Digital transformation and tax compliance

Why tax automation is so critical now

Avalara
Tax compliance done right

There's no question that COVID-19 took the world by surprise. What comes out of this crisis and our recovery is yet to be fully realized, but one thing is clear: Technology is the path forward.

Even before the pandemic hit, business leaders across the globe were readying their companies for digital transformation (DX). An IDG Survey of IT decision makers found that while 91% of respondents said their company had a digital-first business strategy, less than half were actively taking steps to implement one prior to COVID-19.

Suffice it to say, that's changing. In fact, one could argue COVID-19 merely accelerated the inevitable, forcing businesses to shift their road maps to be fully up and running with digital platforms and channels. "If companies thought the world was moving fast before the COVID-19 crisis, they need to be prepared for the warp speed of change ahead," cautions Bill Kanarick, a leader in digital transformation for EY.

The consensus among experts is that digital transformation has to happen for recovery to happen – and the sooner the better. Forrester Research analyst Charles Betz concurs. "The world is going even more digital because of this crisis, and old industrial-era thinking needs to be abandoned once and for all."

This message is being driven home hard as companies pivot to new ways of doing business, be it remote and essential-only workforces, no-touch processes, surges in ecommerce, or other challenges. The global crisis has shown us digital transformation is not only foreseeable – it's fundamental to survival.

As IDC analyst Danielle Hernandez tells Forbes, "Now is the time for digital transformation to shine, helping organizations multiply the value they produce with automation, intelligence, and connectivity because that's what is key to a faster economic recovery."

IT and Finance are primed for change

For a DX strategy to work, Finance and IT need to be on board. COVID-19 may have shifted priorities, but it's still as important as ever to focus on what's best for your business right now. See digital transformation as a conduit to recovery. Cloud agility, machine learning, and automation allow you to be more efficient, resource conscience, and responsive to customers' needs – all essential for building resilience and driving greater value for your business.

"Companies need to transform so they can deploy technology at the speed at which their customers and employees need it rather than as fast as their legacy systems will allow," says Kanarick. "The faster companies can apply technology, the faster they can create an advantage."

Before COVID-19, Gartner predicted that within a year, 30% of companies would be operating in the cloud. The pandemic may prove to be the tipping point for more companies following suit. It's what market intelligence firm IDC says needs to happen. "Instead of continuing to invest in antiquated on-premises

systems, leading DX businesses have turned their focus to SaaS and cloud-enabled software because they need flexible and agile financial applications that are relatively easy to implement, configure, and update."

Gartner Vice President Roberta Witty concurs. "When traditional channels and operations are impacted by this pandemic, the value of digital channels, products, and operations become immediately obvious." In fact, digital sales are now preferred 2:1 over traditional channels by both B2B buyers and sellers, according to McKinsey research. The same study shows that ecommerce as a percent of revenue has increased 24% since the onset of COVID-19.

"Organizations navigating this crisis most effectively have invested in end-to-end digital platforms for insight into all transactions," says Hernandez.

Don't lose sight of tax compliance

Numerous business processes benefit from cloud agility, but it's particularly well-suited to transaction taxes (sales and use, VAT, GST) given their complexity and dynamic nature.

Recent changes to United States sales tax governance, particularly the introduction of economic nexus, have accelerated the need for more real-time, reliable compliance solutions, as have new digital tax initiatives in the United Kingdom, India, and other major markets.

"The speed of digital business coupled with the growing volume and variety of sales transactions has added an unprecedented amount of complexity to sales tax compliance. This complexity has created a wave of interest in sales and use tax automation software," acknowledges Kevin Permenter, IDC Senior Research Analyst for Enterprise Applications.

The impact of COVID-19 will likely create more demand for this technology. "The pain of manual tax compliance will not diminish," says Scott McFarlane, CEO of Avalara. "In fact, it may become more acute as everyday complexities are multiplied by a patchwork of new rules, payment deadlines, relief offers, and short-term rate changes. Every business will be compelled to navigate this new environment."

Even with the relief efforts being offered, your business is still responsible for meeting its tax compliance obligations. And if you're not automating this process, you're only exacerbating the burden on your staff.

The effects of COVID-19 notwithstanding, every business will be considering the efficiency and ROI of their investments, explains McFarlane. "It just makes sense to adopt a cloud-first philosophy when considering new tools, technologies, and processes."

IDC recently published its Worldwide SaaS and Cloud-Enabled Sales Tax and VAT Automation Applications Vendor Assessment to help finance and tech leaders discern the best solutions for their business. The timing

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is spot-on, given the rapid adoption of new U.S. sales tax laws and the growing trend in cross-border and international ecommerce, which has its own unique and challenging tax compliance structure and process.

