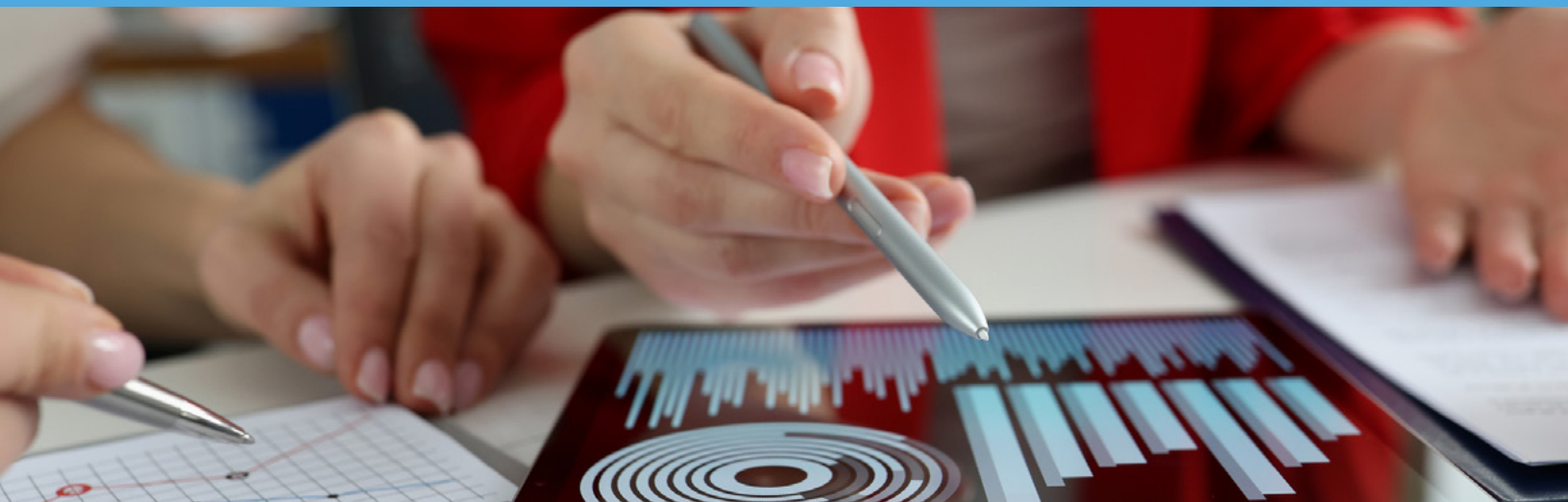


# TAX TECHNOLOGY INNOVATION & AUTOMATION



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## Insider Perspective

**“We have faced several instances where governments have temporarily changed tax rates, presenting significant challenges, especially in our older SAP instances, which lack the flexibility for easy adjustments of tax codes for specific periods. In addition to these specific instances, we’ve also had to adapt to broader changes in tax rates, involving increases, decreases, or even applying zero rates, before reverting back to original rates. These fluctuations have a considerable impact on our tax operations and require additional work, particularly because we are reliant on using SAP systems for these adjustments.”**

**– GLOBAL TAX MANAGER,  
FORTUNE 500 INDUSTRIAL  
COMPANY, EMEA**

**THE GLOBAL TAX COMPLIANCE** landscape is experiencing a fundamental shift towards real-time processes due to technological advancements, evolving regulations, and a demand for greater transparency and efficiency. Manual and outdated processes are no longer sufficient, pushing organizations to transform their finance and tax functions to adapt to a digital operating environment.

Within the SAP ecosystem, these trends align with the increasing adoption of SAP S/4HANA. Implementing this system can be complex and require a complete redesign of existing business processes. This often involves an overhaul of how companies approach finance and accounting functions, including tax compliance. SAP S/4HANA, as an intelligent ERP system, provides a robust foundation for tax technology innovation and automation, enabling tax departments to become strategic units capable of adding value to the business. Integrating SAP S/4HANA with advanced sales tax solutions, global tax engines, and e-filing and e-documentation systems further enhances its capability to streamline complex tax operations across different jurisdictions. For finance and tax leaders, integrating tax strategy into their organization’s enterprise transformation, facilitated by SAP S/4HANA, is crucial to realizing successful tax technology innovation and automation initiatives.

