Guide

# Digital Acceleration in Tax Compliance

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Guide

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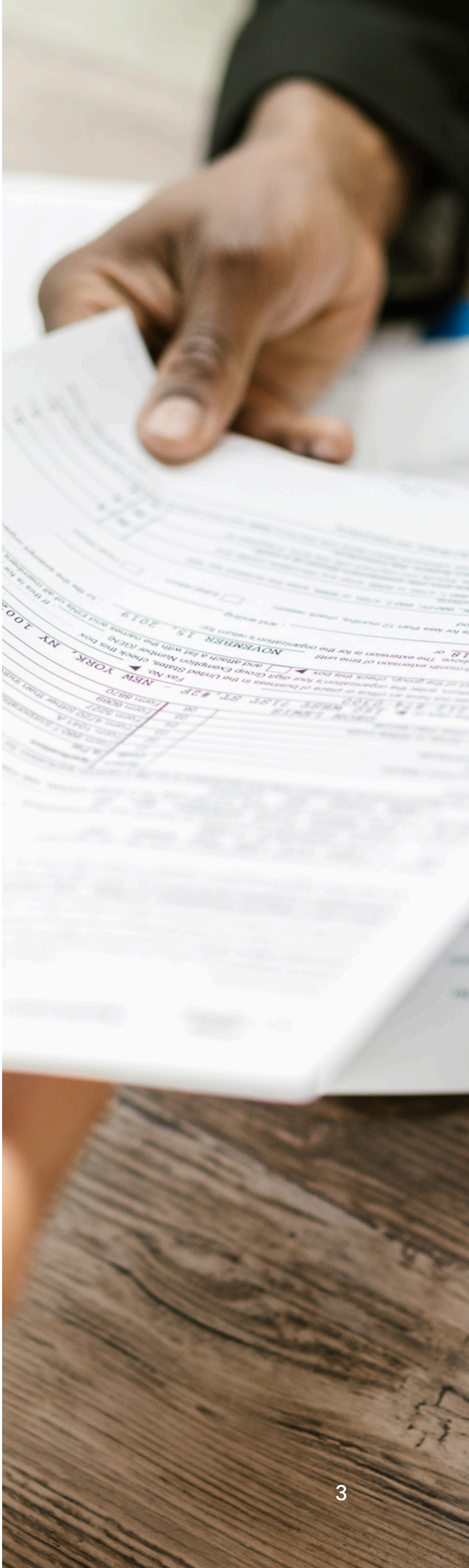


# Introduction

Tax leaders across industries are investing in automation. When done well, automation can result in cost reductions, efficiency gains, and greater accuracy.

In this guide, we'll analyze the push towards automation in tax, lay out steps for getting started, prepare you for challenges you may face in implementing tax automation, and show you how to prove ROI.

# Why the push towards automation?

More and more tax leaders are moving towards automation. Why is that?

The reasons are many-layered and complex, but they generally fall within three categories: cost reductions, efficiency gains, and greater accuracy.

As technology evolves, it offers more robust solutions for gathering accurate data. These solutions drive large-scale transformation in tax process, strategy, and reporting.

The potential for transformation holds great opportunities for industry leaders to improve their overall tax function. And those who fail to take advantage of this opportunity could be left behind.

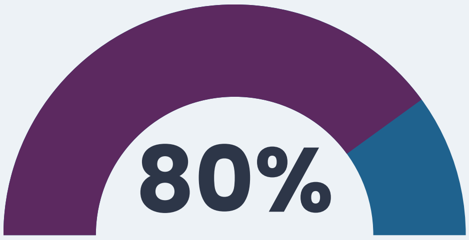
Looking to gain or maintain an edge, many savvy industry leaders are evaluating the efficiency and risk of their business processes and investing in digital transformation to streamline the tax function and make it more efficient.

## 2021 PwC Pulse Survey

"**38% of tax leaders** are currently investing in technology for this purpose."

# Efficiencies

Much of the day-to-day activities of a tax team include manual, repetitive tasks such as data entry, data verification, and report generation.




Research shows that tax preparers typically spend **up to 80% of their time and effort** on data preparation.

To begin with, they must find, extract, and manipulate relevant data. Then they must move all that data in and out of spreadsheets to complete a variety of necessary calculations. These hours of manual labor are not the highest and best use of the knowledge and expertise of tax analysts, whose time comes at a high cost to the businesses they serve.