The comparison chart below is a helpful guide in understanding the differences in how cloud versus on-premises solutions handle sales and use tax compliance:

Chart 1

Cloud-based		On-premises
Remotely hosted tax content and rules engine connects into existing business systems and automatically updates tax data in real time.	**How it works**	Hardware and software is physically installed on a company's in-house computer system and requires tax data to be updated manually.
The vendor hosts the tax engine. Tax decisioning and updates are automatic, and not reliant on IT support.	**Hosting and management**	Other than software-specific technical support, the tax engine is hosted and supported by internal IT resources.
Multi-tenant architecture requires only high-bandwidth internet. Cloud providers usually have backup data centers with fail-over capabilities.	**Data storage and backup**	Multiple servers are often needed to store and back up tax-related data.
Most cloud solutions follow a subscription model, with pricing based on cost-per-transaction or cost-per-use.	**Costs**	On-premises solutions are often capital expenses, with long-term investment in hardware, software, and support.
Cloud solutions are faster and simpler to set up and deploy. Implementation takes a few hours (10 to 30), and most companies go live in 30 to 60 days.	**Implementation**	Implementation is typically a much longer process for on-premises solutions, taking anywhere from 6 months to a year, on average.
SaaS integrations, like Avalara, are designed to be seamless, connecting quickly and easily into multiple ERP, accounting, and ecommerce systems.	**System integration**	On-premises solutions are less agile, typically offering limited integrations with only a few enterprise platforms.
Some cloud solutions support VAT, GST, and other cross-border taxes as well as U.S. sales and use tax. Avalara supports all these tax types.	**Global tax compatibility**	Some on-premises solutions support VAT, GST, and other cross-border taxes as well as U.S. sales and use tax.
Geolocation technology built into cloud-based tax software is a more precise tool to validate addresses and calculate tax to rooftop levels.	**Address verification**	Often uses less-accurate ZIP codes to verify addresses and calculate sales tax, which doesn't always align with jurisdictional boundaries and tax rates.

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Avalara emerges as Leader in cloud tax compliance

When selecting a cloud solution to handle sales and use or other transaction tax types, it's important to consider the maturity of the solution, its capabilities across all areas of tax compliance, and its fit with your business needs as you grow.

Evaluated vendors in the IDC report had to possess core sales tax automation functionality including tax calculation, exemption certificate management, returns management, and reporting capabilities.

Solutions were also rated based on the following criteria:
- Innovation
- Delivery
- Functionality
- Growth
- Cloud Strategy
- Architecture (including API and Integrations)

Avalara was one of only two vendors to land squarely in the Leaders category and the only one that has extensive partnerships with leading ERP and ecommerce system providers to ensure seamless integration of software with commonly used platforms.

Avalara's cloud tax automation solution is able to directly tackle the events or "triggers" growing businesses experience that can lead to new or expanded tax obligations. Because of this key strength, IDC recommends companies "consider Avalara when your business is growing and encountering indirect tax management challenges, such as navigating regulatory change, beginning an omni-channel ecommerce strategy, facing new product expansion, or selling in new geographic areas."