SAPinsider conducted a survey between October and December 2023, involving 138 members of the finance and tax community, to gain insight into strategic priorities and considerations regarding tax technology innovation and automation. The study reveals many respondent organizations face challenges in their tax technology landscapes, negatively impacting current business operations. Furthermore, half of the organizations surveyed are not adequately prepared to future-proof their tax functions, a critical concern given that nearly 60% of respondents plan to incorporate machine learning and generative AI into their tax compliance processes.

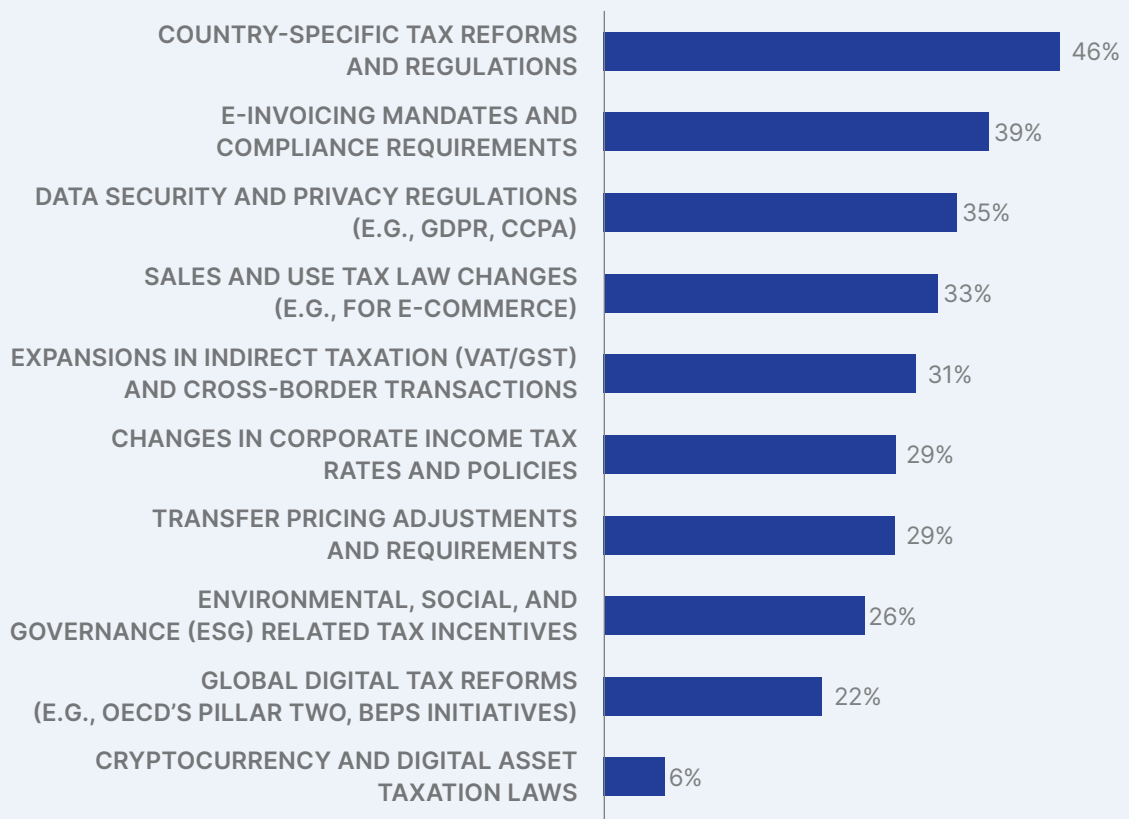
Tax technology innovation is a top priority for SAP customers, driven by interconnected factors. The primary driver is the desire to reduce tax risks and potential errors (34% of respondents), a concern for organizations aiming to maintain compliance and mitigate potential financial liabilities. The increasing regulatory complexity and compliance risk (31%), particularly with the

ever-evolving global tax environment, is pushing organizations to seek more agile and adaptable tax technology solutions. Expectations for electronic data interchange with tax authorities (28%) further compound these challenges, necessitating a shift towards real-time and integrated tax processes **(see DART page 10)**. These drivers emphasize the importance for organizations to invest in robust solutions facilitating tax technology innovation and automation.

