**RESEARCH REPORT**

# Tax Technology Innovation and Automation

By Rizal Ahmed

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# Executive Summary

"We are increasing our investment in tax technology, innovation, and automation for a number of reasons that include changing regulations, compliance requirements, cost controls, and people. We want our people focused on those activities that produce the highest amount of value, and we want to reduce time on mundane tasks that should be automated."

**VP, GLOBAL TAXES, GLOBAL FLOORING MANUFACTURER**

**TAX TECHNOLOGY BUDGETS AND INVESTMENTS** remain strong as both business and IT teams grapple with a host of emerging regulations, business requirements, technology, and tools from which to choose.

From September to December of 2024, SAPinsider surveyed 195 tax and finance professionals and the technology teams that support them. This is the second year we have performed this study, and we observed some interesting comparisons in our analysis of the results.

With the imminent transition to SAP S/4HANA, opportunities abound to embed tax transformation within this larger initiative. Unfortunately, a minority feel like they are positioned to do so, while the many continue to invest in point solutions and projects. Only 41% of survey respondents say that they have an enterprise transformation strategy that includes tax. This is a seven percentage-point drop from last year, showing that tax teams still struggle to get that important voice and seat at the table.

The good news is that the experience that tax teams are gathering with various technologies is strengthening their confidence that they can support existing and future requirements, but there is still much work to be done as they face added pressure to cut costs, do more with less, and further improve efficiencies.

The pressure to move to SAP S/4HANA and transform ERP is pushing most companies to not just rethink their technical architecture and environments but is also forcing whole-sale redesigns of business processes. Years, and in some cases decades, of maintaining complex, highly customized, legacy systems have limited organizational and business agility. But that is changing rapidly, and tax teams need to be part of these larger business transformation initiatives.

In November 2024, SAPinsider published executive research focusing on CIOs and other tech leaders entitled "The CIO's 2024 Transformation Report Card." For the fifth straight year, more than 50% of leaders reported that business process standardization, automation, and redesign represented their most important transformation project. This shows that many companies are not just focused on IT and infrastructure transformation but impacting the business processes that this foundation supports.
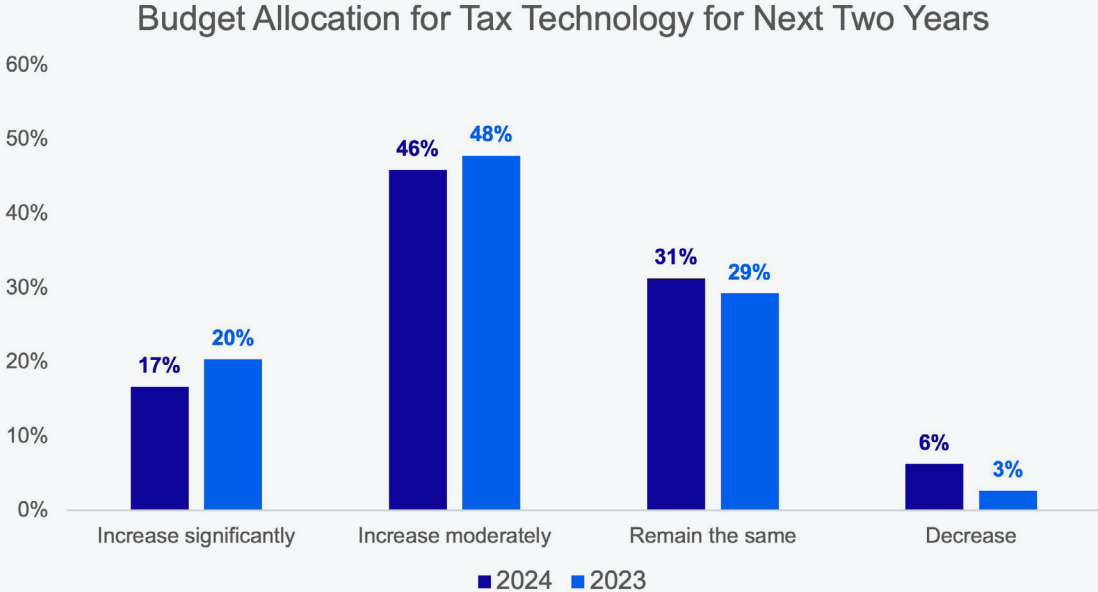
Tax teams must capitalize on this investment and focus on ensuring that their processes improve to meet the current business and regulatory demands that they face.

## Companies Increase Budgets for Tax Technology

The good news is that most companies are providing the resources to support tax innovation and technology investment. A majority of survey respondents (63%) report that the budget allocation towards tax technology innovation for the next two years is increasing. Also, 17% of tax professionals in our research say that budgets are increasing significantly. Only 6% say that their budgets will fall for the next two years. This is only a slight jump of three percentage points in our year-over-year comparison. **(Figure 1)**

