing ERP processes. It offers additional advantages by improving the accuracy of the tax department's work, automatically keeping pace with changing tax systems worldwide and installing needed controls. In this way, technology can complement the expertise of indirect tax specialists, offering support that reduces errors caused by manual data entry and inconsistent work processes.

ONESOURCE Indirect Tax provides these benefits for companies operating around the world. The software solution provides significant cost savings—including a reduction of 30 percent or more in VAT compliance costs—by minimizing the time and resources that IT and tax personnel spend on related tasks.

MANUAL BURDENS

Sophisticated ERP systems, such as SAP or Oracle, typically offer sophisticated reporting support, and in some cases, tax-return reporting or electronic-filing capabilities. Even with these ERP elements in place, however, a global company that operates across myriad tax regimes and languages faces challenges when implementing a VAT determination and compliance system. One such challenge is that tax personnel end up importing or rekeying ERP tax data into working papers or desktop-based spreadsheets for further consolidation, analysis, correction, manipulation and preparation of returns.

Many companies try to get around this problem by creating complex manual processes to build out their ERP system's capabilities. A recent survey conducted by Aberdeen Group found that 61 percent of companies determined to be best in class at managing indirect taxes still use desktop spreadsheet applications to complete compliance processes.

These inefficient practices are creating a number of costly tasks and challenges for companies attempting to supplement their ERP's standard functionality with customized manual processes. For one, manual spreadsheets usually do not provide a sufficient rigid-control structure to ensure that additional errors are kept out of the process. They also rarely provide a framework to ensure that changes are properly audited or a trail of documents changes as they're made.

Other challenges endemic to the creation and support of manual working papers include:

- **Additional expense:** Manual processes are expensive to build, funnelling tax department and IT dollars and resources into development, debugging, and support.

- **Lack of workflow controls:** Working papers built on desktop technology exist without security and functionalities that support data management, workflow management, and archiving. The tax department either operates without these important workflow controls, or the company spends time and resources trying to piece together a unique solution.

- **Inconsistent work:** In a large enterprise with global operations, manual working papers may differ across entities and countries, leading to inconsistencies or extra work to keep everyone operating in sync.

- **Brain drain:** Often, the only employee who knows how the manual applications work is the person who built them. When that person leaves the company, taking their specialized knowledge with them, other personnel have to try to piece together how the applications work. In some cases, the applications must be redesigned, leaving the tax department without effective support for stretches of time.

- **Data policing:** Additional manual processes may require their own intensive data-checking processes. For example, data flowing from a typical ERP process usually cannot be posted to a return until it has been checked for errors. It is up to the tax department to police the numbers, making sure coding issues do not result in filing noncompliance. These error checks take two forms: high-level period-to-period tracking to identify exceptional numbers that do not follow a company's overall VAT trends; and detailed transactional reviews, such as VAT-to-value or duplication checks that search for exceptionally high VAT values, out-of-character supplier or customer invoices, and transactions on unusual dates.

In addition, the constant flux of tax rules can often overload the manual worksheets' ability to handle them. In the case of partial recoverability, for example, manual process users must decide how to handle the partial VAT exemption rules for certain purchases or within certain industries.

INTERNAL PRESSURES

Beyond the spreadsheets themselves, a broader set of internal challenges face any company managing a complex VAT determination and compliance process on its own.

- **Budget pressures:** Expensive VAT processes contribute to the pressure all departments across an organization feel to cut costs. The compliance team faces the added challenge of keeping costs low while maintaining accuracy and a required level of compliance.

- **Accounting for changes:** VAT returns and statistical filings, just like all aspects of VAT, change regularly. For a company that uses customized VAT reporting in a large number of jurisdictions, it can be a challenge to stay up to date with the changes. Not only does the tax department spend time keeping current, but individuals spend time keeping manual processes in alignment.