The critical need for adaptability to changing tax laws and regulations is evident, with 82% of finance and tax leaders identifying it as the primary requirement for supporting tax technology innovation strategic priorities. Digging deeper, the survey revealed that country-specific tax reforms and regulations are the most influencing tax technology priorities, with 46% of respondents recognizing their impact **(Figure 1)**. Businesses must stay agile and responsive to diverse and frequently changing tax laws and regulations across various jurisdictions, ensuring compliance with both filing requirements and reporting standards.

E-invoicing mandates and compliance requirements are also significantly influencing tax technology innovation priorities, acknowledged by 39% of the survey respondents. As governments globally push for streamlined tax collection and fraud minimization, adapting invoicing systems becomes crucial. Similarly, data security and privacy regulations, such as GDPR and CCPA, recognized by 35% of respondents, are

**Figure 1: Regulatory and Tax Law Changes Influencing Tax Technology Innovation Strategies**



Source: SAPinsider, December 2023

shaping tax technology strategies. Ensuring adherence to these regulations is critical, as non-compliance can result in substantial penalties and damage to reputation.

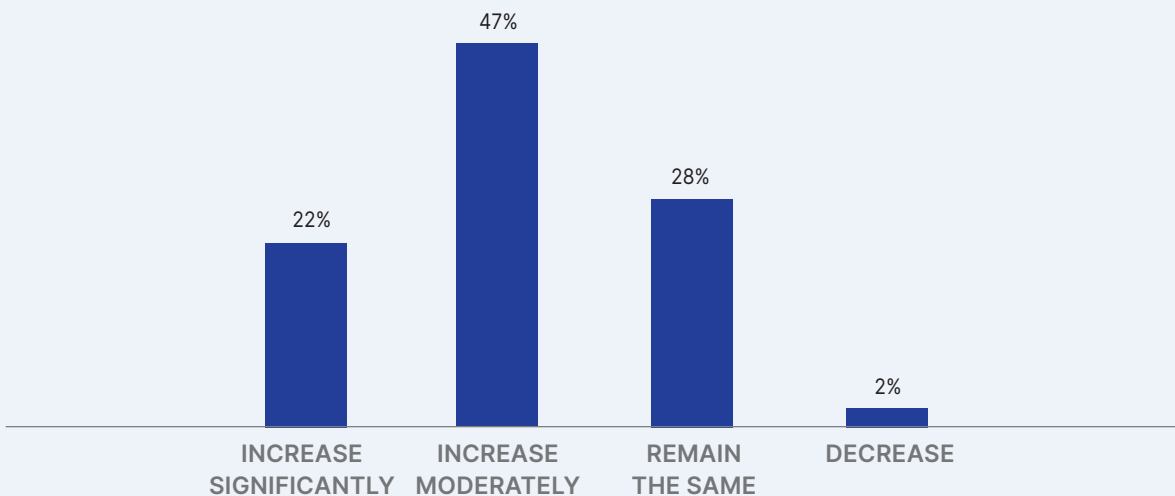
To navigate these challenges, half of the survey respondents indicate that their primary strategy is automating and ensuring compliance in direct and indirect tax reporting. SAP's updated solutions, such as SAP S/4HANA Cloud, offer the agility and adaptability needed to support complex tax requirements. Leveraging SAP applications like SAP Business Technology Platform (BTP) and SAP Document Reporting Compliance can support enhanced capabilities, enabling real-time data processing and compliance with e-invoicing mandates. This strategic focus on automation reflects the necessity of managing tax compliance amidst frequent regulatory changes and demonstrates the increasing need for investment in tax technology solutions.

Anticipating these evolving demands, 69% of respondents expect budgets for tax technology innovation and automation to increase in the next three years, with 22% expecting a significant increase and 47% a moderate increase (**Figure 2**). This suggests a growing investment in the integration of tax strategy and technology to drive tax technology innovation.

Given the projected increase in resources for tax technology innovation across most organizations, finance and tax leaders must prioritize the development of a strategic approach. The integration of tax strategy into business planning, especially during digital transformation projects aligned with SAP S/4HANA implementations, is vital. While 30% of organizations are still in the planning phase, 24% are currently implementing SAP S/4HANA, and 26% have fully transitioned. This transition is critical as SAP S/4HANA offers enhanced capabilities for real-time data analytics and cloud-based solutions, which are pivotal in managing the complexities of modern tax requirements.