To maximize the value of the tax analyst, a more effective solution would be using their skills and knowledge to identify tax opportunities, challenge auditors, or work with business partners to optimize transactions. Automation with data transformation and form generation gets compliance details out of the way so that tax professionals can focus on doing what they were trained to do: strategize assessment reduction, find and address assessment errors, identify valuation issues, and implement solutions.

Strategic in nature, these are tasks that cannot be automated. Instead, they require real thought and a deep understanding of tax legislation and accounting methods. Automation elevates the tax team to focus on strategic tax initiatives that move the needle for businesses, resulting in tangible gains.

> “Organizations find maintaining the accuracy of tax liability calculations, staying up to date on changes in tax rates and rules, and managing data collection to be their top three challenges"
> **Aberdeen Strategy & Research, June 2020**

# Cost Reductions

Though the financial impact of the pandemic is lessening, finances remain a major concern across industries. In response, many tax leaders are committed to investing in technology-enabled processes to contain costs.

For example, **tax automation can reduce the errors in tax accounting** and therefore reduce the resources allocated to identify and correct those errors. More accurate audits are possible. Not to mention decreasing the workforce resources allocated to preparing for audits, returns, and accounting reconciliation.

Tax professionals can then re-focus their efforts on value-added activities to contain costs and recoup tax dollars, including identifying potential overpayments to suppliers and discounts or analyzing aged, unprocessed bills of lading that will affect tax liabilities and receivables.

# Increase Accuracy

Automation allows tax preparers to quickly access the information they need instead of spending hours searching for data.

There are several clear advantages here. First, it minimizes human error, making tax preparation more accurate. For another, it reduces the burnout caused by manual, repetitive work. Less burnout means that overall accuracy improves, leading to fewer assessments, audits, and penalties.

Our sources show that companies that automate their tax processes pass audits without penalty **50% more** often than those who do not use automation. Equally important is reducing the fatigue caused by mundane tasks can reduce the costly turnover of valuable tax resources.

# Where to start in digital transformation

It's common to feel overwhelmed as you consider automation of your tax processes. But it's possible to simplify the project so that it's not quite so daunting.

Firstly, and most importantly, be sure you choose the right tasks to automate. Start by automating high-volume, high-ROI processes such as creating and exporting reports, gathering and validating data, calculating adjustments, and populating tax returns and forms.

Here is a helpful checklist to help you determine whether you should automate a task.

- **Is it completed on a routine basis (i.e., every week, month, or quarter)?**
- **Would automation of this task free up many hours for one or more of your team members?**
- **Are there well-documented, step-by-step procedures detailing the exact process used to complete the task?**

In general, tasks that meet the criteria above are good candidates for automation.

Next, select a few lower-frequency tasks to automate. Once these initial steps have been implemented, you should see a difference in reduced cost and increased accuracy of selected processes.

After choosing which tasks to automate, you can move on to choosing a software provider.

# Evaluating software providers

Making software purchases is not easy. For most people, it comes up once or twice a decade.

We've outlined the key considerations you should be thinking about to make a decision on enterprise software and the questions you need to ask yourself about potential tax software providers.

## Company

An enterprise software provider should be a strategic partner for your business.
Evaluate the company based on two key criteria:

**Company viability:** Determine the stability of the business. Will your software partner be with you for the long haul? At the pace of change these days, nothing is guaranteed. Look for unsustainable business practices.

**Company culture:** What is the cultural fabric of the organization? How do they show up when things get tough? Are they dependable?

Identify the qualities you expect and evaluate software providers based on those qualities. If they don't feel like a good fit to be a true strategic partner to you and your team, it's time to look elsewhere.

Another test for potential software vendors is to find out who you have access to in the company. Is it difficult to reach anyone with that industry expertise that was so important to you? Re-evaluate based on who you can actually get to at the company.

## Functionality

Build a comprehensive list of requirements.

It's time to think less about the company and the people and more about the specific functional requirements for the software. Look at ease of use as well as function.

What are your must-haves? Keep in mind: not all of your requirements are created equal; think in terms of value drivers.

With this list, you'll be able to compare different vendors based on the same requirements and keep track of your needs without getting lost in features.

# Onboarding

The number one reason software projects fail is poor user adoption. Meanwhile, the number one reason software projects go over budget is poorly scoped projects that result in scope creep.

That's why you need to know the onboarding process and the methodology for success before you sign with any potential software vendors.

**Breakdown of the basics**

1. What is included in onboarding?
2. What is the scope of work?
3. What is the timeline to complete the onboarding?
4. What is the cost for onboarding?*
5. What is expected of you for the software project to be completed on time? (Ex: sample data, imports from your back-office)

*Intentionally or unintentionally, onboarding is where software companies can have unexpected costs.