- **Local tax considerations:** As companies move toward centralized compliance functions, they can lose local knowledge about the filing requirements of each country or tax jurisdiction. Shared service centers often need additional support to understand the processes, structure, and content of foreign returns, which are usually rendered in a foreign language.

As corporations push to increase global sales, reliance on manual processes can put them at greater risk of failing to keep up with compliance functions, increasing the likelihood of committing violations that could ultimately curb or put a stop to the company's growth plans.

EXTERNAL PRESSURES

The pressure for accuracy in VAT determination and compliance will only increase in the years to come. Regulatory attention has increased the visibility of VAT compliance, requiring greater transparency in the process. IT systems are feeling the impact as new requirements force departments to impose additional control, workflow and sign-off functionalities. This is of particular concern to companies that use a shared service center to prepare returns. They still need a key finance executive in the tax locality to approve the return and be responsible for the quality and accuracy of the filing. Failure to do so can lead to penalties as harsh as personal fines or imprisonment. Finally, the challenging macroeconomic environment has prompted tax authorities in many countries to take a more aggressive approach to auditing.

ENTER AUTOMATION

In light of these internal and external pressures, companies cannot rely on their ERP reporting systems alone to grant them the control and flexibility they need to ensure the integrity of their VAT processes from beginning to end. Recent developments in enterprise tax technology have addressed these issues by adding new functions designed to automate transaction data checks and manage working papers and returns. The solutions fall broadly into two main categories: tax determination and tax compliance.

TAX DETERMINATION SOLUTIONS

Tax determination solutions—often called tax engines—work alongside ERP systems and connect in real time directly to the ERP. Tax engines are designed to add highly accurate tax decisions to the standard ERP purchase and sales and post-purchase processes. The tax determination solution is constantly updated for global changes in tax logic, rates, rules and messaging.

Complementing an existing ERP system with this single addition can free up significant company resources. With a tax determination solution in-house, tax departments no longer need to track VAT determination rules across the globe. IT departments are saved from having to build, rebuild, test and implement new tax requirements alongside the ERP. Because manual configuration is no longer necessary, the data feeding the compliance process doesn't need to be checked and analyzed for errors. ERP users with complex trading requirements benefit greatly, as those companies can fully automate their decision processes by removing the manual tax code selection processes and replacing them with automatic tax decisions.

All of this translates into a more cost-effective, automated, and streamlined compliance process that enables indirect tax experts to worry less about data entry and focus on what matters most: high-level monitoring and control of their VAT position.

Thomson Reuters has partnered with ERP software providers such as SAP and Oracle to deliver a best-of-breed tax determination solution: ONESOURCE Indirect Tax for global determination. This solution is powered by SSAE 16 tax processes and has been deployed by large enterprise customers worldwide.

Companies big and small have reported substantial savings after implementation. One of the world's largest airlines, for instance, found significant overpayments in a reverse audit. The airline was over accruing tax and its vendors were overcharging tax. With ONESOURCE Indirect Tax, the airline can now generate reports on the errors and recover lost revenue. The switch to ONESOURCE Indirect Tax also enabled the company to eliminate a number of manual processes and IT tasks by integrating their ERP financial applications with the automated tax engine.

TAX COMPLIANCE SOLUTIONS

Tax compliance solutions take standard data extracts from a single or multiple ERP systems or a tax determination engine, and consolidate transactions or balance-level data from multiple sources into a single view. This allows tax personnel to automatically allocate the data to the correct legal entities and run predefined exception reports to find errors in the tax decision. Tax compliance solutions help tax staff identify errors in the source system. Once the errors have been identified, the system automatically generates the correct return working paper template and populates working papers with the correct tax data. The working papers included in tax compliance solutions are designed to manage each country's specific return requirements. The software can provide further data analysis, and compliance users can make audited manual adjustments to the working papers before sign off and submission.

ONESOURCE Indirect Tax for compliance can be hosted on premises or accessed through the Internet. The tax compliance solution streamlines the return process by rapidly consolidating data feeds from multiple systems and providing country-specific validation of the tax data to ensure integrity. Its comprehensive error-and-exception reporting identifies incoming tax data problems. Users see tax returns in English and the language of the tax jurisdiction.