Deployment strategies for SAP S/4HANA also demand careful consideration to optimize tax technology innovation priorities. The survey reveals that organizations are diversifying their cloud deployment choices, with 32% preferring a hybrid model and 13% aiming to move all tax solutions to the cloud. The adoption of SAP S/4HANA Cloud to enable more efficient tax compliance aligns with this goal, offering enhanced scalability and control.

**Figure 2: Projected Budget Allocation for Tax Technology Innovation Over the Next Two Years**



Source: SAPinsider, December 2023



The survey reveals a strong trend towards the adoption of advanced technologies like artificial intelligence (AI) and cloud-based solutions, with an aim to simplify tax compliance processes. Notably, 56% of respondent organizations intend to incorporate machine learning and generative AI into their tax processes, signifying a shift towards more sophisticated, data-driven approaches. Cloud-based solutions emerged as the leading technology under evaluation for enhancing tax innovation and automation strategies. These cutting-edge technologies play a critical role in automating routine tasks, identifying potential tax risks, enhancing compliance and reporting accuracy, and improving tax planning and forecasting.

The survey findings highlight a growing focus among finance and tax leaders on harnessing the benefits of tax technology innovation and automation to achieve key business objectives. These benefits include increased efficiency (64%), improved compliance (53%), and cost reduction (49%), demonstrating an urgency to improve data quality, automate processes, and rethink operating models within SAP environments to capitalize on these advantages effectively (**Figure 3**).

As organizations modernize, tax functions are evolving from standalone back-office operations to crucial components integrated within core business processes. However, half of the survey respondents reported their organizations do not have a holistic enterprise transformation strategy that incorporates tax strategy planning and innovation. Embedding tax considerations from the outset ensures alignment with business objectives. SAP S/4HANA is capable of handling real-time data to deliver a single source of tax-sensitized data. An essential element for accurate and efficient tax compliance and reporting.

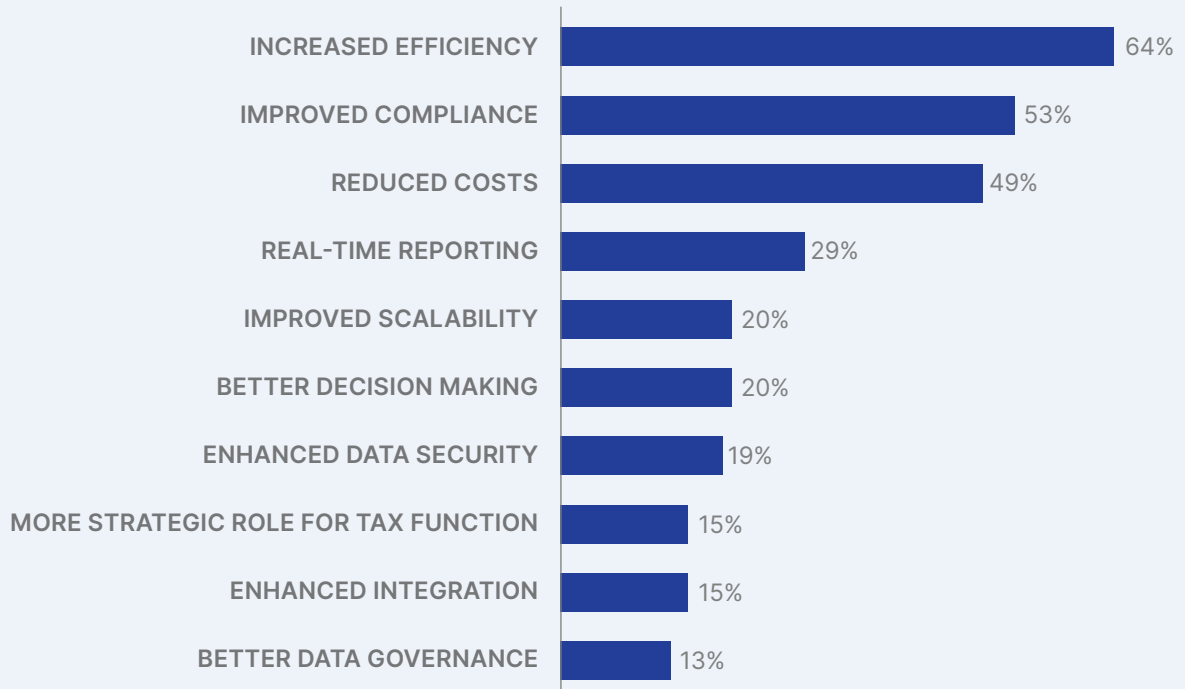
Tax technologies such as a sales and use tax determination tool and global tax engine are now integral components of modern tax management landscapes. The integration of such a tool within SAP S/4HANA allows for seamless and automated tax

