

THE COSTS OF COMPLIANCE: STRATEGIES FOR AUTOMATING TAX MANAGEMENT IN THE CLOUD AND AVOIDING HIDDEN COSTS

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Report Highlights

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The average annualized cost to manage SUT is over \$63K for small companies, over \$67K for midsize companies, and over \$393K for large organizations.

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Top performers are 3.3x as likely to have automated workflows for tax preparation, filing, and remittance / recovery.

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Top performers are 57% more likely to utilize a cloud solution for financial management.

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Top performers are 72% more likely to have real-time updates to tax regulatory changes.

This report uncovers the direct and indirect costs of managing sales and use tax compliance that your organization may be experiencing and provides a strategy for reducing these costs through cloud software.

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The labor associated with indirect tax management costs an organization significantly. Top performers use automation to lower these costs.

Indirect tax management is an essential process that can be time consuming, confusing, and costly. When it comes to managing indirect tax in today's modern business environment, respondents to Aberdeen's [2014 Excellence in Financial Management Survey](#) were asked to select their top two pressures. Forty-eight percent (48%) indicated that an extensive amount of labor is involved and that they would like to reduce it as their top challenge. The labor associated with indirect tax management costs an organization significantly in both the tangible costs associated with the hourly wages of dedicated employees, as well as the less tangible opportunity cost that is incurred when employees spend their time focusing on tax instead of other tasks. In fact, Aberdeen's [Cost of Tax Compliance Survey](#) found that the average yearly cost to manage sales and use tax (SUT) for a small organization is \$63,206.24 (\$67,423.08 for medium-sized companies).

Therefore, top performing organizations must do all they can in order to ensure that the burden of indirect tax management is as little as possible while maintaining accuracy and compliance. For these reasons, Leading organizations are 3.3 times as likely to have automated workflows for tax preparation, filing, remittance, and recovery. This is because automated workflows for tax management can reduce the costs of these processes and enable your finance organization to move on to tasks that can more directly impact business decisions. This report uncovers the direct and indirect costs of managing sales and use tax compliance that your organization may be experiencing and provides a strategy for reducing these costs through cloud software.

The Complicated Regulatory Environment

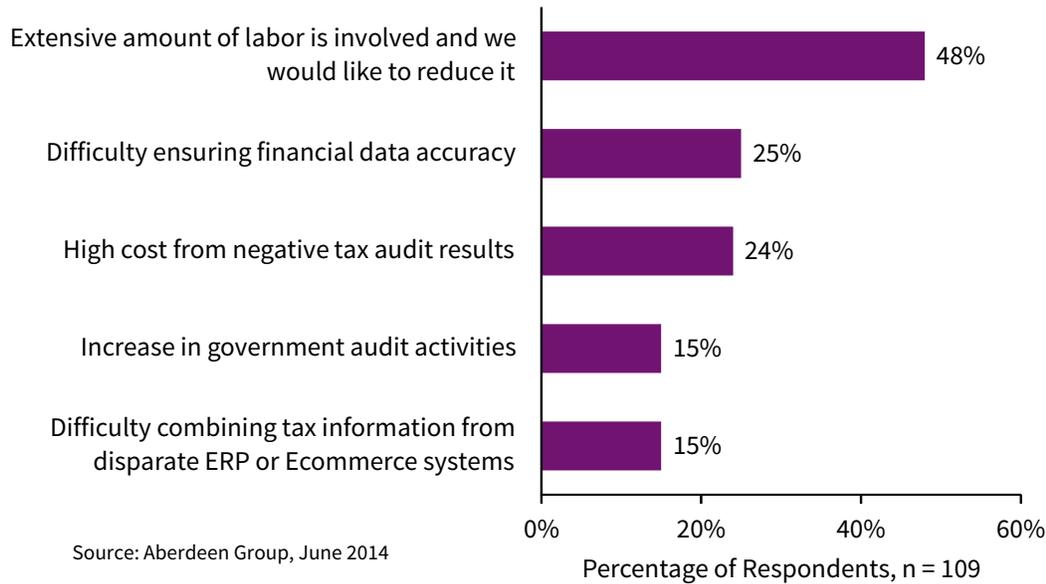
The modern regulatory and business environments have made managing sales and use tax more difficult than it has ever been in the past. Aberdeen's [2014 Excellence in Financial Management Survey](#) provides greater clarification on why this is (Figure 1).

