

VAT MANAGEMENT FOR MULTINATIONAL ORGANIZATIONS: EFFICIENCY AND COMPLIANCE WITH INTEGRATED TAX ENGINES

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Report Highlights

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Leaders are 32% more likely than Followers to have implemented a VAT management solution.

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Organizations with VAT management solutions are almost twice as likely to automate workflows associated with VAT, such as preparation, filing, and remittance.

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Organizations with VAT management solutions are 74% more likely to have support and facilitation of audit management and reporting.

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Organizations with VAT management solutions saw a 7% decrease in the cost of audits and a 9% decrease in the amount of time dedicated to addressing tax errors over the past two years.

This report, based on a survey of 109 organizations, examines the pressures that multinational organizations face in indirect tax management, the solutions that top performers utilize to support these processes from consolidation through reporting, the capabilities that these organizations implement, and the benefits that they may receive.

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For multinational organizations, compliance and time consuming processes make managing indirect tax exponentially difficult. These organizations must find a way to ensure that mandates are adhered to and that employees are able to complete the process as efficiently and effectively as possible. For these reasons, Leading organizations are 32% more likely to supplement ERP with VAT management software.

Organizations within North America and those outside of North America face very different regulatory environments. This is particularly true for indirect tax management. In North America, organizations are subject to Sales and Use Tax (SUT), where sales tax is collected solely at the point of sale. Those outside of North America are subject to Value-Added Tax (VAT). Rather than being taxed as a percentage of retail sales, VAT spreads its fees across the entire sales chain. This means that buyers, suppliers, and consumers contribute only the incremental value they have provided along the sales chain. For multinational organizations, this process proves exponentially difficult, since they are not only working with multiple companies in the extended enterprise, but also across country boundaries. An environment such as this brings increased pressure to improve efficiency in indirect tax management, as well as to provide greater ability to understand regulations and enforce compliance. For top performing organizations, efficiency and compliance can come through integrating legacy Enterprise Resource Planning (ERP) solutions with technology designed specifically to centralize and support VAT initiatives. In fact, Aberdeen's [2014 Excellence in Financial Management Survey](#) found that while 83% of Leaders have an ERP solution, they are 32% more likely than followers to extend that solution with a dedicated VAT management engine. Of course, this may be easier said than done. Organizations must identify solutions that can support effective integration with ERP and other business systems, and provide one true centralized source. This report, based on a survey of 109 organizations, examines the pressures that multinational organizations face in indirect tax management, the solutions that top performers utilize to support these processes from consolidation through reporting, the capabilities that these organizations implement, and the benefits that they may receive.

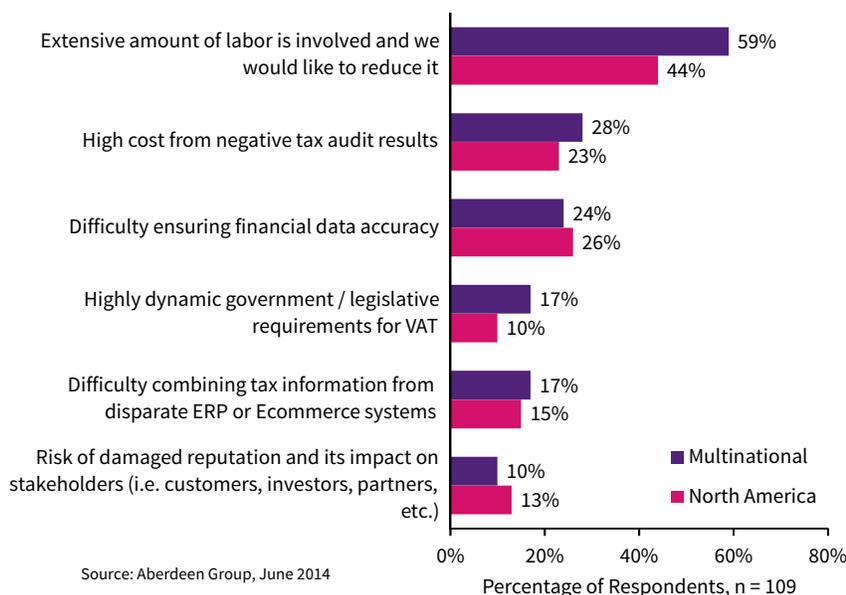
A Need for Control

When comparing the North American indirect tax management environment to the pressures facing multinational organizations, it becomes clear that there is increased challenge

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in maintaining compliance while attempting to handle the workload that comes with VAT (Figure 1).

