



# UPGRADING YOUR ERP? **WHY YOU NEED TO CONSIDER TAX AUTOMATION**

THE EVOLVING ONLINE LANDSCAPE AND NEW ECONOMIC  
NEXUS LAWS REQUIRE A FRESH APPROACH

AS THE SUPREME COURT OF THE UNITED STATES' *South Dakota v. Wayfair, Inc.* decision expands thresholds for economic nexus for online sellers and other types of businesses, many companies expect to take a hard look at their tax automation strategies and technology platforms.

But the catalyst for a dramatic technology shift goes beyond the latest modifications to tax laws. The ecommerce landscape is changing by the minute, fueled by growth, acquisitions and the need to elevate the customer experience. To rise to the new demands of ecommerce, companies must position themselves to support new business models and future changes to tax laws, or risk closing their digital doors.

Embarking on a new business paradigm typically sparks a review of a wide range of enterprise technology platforms — more specifically ERP solutions. Organizations poised for growth also examine tax automation solutions in conjunction with enterprise technology upgrades, as taxation and regulations, along with growth plans, will impact sales and use taxes. They usually discover that their legacy ERP solution lacks the breadth and scale required of the new business model. In addition, on-premise solutions lack the agility and visibility required for modern ecommerce.

This eBook will address the urgency of tax automation, the limitations of legacy and on-premise solutions, and the advantages of cloud-based platforms.





## WHY MOVE TO AUTOMATED TAX COMPLIANCE NOW?

Upgrading an ERP platform and integrating it with a modern tax automation solution becomes more urgent, and economically feasible, as the definition of nexus expands beyond physical presence. As a result of the Supreme Court's Wayfair decision, most U.S. states have enacted, will enact, or have proposed legislation that requires out-of-state online sellers to collect and remit sales and use taxes.

But Wayfair is simply the current impetus for transformation. The reality is that tax laws are changing all the time - and too many organizations rely on manual, on-premise solutions to manage this complex and continually changing critical business function.

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Automated tax solutions — such as those from Avalara, TaxJar, Vertex, and other providers — are essential tools for managing a modern ecommerce operation. A company that was registered in five or six states and handling tax compliance manually may now have to remit sales taxes in 30 or 40 states, so it is easier to justify the investment in technology.

Driven by a growing emphasis on ecommerce and a need to accommodate shifting sales tax requirements, business strategies are changing rapidly. Companies need to be able to adjust in real-time and accommodate future business models that require expanding to new geographies and placing an increased emphasis on online revenue streams.

While business disruption is necessary to remain competitive, it is also a perfect opportunity to evaluate the company's ERP platform and related tax automation solutions. When upgrading an ERP solution, it is imperative to scrutinize processes and systems that touch the enterprise platform.

The ERP platform is typically a primary focus of digital transformation efforts, which makes sense as it is the hub of activity surrounding financial reporting and accounting. Since tax automation is closely aligned with these efforts and given all of the upheaval in terms of tax regulations, it is a natural extension of the digital transformation initiative.

While tax automation should be an integral part of the digital transformation project, it is often not a priority. This can cause a huge headache as the implementation moves forward. Tax is always among the last things to be considered, and integration with enterprise platforms is not easy.

**THE ERP PLATFORM IS TYPICALLY A PRIMARY FOCUS OF DIGITAL TRANSFORMATION EFFORTS, WHICH MAKES SENSE AS IT IS THE HUB OF ACTIVITY SURROUNDING FINANCIAL REPORTING AND ACCOUNTING.**

# CHALLENGES OF UPDATING ENTERPRISE PLATFORMS TO ACCOMMODATE TAX REGULATION CHANGES

Tax compliance is an ongoing effort that requires continuous updates and involves multiple areas of the organization beyond finance, including sales, marketing and operations. These processes have historically existed on siloed, disconnected systems, hampering an organization's ability to manage complex sales and use tax compliance issues.

Marketing may be eyeing a new sales territory, for example, but they may not fully appreciate the implications in terms of tax rate calculation, reporting and compliance. Finance is looped in after the fact without being able to fully address the implications.

**LEGACY SYSTEMS DO NOT MEET MODERN STANDARDS OF EXCELLENCE, WHICH INVOLVE GOING BEYOND GAINING EFFICIENCIES TO DRIVING INTELLIGENT BUSINESS GROWTH.**



Of course, many organizations have implemented ERP platforms over the years. However, legacy systems do not meet modern standards of excellence, which involve going beyond gaining efficiencies to driving intelligent business growth.

