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## Tax Automation: A Strategic Guide to Getting It Right

Tax automation for multinational organizations is not a luxury anymore, but a necessity. The multinational organizations in the present time have complex business processes, diverse tax requirements, such as e-invoices, e-audits, etc. Handling this manually using traditional methods is no longer feasible. Hence, it is necessary to automate the tax processes by integrating the multinational Organization's ERP systems with a reliable tax engine. This will improve accuracy, ensure compliance, reduce risk, and save crucial time for the tax department. The article aims to guide multinational

organizations and tax consultants in preparing for tax automation and identifying key considerations in selecting the right technology solution. The article also briefly discusses emerging technologies like AI in taxation and the risks associated with tax automation.

### Introduction

Multinational organizations often have many complex tax business processes, like cross-border transactions, drop shipments, and tax registrations in foreign jurisdictions. To remain compliant, they must obey all tax laws for all jurisdictions in which they operate. They must keep themselves up to date with any changes in tax rules, rates, and regulations. Additionally, tax authorities around the world expect multinational organizations to follow new digital norms like e-Invoicing, e-Reporting, e-filing, and e-Audit. All of these make taxation very complex. Doing this manually, using traditional methods, has become impossible.

In the digital era, it becomes crucial to automate tax calculation, reporting, compliance, and analytics by integrating the multinational organization's ERP systems with an automatic tax solution(s) that is reliable and essential to meet the multinational organization's expectations. A well-designed tax engine will help in calculating tax more accurately without much manual intervention, apply the latest changes in tax rules and rates

automatically, keep audit trails of each calculation it performs, and also reduce the risk of error and penalties.

However, selecting and implementing such a system is a mammoth task, and any wrong step can cost significant money and time. The new system must be selected and designed to meet the multinational organization's global operations, complex business processes, and provide some cushion for future flexibility. Many tax professionals and businesses are still struggling with choosing the right automation tool for their needs.

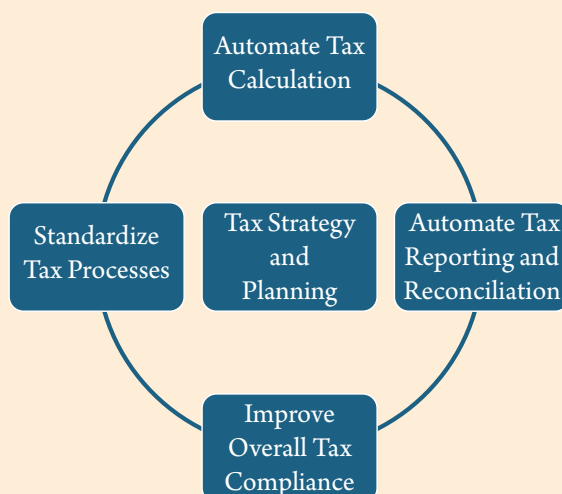
This article will guide multinational organizations in selecting the right tax technology solution(s) for their needs. It will also talk about emerging technologies in taxation, like AI and the dark side of tax automation. By the end of this article,

the readers will be able to understand why it is more important for companies to invest in smart technologies in the present situation, to manage taxes, than in the past.

### What Does Tax Automation Really Mean?

Before moving forward, it is very important to understand '*what is tax automation*'. In simpler terms, tax automation means the use of technology to make tax processes faster,

**Figure 1: Key components of Tax Automation**



more accurate, and more efficient. Tax automation has four main pillars: automate tax calculation, automate tax reporting and reconciliation, improve overall tax compliance, and standardize tax processes across the multinational organization.

The four pillars of tax automation revolve around the multinational organization's tax strategy and planning. On one side, tax automation helps the tax department in shaping better tax strategies and planning, and on the other side, the multinational organization's tax strategy decides the level of tax automation. Both complement each other.

It is important to understand that the concept of tax automation is not limited to implementing a tax engine. It is a much broader concept. It covers every function of the tax department. The multinational organization can decide the level of automation. Some may decide to automate only specific tax functions, such as tax calculation or tax reporting, and keep the rest of the tax functions manual/semi-manual. Others may decide to automate every aspect of the tax function. The scale of automation depends on the multinational organization's tax strategy.

