Shared Services Centers for Indirect Tax | PUBLIC

Reaping the Benefits of Shared Services Centers for Indirect Tax

Localize with SAP Solutions for Global Tax Management to Centralize, Automate, and Comply

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The Need for a Modern Tax Compliance Framework in the Digital Era

The proliferation of indirect tax obligations in recent years has made it increasingly difficult for tax professionals to stay on top of compliance. In jurisdictions where transactions must be reported in real time (or close to it), **having the right technology in place** has become critical for organizations to avoid legal and regulatory liability. This becomes the perfect opportunity for tax professionals to transform compliance operations into a perfect fit for shared service centers (SSCs).

Businesses must invest in new technologies to comply with increasingly complicated mandates. Many organizations take this opportunity to transfer their advanced tax function to SSCs. As centers of excellence, SSCs are able to centralize tax reporting with unprecedented levels of control and provide sophisticated tax data analysis. This frees up tax specialists to focus on value-adding activities. The additional services SSCs provide can create opportunities for bringing previously outsourced work back in-house.

Once operational indirect taxes are transferred to SSCs, tax directors can redefine their roles to be more strategic.

They can also take the chance to reshape processes and advise what taxation technologies to acquire as new tax management solutions for invoicing, tax determination, return generation, electronic submission, controls, and analytics enter the market.

This paper looks at the fast-changing landscape of indirect tax reporting and explains how solutions for global tax management can facilitate the centralization and standardization of tax management. It discusses how SSCs, taking advantage of this technology, are providing labor-saving outsourcing services to today's businesses to manage their global tax compliance.

Disruptive Trends Impacting the Tax Function

Three major trends are transforming the landscape for tax compliance and reporting.

INCREASING OBLIGATIONS FOR ELECTRONIC COMPLIANCE
Governments around the world are using technology to increase tax revenues and combat tax evasion, particularly when it comes to indirect taxes. In the last decade, numerous countries succeeded in decreasing the "VAT gap"– the difference between expected and collected value-added tax revenues – thanks to the introduction of electronic reporting mechanisms.

In recent years, the number of countries that have imposed electronic compliance obligations to combat tax fraud has tripled. These new obligations include requirements for on-demand e-audits, real-time reporting, and mandatory electronic invoicing.
However, the pace of change is accelerating, with new obligations emerging in many regions. Surveys conducted by PwC confirm that the continuing onslaught of regulatory change and reporting standards now stands as a top concern for tax directors.[1] (See Figure 1.)

1. "Invoicing in a digital age," PwC Belgium, November 26, 2020.