This report separates respondents into three groups:

- **Small:** organizations with annual revenue under \$50 million
- **Midsized:** revenue between \$50 million and \$1 billion
- **Large:** over \$1 billion

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Figure 1: Too Much Work Managing Compliance

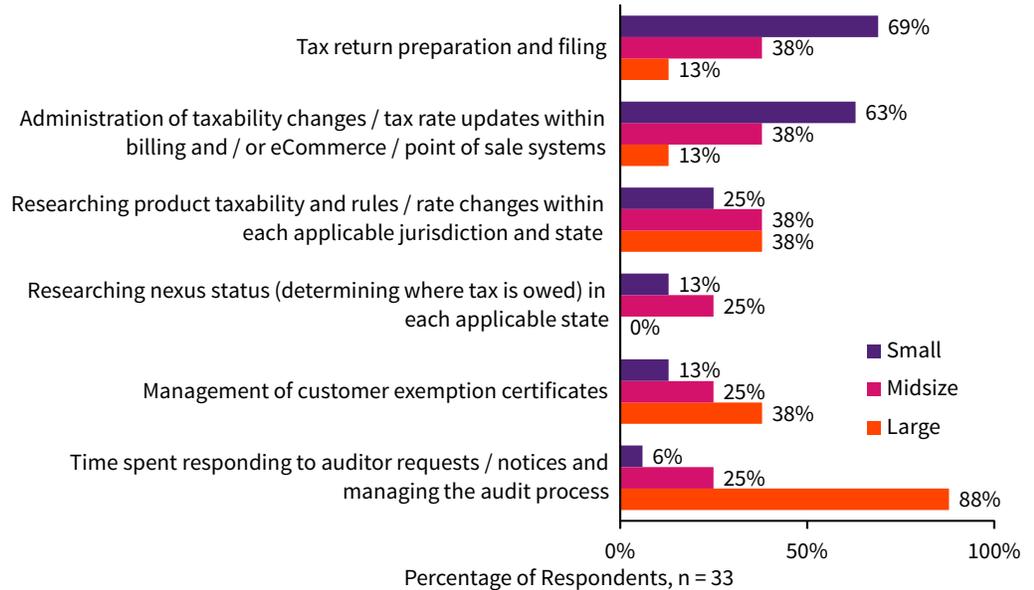


The number one challenge that organizations face in managing sales and use tax today is the extensive amount of labor that the process requires. Managing tax calculation, collection, reporting, filing, and remittance takes time and puts a burden on internal resources. And while SUT still requires tax to be collected as a percentage of retail sales, the potential legislative changes like the Marketplace Fairness Act and existing “Amazon Laws” add increased confusion for organizations that are now selling their products online as well. These pressures, combined with increased regulatory scrutiny, encourage organizations to change the ways that they manage tax, particularly in the way they complete the process itself and record data.

But why is managing SUT so time consuming and resource intensive? Aberdeen’s [Cost of Tax Compliance Survey](#) outlined the most difficult components of SUT management (Figure 2).

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Figure 2: Most Difficult Components of Managing Sales and Use Tax



Source: Aberdeen Group, November 2014

There are many tasks that need to be completed to manage SUT effectively and in compliance. These tasks range from calculation through to filing and into audit management. It is interesting to note that small and medium organizations have significantly more difficulty with the tasks related to the ins and outs of the process on a day to day basis, while large organizations report more difficulty managing audits. This may be because large organizations have more resources dedicated solely to researching confusing and frequently changing aspects of SUT, such as nexus status and tax rate updates across geographic boundaries. At the same time, these larger organizations spend a significant amount of time managing audit requests since their size raises their profile in the eyes of regulatory bodies. Regardless of the individual aspects of managing SUT that are most impactful on an organization, these tasks present a substantial burden.