**FIGURE 1**

### Budget Allocation for Tax Technology for Next Two Years



Legend: ■ 2024  ■ 2023

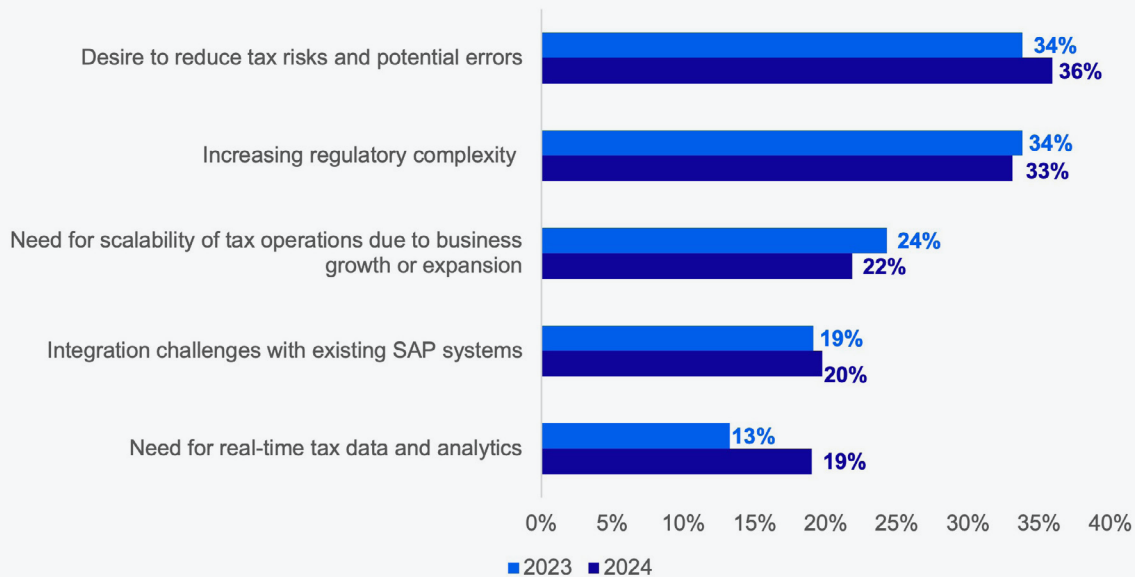| | Increase significantly | Increase moderately | Remain the same | Decrease |
|---|---|---|---|---|
| 2024 | 17% | 46% | 31% | 6% |
| 2023 | 20% | 48% | 29% | 3% |

## What Is Shaping and Influencing Tax Investments

The increasing complexity and change within regulations as well as the speed of business change are putting additional pressure on tax teams to innovate and keep pace. Minimizing errors and penalties while maintaining efficient processes are among the top priorities of our respondents.

The desire to reduce tax risks and potential errors remains the top driver of tax technology investment as it has for the past two years as 36% of respondents chose this as one of their primary drivers. Increasing regulatory complexity and compliance requirements was not far behind garnering 33% of responses. Increasing digital mandates and changes in regulations across the globe are making it tough for tax teams in global organizations to keep up. **(Figure 2)**

**FIGURE 2**

### Top Drivers of Tax Technology Investment



| | 2023 | 2024 |
|---|---|---|
| Desire to reduce tax risks and potential errors | 34% | 36% |
| Increasing regulatory complexity | 34% | 33% |
| Need for scalability of tax operations due to business growth or expansion | 24% | 22% |
| Integration challenges with existing SAP systems | 19% | 20% |
| Need for real-time tax data and analytics | 13% | 19% |

The need to support the scalability and complexity of the business rounded out the top three drivers for 2024 (22%). Corporations are pushing into new regions, reinventing their business models, and pursuing new customers, all of which impact their internal tax organizations.

Data security and privacy laws such as GDPR have emerged as the top concern influencing tax technology investments and innovation strategies in 2024, eclipsing country-specific tax reforms and regulations, which
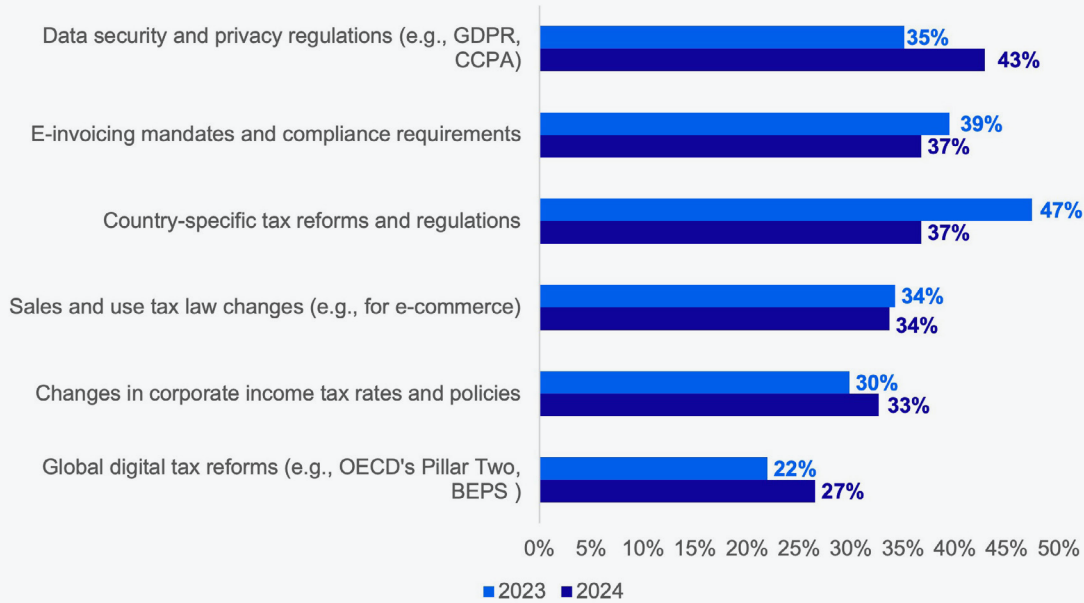
remains a pain point and is the number two change that our respondents are focused on. **(Figure 3)**

Cloud applications, mobile technologies, and a more tech savvy workforce are creating data at a faster pace than ever before. Managing this data with the changes in emerging regulations poses a significant challenge across most businesses and that includes tax.