It is vital to decide the level of automation the multinational organization is looking for. To find an answer to this question, the multinational organization needs to define the objectives and scope of tax automation for the organization.

### Why Do Organizations Need Tax Automation?

The next question to answer is: *Why does a multinational organization need tax automation in the first place?* Every multinational organization has its own challenges, hence requirements. It is necessary to define the objectives of tax automation based on the needs of the multinational organization. Identifying these needs is crucial for the multinational organization as it is going to decide the level of automation and the selection of the

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tools that fit the requirements. Without a clear objective, the selection and implementation of a tax automation tool may not deliver the expected results. As mentioned before, each multinational organization has unique reasons for tax automation; however, there are some common reasons for tax automation that are provided below.

One of the most common reasons for tax automation is to adopt modern digital technology. The tax authorities around the world are increasingly adopting new digital norms like e-Invoicing, e-Reporting, e-Verification, and e-Audit. Multinational companies must comply with these digital rules. It is impossible to follow all digital rules without adopting the latest tax technology. Tax automation also helps multinational organizations to comply with constant changes in tax laws, rules, and rates. The tax software providers keep updating their tax systems in real-time for any change in tax rules and rates around the globe without any manual tracking or intervention by the customer organizations. This improves tax compliance for the multinational organizations.

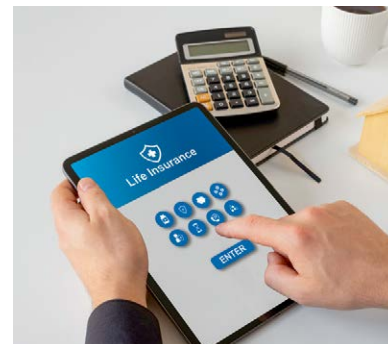
Business processes are becoming increasingly complex, especially if the multinational organization operates in multiple jurisdictions. Tax automation tools help such organizations to standardize the business processes across multiple teams, systems, and geographies. This will also reduce the need for training and improve the accuracy of tax calculation and filing.

The automation tools can process large volumes of data in real time and can provide advanced tax reporting.

It simplifies reconciliation across different systems. This ultimately helps multinational organizations to file tax returns timely. It also provides detailed and clear audit trails/logs for each calculation. This supports the tax department during tax reviews and audits.

If the multinational organization works with outsourcing partner(s) or shared service center(s), the automation tools are a big advantage. A shared service center is a centralized unit of the multinational organization to perform common business functions such as accounts payable processing, payment processing, HR, or Information Technology. Automation makes it easier for them to handle tax processes without the need for deep tax expertise. Another advantage of automation is scalability. For growing companies, automation provides greater flexibility when the multinational organization enters new markets, countries, or jurisdictions. The automated system can easily adjust to new tax rules, rates, and reporting requirements. Most automated tools have built-in tax rules and rates for the globe.

Lastly, tax automation helps the tax team to focus more on strategic work like tax planning, advisory, and improving tax processes. If implemented correctly, the automation tools provide self-guided answers to users without the need for tax department involvement. This helps the tax department to save valuable time by reducing routine and repetitive tasks.



By defining the objectives for tax automation, the multinational organization set the right direction to choose and implement the right tool that fits the multinational organization's needs. However, before selecting the tool, the multinational organization must also define the scope of the tax automation as explained in the next topic.

### What Should be Covered in Tax Automation?

Once the objective of tax automation is clear, the next question to answer is: *What should be the scope of the tax automation?* The level of automation depends on various factors impacting the multinational organization and the multinational organization's tax strategy. Again, each multinational organization has its own challenges and requirements that define the scope of automation, but some common factors are listed below:

- **Mandatory Government Regulations:** Many countries have made it mandatory to adopt certain technologies like e-Invoicing, E-Reporting, E-Audit, and E-Verification. These regulations play a crucial role in the decision-making process for tax automation.
- **Jurisdiction coverage:** Multinational organizations can decide the jurisdiction in the scope of automation. Traditionally, companies have automated the tax processes for highly complex tax

countries like the USA, Canada, India, and Brazil. However, with the rise of new regulations and advancements in tax technology tools, more organizations are adopting global tax automation.