Figure 1: Compliance and Efficiency are Top of Mind for Multinational Organizations



Respondents to Aberdeen's [2014 Excellence in Financial Management Survey](#) were asked to select the top two pressures facing them in indirect tax management. The largest differences between multinational organizations and those within North America were an increased amount of labor to manage the process, as well as a greater amount of regulatory pressure. This makes sense, because VAT management requires increased collaboration both up and down the value chain, and working across country borders requires an ability to communicate in multiple languages while understanding the nuances in mandates from country to country. For example, 59% of multinational organizations cited an extensive amount of labor in indirect tax management as their top pressure, in comparison to 44% of those in North America. These organizations must handle the process from consolidation through analysis,

Key Takeaways

Due to compliance and efficiency challenges, multinational organizations must find ways to improve their ability to manage VAT more effectively. While much of the data needed to manage VAT remains in ERP, top performing organizations are 32% more likely to utilize a VAT management solution.

Of course, not all VAT solutions are created equal. There are a series of concerns when it comes to selecting a solution that can work effectively with legacy ERP solutions. Many of the concerns that exist regarding incompatibility are unfounded. Organizations should seek out solutions that are built to integrate effectively and provide functionality that manages the VAT process from consolidation through to reporting. Leading organizations are more likely to have solutions that feature reporting, filing, calculation, and audit capabilities, among others.

This report outlines how VAT solutions help to not only automate workflows, support compliance, and enable visibility and analysis, but most importantly, improve the bottom line. Organizations with a “VAT engine” have more accurate reports, spend less on audits and less time on tax errors, and avoid risk more effectively. Organizations with VAT solutions have reported a 7% decrease in the cost of audits over the past two years.

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In this report, Aberdeen groups survey respondents into two maturity classes:

- **Leaders:** Top 35% of respondents based on performance
- **Followers:** Bottom 65% of respondents based on performance

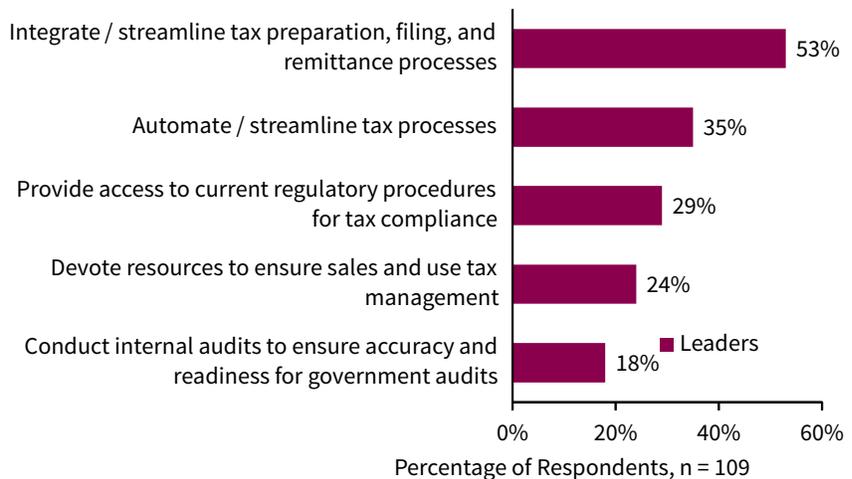
In Aberdeen's [2014 Excellence in Financial Management Survey](#), respondents were ranked on the following criteria:

- **Percentage of accurate financial reports in the past 12 months:**
 - Leaders - 90%
 - Followers - 79%
- **Percentage of overpayment occurrences identified in audits over the past two years:**
 - Leaders - 2%
 - Followers - 5%
- **Change in the cost of audits over the past two years:**
 - Leaders - 12% decrease
 - Followers - 14% decrease
- **Change in the amount of time dedicated to addressing tax errors over the past two years:**
 - Leaders - 1% decrease
 - Followers - 4% increase

adjustment, and filing. This process is time consuming and can require knowledge that tax managers may not have, which forces them to step away from the process to do research. Additionally, multinational organizations report increased pressure from a highly dynamic and changing regulatory environment, as well as increased costs of audits. Regulatory bodies are now extra diligent as they are tasked with collecting increased funds. For these reasons, multinational organizations must find ways to facilitate VAT management processes to reduce costs and ensure consistency when dealing with regulatory bodies, as well as suppliers and customers. But this can be extremely difficult if legacy ERP systems are unable to support integration and change on their own.

So what is a multinational organization to do in a highly dynamic regulatory environment featuring processes that are time consuming and prone to mistakes? Leaders put the most focus on streamlining processes through automation (Figure 2).

Figure 2: Leaders Streamline Tax Management



Source: Aberdeen Group, June 2014

Fifty-three percent (53%) of Leaders streamline tax preparation, filing, and remittance processes through integration. By doing

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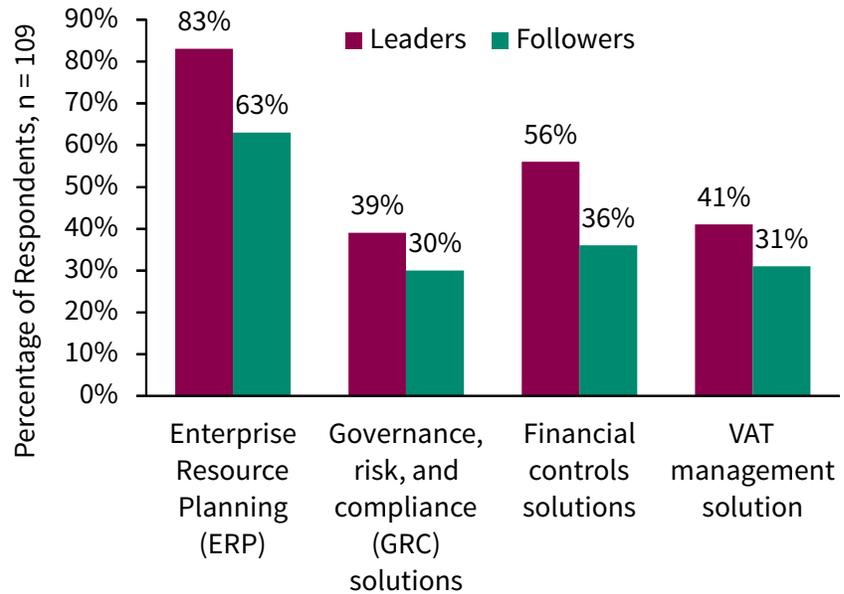
this, they can ensure that best practices are followed, that costs are removed from the process, and that compliance is ensured. In fact, 29% of Leaders indicated that providing access to current regulatory procedures for tax compliance is one of their top two pressures. But automation and integration can be difficult to implement, due to difficulties in the existing technology environment at an organization.

Note that 83% of Leaders have implemented an ERP solution (Figure 3). ERP is the source of essential information used to run a business, so any new VAT management initiatives must be aligned and integrated with ERP. This may prove difficult due to the way that a specific ERP system is built. Typical problems that occur when data is pulled from ERP for VAT management include:

- ➔ Compatibility issues with functionality outside the United States
- ➔ Lack of multi-currency functionality
- ➔ Inability to view transaction logs
- ➔ Incompatible tax codes
- ➔ Inflexible interfaces

But these problems do not mean that organizations should just give up as they attempt to improve efficiency and compliance. The key is selecting a solution that works for the organization.