There are a few drawbacks to relying on an ERP to handle tax automation. One of the most significant is that ERP solutions have some limited tax capabilities that don't provide the level of detail and granularity needed to meet the needs of a modern ecommerce enterprise. The tax rate calculations available on ERP platforms are typically at a zip code level, which is not nearly accurate enough to avoid taxation errors, since zip codes can often encompass more than one, or even several, tax jurisdictions.

Unlike cloud-based platforms, on-premise solutions aren't regularly updated and don't provide precise enough information to accurately calculate sales tax at the local level. Most non-cloud solutions require tax rate tables to be updated manually, which is labor intensive and prone to error and missed updates. With approximately 16,000 tax jurisdictions, that's a lot of research to be completed and data to be input, creating a huge margin for error.

Mistakes in calculating tax rates can result in fines as well as a hit to the organization's reputation and a loss of future opportunities, not to mention the negative impact on customer loyalty and experience. Any mistake is costly. A tax overcharge creates a customer service issue; by the same token, if a business undercharges, it risks audits and penalties.





## BENEFITS OF ERP AND TAX AUTOMATION UPGRADES GO BEYOND ROI

An ERP upgrade in concert with tax compliance automation can generate positive ROI in terms of money, time, resources and risk reduction. One of the major benefits is eliminating the manual updating of tax rates. Some SaaS solutions offer a remotely hosted tax content and rules engine that connects into your business systems and automatically updates tax data in real time for accurate rate calculation. The best systems also handle returns filing and digital exemption certificate management.

However, gaining efficiencies through automation is table stakes. A key benefit of ERP and sales tax automation transformation lies in having the ability to inform how sales tax trends will impact the business. Detailed analysis of where the company is doing business and paying sales taxes is essential in understanding how expanding to a new geography or adding new products could impact the company's tax liability, among other key decision drivers.

Platforms such as those available from Avalara, a leading provider of cloud-native automated tax compliance solutions, open up the possibilities to enhance the customer experience. A few examples:

- A real-time application that is fast and accurate is critical, because if customers have to wait too long for the sales tax calculation (and shipping), they'll leave the website and the sale is lost.
- A built-in address verification feature, which reduces the possibility of shipping an item to an invalid address.
- Unique taxation laws and complex tax holidays are handled automatically in Avalara AvaTax. This saves time and effort researching and manually managing special, industry-specific rules, making it easier to add features that will bring in new customers.

Confident, streamlined compliance can help CFOs sleep at night. And when there is an audit, having quick access to the documents and support can help ease the burden.

"We recently went through a number of tax audits in states for the period before we worked with Avalara and they were not easy audits. We know we're in a much better position today and going forward," said Avalara user Kelly O'Hanlon, VP of Finance and Administration, Chempoint.

Seamless integration with new business systems is another benefit of an ERP and tax automation upgrade. Many new systems can be added quickly with minimal effort through plug-and-play integration.

Finally, scalability with ease of management is also an important feature as companies expand their ecommerce footprint. "We didn't have anything complicated or special to install when it came time to expand," said Avalara user Bruno Oghittu, who heads up Christian Louboutin's ecommerce initiatives. "Setting up Avalara AvaTax for Canadian transactions was as simple as turning on nexus for that region."

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**— KELLY O'HANLON,  
VP OF FINANCE AND  
ADMINISTRATION,  
CHEMPOINT**



## CONCLUSION

Spending time on sales and use tax compliance is a drain on resources that could be better spent on adding value to your business. Even if you can manage all the complexities, you've lost productivity.

With most U.S. states having enacted or considering legislation to require out-of-state online sellers to collect and remit sales and use taxes, the job just got nearly impossible without an automated solution.

Changes in tax laws, combined with the continued momentum toward ecommerce, presents the perfect opportunity to review your ERP and associated tax automation solutions. Waiting will only put your efforts further behind your ecommerce competitors.

## ABOUT THE SPONSOR

**Avalara** helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, ecommerce and other financial management system providers, Avalara delivers cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, excise, communications, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the U.S. and around the world in the U.K., Belgium, Brazil, and India. Visit [Avalara.com](https://Avalara.com) to learn more.