- **Financial System coverage:** It is important to define the ERP and Non-ERP systems in the scope of tax automation. Taxes are usually applied to Sales, purchases, and financial transactions. multinational Organizations use various ERP and non-ERP systems like SAP, Oracle, ARIBA, COUPA, CRM tools, etc., to process these transactions. The multinational organization should clearly define the system that will be in scope of tax automation.
- **Scale of Automation:** This includes defining the usage of tax automation tools for tax calculation, tax reporting, tax analytics, or tax intelligence. Not all tax tools provide all features. Large vendors provide various additional services/tools for tax intelligence.
- **Organizational Structure:** A centralized structure requires a high level of automation because the central department may not have comprehensive knowledge of the tax laws and rules across all operating countries. Similarly, if the data processing is outsourced or managed by a shared service center, automation offers substantial benefits.
- **Cost Vs Best-In-Class Technology:** Cost is a sensitive issue. The tax function is a cost center for multinational organizations. While tax compliance is a must, cost is a big factor in deciding the scope of tax automation. Some companies may prioritize best-in-class technology, while others may adopt a more balanced and cautious approach.

### How to Evaluate and Select the Best Tax Automation Software?

Once the objective and scope of tax automation are clearly identified, the

next step is to explore and choose the right tools for tax automation. There are many tools available on the market. It is a good idea to explore a few of them against the multinational Organization's objectives and scope, and shortlist the ones that fit the most criteria. It is important to note that not all tools meet all requirements. If necessary, request software vendors to provide a short demo of the functionality and working of the tool.

Now each shortlisted tool needs a careful review. The most important factor to consider is how well the software aligns with key automation goals and the specific needs defined by the multinational organization. The next important consideration is how smoothly the software integrates with the multinational organization's primary source systems, like SAP, Oracle, and others. Reject the software straightaway that does not provide seamless integration with the multinational organization's source systems, as this will create big trouble in the future.

Another factor to consider is the total cost of ownership. This not only includes the initial upfront cost but also includes the ongoing licensing, support, and maintenance fees. Also note that the one-time implementation cost is in addition to this cost, and that cost is to be borne at the beginning of the implementation of the tool. Apart from the cost, also review the vendor's reputation and reliability. This can be checked by industry client references, customer feedback, and success stories.

As far as the software is concerned, check the features it offers out of the box. If the tool needs heavy customization and does not support the baseline scenarios out of the box, the tool is not a good fit. Most tools heavily rely on data coming from the source systems. Check if the shortlisted tools work better with the multinational organization's source system data. If data cleansing is needed, does the tool support it? Ease of implementation is also an important factor. Investigate



how long it will take, how complex it is, and how much internal effort will be required to implement the tool.

The next important factor to consider is customer support. Select vendor(s) that provide 24/7 support and that the support is available locally. Most importantly, check the quality of support offered by industry client references and customer feedback. Scalability and Jurisdictions covered by the tool of the tool is an important deciding factors.

Make sure that the solution is a good fit for the size and structure of the multinational organization. A good tool always supports audit readiness by providing clear logs, audit trails, and documentation. It should cover all tax requirements for all jurisdictions, including federal, state, city, district, or county. It covers all different types of tax impositions like VAT, Sales and Use Tax, GST, Etc. The tool must automatically update in real time with changes in tax rules and rates globally. This is very important to keep the multinational organization compliant with the changing regulations.

A strong tool not only covers tax calculation but also provides advanced reporting capabilities. Its reporting capabilities must be real-time and effective. It provides intelligent and analytical reports so that the tax department can effectively use them. Some tools also provide tax return capabilities. Explore the multinational organization's tax return requirements with the tool's capability. If the tool is unable to provide the returns directly out of the box, it should provide the data to prepare these tax returns.