Figure 3: Key Technology for VAT Management



Source: Aberdeen Group, June 2014

Leading organizations support their ERP solutions with technology that enforces compliance and control. These solutions help to ensure that the risk of audits is avoided and that best practices are adhered to. As it relates to indirect tax management specifically, Leaders are 32% more likely than Followers to have implemented a VAT management solution. These “tax engines” are strategic tools built specifically to centralize, manage, and automate VAT processes from end-to-end across the organization.

The Role of “VAT Engines”

Comparing organizations with VAT management solutions to those without, those with solutions have access to a variety of components that facilitate VAT management from end-to-end (Figure 4).

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Figure 4: End-to-End VAT Management Functionality



For example, organizations with VAT management solutions are over three times as likely to have tax rate calculation solutions, in order to help them understand the correct amount of tax that should be applied based on pre-defined rules. Further, organizations with VAT management solutions are 257% more likely to have tax preparation and filing functionality to ensure that reports are compliant and delivered to regulatory bodies effectively. Finally, organizations with VAT management technology are 5.2 times as likely to have audit control solutions in order to help manage audits in hopes of keeping the cost of audits low. These are just a few of the components of a VAT management solution, which help organizations to centralize and automate the entire process with functionality that extends beyond ERP.

So how do VAT management solutions work in practice? First, organizations with VAT management solutions are almost twice as likely to automate the workflows, such as preparation, filing, and remittance, which are associated with VAT (Figure 5). As a result, organizations with VAT management solutions are 103%

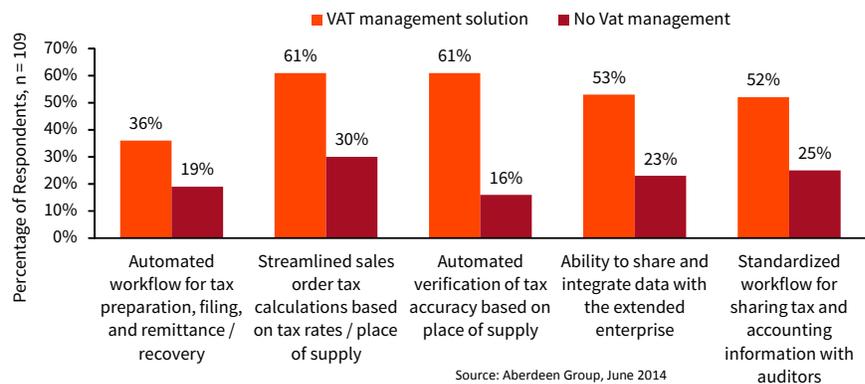
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In this report, the survey respondent demographics included:

- Company size:** Twenty-five percent (25%) of respondents were from large enterprises (annual revenues above US \$1 billion); 26% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 49% of respondents were from small businesses (annual revenues of \$50 million or less).
- Headcount:** Twenty-two percent (22%) of respondents were from large enterprises (headcount greater than 5,000 employees); 38% were from midsize enterprises (headcount between 251 and 5,000 employees); and 40% of respondents were from small businesses (headcount between 1 and 250 employees).
- Industry:** The sample included a wide-range of industries including automotive (4%), construction (7%), consumer packaged goods (3%), industrial equipment manufacturing (4%), industrial products (8%), and medical devices (4%).

more likely to have streamlined calculations. This ensures that the correct tax rates are applied, and that the organization avoids rework or noncompliance. Further, those with VAT management solutions are 3.8 times as likely to have automated verification of accuracy, which helps to automate the adjustment phase. These phases require communication with partner organizations to accurately analyze how much tax is owed, which is why organizations with VAT management solutions are 130% more likely to be able to share and integrate data with the extended enterprise. As an extension of data sharing, the last step of the VAT process is sharing information with regulatory bodies. Organizations with VAT management solutions are over twice as likely to have a standardized workflow for sharing tax information with auditors.