Key Challenges

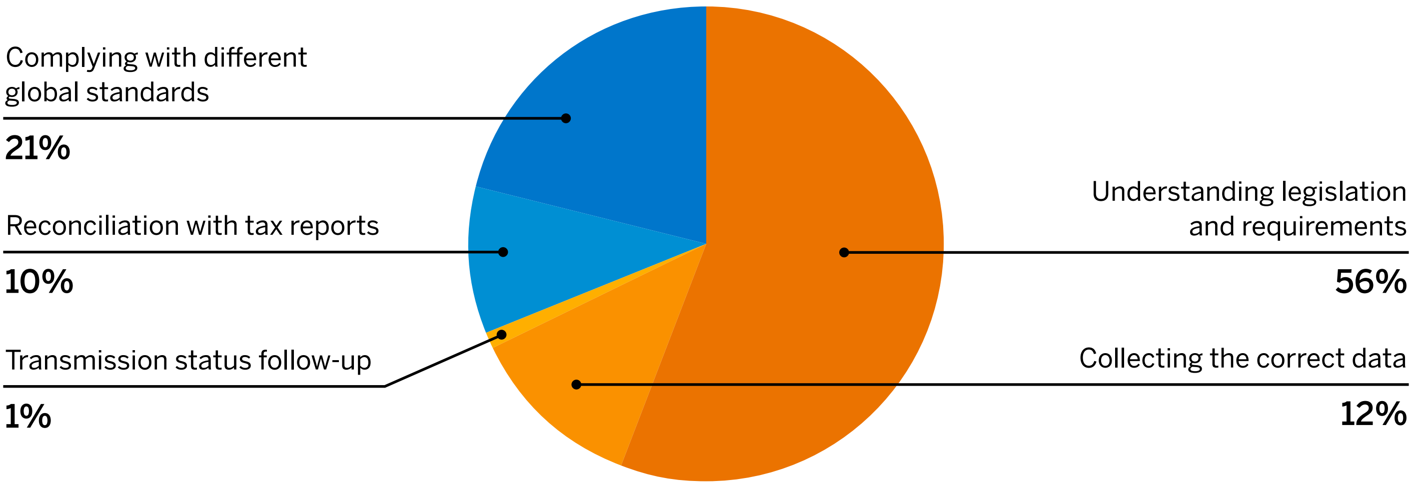


Figure 1: Key Challenges

These changes occur against a backdrop of wider digitalization of economies as a whole. Many countries are introducing mandatory e-invoicing in business-to-government (B2G) transactions and are even extending that mandate to business-to-business (B2B) e-invoicing. With this massive amount of regulatory changes, it is no surprise that more than 70% of businesses say they have no clear view of their e-invoicing or e-reporting obligations now – and little idea of how things will look like for them down the road.[2]

To help monitor business transactions, tax authorities increasingly involve additional stakeholders in the compliance process, including banks, online marketplaces, and technology platforms. Tax authorities invest substantially to better manage and interpret the large volumes of data they collect from taxpayers and other sources. As a result of this, the lapse between when a transaction occurs and when tax authorities record it is shrinking significantly. The window for enterprises to correct transactions later is smaller than ever, requiring a renewed focus on capturing information correctly the first time.

2. "Invoicing in a digital age," PwC Belgium, November 26, 2020.

70%

E-invoicing and e-reporting
More than 70% of businesses have no clear view of their e-invoicing or e-reporting obligations.

REORGANIZATION OF THE TAX FUNCTION

Complying with legislative changes that mandate new electronic requirements is only one aspect of the transformation of the tax function. The market for tax technology solutions is evolving rapidly due to other pressures as well. Today, a global indirect tax director must work in three primary domains:

- **Governance and Policy** – Monitor legislative changes, shape corporate tax policy in response to those changes, and monitor the "tax footprint."
- **Global Process Compliance** – Establish the indirect compliance function and manage the compliance process.
- **Indirect Tax Technology** – Define technology needs, set up road maps to acquire the necessary technology, implement technology solutions, and maintain technology that has been implemented.

Of these three roles, understanding and implementing indirect tax technology has recently taken priority as a result of the global revolution in tax reporting.

CENTRALIZATION OF ACTIVITIES IN AN SSC

In response to modern tax reporting challenges, companies worldwide are moving their indirect tax function to SSCs. Often this translates to a complete role evolution for indirect tax directors that, some for the first time, find themselves moving from managing operations to focusing on planning and strategic governance. In fact, moving their transactional processes to mature SSCs saves companies money and helps them increase the efficient use of their resources. At the same time, Companies are taking advantage of global tax technology solutions to centralize the management of the indirect tax function and manage worldwide compliance requirements from a single platform. Unique Momentum Building for Shared Service Centers.

REORGANIZING THE TAX FUNCTION IN THE ENTERPRISE:
As the global regulatory landscape for tax policy evolves, technology solutions evolve as well. Understanding these technology developments is critical to remaining compliant.

The path to using SSCs has evolved over the years:

- With the imposition of new compliance requirements, companies are forced to operate differently. Frequently, they must implement new technologies to remain compliant. This, however, provides an opportunity for them to optimize their business processes as well. For example, they can rethink how to handle different country-specific requirements and how to standardize and automate repetitive tasks worldwide. Such considerations make the company a likely candidate for shifting to an SSC, which can lead to improved overall efficiency.
- After they optimize back-office operations, SSCs can transition to an even bigger role as centers of excellence that promote the broader adoption of best-practice processes and cutting-edge technologies throughout the enterprise. This puts SSCs in a position to lay the groundwork for the next generation of processes and harness the technologies needed to bring those processes to the next level. Many organizations are transferring ever more complex processes to SSCs, which are stepping up to the challenge by evolving into true strategic business partners, offering a range of best-in-class global business services (see Figure 2).