## Insider Perspective

**“We’ve migrated to SAP S/4HANA, yet tax considerations remain an afterthought until we are audited. Our tax team aims to be proactive, but they lack the technical expertise and the resources to drive innovation.”**

**– ACCOUNTING DIRECTOR,  
INDUSTRIAL COMPANY,  
NORTH AMERICA**

**Figure 3: Expected Benefits from Implementing Tax Technology Innovation and Automation Strategies**



Source: SAPinsider, December 2023

compliance, minimizing the risk of errors and reducing the administrative burden on tax departments. These advanced functionalities, coupled with the real-time data processing capabilities of SAP S/4HANA, empower organizations to streamline their tax processes, enhance decision-making, and strategically manage their tax obligations on a global scale.

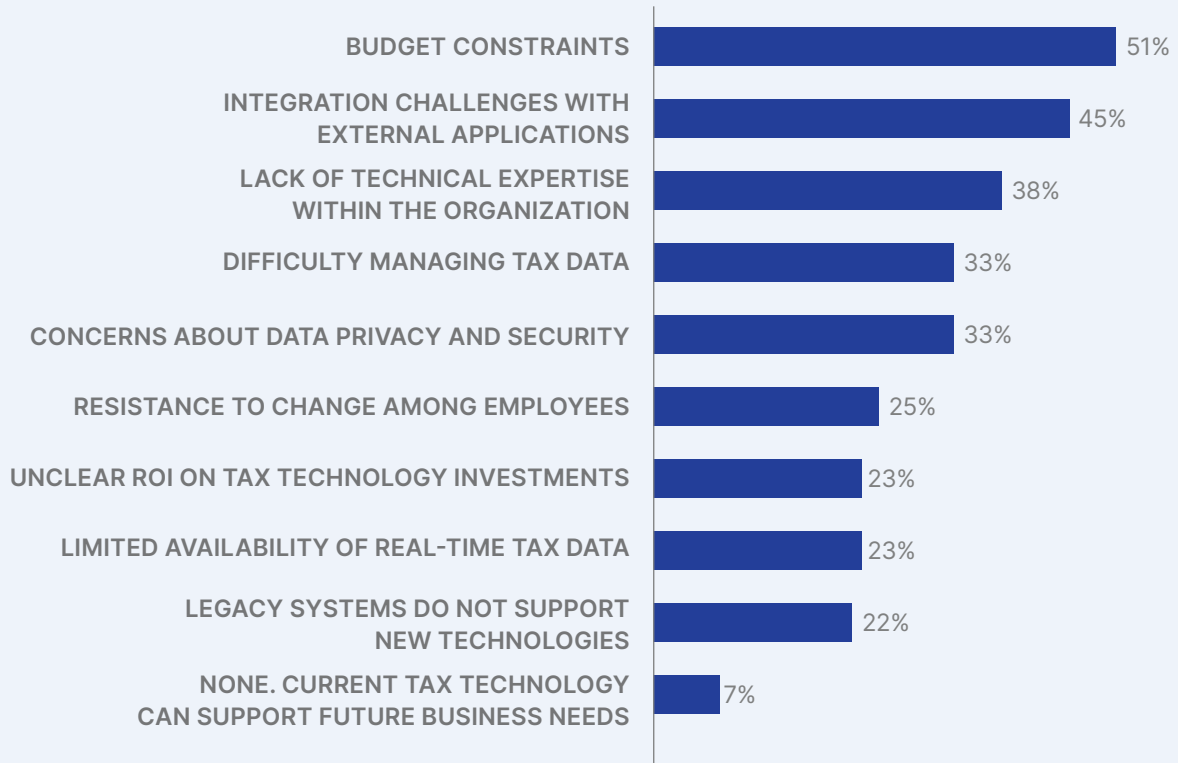
Despite the apparent benefits, finance and tax leaders face significant barriers to achieving tax technologies automation and innovation strategic priorities. The primary challenges include budget constraints (51%), integration challenges with external applications (45%), and lack of technical expertise within the organization (38%) (**Figure 4**). These barriers can hinder the effective implementation of advanced tax solutions and limit the ability of organizations to adapt to regulatory changes and meet operational demands.