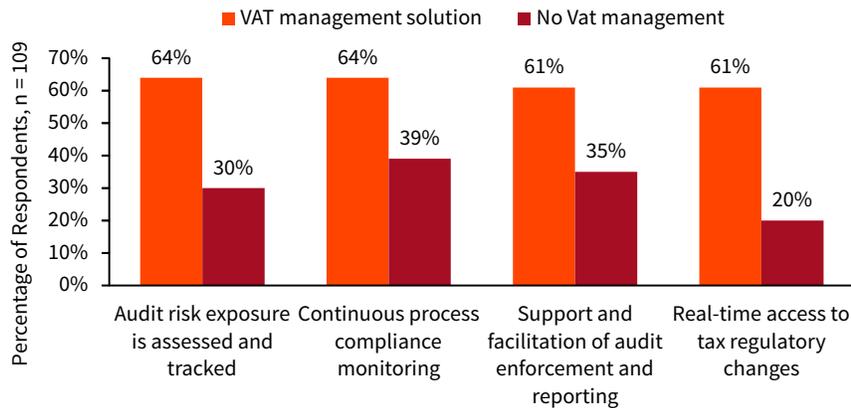
Figure 5: Automating Process Flows



This is essential, as audits are inevitable for multinational organizations. Remember that two of the top three pressures with the biggest disparity between multinational and North American organizations concern audits and regulation. Organizations with VAT management solutions are able to minimize this pressure by being better prepared to handle audits effectively and minimize costs (Figure 6).

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Figure 6: Preparing for Audits



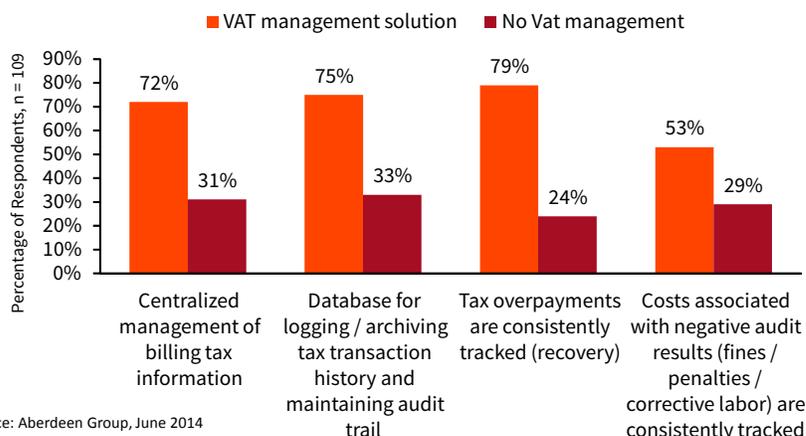
Source: Aberdeen Group, June 2014

In fact, organizations with VAT management solutions are mindful of audits long before they happen. These organizations are 113% more likely to assess audit risk exposure, allowing them to better understand what they need to do to ensure compliance. For one, organizations with VAT management solutions are 64% more likely to have continuous process compliance monitoring, which ensures that the correct workflows are adhered to. This monitoring and workflow adherence extends to audit enforcement and reporting, a capability that organizations with VAT management solutions are 74% more likely to have. Organizations can accomplish these capabilities because their VAT management solutions contain the information that tax managers need, whether or not they have proper insight into mandates. Today's technology has the ability to automatically update compliance rules based on dynamically changing environments, so organizations with VAT management solutions are over three times as likely to have real-time access to tax regulatory changes.

The last set of capabilities that VAT management solutions impact is an organization's ability to provide visibility into the

entire VAT management process, as well as the data that it generates. Organizations can measure and analyze this data to generate future improvements. For example, organizations with VAT management solutions are 2.3 times as likely to have centralized management of billing tax information, and are 127% more likely to have a database for tax transaction history to maintain an audit trail. This data not only provides greater visibility for decision-making, but also helps the organization to prepare for audits. When it comes to decision-making capabilities, such as the ability to track tax overpayments and the costs associated with audits, enable organizations to fine-tune processes in order to ensure efficiency and compliance.