Organizations are adopting multifunctional centers with a broader scope and greater number of functions within their business centers.

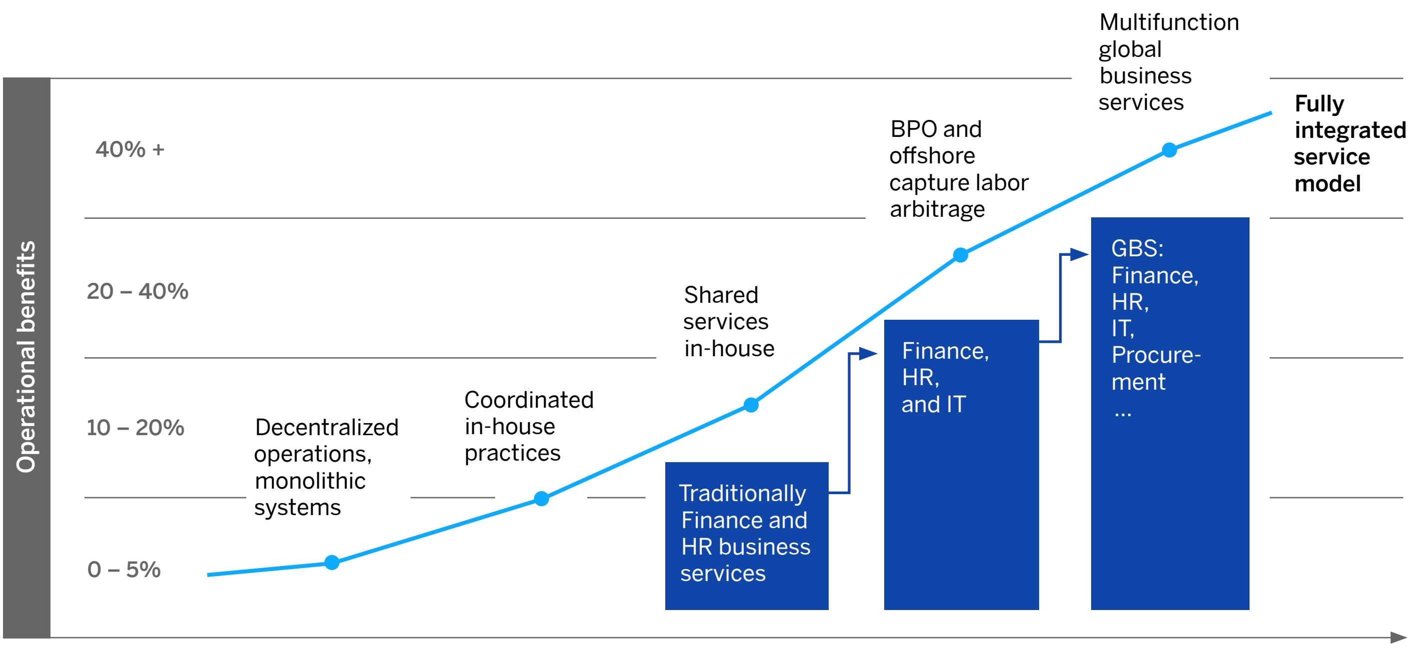


Figure 2: SSC Maturity Model – From Single to Multifunctional Organizations

As tax function and processes become centralized, companies must certainly rethink how they build their teams and arrange their compliance processes. They must also choose and maintain the right technology framework to support the tax function.

Historic Challenges in Centralizing the Tax Function

Over the past decade, many companies have gone through a transformation in which they established service centers to increase the efficiency of their financial operations. The main driver of this move has been the desire to reduce the cost of repetitive back-office operations.

However, certain external-facing processes – such as tax and accounts receivable – have been excluded. As a result, recent statistics show that 40% of companies are considering centralizing their indirect tax compliance and e-invoicing efforts through technology and an SSC.[3]

There are multiple reasons for this:

- **Manual data collection and reconciliation**
  Many companies struggle to ensure data is complete and accurate because that data is held in disparate systems, making it difficult to implement adequate tax reporting. This results in offline consolidations of multiple data sources, causing unnecessary manual work and high risk of errors. It also puts the integrity of the tax data at risk.