Volatility in corporate income tax rates, policies, and sales and use tax laws are also on

FIGURE 3

## Regulatory Changes That Most Significantly Impact Tax Technology Investment

Data security and privacy regulations (e.g., GDPR, CCPA)
- 2023: 35%
- 2024: 43%

E-invoicing mandates and compliance requirements
- 2023: 39%
- 2024: 37%

Country-specific tax reforms and regulations
- 2023: 47%
- 2024: 37%

Sales and use tax law changes (e.g., for e-commerce)
- 2023: 34%
- 2024: 34%

Changes in corporate income tax rates and policies
- 2023: 30%
- 2024: 33%

Global digital tax reforms (e.g., OECD's Pillar Two, BEPS )
- 2023: 22%
- 2024: 27%

■2023 ■2024

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## INSIDER PERSPECTIVE

"These three factors - integration, budget, and data availability - are consistently cited as major hurdles companies must overcome when trying to modernize their tax function through technology. The barriers reflect the technical, financial, and data-related obstacles that often impede tax technology innovation and automation efforts."
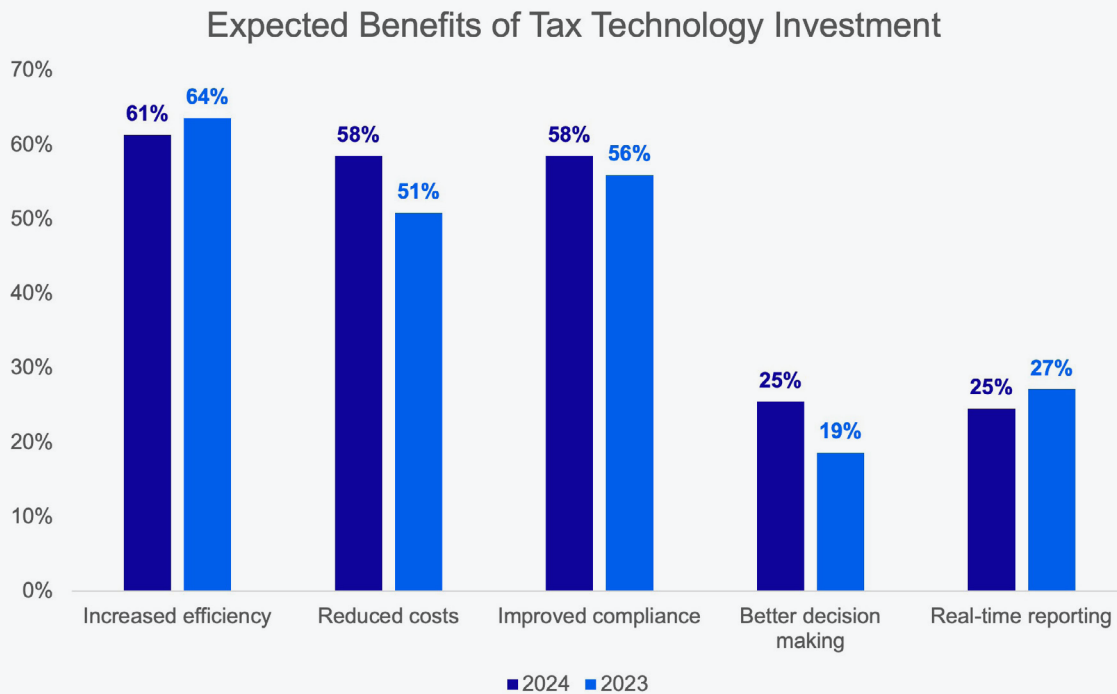
**TAX RESEARCH AND DEVELOPMENT LEADER, SOFTWARE AND TECHNOLOGY**

the radar of most tax teams. There are some significant changes in political leadership not just in United States but across the globe. Many teams are preparing for further changes in tax rates, laws, and other regulations.

While tax activities and investments are being funded, many respondents are still feeling pressure to increase efficiency and reduce costs. These were the top benefits that customers expressed they wanted to achieve from their investments in technology. More than half of respondents (61%) cited these factors as core drivers for their projects. Improved compliance was not so far behind, as 58% of survey respondents chose this option **(Figure 4).** Better decision making and real-time reporting rounded out the top responses (25%), but garnered half the percentages that the top three earned.