It's essential to note whether the onboarding bids from potential partners are fixed or variable (based on time and expense). Comparing a fixed bid with a variable bid isn't an accurate, apples-to-apples comparison.

# Support

Finally, let's talk about the all-important support factor. This is where the rubber meets the road.

How does your partner show up once you've paid and are in production? Support is your partner's commitment to your success. Challenges are bound to come up in enterprise companies and their applications. Is your partner by your side through it all?.

**Here are a couple of places to start:**

- Review the support documentation ahead of time.
- Check out their response times.
- Look for online reviews and customer testimonials that back up what they're saying.

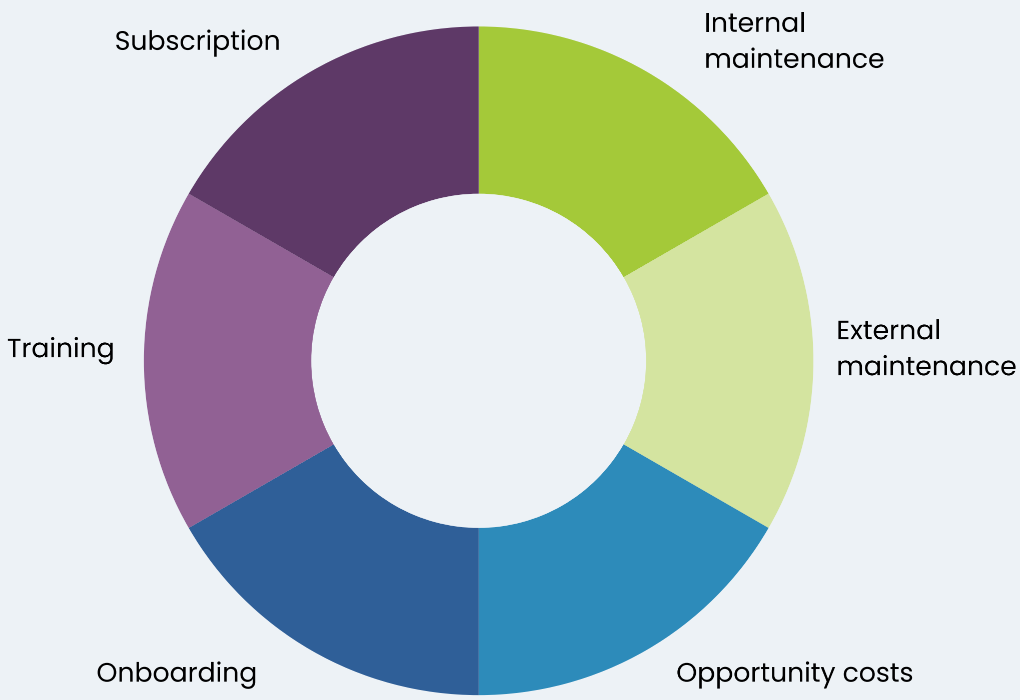
# Price

Price is always a factor when considering software vendors, but it's best to think beyond price to the total cost of ownership (TCO).

Total cost of ownership includes:
- Upfront costs (subscription, onboarding, training)
- Ongoing maintenance costs (internal and external)
- Soft costs (ex: users time using one system vs. another)

Everyone has an example of buying something based solely on price, but after all the other costs are factored in (extra time spent or unexpected expenses), a solution that initially had a higher upfront price would have cost less in the long run as it has a lower total cost of ownership.

## Elements of Total Cost of Ownership



# Challenges in adopting automation

Tax automation seems like a no-brainer; however, there can be challenges and roadblocks along the way. It's essential to be realistic about what you're up against if you're serious about automation.

## Tight Staffing Structures

According to the PwC Pulse Survey mentioned earlier, tax leaders frequently plan to adopt automation solutions. However, they fail to find the time to implement these plans in many cases.

Additionally, tax teams must maintain current processes while implementing new digital solutions. Team members can quickly find themselves doing double duty, keeping up with legacy processes while simultaneously implementing these new solutions.

Lack of time is a formidable obstacle all on its own. However, other equally serious challenges to automation exist.

> "Even when the highly manual nature of these processes points to the potential benefits of automation, the reality of the tight staffing structures required by tax functions means that leaders choose not to lean on their employees."
> **PwC Pulse Survey**

# Getting Buy In

One significant challenge is the ripple effect that tax automation has across departments. Tax functions do not exist in a vacuum; new technology is usually prioritized across an enterprise. Therefore, the entire organization must buy into any new initiatives.