- **Language barriers and localized security requirements**
  Indirect tax requirements are typically country-specific and are detailed in legislation written in the local language and published on local Web sites. This means forms must be filed in the same language. Tax agencies mandate authentications, which require local passports to be obtained and software to be purchased from local vendors. While SSCs can be a good fit for language-dependent roles, they face real barriers when it comes to scalability and operational sustainability. These barriers limit the benefits and make it more difficult to centralize business processes.

3. "Invoicing in a digital age," PwC Belgium, November 26, 2020.

- **Country-specific, highly-manual processes**
  Indirect tax reporting has historically been based on aggregated reports prepared after the closure of a financial period with no digital link to original transactions on any government's platform. This has given tax departments the opportunity to review data and make "after the fact" corrections to ensure regulatory submissions are as accurate as possible, minimizing the risk of noncompliance. But this also creates a trap for organizations. Instead of focusing on getting tax data right the first time, organizations often invest resources to complete judgmental reviews of transactional data, making corrections later through offline manipulations and country-specific processes. This approach poses a barrier to service center centralization because it relies on deep local knowledge, is not scalable, and limits both auditability and control.

- **Local accountability**
  Local tax managers are accountable and liable for all tax declarations disclosed to local authorities. They often sign tax returns personally. As a result, they naturally want to maintain tight controls to ensure that tax filings are high in quality, minimizing the risk of noncompliance. Their job becomes more difficult because tax returns are subjected to manual checks and manipulations to ensure accuracy. These are typically performed offline, with limited traceability to the original transactions. The result is that tax managers often oversee the end-to-end process themselves as the only way to ensure tax returns are accurate, a necessary operation to shield themselves since they are responsible for those returns.

OVERCOMING THE BARRIERS:
Evolving technology solutions can help enterprises overcome the significant challenges of centralizing indirect tax compliance. Understanding these technologies is critical.

- **No tax-sensitized processes and controls**
Tax is embedded in all transactional processes. However, in traditional ERP systems these processes were established without considering tax requirements because those requirements were either less demanding or nonexistent at the time. This situation often resulted in a lack of controls, forcing the tax professionals to investigate and audit various scenarios to ensure there were no gaps in indirect tax declarations. In addition, traditional ERP systems do not include harmonized data that can be analyzed across the enterprise. This makes the process labor-intensive and reliant on connections with local supply chain organizations, making centralization difficult.

- **Lack of visibility**
Traditional ERP systems and compliance software do not offer an indirect tax calendar, which is typically an obstacle to centralizing operations. To be successful, centralization requires processes that can be easily monitored and abstracted from the knowledge of individuals based on the following prerequisites:

  – A single source of truth that includes all obligations and corresponding due dates. This also serves as the basis of the processes to be monitored and audited.

  – Real-time insights into tax operations status, along with external deadlines.

  – System-driven controls and workflows to ensure that team leaders and tax managers can review and approve returns prior to submission, limiting unnecessary compliance risks.

Accelerate the Path to SSCs: SAP® Solutions for Global Tax Management

Transitioning to an SSC creates opportunities for centralizing additional functions, including indirect tax management. This can be facilitated by implementing SAP S/4HANA® and SAP® solutions for global tax management to enable businesses to comply with ever-evolving digital mandates, while creating a foundation to transform how compliance is achieved.

This foundation has different components, the first and foremost being SAP S/4HANA. The software offers a single source of truth that can be leveraged for tax purposes, eliminating the need for time-consuming reconciliations, manual consolidation of data, and offline audits. This makes SAP S/4HANA a true catalyst for tax compliance transformation. With its localization representing more than 60 countries, it allows organizations to expand their operations and adapt to an evolving business model without additional complexity or costs. Implementation of new ERP software like SAP S/4HANA offers unique momentum to "tax sensitize" the data, which is needed for reporting purposes. A successful cloud ERP implementation will take into consideration the data needs of growing indirect tax reporting obligations as well as other tax obligations, such as income tax and OECD's (Organisation for Economic Co-operation and Development) Base Erosion and Profit Shifting initiatives (BEPS 2.0 Pillar 2). SAP solutions for global tax management can be deployed on top of SAP S/4HANA. These next-generation solutions allow companies to redefine their end-to-end processes – from controls to real-time, periodic, and ad hoc reporting – letting companies scale globally, while complying locally.

