



Ten Reasons to Include Vertex in SAP S/4HANA Migrations



Introduction: Perception is reality.

Advertising executives, public relations experts, and other communications professionals use that phrase to emphasize that our sensory impressions and gut feels often carry more weight than the underlying facts of a situation or event. How people perceive a political candidate can matter more than the politician's stated policy positions or legislative record. How consumers view their favorite brands matters more than balance sheets and price-to-earnings ratios. A similar dynamic holds true for enterprise resource planning (ERP) cloud migrations.

Finance and accounting, information technology (IT), and tax professionals often view cloud migrations as a necessary endeavor to be completed by a set date. This widespread perception obscures the underlying reality that cloud migrations offer valuable upside opportunities.

Leading companies leverage ERP cloud migrations (e.g., moving from SAP ECC to SAP S/4HANA) to strengthen data management capabilities, streamline processes, and bolster organizational efficiency and resilience. In addition, they do so to enhance their ERP ecosystem by implementing or upgrading related solutions (e.g., Vertex's cloud-based tax engine) and leveraging advanced application program interfaces (APIs).

There are many reasons to include advanced tax automaton in an ERP cloud migration—including 10 benefits described later in this paper. This is fortunate because sales, use, and value added tax compliance happen to be realms in which perceptions match reality. Tax compliance is viewed as a challenging, ever-changing, and absolutely necessary requirement—and daily business realities confirm that perception.

This makes the inclusion of a new or upgraded tax engine in ERP cloud migrations imperative for finance, IT, and tax groups to consider. The optimal way to work through this consideration is by:

- Recognizing the challenging and fluid nature of indirect tax compliance;
- Understanding the differences between native ERP tax compliance functionality and the power and economies of scale of pairing SAP with Vertex; and
- Assessing the full range of benefits derived from integrating the Vertex tax engine with SAP S/4HANA.

Rules rule, tiers cause tears, and situs gets righteous

The global tax landscape is evolving quickly. The worldwide shift to destination-based tax situs—where liability is determined based on where goods are consumed as opposed to where they originate—continues to surge. More revenue departments and tax jurisdictions now expect real-time data and unparalleled accuracy. Governments are also accelerating their adoption of new systems and tools to combat fraud and streamline tax collection. This creates greater pressure on organizations to achieve and sustain compliance.

In the U.S., state and local tax authorities continually adjust tax rules and rates in response to budgeting shortfalls, the ongoing adoption of online commerce and digital transactions, changing consumer behaviors, and other variables. Plus, tax administrations' adoption of new technology systems and tools (e.g., data analytics) is bolstering U.S. state tax enforcement and enhancing exchange agreements between jurisdictions. In the EU and other regions, VAT regimes are undergoing fundamental overhauls while contending with similar digital disruptions. Legislative mandates such as e-invoicing and e-reporting force indirect tax groups to respond quickly and in an increasingly automated manner.¹

Ad hoc, manual tax technology solutions no longer cut it in the face of rapidly evolving tax regulations, rules and rates. The following data points highlight the challenging nature of the current indirect tax compliance environment:



Challenges of tax compliance:

- There are more than 19,000 unique taxing jurisdictions worldwide—13,000 of them in the U.S.
- Some U.S. states apply a tiered tax on single article transactions (i.e., different portions of the price are taxed at different rates—for *both* state and local taxes).
- Some states base tax determinations and calculations on complicated sourcing factors (destination, origin, modified origin, etc.).
- Phoenix, Denver, and other U.S. cities apply different seller use tax rates and consumer use tax rates.
- Fees—including retail delivery fees, environmental fees, and special district fees—are proliferating: Three years ago, the Vertex tax engine supported about 400 fees, and today, Vertex supports approximately 1,400 fees.² A formal indirect tax, tax groups nonetheless must comply with fee rules.³
- Besides collecting transactional information through e-invoicing and real-time reporting, in Europe, Asia, and South America are experimenting with emerging technologies to gain real-time visibility into business transactions. For example, The Netherlands developed a predictive model to integrate risk indicators and optimize the selection of VAT declaration with a refund for a check.⁴

This list represents only a sampling of the difficulties of indirect tax compliance that can't always be supported using native ERP functionality.