This is echoed in a 2019 TechValidate survey of Avalara customers, which found that most companies surveyed had been through one or more of these trigger events. The top events were:
- Launch of new products or services
- A sales tax audit
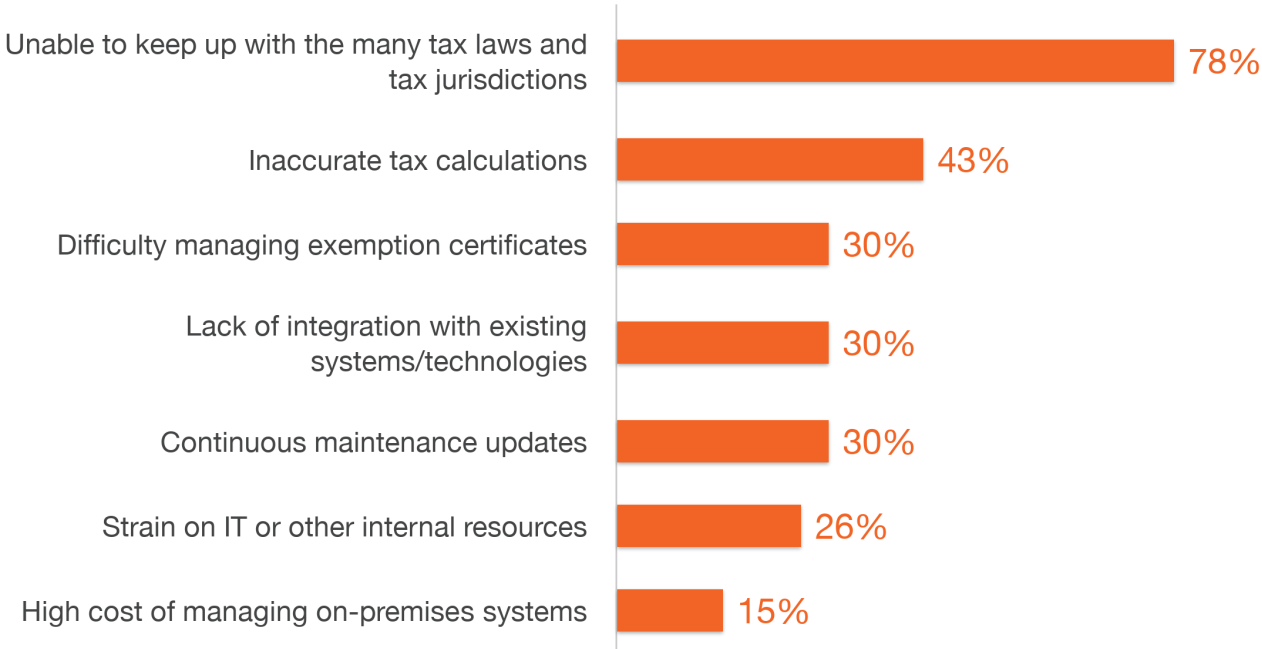- Changes to ERP, shopping cart, or billing system
- Acquisition of a company

The need to improve accuracy of tax calculation was the biggest driver (86%) for companies who chose to implement Avalara solutions, followed closely by a need to reduce compliance risk and time spent managing returns. Additional business drivers included reducing strain on IT resources, better storage and tracking of exemption certificates, and reduced costs of tax management.

"Avalara is extremely user friendly and makes tax compliance much simpler," acknowledges one survey respondent who manages tax for a global provider of assessment and measurement software. "This is most definitely a better solution than filing your own returns, especially when dealing with multiple jurisdictions. We now have more time to spend on other projects to keep our company growing."

Prior to selecting Avalara as their cloud provider for sales and use tax compliance, 60% of the companies surveyed were still handling sales tax without an automated solution. The rest were relying on premises-based or internally built solutions. These proved woefully inadequate, with survey respondents citing problems keeping up with tax laws and jurisdictions, inaccurate tax calculations, difficulty managing exemption certificates, and lack of integration with existing systems as major issues with non-native cloud tax solutions (see Chart 2).

Chart 2

Indicate the challenges your company faced with your previous tax solution or strategy.

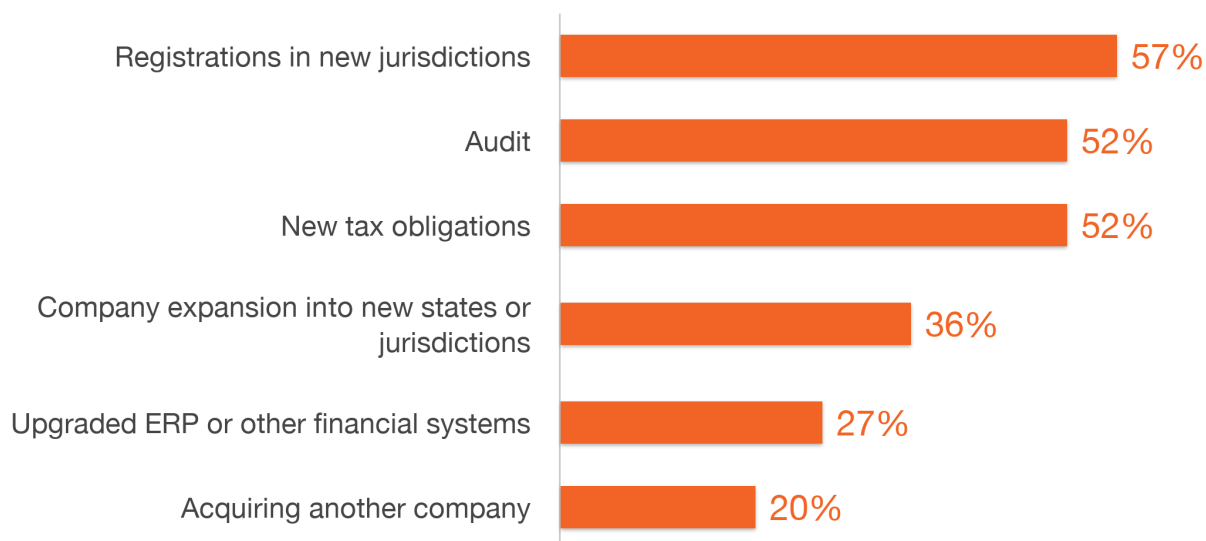| Challenge	Percentage
Unable to keep up with the many tax laws and tax jurisdictions	78%
Inaccurate tax calculations	43%
Difficulty managing exemption certificates	30%
Lack of integration with existing systems/technologies	30%
Continuous maintenance updates	30%
Strain on IT or other internal resources	26%
High cost of managing on-premises systems	15%