Lastly, pay attention to the security and data protection functionality provided by the tool. Tax data is very sensitive, and the tool must have good security measures for threats and viruses. The User Interface (UI) of the tool should be simple, intuitive, and suitable for both tax and non-tax users.

The above guidelines help in the selection of the best from the shortlisted ones.

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### AI-Based vs Rule-Based Tax Engines: A Shift in Tax Technology

As Artificial Intelligence (AI) continues to evolve. Tax technology companies are aggressively incorporating AI into their software and gradually moving away from the traditional rule-based engines. This shift is mainly driven by the growing need for a smarter and more flexible system that is easy to manage. One of the key AI-driven innovations that has been incorporated by most tax technology organizations is smart search. It allows users to ask questions in plain and simple language to the AI bot. The AI bot will provide fast and accurate answers in a simple format. Another major AI innovation is happening in smart categorization. In a traditional rule-based system, a mapping is needed between source system data and the tax engine tax categories. With smart categorization, AI will map the source system data with the tax engine's tax categories, eliminating the need for manual mapping.

AI brings many benefits. It can learn from the past data, requires less manual configuration, and can detect patterns, risks, fraud, or potential errors. This is not possible with a rule-based

system. However, AI also poses many challenges. The success of AI depends on high-quality, regularly updated data. AI decisions can be biased, and many times, they are not fully transparent. AI does not leave a clear audit trail, and sometimes, it is difficult for the tax team to fully control and explain every decision made by AI.

Though many AI advancements are happening in tax technology and the future looks promising, AI in taxation is still in its early stages. It requires extensive testing to evaluate its performance. In contrast, rule-based tax engines are well-established, highly reliable, and operate in a controlled environment. It leaves clear and manageable audit trails.

In conclusion, AI is clearly the future of tax technology, and it has more to explore. The most effective and balanced approach would be to combine AI-based solutions with traditional rule-based systems. The hybrid system will work primarily on rule-based methods. However, certain areas can be open for AI, like tax analytics.

### The Dark Side of Tax Automation

Tax automation brings many benefits, but it also carries a significant risk if not implemented and managed properly.



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Poor planning and execution during implementation can cause delays, unexpected costs, and disruption to the existing business. Automation is highly dependent on the quality of the source system's data. There is a famous phrase amongst tax automation consultants: “Garbage In Garbage Out”. This highlights the importance of data quality in tax automation. It is one of the leading causes of the failure of tax automation projects. Hence, any successful tax automation project needs strong and consistent data governance in the multinational organization. Another hurdle of a tax automation project is cross-functional alignment. A successful tax automation project needs an early alignment amongst



the Tax, IT, Sales, Procurement, and Finance teams of the organization to standardize business processes. Often, bringing all teams together is difficult. The next major reason for the failure is the wrong selection of tools. If the tool does not meet the multinational organization's size, complexity, or ERP and Non-ERP structure, it can lead to a significant increase in time and cost. Additionally, some tools come with inherent limitations or software bugs. The faulty tool may not support all business processes or require heavy customization.

Furthermore, insufficient user training and weak change management can cause a disruption. It can result in underutilization of the tool and resistance to automation from the user. While over-automation without proper governance increases audit risk and error in tax calculation. Both situations can increase tax compliance risk. Finally, a lack of continuous support and maintenance can result in faulty calculations from the tool.

### Conclusion

Tax automation has become increasingly important, especially for multinational organizations of all sizes and industries. It is not a luxury anymore, but a need. It helps make tax processes faster, more accurate, and easier to manage. It also helps multinational organizations to stay compliant with global tax regulations. But automation is not just buying a tool. It is more about understanding the objective and scope of tax automation and choosing the right tool that fits the multinational organization's needs.

While tax automation brings many benefits like better compliance, reduced errors, and more time for strategic work, it also comes with challenges. Poor data, wrong tool choices, and a lack of teamwork can cause problems.

In the end, successful tax automation is a journey. When done right, it can help multinational organizations stay compliant and save time and money.



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