In order to support these drivers and trends in business and regulations, many tax teams are focused on improving their data management processes and providing reporting and visibility to their business stakeholders. This has been a consistent theme throughout the two years of this study. The top strategy embraced by respondents is automating and ensuring compliance with both direct and indirect tax report-ing. Nearly half (49%) of respondents in the study chose this as their most strategic focal point. Improving data management

FIGURE 4

## Expected Benefits of Tax Technology Investment



Legend: ■2024 ■2023

- Increased efficiency: 61% (2024), 64% (2023)
- Reduced costs: 58% (2024), 51% (2023)
- Improved compliance: 58% (2024), 56% (2023)
- Better decision making: 25% (2024), 19% (2023)
- Real-time reporting: 25% (2024), 27% (2023)

and quality in tax reporting was second in this category and only a few percentage points behind our top answer (45%) **(Figure 5).**

Streamlining the integration of tax systems with other business applications rounded out the top three strategies and is a major theme emanating from the data. Application landscapes have become much more complex with the advent of cloud. Tax applications need to communicate and pull data now from a variety of business data sources and that is creating complexity for both business and IT teams. That is also why when we ask respondents to give us their top requirements, we see that 74% of tax teams in the survey say that the seamless integration of tax solutions with ERP systems is important or very important. Integration was also cited as a top barrier to implementing tax technology innovation and automation.
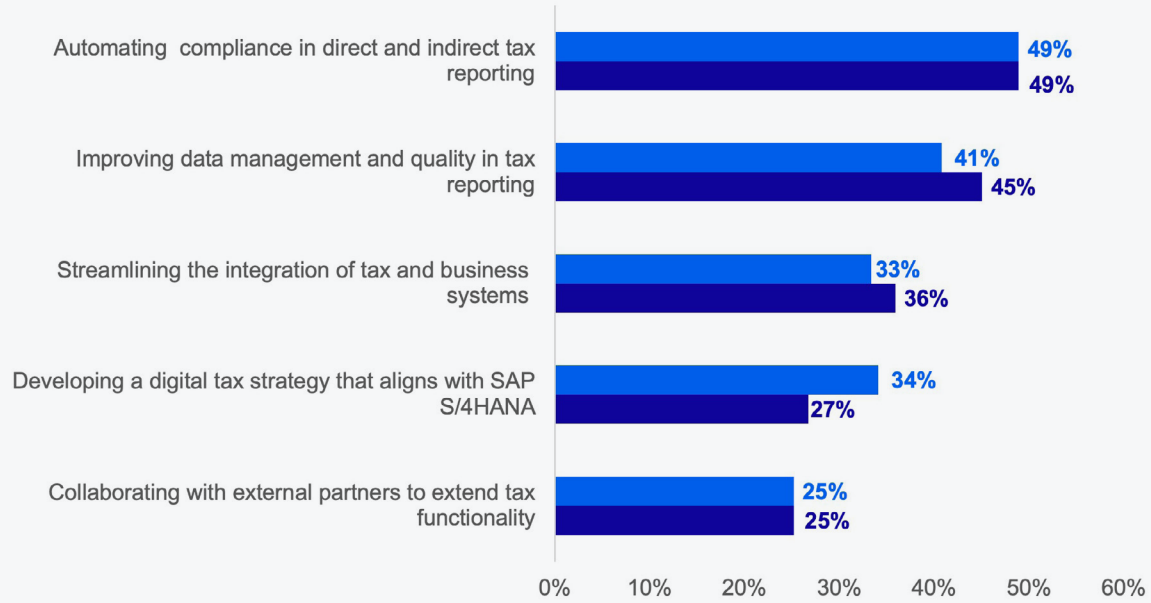
Referring back to data and visibility, we see

that building a harmonized financial reporting solution in a single system reenforces itself as a top requirement by three fourths of our respondents (75%). This was our third most popular response and jumped four percentage points year-over-year **(Figure 6).**

The push for digitization of tax transactions and audit information has elevated the need for creating a fully digital audit trail to the top of the list of requirements as 79% of respondents rated this as either important or very important. This response edged out adaptability to changing tax laws and regulations, which was the top requirement in last year's study. This need for flexibility is still rated high amongst tax teams as it fell to second on the list of top responses. The rapid change in regulations is keeping our respondents on their toes as they need to maintain both fluidity and resilience as part of their overall strategy for tax technology and innovation.
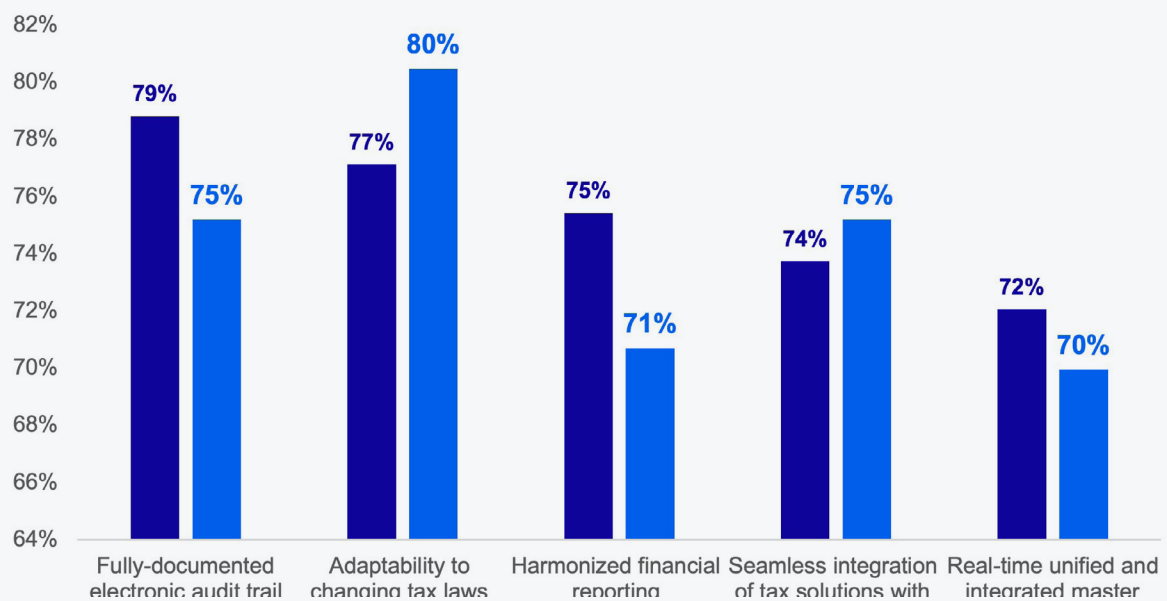
FIGURE 5