Other challenges tax groups contend with include audit defense and sales tax exemption certificate management. Certificate management poses a range of compliance and capacity challenges including:

Challenge of certificate management:

- Changing legislation, exemption rules, and forms across numerous jurisdictions
- Multiple sales channels (e.g., e-commerce, mobile, marketplaces)
- Certificate collection processes that can impede sales and require rework and corrections
- Managing customer exemption certificates across multiple financial systems
- Responding to jurisdiction-specific forms and exemption rules
- Validating and applying certificates in a timely manner
- Monitoring and responding to expired certificates
- Locating certificates and generating transaction reports for audits

“One of the biggest challenges related to exemption certificates that I’ve seen over the years is responding to an audit. While you can see which of your customers is exempt from sales tax in an ERP system, responding to an audit requires you to retrieve those certificates quickly. That’s often difficult to do when they’re sitting on file servers.”

Debbie Boone
Sales Engineer Principal
Vertex

Reporting and compliance

The intricacies involved in satisfying U.S. sales and use tax and VAT rules requires an end-to-end compliance capability. Continuous compliance requires supporting tax automation that provides a scalable, flexible platform. The platform should make it easy to implement repeatable business and tax policy decisions based on accurate data that enables companies to manage even the most complex tax supply chains.

A thriving ERP ecosystem enables organizations to leverage a collection of connected systems and applications that ultimately connect commerce and compliance. From a tax automation perspective, end-to-end compliance requires integration points throughout the order-to-cash and procure-to-pay lifecycles. A tax determination solution also should support the creation of customer reports, material movement reports, procurement card reports, and custom load files.

As tax, finance, and IT decision-makers consider which tax automation solution best addresses their unique compliance challenges, they often compare the native tax functionality within their ERP system to the combined capabilities of integrating a tax engine with their ERP solution.

An ERP system's native tax functionality can handle global rate storage and simple calculation. However, the ERP system typically requires constant manual updates to ERP tables and codes. A useful way to assess the success of an ERP system's tax functionality is to ask whether the following activities are automated or performed manually:

- Tax code updates
- Rate updates
- Jurisdiction updates/additions
- Complex multi-party conditions
- Complex VAT scenario conditions
- Product master conditions that address legislative, regulatory and country rule nuances



The automated, updated rate, and determination content that a standalone tax engine, like Vertex, delivers provides substantial benefits to tax and IT groups. An advanced tax engine scales quickly and easily while addressing layered tax compliance functionalities such as:

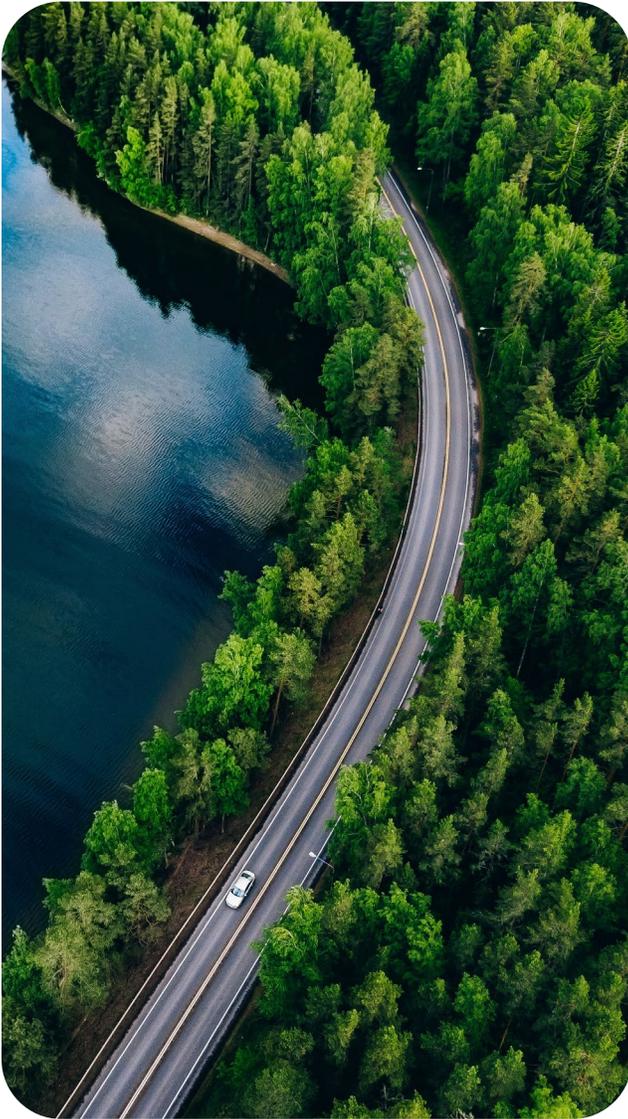
- Document and line level flex fields
- Calculation and compliance data models
- Tax assist tables and conditional rule functions
- Tax rate look-up and rule reporting
- Country/province/state/county/city/district qualifiers/reporting