SAP solutions for global tax management can be deployed on top of SAP S/4HANA. These **next-generation solutions** enable companies to redefine their end-to-end processes – and scale globally while complying with local regulations.

- The SAP Tax Compliance application offers a holistic approach to tax controls to help minimize the risk of non-compliance, from detection to remediation and reporting. With the aid of machine learning and automated checks across the entire company, the application enables global enterprises to detect compliance issues systematically, improve the quality of tax data, streamline corrections, and help to promptly mitigate the risk of noncompliance.

- The SAP Document and Reporting Compliance solution fulfills many needs, from handling real-time electronic business documents to statutory reporting (spanning from VAT, to Withholding Tax, SAF-T, books and more, including filing). The solution enables enterprises to address emerging continuous transaction controls. It extends support for business processes with an additional step that sends documents to tax authorities for registration and approval. A holistic approach enables sustainable standardized operations, increasing consistency and facilitating reconciliation.

While fundamental to improving the quality of tax data and compliance with local regulations, these solutions can also serve as worldwide foundations to accelerate centralization of tax compliance by eliminating manual processes and supporting new processes that can be standardized worldwide.

This helps to overcome many challenges that businesses typically face.

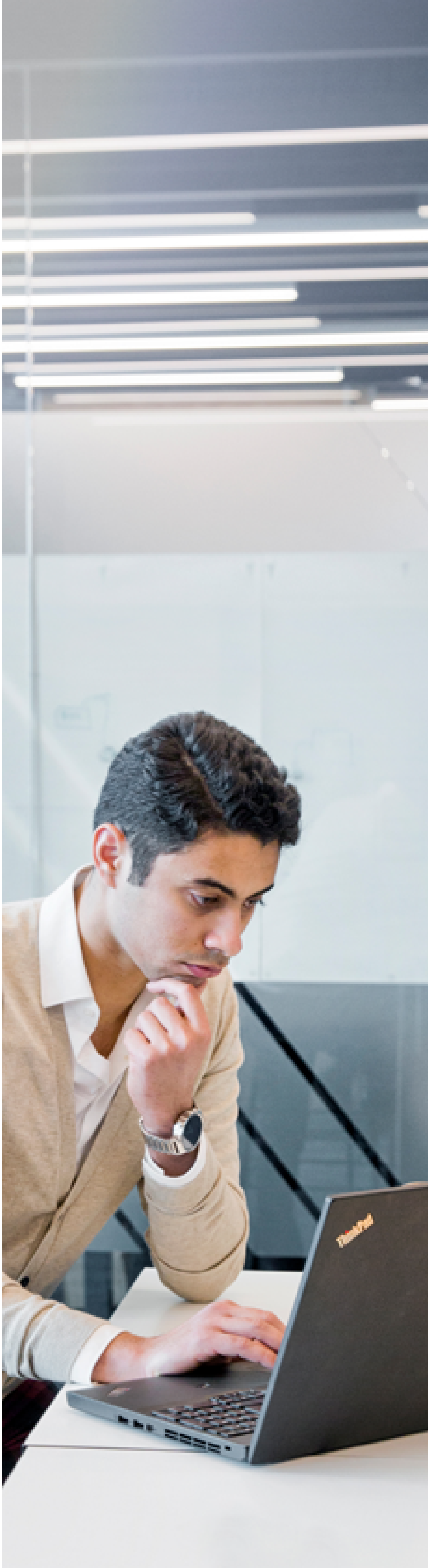
- **Single source of truth**
  SAP S/4HANA, with its universal journal, offers a reliable and complete single source of truth that can be used for both tax analysis and reporting, without requiring batch consolidations or lengthy period-end closes. Bringing together data from core ERP modules (such as procure-to-pay and order-to-cash) with supply and procurement systems is vital to establishing a compliant record-to-report process. For a distributed landscape, if logistic processes take place in separate systems, SAP S/4HANA for central finance can create a harmonized and centralized source of truth. Together with other processes, it can serve as the basis for tax reporting to simplify compliance end to end.