## Top Tax Technology Innovation and Automation Strategies

Automating compliance in direct and indirect tax reporting: 49%, 49%

Improving data management and quality in tax reporting: 41%, 45%

Streamlining the integration of tax and business systems: 33%, 36%

Developing a digital tax strategy that aligns with SAP S/4HANA: 34%, 27%

Collaborating with external partners to extend tax functionality: 25%, 25%

(x-axis: 0% 10% 20% 30% 40% 50% 60%)

FIGURE 6

## Most Important Requirements for Tax Technology Innovation

Fully-documented electronic audit trail: 79%, 75%

Adaptability to changing tax laws: 77%, 80%

Harmonized financial reporting: 75%, 71%

Seamless integration of tax solutions with: 74%, 75%

Real-time unified and integrated master: 72%, 70%

(y-axis: 64% 66% 68% 70% 72% 74% 76% 78% 80% 82%)

## The Move to SAP S/4HANA Continues as Organizations Embrace Emerging Technologies and Solutions

The pace of technological change throughout business has never been greater. And as the 2027 end of maintenance deadline approaches, the acceleration of companies' plans for SAP S/4HANA continues. This once-in-a-decade project is garnering significant attention amongst SAP customers and again offers a unique opportunity for tax to leverage this investment and focus to innovate their existing tax processes.

When we look at where our respondents are with SAP S/4HANA, we see that over half of the respondents in the survey (57%) have fully transitioned to SAP S/4HANA or are currently implemented. This is an eight percentage-point jump over last year's findings **(Figure 7).**

A quarter of this year's respondents indicate that they are in the planning phase while 16% have yet to enter the starting gate. This is a slight change from last year's results. Other SAPinsider research we have conducted on the SAP S/4HANA migration found that this project is the number one initiative within our community and that is reflected in our findings from this year's tax research.
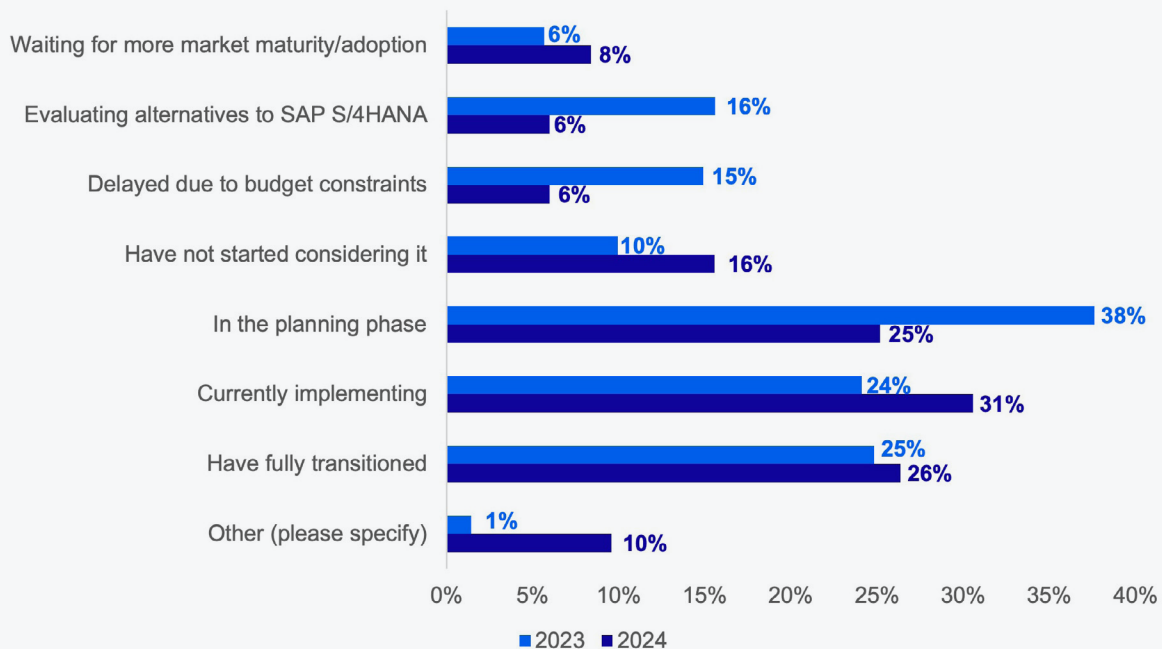
**FIGURE 7**