Companies face mounting pressure to embrace a proactive approach to indirect tax compliance. Tax groups that rely on outdated tools and processes to address compliance subject their organizations to costly audits, penalties, operational bottlenecks, and potential lost revenue due to mistakes.

Top 10 reasons to integrate Vertex with SAP S/4HANA

Fortunately, there are other ways to manage indirect tax. Integrating a dedicated, stand-alone [Vertex O Series tax engine](#) with a cloud-based ERP system can help streamline tax determination, reduce audit risks, and provide insights that help fuel growth. These benefits feature prominently among the top 10 reasons to integrate a Vertex tax engine with SAP S/4HANA:

- 1. Compliance assurance:** Implementing tax processes early helps to ensure that the SAP S/4HANA system is compliant with tax regulations from the start, reducing the risk of non-compliance issues later-on.
- 2. Effective and efficient testing:** Combined testing and validation is more efficient, which improves accuracy and reduces the chances of errors in tax reporting.
- 3. Better user processes:** By incorporating tax processes with SAP S/4HANA changes, organizations streamline workflows and minimize the need for manual interventions, leading to overall process efficiency.
- 4. Cost-savings:** Identifying and addressing tax considerations early in the ERP cloud migration project can help avoid costly retroactive rework or adjustments and fines due to non-compliance.
- 5. Smooth transition:** Early tax integration facilitates a smoother transition to the new financial system, minimizing disruptions in operations and preventing potential bottlenecks.
- 6. Data integrity:** Integrating tax early helps ensure that tax-related data is more accurately captured and maintained, promoting data integrity throughout the system.
- 7. User training:** Early implementation of tax processes allows users to familiarize themselves with the tax-related functionalities, reducing the learning curve during the SAP S/4HANA go-live.
- 8. Strategic planning:** Having tax considerations in place early enables better strategic planning, as it allows businesses to factor in tax implications when making SAP S/4HANA migration decisions.
- 9. Better use of project resources:** Better use of project team members during the SAP S/4HANA migration as they can leverage same tasks for Vertex and S/4HANA requirements.
- 10. More business agility:** Implementing a scalable tax solution that keeps pace with the company's growth helps ensure a better upfront investment of time and resources.



Conclusion: High returns on fresh perspectives

As rapidly evolving global compliance requirements pose more, and new, challenges to indirect tax groups, it's worth viewing ERP cloud migrations as opportunities rather than mandates.

“As organizations migrate to the S/4HANA environment, we’re seeing them re-engineer business processes. Companies want to get out of the business of making manual tax compliance decisions. By aligning Vertex with the S/4HANA implementation, they can automate more tax processes and re-engineer other business processes while leveraging the same testing resources during the implementation.”

Debbie Boone, Sales Engineer Principal, Vertex

Embracing a fresh perspective on their ERP investment will enable, finance, tax, and IT groups to leverage cloud migrations to more efficiently streamline and strengthen the organization’s indirect tax compliance capabilities.

[Learn more](#) about the Vertex O Series tax engine today.

For more details on this topic, watch our webinar, [Migrating to SAP S/4HANA? Top 10 Reasons Why it is the Perfect Time to Implement Vertex.](#)

End Notes

¹ https://www.vertexinc.com/sites/default/files/2024-05/Vertex-Continuous%20Compliance_eBook_5-9-24.pdf

² <https://www.vertexinc.com/resources/resource-library/three-ways-reduce-fee-compliance-burdens>.

³ <https://www.vertexinc.com/resources/resource-library/future-global-tax-compliance-seamless-and-real-time>

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