- **Flexible solutions with certified automated submissions**
  One accountant can work across multiple countries and manage different local stakeholders because the system supports varying legal requirements. It uses the same processes to visualize tax data in different languages as needed, without requiring manual translations. In addition, the implementation of automated solutions for e-documents and tax reporting enables machine-to-machine submissions to governments, eliminating the need for local passports, in-country submissions, or deep local expertise. Electronic certificates and automated reconciliation of electronic business documents guarantee the integrity and completeness of data.

- **Compliance standardized globally with sustainable processes**
  Operating tax controls in near real-time now makes it possible to identify issues early in the process and work on remediation with a flat workload over the course of the month. This shift to a continuous work model (with no spike at the end of the period) is fundamental to enabling sustainable operations that can run centrally and which are more easily scalable across countries. In addition, compliance operations can be standardized worldwide by deploying a cloud ERP with tax-sensitized business processes and ready-to-use solutions for complying with local regulations.

- **Implementing global solutions**
  Local content being updated in real-time gives organizations and their SSCs peace of mind that they can comply with local changes without requiring additional effort or putting the operations at risk.

- **Digital audit trail with full traceability**
  Electronic documents and periodic returns are automatically created based on financial transactions, forcing corrections to be done in the system of record and eliminating inconsistencies or potential incomplete returns. This enables automated reconciliations by design and full digital audit trail. Tax managers are always able to easily prove declarations back to original transactions without relying on offline data or distributed knowledge, even if they did not run the process themselves.



- **High quality of tax-sensitized data**
  With the implementation of SAP S/4HANA, companies can leverage latest best practices and the localization offered in more than 60 countries to transform their existing cumbersome processes to streamlined tax-sensitized operations ready to comply with existing requirements and adapt to future needs. In addition, with the deployment of a holistic approach to tax compliance, enterprise-wide controls can be automatically run on 100% of transactions, giving real-time insight into compliance status. Organizations can review findings, make timely corrections throughout the month with the aid of machine learning and embedded workflows, without having to rely on the knowledge of specific individuals. This allows companies to have tax-ready data that can be easily processed centrally.

With the deployment of a holistic approach to tax compliance, enterprise-wide controls can be automatically run on 100% of transactions, giving **real-time insight** into compliance status.

Benefits and Savings

Centralizing tax compliance and finance processes in an SSC results in a range of benefits and savings. The key is using technology solutions within your company that support truly global tax management. SAP solutions support for localized business processes provides peace of mind for enterprises, giving them confidence that they can succeed both locally and globally. Some of the key operational and financial advantages include:

- **Standardized data and processes**
  Deploying a consistent solution across various markets enables consolidated ownership and control. The quality of tax-related data coming from the ERP system or from accompanying systems (such as customer relationship management or procurement systems) can also be improved in an ERP transformation or implementation.

- **Reduced deployment costs**
  Facilitated compliance with new requirements through the use of a defined solution can reduce deployment efforts and the "cost of chaos."

- **Increased scalability**
  Scalability enables rapid and confident deployment of standardized processes to new countries and markets as the business continues to grow and evolve its operating model.

- **Reduced internal process maintenance**
  Improvements here can eliminate some of the manual internal steps required to sustain disparate solutions.

THE BENEFITS OF A HOLISTIC APPROACH:
Companies can find significant benefits and savings as a result of centralizing tax compliance and finance processes in an SSC. Using technology solutions can significantly amplify the benefits of centralization.

- **Faster response to changing legislation**
  Having a centralized team monitoring changes, with access to ready-to-use content for local regulations, means quicker responses to the evolving global regulatory landscape, lower compliance costs and more flexible operations capable to respond to the ever-changing business needs. With SAP localized solutions, enterprises gain the ability to adapt to business changes readily and to transform digitally, easing regulatory burdens and allowing them to focus on strategic differentiators for their business.