All stakeholders must prioritize automation, which can be a tall order, so here are a few tips about designing your pitch for a positive outcome.

**1. Know the problem: Be able to answer these questions:** What problems will tax automation address? How big is the issue, and why should people care about it?

**2. Link the request to a strategic goal:** Being able to link an initiative to a business goal helps elevate its potential to be approved.

**3. Identify the decision makers:** Who will impact if the initiative is approved or halted?

**4. Identify an executive sponsor:** Who, at an executive level, can help push the initiative? Generally, this individual will take final ownership of the project's success or failure.

**5. Expose the proposal to outside criticism and review it:** People are more engaged with a project if they can provide opinions and input.

**6. Think about timing**: When you present a proposal for an automated tax solution can influence if it will be approved. Look for opportunities to tie the project with other initiatives within the organization. Will the company go through a new ERP implementation soon? Connecting tax automation to another software infrastructure project can help boost its success.

# Proving Return on Investment

Another challenge is the need to justify technology with ROI.

When it comes to automation, it's not always easy to prove return on investment, especially in the initial stages. But without this analysis, it can be hard to generate support from other stakeholders. Tax leaders may have the best intentions in the world. But the best-laid plans will fail when confronted with the limitations of money, staff, and time. As we all learned at a young age, money doesn't grow on trees, and there are only so many hours in the day.

Due to these limiting factors, tax leaders may find resistance to change within the organization, despite the pain of manual processes. In these cases, proving a solid return-on-investment is crucial in transforming the tax process through automation.

# How to prove return on investment

It's a tricky balance to strike between dealing with complex compliance challenges and planning for all the uncertainty that comes with implementing a new system while simultaneously working to contain costs. It makes proving ROI an elusive but critical step in making automation successful.

So, where is the ROI for tax automation? Are there other ROI enablers? Here are five simple steps towards capturing ROI:

## Define and Measure ROI

One way to do this is by showing a reduction in costly errors in tax calculations and reports through automation. Avoiding such mistakes helps to reduce external audits or allows you to provide a readymade data trail if an audit does take place.

A survey conducted by Aberdeen Strategy & Research shows that "**89%** of fuel, tobacco, and vape organizations have been through an audit, **67%** experienced an audit within the last two years."

Another measure could be the costs you save through reducing tax compliance liabilities. You might start by gathering data on how much your company has paid over the last several years in penalties and interest, as well as time and money lost in protecting the company from tax compliance issues.

## Make Effective, Sustainable Choices

Take a close look at your current tax processes, **team workload and task workflows**, and identify those places where you want to improve. These areas should be clearly aligned with an organization's initiatives and measured through key performance indicators (KPIs).

Start your implementation journey with a clear roadmap and be ready to scale when it’s time.

# Develop Standards of Consistency

It's important to establish clear standards and policies early in the automation process.

Hold all team members accountable for the success of the automation process. In doing so, you will make it easier to adapt and adjust to any unexpected difficulties.

# Track Benefits of Your Automation Platform

Establish a structure for consistently tracking ROI as you move through the automation journey. Continuous evaluation gives you the flexibility to fine-tune your efforts as soon as possible when challenges come up.

# The case for tax process automation

Augmenting tax personnel with automation can reduce costs and allow for the business's expansion without having to hire additional tax analysts. Automation was once looked at as a way to eliminate people, but the reality is that it allows companies to be efficient with their resources and do more with less.

By improving accuracy in your department, you can be confident that you are taking full advantage of available discounts and exemptions as provided by law. The long-term effect is decreasing your tax expenses, which leads directly to a healthy bottom line. This tax strategy is easy to overlook when your team is bogged down with deadlines, data, forms, and other details.

In this context, savvy adoption of automation technology can give you a competitive edge by allowing you a degree of accuracy that your competitors don't necessarily have.

It also frees up your tax team to focus on new strategies that increase revenue since they are no longer tied up with repetitive, routine tasks. This could be a compelling differentiator when hiring tax talent.

As more and more tax leaders adopt automation, those who ignore this technology are sure to be left behind. Automation provides many opportunities that translate to reduced cost, increased efficiency, and more significant revenue. However, automation also brings with it significant challenges. Those who can effectively plan for and meet those challenges will emerge victorious in this brave new world of

Now it's time to develop your plan for success with tax automation!

# Ready to get started?

See how our clients have increased filing efficiencies, saved time, and improved accuracy by automating their tax compliance processes

**See client success stories here**