Recognized as the most significant barrier by 51% of respondents, budget constraints pose a consistent challenge. While the initial investment in advanced tax technologies might be substantial, organizations must look beyond the upfront costs to the long-term ROI. Including tax in large transformations can mitigate risks, increase ROI, ensure accurate and timely data for tax functions, and prove more cost-effective than post-implementation adjustments.

Nearly half of the survey participants (45%) reported facing challenges in integrating new tax technologies with existing external applications. This integration is crucial for creating a seamless operational flow. SAP S/4HANA Cloud and SAP BTP provide enhanced integration capabilities, offering an effective approach to ease these integration issues and streamline the adoption of new tax technologies.

A lack of technical expertise within organizations represents another barrier to tax technology innovations strategies, as indicated by 41% of respondents. This gap can be bridged through targeted training and development initiatives. Investing in the upskilling of personnel is essential for organizations

**Figure 4: Barriers to Tax Technology Innovation and Automation Strategies**



Source: SAPinsider, December 2023

to fully leverage the capabilities of new tax technologies and navigate the complexities of the modern tax landscape.

Operational challenges in managing tax data, and concerns about data privacy and security, both barriers cited by 33% of respondents, highlight the need for robust data governance frameworks and secure technology landscapes. Compliance with regulations such as GDPR and CCPA is critical to avoid penalties and protect the organization’s reputation.

To overcome these barriers, its critical finance and tax leaders integrate tax strategy with enterprise transformation as a foundation for successful tax technology innovation and automation. This approach ensures that tax considerations are not an afterthought but a central component of the business’s strategic planning and operational processes. By embedding tax strategy within the fabric of enterprise transformation, organizations can enhance compliance, optimize tax planning, and leverage tax functions as strategic partners to the business.

A critical enabler of this integrated approach is the adoption and utilization of advanced ERP systems, such as SAP S/4HANA Cloud. Real-time data analytics, and cloud-based solutions are pivotal for managing modern tax requirements. SAP S/4HANA Cloud provides a single source of truth for tax data, enabling seamless compliance and strategic decision-making. This approach enables the automation of tax processes, thus enhancing efficiency, accuracy, and agility in tax management.

## Insider Perspective

**“A significant barrier lies in the challenge of accurately measuring the return on investment for technology investments. Tax application modernization often fails to demonstrate quantifiable results, and investments in newer technologies don’t always yield the expected improvements.”**

**– SENIOR FINANCE CONTROLLER,  
SOFTWARE/TECHNOLOGY,  
NORTH AMERICA**

The effective use of SAP applications such as SAP BTP, SAP Document Reporting Compliance, along with advanced tax technology solutions provided by SAP partners are essential for organizations to stay ahead in a digitalizing world. With half of the survey respondents acknowledging their lack of preparedness to future-proof tax compliance functions, the integration of such platforms points towards a growing awareness of and readiness for future challenges in tax technology. Collaboration with experienced SAP partners or leading tax technology vendors can be a strategic way to mitigate these challenges, enabling businesses to promptly respond to tax regulation changes, leverage real-time data for informed decision-making, and ensure that tax strategies align with overall business objectives.

This strategic approach provides the agility and scalability needed to adapt to future changes in tax compliance and strategy. It enables organizations to not only meet current compliance demands but also strategically position their tax departments as integral and value-adding components of the business. Embedding tax considerations into business decisions allows organizations to leverage tax technology in support of broader business objectives such as market expansion, adaptation to new business models, and building trust with tax authorities and communities.

Our study this year also revealed several key findings regarding how SAPinsider organizations approach strategic priorities around tax technology innovation and automation.