Where Are Customers With SAP S/4HANA Adoption

| Category | 2023 | 2024 |
|---|---|---|
| Waiting for more market maturity/adoption | 6% | 8% |
| Evaluating alternatives to SAP S/4HANA | 16% | 6% |
| Delayed due to budget constraints | 15% | 6% |
| Have not started considering it | 10% | 16% |
| In the planning phase | 38% | 25% |
| Currently implementing | 24% | 31% |
| Have fully transitioned | 25% | 26% |
| Other (please specify) | 1% | 10% |

■2023 ■2024

"We implemented SAP S/4HANA to reduce complexity and increase automation. The biggest challenge we faced was integration with other systems that are old and do not have existing connectors. This has forced us to develop integration on our own. Even though our budget for SAP HANA is huge, we have already blown more than the expected amount because of this integration challenge."

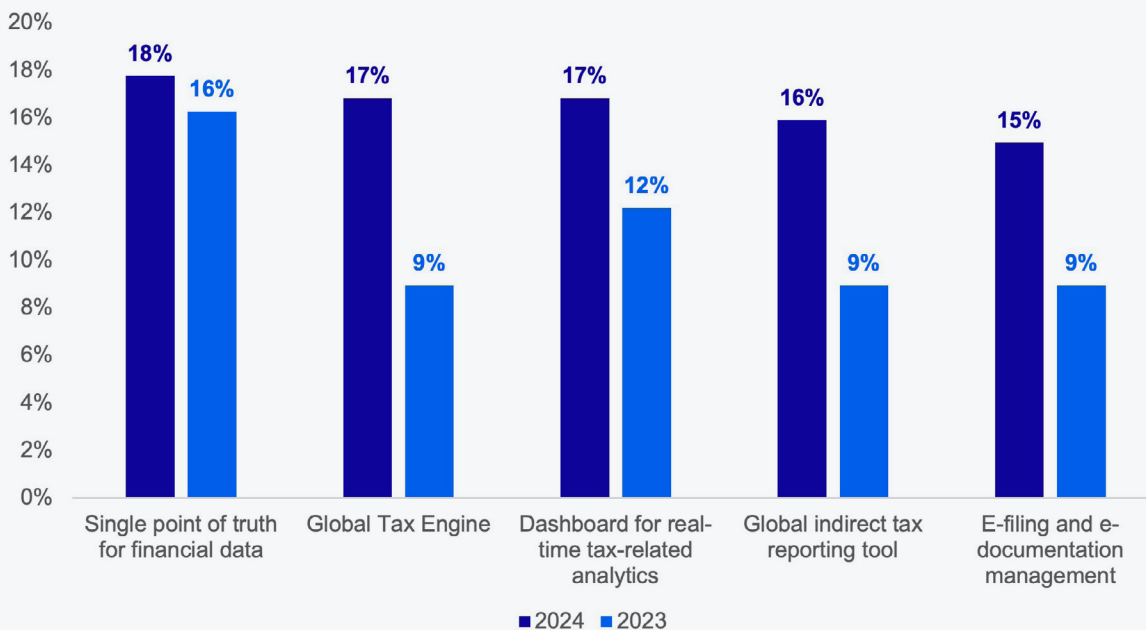**FINANCE AND PRODUCTION ANALYST, SOFTWARE AND TECHNOLOGY COMPANY**

Many customers that we interviewed and surveyed report that the move to SAP S/4HANA represents a foundation for their overall transformation and that the technological and infrastructure change they are undergoing is part of a larger business objective to redesign and improve core business processes such as tax.

Investments in newer tax technologies are just starting to ramp up. Based on the data we expect to see further investments in emerging technology and solutions over the next few years. As we look at current implementations of tax technology, we see that 18% of respondents are in the process of building a single point of truth for tax and financial data. 17% of respondents are in the process of building dashboards for real-time tax analytics and investing in global tax engines. The need for visibility and coverage across the jurisdictions that they do business in are key priorities **(Figure 8)**.

When we look at what technologies respondents are implementing over the next 24 months, we see some increasing activity and adoption. Over one quarter of respondents (26%) will look to implement tax localization tools while 25% will be installing centralized solutions for all financial data and processes and performance management offerings. 23% need data integration solutions again highlighting the growing

## FIGURE 8

### Tax Technologies Currently Being Implemented

| Technology | 2024 | 2023 |
|---|---|---|
| Single point of truth for financial data | 18% | 16% |
| Global Tax Engine | 17% | 9% |
| Dashboard for real-time tax-related analytics | 17% | 12% |
| Global indirect tax reporting tool | 16% | 9% |
| E-filing and e-documentation management | 15% | 9% |

■2024 ■2023

complexity of business application landscapes. Continued investment in global tax engines and other cloud-based tax solutions round out the top tax technology investments.

The activity is not stopping in the near term, as many tax teams in our survey are evaluating new tax solutions and preparing for the next wave of solutions. Among the top areas of examination include intelligent mapping tools of tax data to ERP applications, performance management solutions, and blockchain technology to secure tax data and processes. We also saw further investments in dashboards and real-time analytics. The next few years will continue to be about integration, data, and visibility. Leaders and stakeholders want to have confidence in their data, know that their information assets are secure and compliant, and be able to consolidate the single point of truth across their application landscape.