For many companies, the decision to manage tax in the cloud is a resource-conscious one. "Doing sales tax collection on our own would require hiring a full-time employee and our error rate with the resultant fines and fees is worth outsourcing to Avalara," says Marshall Thomas with Welcome Home America, a property marketing solutions company.

Overwhelmingly, companies felt more confident using Avalara for accuracy of both sales tax calculation and reporting, among a host of other improvements (see Chart 3). Businesses also report being better equipped to deal with nexus, manage new tax obligations, and pass an audit.

"Avalara takes the hard work out of an incredibly difficult responsibility companies face: sales tax compliance," says Tom Berkompas, CFO for US Digital, a manufacturer of motion control products. "Not having to worry about rate changes and whether tax has been applied properly on invoices makes the prospect of an audit far less daunting than it otherwise might be."

Chart 3

What business milestones do you anticipate in the next 3-5 years that you feel Avalara will make you better prepared to handle?

Milestone	Percentage
Registrations in new jurisdictions	57%
Audit	52%
New tax obligations	52%
Company expansion into new states or jurisdictions	36%
Upgraded ERP or other financial systems	27%
Acquiring another company	20%

Cloud is clear winner for managing economic nexus

Newly established nexus standards in the U.S. are proving problematic for most companies, but especially for industries like manufacturing or distribution that haven't traditionally been tasked with taxing transactions. The widespread adoption of economic nexus (now in effect in 43 states plus the District of Columbia) following the 2018 Supreme Court ruling on South Dakota v. Wayfair, Inc. and low compliance thresholds have made these companies more vulnerable to audit risk.

Without tax software like Avalara that can automate to account for those changes in tax liability, these businesses are far more likely to overlook new obligations in jurisdictions where they're now required to register to collect and remit tax or report non-exempt sales.

Conversely, Avalara customers feel better equipped to deal with the business changes and growth-related activities that trigger new tax obligations, particularly when a company is required to register to collect and remit sales tax in additional jurisdictions (see Chart 4).

Chart 4

Select the benefits Avalara provides for your organization:

Benefit	Percentage
Increased confidence with sales and use tax accuracy	77%
Improved tax compliance reporting	75%
Minimized resources dedicated to tax calculations and filing	56%
Peace of mind	48%
Tighter integration with ERP and other back-office technology	46%