- The survey data suggests a clear trajectory for future tax technology priorities in organizations: 44% of respondents prioritize greater focus on compliance, indicating a strong need to adapt to evolving regulatory requirements. Efficiency is also a key concern, with 40% of respondents aiming for improvements, reflecting a drive for streamlined operations and cost savings. Additionally, 35% emphasize real-time reporting, highlighting the trend towards immediacy and accuracy in tax data processing and decision-making.
- Organizations are leveraging SAP Business Technology Platform (BTP). While 30% are not using SAP BTP, 20% are exploring its possibilities, and 18% leverage its analytics capabilities. Utilizing SAP BTP for custom tax applications (8%) indicates a proactive approach towards integrating and optimizing tax processes.
- Over half of finance and tax leaders (56%) are considering the use of machine learning or generative AI in their tax processes, indicating a significant interest in adopting advanced technologies for enhanced efficiency and accuracy. Conversely, 44% are not considering these technologies, which may reflect constraints related to resources, expertise, or readiness for such advanced implementations.



## Insider Perspective

“With proper, people-driven tax transformation, technology is only one aspect among people, process, technology, and data. We should be ensuring that tax data is accurate from the source the first time and future-proofing the tax function against any potential tax authority digitalization initiatives. This means products, platforms, and tools that complement upskilled humans, not complex point solutions that require deep IT skills to support.”

– TAX DIRECTOR, SOFTWARE/  
TECHNOLOGY, EMEA

## KEY TAKEAWAYS

SAPinsider's research reveals that SAP customers should apply the following key steps to ensure that strategies for tax technology innovation and automation have the foundation for success:

- **Integrate tax strategy with enterprise transformation initiatives.** Including tax in the initial phase of enterprise transformation projects can optimize tax strategy and cost savings, providing a more strategic mindset and effective control over risks and operational efficiencies. This includes leveraging the capabilities of SAP S/4HANA to embed tax considerations into every facet of business operations, from supply chain management to new market entries, ensuring that tax implications are assessed and aligned with business objectives.
- **Invest in advanced data management and analytics.** Advanced data management tools within SAP systems to gather, process, and analyze tax-related data. This should include the use of predictive analytics to forecast tax liabilities, identify potential compliance issues, and optimize tax strategies. Ensure that data management systems are scalable, secure, and capable of handling complex tax data from various sources.
- **Explore opportunities for enhanced automation and integration with SAP BTP and AI.** Utilize Robotic Process Automation (RPA) to automate routine tax functions and integrate SAP Business Technology Platform (BTP) for developing scalable applications. This approach streamlines processes, reduces errors, and consolidates data management. Additionally, invest in AI for data analysis, forecasting, and risk assessment, enhancing the accuracy and predictive capabilities of the tax function.
- **Consider sales and use tax determination solution adoption to avoid falling behind peers.** Implementing a sales and use tax determination tool will enable accurate tax calculations, ensure compliance with complex and varying tax regulations, and streamline tax processes. This adoption is not just a matter of keeping pace with peers (leading tax technology solution in use by SAPinsider), but also a strategic move to enhance efficiency and mitigate tax-related risks.



## DRIVERS

- Desire to reduce tax risks and potential errors (34%)
- Increasing regulatory complexity and compliance requirements (31%)
- Tax authorities' expectation of real-time electronic data (28%)



## ACTIONS

- Automating and ensuring compliance in direct and indirect tax reporting (50%)
- Improving data management and quality in tax reporting (42%)
- Developing a comprehensive digital tax strategy that aligns with move to SAP S/4HANA (32%)
- Streamlining the integration of tax systems with other business functions (31%)



## REQUIREMENTS

- Adaptability to changing tax laws and regulations (82%)
- Fully-documented audit trail (79%)
- Seamless integration of tax solutions with ERP systems (78%)
- Real-time unified and integrated master data (74%)
- Harmonized financial reporting in a single system (72%)



## TECHNOLOGIES

- Sales and use tax determination tool (35%)
- E-filing and e-documentation management (34%)
- Single point of truth for financial data (28%)
- Data integration tool (27%)
- Tax localization tools (27%)
- Audit management software (25%)
- Centralized solution to control all financial data and processes (24%)
- Cloud-based solutions (24%)
- Intelligent mapping tool of tax data to ERP application (24%)
- Global indirect tax reporting tool (21%)
- Global Tax Engine (21%)

# 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:

<b>DRIVERS</b>	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.
<b>ACTIONS</b>	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.
<b>REQUIREMENTS</b>	These are business and process-level requirements that support the strategies. These tend to be end-to-end for a business process.
<b>TECHNOLOGY</b>	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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