## Where Do Artificial Intelligence and the SAP Business Technology Platform Fit In?

Artificial Intelligence is certainly dominating business and tech headlines, but what separates hype from reality when it comes to its application for tax teams? According to our survey a clear majority (61%) of respondents are considering using machine learning or Artificial Intelligence in their tax processes. This is a six percentage-point jump from last year's study. Also, when you look at the requirements from **Figure 6** it shows that AI and ML platform support has risen 13 percentage points year-over-year as a key requirement, which is the largest move than any requirement in the survey.
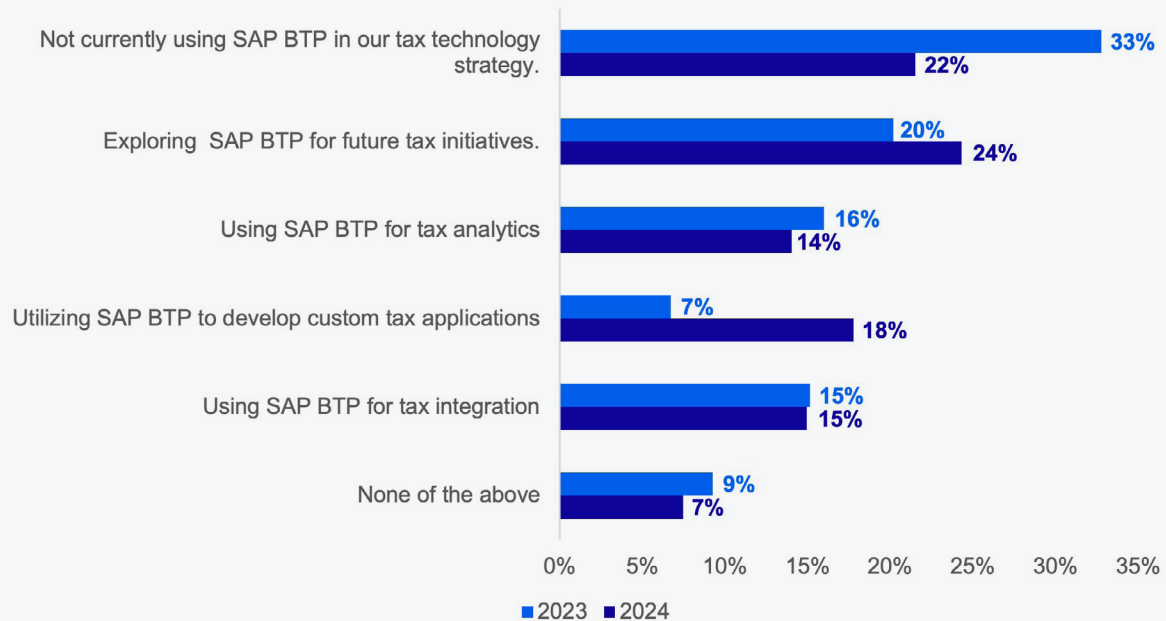
The availability of AI is increasing as most partners are starting to embed capabilities within their solutions. This is how most organizations are looking to dabble with AI. It is far less expensive and does not require the investments in skills and training that would be necessary if you were to create an AI application on your own.

Interest in and use of the SAP Business Technology Platform is increasing across all SAPinsider research and that is no different in the tax world. Nearly half of respondents in our survey (47%) are currently using SAP BTP for some tax related process whether it be integration, developing custom tax applications, or tax-based analytics. This is a nine percentage-point jump vs. last year **(Figure 9).**

The interest and adoption of SAP BTP to support tax shows no sign of slowing. Nearly a quarter (24%) of respondents are exploring SAP BTP for future tax technology requirements and only 22% say that they are not using or evaluating. This is an 11 percentage-point decline from last year.

**FIGURE 9**

## What Best Describes How You Leverage SAP BTP in Your Tax-Related Plans?

| Category | 2023 | 2024 |
|---|---|---|
| Not currently using SAP BTP in our tax technology strategy. | 33% | 22% |
| Exploring SAP BTP for future tax initiatives. | 20% | 24% |
| Using SAP BTP for tax analytics | 16% | 14% |
| Utilizing SAP BTP to develop custom tax applications | 7% | 18% |
| Using SAP BTP for tax integration | 15% | 15% |
| None of the above | 9% | 7% |

■2023  ■2024

## Tax Teams Feel Better Prepared for the Future

The result of greater experience with emerging technology and the rapid progression of solutions have left tax and IT teams in our survey more comfortable and better prepared for the future. Last year, when we asked respondents if they are prepared for the tax technology changes that are expected in the next five years, it was nearly an even split. 51% responded yes while 49% said no.

This year, we are seeing an increase in confidence as over two thirds (68%) assert that they are ready for the changes to come while only 32% are less secure. Teams have had more time to explore and understand the existing business and regulatory landscape and as they move to emerging technologies such as SAP S/4HANA and SAP BTP, and have more experience with third party tax partners, their confidence has risen. This is a good sign with many more changes to come and digest.

Our study this year also revealed several other findings related to how organizations approach strategic priorities around tax technology and innovation.