Figure 7: Tracking and Measurement



The Benefits

The above capabilities provide functionality that will greatly facilitate VAT management processes across an organization from end-to-end. However, if the solution does not provide tangible benefits, it's likely that organizations would not be willing to go through the integration process and implement change within the VAT management process. When comparing organizations with VAT management solutions to those without,

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those with solutions report substantial benefits across a variety of performance metrics (Table 1). For example, organizations with VAT management solutions create more accurate financial reports and are more efficient in key business processes, including indirect tax management. As a result, these organizations saw a 7% decrease in the cost of audits and a 9% decrease in the amount of time dedicated to addressing tax errors over the past two years. This is significantly better than those without a VAT management solution. Further, those with VAT management are better able to avoid risk, such as the risk of being audited or overpayment, and saw less than half the loss due to unmitigated risk over the past two years, in comparison to those without VAT management. In fact, those with VAT management solutions saw a 4% decrease in overall risk exposure over the past year. When combined, these statistics point to a defined advantage for multinational organizations with dedicated tax engines.

Table 1: The Benefits

Average Performance	VAT Management	No VAT Management
Percentage of accurate reports in the last 12 months	86%	81%
Improvement in cycle time of key business processes over the past two years	5%	2%
Percent decrease in the cost of audits over the past two years	7%	3%
Decrease in the amount of time dedicated to addressing tax errors over the past two years	9%	0%
Loss due to unmitigated risk over the past two years	2%	5%
Decrease in risk exposure over the past year	4%	1%

Source: Aberdeen Group, June 2014

Recommendations

For multinational organizations, compliance and time consuming processes make managing indirect tax exponentially difficult. These organizations must find a way to ensure that mandates are adhered to and that employees are able to complete the process as efficiently and effectively as possible. For these reasons, Leading organizations are 32% more likely to supplement ERP with technology software specifically built for VAT management. In order to take advantage of the benefits that these solutions provide, including more accurate reports and lowered costs of audits, multinational organizations should heed the following recommendations:

- ➔ **Investigate VAT management solutions.** Top performers select solutions that help to automate the process from end-to-end. For example, organizations with VAT management solutions are over three times as likely to have tax rate calculation solutions. Further, they are 257% more likely to have tax preparation and filing functionality. These solutions should be easy to use and flexible enough to fit changing criteria.
- ➔ **Integrate with ERP.** In order to take full advantage of the benefits of a VAT management solution, the solution that is selected must be able to work effectively with existing ERP systems. In this case, not all solutions are created equal.
- ➔ **Automate VAT processes.** Through VAT management solutions, organizations can facilitate processes. Note that organizations with VAT management solutions are almost twice as likely to automate the workflows

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associated with VAT, such as preparation, filing, and remittance.

- **Prepare for compliance.** VAT management solutions help organizations to prepare for and succeed in audits. For example, organizations with VAT management solutions are 74% more likely to have support and facilitation of audit management and reporting.
- **Track and measure.** A key benefit of VAT management solutions is enhanced visibility to support decision-making, reporting, and process change. Organizations with VAT management solutions are 127% more likely to have a database for tax transaction history.

These recommendations will enable multinational organizations to maintain efficiency and compliance with integrated tax engines in a complex indirect tax landscape.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research

[*Relieving the Headaches in Value-Added Tax Management*](#); March 2014
[*Automating Sales and Use Tax Compliance: Making Sense of a Complex Regulatory Environment*](#); February 2014

[*The CIO's Role in Indirect Tax Compliance: Deploying Solutions on Spec and on Budget*](#); March 2012
[*Ensuring VAT Compliance in the Global Market Place: Reducing Audit Risks and Improving Supplier Relationships*](#); March 2012

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Our process is simple – we conduct thousands of surveys every year to identify top performing organizations and uncover what makes them different. We share these insights back with the market in the form of in-depth research reports and content assets to help our readers build business plans capable of driving better results with the right set of tools to help them get there.

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