- **Improved compliance**
  Disjointed and manual processes increase the risk of error and of incurring government penalties due to the difficulties of keeping up with legal changes and updates to filing formats and forms. Certificates are reflected and updated by the provider of the compliance solution.

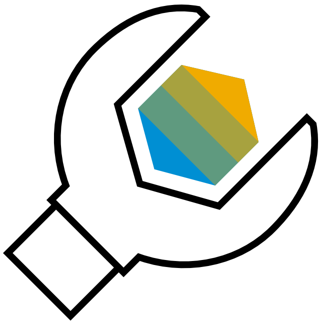
- **Enhanced data analytics**
  Leveraging embedded analytics capabilities enables greater visibility and better insights. Data available in SAP S/4HANA can be used directly, with no need to extract functionalities, which can create additional work and increase the risk of data mismatches. SAP solutions for global tax management can be used to build visualizations and dashboards, delivering real-time insights for tax directors and CFOs and enable data-driven decisions.

- **Improved stakeholder experience**
  The overall result for everyone is better transparency, with clearer solutions and operational processes. With fewer operational tasks to complete, and with data ready to consume, tax professionals can focus on more value-adding activities and reposition themselves as strategic partners for their organizations. In fact, they can become key advisors and help businesses to optimize their models, increase flexibility to respond to new emerging needs and markets, and improve the bottom-line.

CASE STUDY

A large multinational chose the SAP Central Finance Data Harmonization application by Magnitude for SAP S/4HANA Cloud to harmonize finance processes that had been running in two separate systems. The multinational was also looking to implement SAP Document and Reporting Compliance[4] as its single tax reporting tool, with the goal of integrating its compliance approach across multiple countries.

With some of the multinational's local finance and tax teams too understaffed to attend fully to this task, the company directed some countries to maintain compliance processes with their current local service providers. In those cases, the service provider would access the central tax reporting tool using the multinational's software. Those countries also had the opportunity to centralize compliance outsourcing to a single party, providing greater efficiency. While keeping the outsourced reporting process in place, this process also streamlined it. The central tax reporting tool also helps to harmonize the Sarbanes-Oxley Act's key controls for cross-country indirect tax, allowing service providers to use the same controls as the multinational itself. Overall, the result has been getting more done with less effort, thanks to localized business processes.



The central tax reporting tool helps to harmonize key controls for cross-country indirect tax, allowing service providers to use the same controls as the multinational itself. Overall, the result has been getting more done **with less effort**.

4. Reporting part of SAP Document and Reporting Compliance was formerly known as SAP solutions for advanced compliance reporting.

SUMMARY

The global tax reporting landscape is rapidly changing, and many companies need to rethink their tax management processes. They must make sure their transactions are captured, correctly classified, and reported in a timely manner in vastly disparate tax reporting jurisdictions.

Centralization of tax operations into an SSC and standardization of processes can help companies manage noncompliance risks and increase the efficiency of back-office operations. For SSCs to achieve their full potential – both in terms of compliance and efficiency – their activities must be supported by a technology that is sufficiently local to meet local requirements. At the same time, this technology must operate globally, support standardization, and enable companies to analyze large volumes of tax data across borders, regardless of language.

In the coming years, tax directors will face strategic investment decisions as they select tax technology solutions for their organizations to use over the next 10 to 15 years. Choosing the right solutions ensures that a company will not only be able to remain compliant globally, but will be able to confidently scale up tax reporting as new reporting obligations emerge across the globe.

SAP enables enterprises to scale with confidence across multiple geographies by integrating localized business processes that work across the full range of SAP solutions. With SAP, enterprises gain the ability to adapt to business changes and to complete their digital transformation. The software provides peace of mind, freeing tax professionals from worrying about the risk of regulatory audits and fines to transfer compliance operations to the SSC and focus on strategic differentiators for their business.

Interested in learning more? To find out how SAP enables enterprises to succeed locally and globally, read the SAP white paper Enabling Enterprises To Succeed Locally And Globally With Localized Software Solutions.

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