- When asked to predict future investments around tax technology and automation, compliance, security, and cloud received top billing. 42% of respondents asserted that they would

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"Global tax engines are never 100% global and fully compliant with ever-changing national and local regulations and demands of tax authorities, hence the custom development and integration "tax" must be paid all the time."

**DATA ARCHITECT, ANIMAL HEALTH COMPANY**

prioritize compliance support while 36% expressed a need to more greatly focus on security. A third of respondents (33%) said they would invest more in solving integration challenges.

- A significant percentage of respondents in our survey pointed to budget constraints and lack of technical expertise within the organization as significant barriers to implementing tax technology innovation and automation within their organization. Integration was cited by 51% of survey respondents, bested only by lack of budget. One third (33%) of the tax teams we surveyed claimed that lacking talents and skillsets posed the biggest obstacle to success.

- When it comes to the most popular technologies currently implemented, sales and use tax determination tools are at the top being used by 24% of respondents. E-filing and documentation management offerings are being used by 22% of tax teams in our survey, while audit management software rounds out the top three earning nods by 20% of respondents.

## Key Takeaways

SAPinsider's research advises that tax and technology teams should consider the following steps to ensure that your strategies for innovation and automation are successful.

- **Be creative in how you assert yourself into SAP S/4HANA and ERP Transformation Initiatives.** If you find yourself on the outside looking in when it comes to these critical projects, spend time with the project leaders and stakeholders. Interview them about the objectives and criteria of the project and how they are measuring success. With that information, adapt the tax story to support these very themes and leverage tax and

finance leadership to tell your story. Make every effort to be part of this initiative because it will not come around again any time soon.

- **Educate yourself about the AI and Analytics capabilities of your top tax partners including SAP**. Most organizations are rapidly developing AI, ML, and advanced analytical capabilities within their solutions. It is cheaper and faster to partner than to build these technologies on your own. Assign team members to learn everything they can about both partner and SAP capabilities and then to bring that information back to the team. Schedule demos of features so that you can test drive this functionality and ask for reference customers you can speak to about their experience.

- **Assess and strengthen your master data strategy:** Data will make or break any ERP Transformation, AI, or analytics initiative. Many organizations have not linked their tax master data strategy and processes to other strategic business areas. It is important that you implement the discipline required to manage tax master data on an ongoing basis so that these projects are successful especially as digital mandates will require the accurate collection and maintenance of tax process data and payments.

- **Push skills acquisition and training to the forefront of your priorities.** With pressure to cut costs and do more with less, it is often challenging to make skills and education a priority. However, with the emergence of so many different cloud, SAP S/4HANA, business process, and analytics based technology, the need to expand skillsets is a requirement. Failure to focus on education will challenge your progress with tax technology and innovation. Leverage partners and online tools as well as traditional training avenues to acquire what you need for current and future transformation.

# DART
## MODEL FRAMEWORK

# TAX TECHNOLOGY INNOVATION AND AUTOMATION

## DRIVERS

- Desire to reduce tax risks and potential errors (36%)
- Increasing regulatory complexity and compliance requirements (33%)
- Need for scalability of tax operations due to business growth (22%)
- Desire to reduce tax risks and potential errors (20%)

## ACTIONS

- Automating and ensuring compliance in direct and indirect tax reporting (49%)
- Improving data management and quality in tax reporting (45%)
- Streamlining the integration of tax systems with other business functions (36%)
- Developing a comprehensive digital tax strategy that aligns with the move to SAP S/4HANA (27%)
- Collaborating with external partners to extend the functionalities of our tax solutions (33%)

## REQUIREMENTS

- Fully documented electronic audit trail (79%)
- Adaptability to changing tax laws and regulations (77%)
- Harmonized financial reporting in a single system (75%)
- Seamless integration of tax solutions with ERP systems (74%)
- Tools to clean, refine, and improve the quality of tax data to derive meaningful insights (73%)

## TECHNOLOGIES

- Sales and use tax determination tool (24%)
- E-filing and
-  e-documentation management (22%)
- Audit management software (20%)
- Data integration tool (19%)
- Centralized solution to control all financial data and processes (18%)
- Cloud-based solution (17%)
- Single point of truth to control all financial data and processes (18%)
- Cloud-based solutions (17%)
- Single point of truth for financial data (16%)

# APPENDIX | THE DART™ METHODOLOGY

SAPinsider has rewritten the rules of research to provide actionable deliverables from its fact-based approach. The DART methodology serves as the very foundation on which SAPinsider educates end users to act, creates market awareness, drives demand, empowers sales forces, and validates return on investments. It is no wonder that organizations worldwide turn to SAPinsider for research with results.

## The DART methodology provides practical insights, including:

**DRIVERS**

These are macro-level events that are affecting an organization. They can be both external and internal, and they require the implementation of strategic plans, people, processes, and systems.

**ACTIONS**

These are strategies that companies can implement to address the effects of drivers on the business. These are the integration of people, processes, and technology. These should be business-based actions first, but they should fully leverage technology-enabled solutions to be relevant for our focus.

**REQUIREMENTS**

These are business and process-level requirements that support the strategies. These tend to be end-to-end for a business process.

**TECHNOLOGY**

These are technology and systems-related requirements that enable the business requirements and support the company's overall strategies. The requirements must consider the current technology architecture and provide for the adoption of new and innovative technology-enabled capabilities.

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