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## Tax Engines – Questions to Ask Before You Commit

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Posted by [Richard Cornelisse](#) in [Business Strategy](#), [General](#), [Indirect Tax Determination Logic](#), [Indirect Tax Functionality](#)

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By [Robbert Hoogeveen](#) and [Richard Cornelisse](#)

The Current State of many multinationals

Determining the VAT liability and VAT recovery of businesses' transactions (the system's indirect tax functionality) can be automated within Enterprise Resource Planning (ERP) systems such as SAP and Oracle, or by way of a manual processes. Such determination logic can be hugely complex.

Multinationals run often various versions of ERP systems without harmonization. The ERP set-up is often per business unit and thus multiple kernels per country are more likely than not.

This could cause difficulties in running exception reports to look for missed opportunities, under claimed VAT and potential fraudulent transactions. A lot of (manual) work is required when reconciling the periodic VAT compliance reports from these different sources (divisions, different systems).

As the ERP systems do not have flexible reporting solutions, multiple spreadsheets are often used to reconcile VAT numbers. Manual processes are subject to human error and often inefficient due to the amount of rework ('hidden factory').

## 'Remediate own ERP system' or 'Third Party solutions'

Indirect Tax functionality can be automated (full or to a certain extend) in a company's own ERP system. The problem might be that multiple ERP systems are used and that interfacing via a third party tax engine is considered an alternative. That option means that part of the system functionality is actually outsourced.

Some important questions from a tax software selection to answer are:

- Does remediation of own ERP systems close any gaps?
- Is setting up a single ERP platform within the company a practical solution to consider?
- Are third party solutions available to harmonize multiple ERP systems?
- What is the advantage of third party solution compared to upgrade own ERP system(s) (GAP versus SWOT analysis: complexity of business model, number of tax codes needed now and in the future, resource requirements to manage the rules and VAT rates, monitoring and controls)?
- Is a third party solution required for determination and calculation of indirect tax or only for the reporting?
- What reporting functionality does my organization need?
- Are risks of outsourcing functionality known, documented and managed?
- Are the liability clauses of the third party known and evaluated?
- Is the financial position known of this third party?
- Is the market position known of this third party (sustainability, competitor's strength)?
- What is the feedback of customers (references and credentials)?
- What is the amount of staff of this third party?
- What is the company's history where it relates to upgrades its technology to trends in the tax market and client needs (amount of upgrades)?

- Is the solution compatible with existing ERP environment?
- Is the IT architecture of the third party solution compatible with the existing IT landscape?
- Is the interface of the solution “approved/supported” by the ERP system supplier (i.e. SAP Netweaver partner)?
- What will be the level of configuration / customization in ERP system and/or third party solution?
- How much time does it normally take to implement a country, region or even a big bang roll out?
- Does the third party have an example of a roadmap for implementation that includes each others roles and responsibilities and milestones?
- Which countries and indirect taxes are supported by the third party solution?
- What is the impact on the company’s own resources?
- What does the price tag look like (initial fee, configuration fee, license / usage fee, maintenance fee, etc.)?
- What is the level of support a vendor gives in case of trouble shooting, legislative updates, irregular maintenance, etc.?

These are some important questions that need answer to make sure that the technology is a right fit for contributing value to the organization’s business objectives.

Richard Cornelisse is CEO of the KEY Group and worked previously as Big4 Partner in the Tax Performance Advisory and Indirect Tax Practice and blogs on Tax Function Effectiveness and Tax Control Framework developments.

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## 2 thoughts on “Tax Engines – Questions to Ask Before You Commit”

1. Brendan Cook *said*:

June 28, 2012 at 3:07 am

These are all very valid points. I have gone through this process a number of times now and have taken two different approaches that have both worked quite well. In the first instance I went with an Oracle enhancement that provided an extensive GST reporting suite. The advantages of this is that we were working with a common chart of accounts, general ledger etc (this was a shared service centre environment). In the second instance it was determined that deriving reports out of our ERP using the core ERP functionality would be unworkable due to cost, resource constraints and the overall limitations of the system itself. We then used a 3rd party reporting tool already in place across the business to create a suite of summary, detail and exception reports that so far has proved to be very good.

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