Chart 4

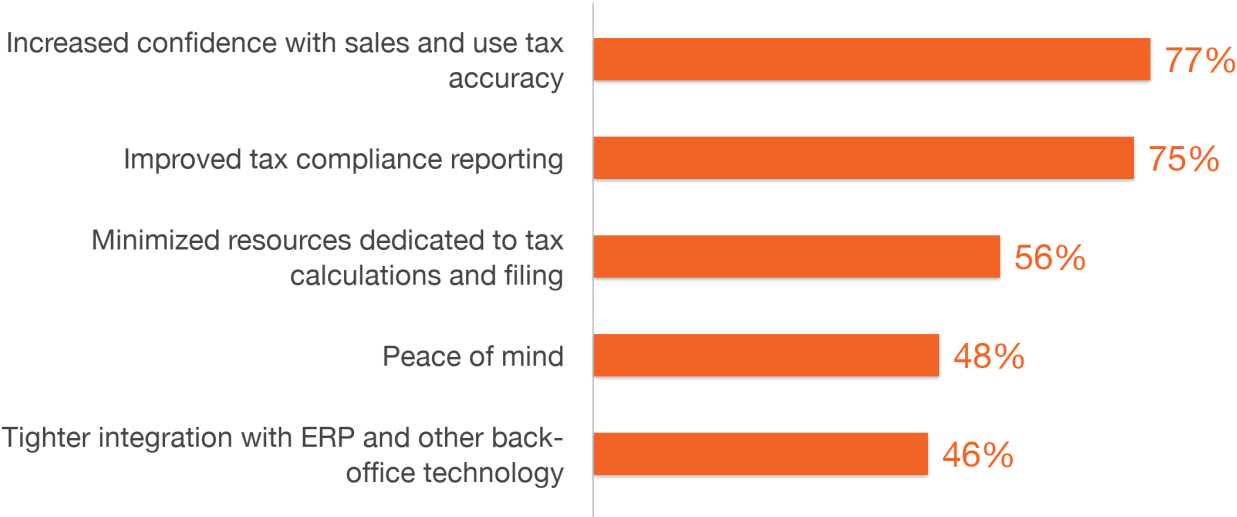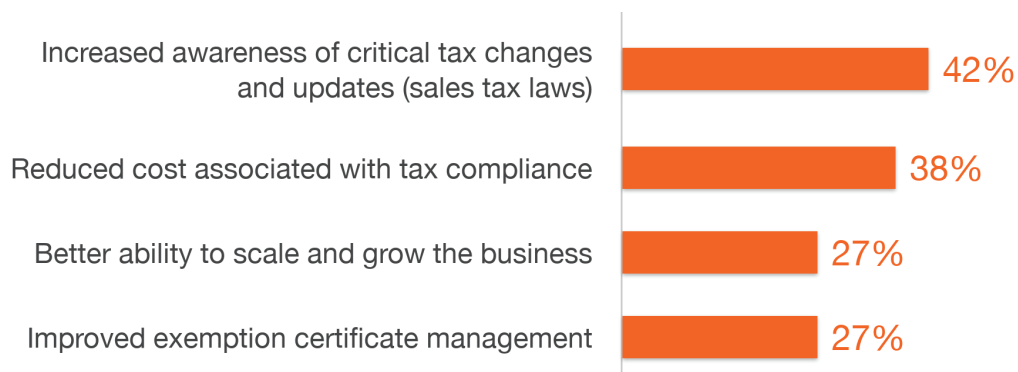|	
Increased awareness of critical tax changes and updates (sales tax laws)	42%
Reduced cost associated with tax compliance	38%
Better ability to scale and grow the business	27%
Improved exemption certificate management	27%

"After the Wayfair Supreme Court decision, we have economic nexus in many new states," acknowledges the IT manager for a wholesale and distribution company. "With Avalara, our compliance team will be able to keep pace with charging sales tax and filing to these new jurisdictions."

See providers as strategic partners

In the past, businesses were reluctant to abandon on-premises for cloud because they were uncertain if these new apps would "play nice" with their existing platforms. Joking aside, systems integration is a serious issue and companies can't afford to have their business disrupted or risk losing data in a migration.

The good news is that today's ERPs and ecommerce systems are not your grandfather's platforms. Virtually every major player in the ERP, ecommerce, and billing system space has been cloud-ready for some time. Microsoft, NetSuite, Oracle, and a host of other platform providers have made significant strides to create hospitable and app-friendly environments, and partner with credible SaaS vendors to make onboarding cloud solutions far less troublesome. Consult with your provider and get their recommendations for tax and other financial solutions that will integrate easily into the systems you already use in your business.

Avalara was the first tax software vendor to see value in partnering with platform providers to prebuild connections into their solution so customers could have a seamless experience. Today, the company has more than 700 integrations into ERP, ecommerce, shopping cart, POS, and billing systems plus API capability.

It's an important distinction that IDC says gives Avalara an edge. "Avalara has been aggressive about building out its ecosystem to include key players within the enterprise resource planning, accounting, digital commerce, point of sale, and customer relationship management markets."

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Set your DX plan in motion

Charles Darwin said, "It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change."

The same can be said for businesses and digital transformation, particularly with the challenges they're facing now. Companies that embrace change and accelerate moving critical functions to the cloud will be in the best position to act on opportunities that benefit the business, its employees, and its customers.

COVID-19 has proven the necessity of technology in keeping companies productive, connected, and operational. It's also driven home the urgency to realize efficiencies in your business anywhere and everywhere possible. Tax compliance is a natural fit for this transformation. Automated SaaS solutions like Avalara expediently and cost-effectively replace manual efforts, allowing you to focus time and resources where you need them most.

Contact Avalara to learn more or talk to your solution provider about adding Avalara tax calculation, returns filing, and exemption certificate management software to your existing ERP or ecommerce platform.

To learn more about Avalara's products, visit:

avalara.com
or call
877-811-7961

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, ecommerce, and other financial management system providers, Avalara delivers automated, cloud-based compliance solutions for transaction tax, including sales and use, VAT, GST, excise, communications, lodging, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the U.S. and around the world in Canada, the U.K., Belgium, Brazil, and India.