The ONESOURCE tax compliance solution improves controls significantly by giving users workflow updates from draft through final returns, along with the ability to lock down submitted returns to prevent further edits. All actions leave a trail to facilitate auditing of the workflow.

GLOBAL BENEFITS

The benefits derived from an indirect tax solution flow further than the tax department and the personnel who support the technology. Accounts payable, procurement, billing, and accounts receivable all benefit as the indirect tax solution makes it easy to eliminate overpayments and underpayments and identify applicable transaction taxes. Companies can more easily identify and eliminate overpayments and underpayments, along with penalties, interest, and reverse audit fees.

In addition, tax personnel no longer need to spend time tracking down and understanding tax manuals and exemption certificates, making corrections, and handling disputes about tax calculations. Many company-wide benefits circle back around to the tax department, in that it no longer has to spend as much time cleaning up transaction tax errors originating from other departments.

END-TO-END SUPPORT

Using a combination of both determination and compliance solutions provides a powerful and complete end-to-end solution. Tax decisions are made accurately at the time of the business transaction, protecting the integrity of data that goes into the compliance process. This goes a long way toward minimizing the need to identify and correct errors in the tax data, saving time and valuable resources. Across the board, it allows tax, finance and IT departments to maintain control, visibility, and consistency across the various entities and systems.

ONESOURCE CORPORATE SOLUTIONS

Workflow - Software - Services - Consulting - Data Management - Research

GLOBAL SOLUTIONS

No matter where you do business today, a global perspective is essential to achieve success. That's why Thomson Reuters has focused on developing tax software and services that function globally and enable customers to maintain accurate and seamless compliance with increasingly complex international tax laws and accounting rules.

Tax Planning · **Tax Provision** · **Transfer Pricing** · **WorkFlow Manager**
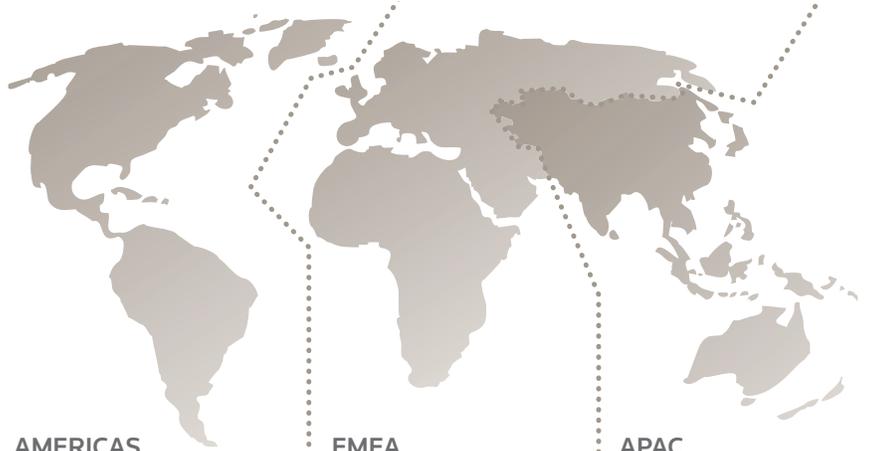
LOCAL SOLUTIONS

ONESOURCE from Thomson Reuters provides the localized resources and expertise you need to manage your taxes in numerous jurisdictions worldwide – and we continue to expand. Bridging important language, currency, and regulatory gaps, our local solutions and software can help you smoothly interact with the tax requirements and accounting practices in your specific location.

AMERICAS

Business License Management
Income Tax
Indirect Tax
Property Tax
Tax Information Reporting
Trust Tax
Unclaimed Property

EMEA

Accounts Production
Corporate Tax
Indirect Tax
Tax Information Reporting

APAC

Corporate Tax
Fringe Benefits Tax
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Trusts

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