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The Cost of Compliance

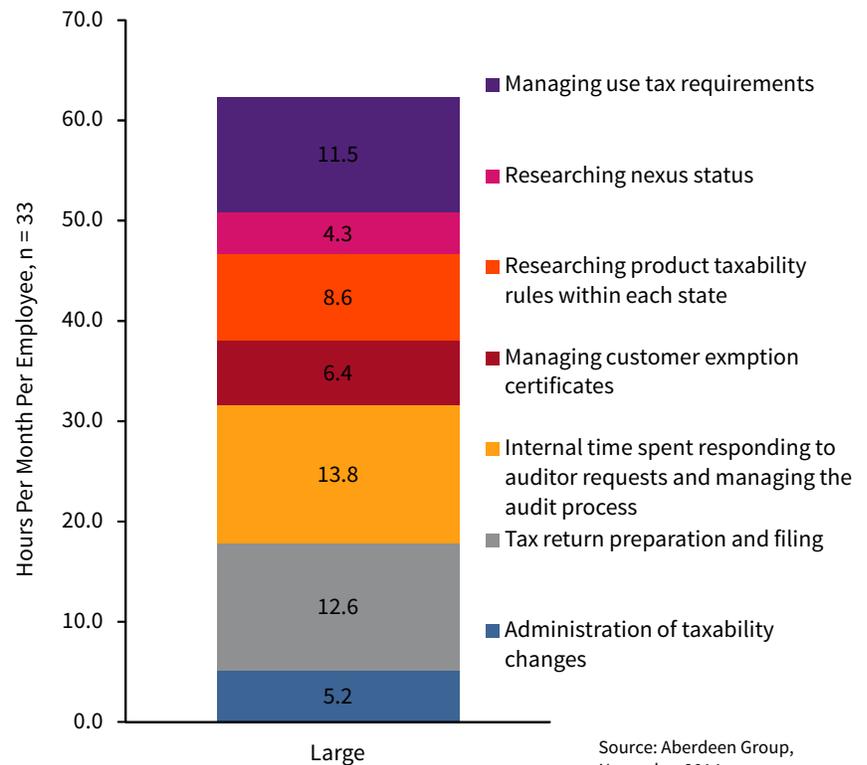
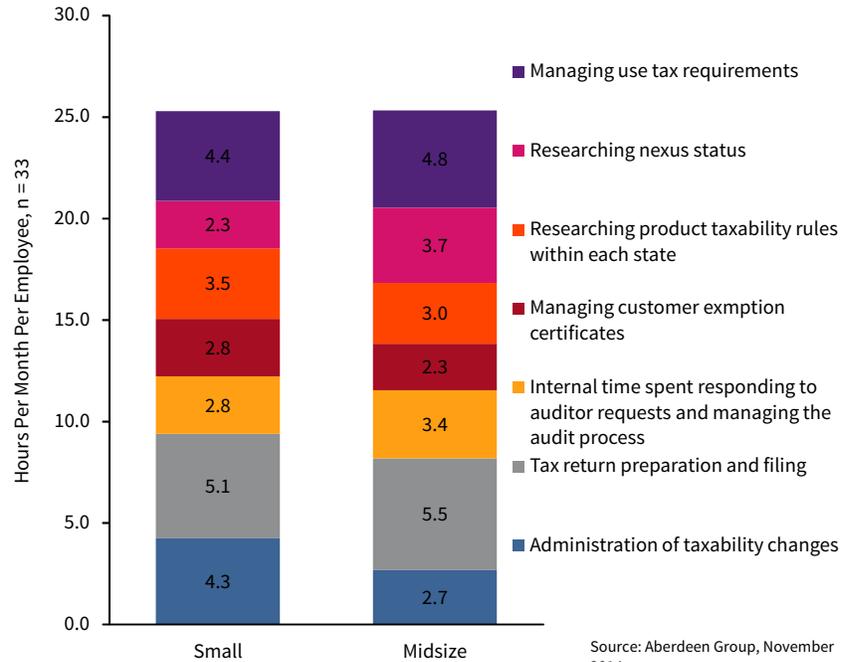
It is clear that managing SUT puts a strain on organizations of all sizes. But how much time are employees really spending on it? To calculate the true costs of SUT compliance, Aberdeen began by asking survey respondents to indicate the amount of time that they committed per month to seven main components of indirect tax management; these components include:

- Managing use tax requirements
- Researching nexus status
- Researching product taxability rules within each state
- Managing customer exemption certificates
- Internal time spent responding to auditor requests and managing the audit process
- Tax return preparation and filing
- Administration of taxability changed

Combined, these complicated and confusing, but essential, tasks consumed 25.3, 25.3, and 62.4, hours per employee dedicated to tax management per month in small, midsize, and large organizations respectively (Figures 3 and 4).

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Figures 3 and 4: How Much Time Per Month?



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Of course, these numbers do not tell the whole story. The actual amount of employees dedicated to these tasks varies by company size. For example, small organizations average 4.1 employees dedicated to these tasks in comparison to 4.4 and 10.4 for midsize and large organizations respectively. To continue calculating the quantitative costs of compliance, it is next important to define who these employees are, and how much they cost.

Since organizations of all sizes and geographies differ in the salaries they provide to employees, as well as the titles that these employees are awarded with, a few assumptions and qualifications must be made to set a baseline comparison. For example, Tax Manager may not be a title given to anyone in your organization. For the purpose of this report, Aberdeen identified three typical roles involved in SUT compliance. These include Financial Controller, Finance Manager, and Tax Manager, and then averaged their typical salaries. Referencing [Payscale.com](https://www.payscale.com) provides average salaries as of November 10, 2014 (Table 1). This enables us to calculate an average \$50.70 hourly wage per employee among these typical roles. This sets the foundation for further calculations.

Table 1: Who’s Responsible for Sales and Use Tax Management?

Designation	Avg. Annual Salary	Plus Benefits (+30%)	Wages / Hour
Financial Controller	\$74,325	\$96,622.50	\$46.45
Finance Manager	\$82,327	\$107,025.10	\$51.45
Tax Manager	\$86,706	\$112,717.80	\$54.19
Average	\$81,119.33	\$105,455.13	\$50.70

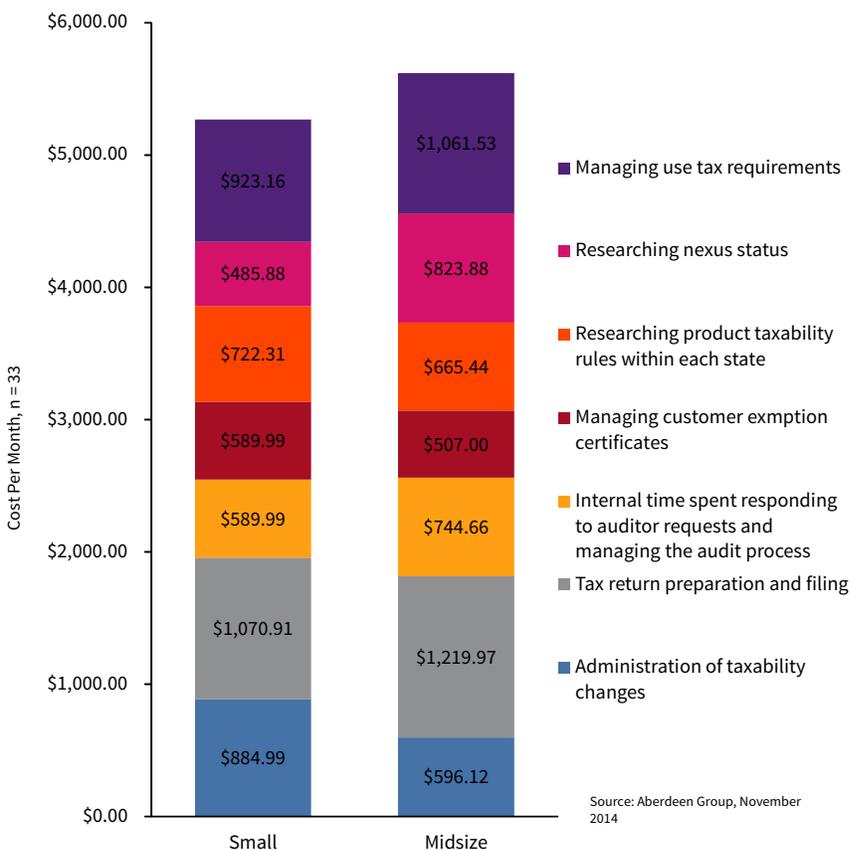
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In Aberdeen's [2014 Excellence in Financial Management Survey](#), respondents were ranked on the following criteria:

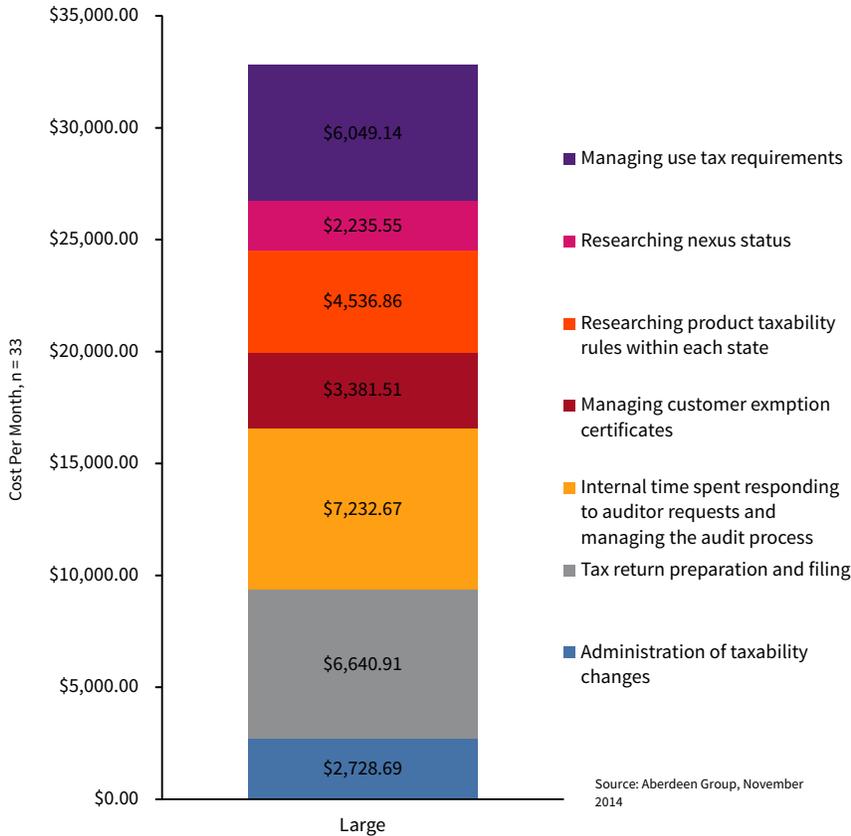
- **Percentage of accurate financial reports in the past 12 months:**
 - Leaders - 90%
 - Followers - 79%
- **Percentage of overpayment occurrences identified in audits over the past two years:**
 - Leaders - 2%
 - Followers - 5%
- **Change in the cost of audits over the past two years:**
 - Leaders - 12% decrease
 - Followers - 14% decrease
- **Change in the amount of time dedicated to addressing tax errors over the past two years:**
 - Leaders - 14% decrease
 - Followers - 4% increase

Now, by multiplying the number of hours for each task by the number of employees dedicated, and the multiplying the result by the cost per hour of those employees, we calculate how much each of these tasks cost an organization on a monthly basis (Figures 5 and 6). Organizations that struggle with any of these processes can therefore understand exactly how much they are costing them.

Figure 5 and 6: The Monthly Costs of SUT



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Thirty eight percent (38%) of organizations employ outside counsel to help managing SUT.

In this report, Aberdeen groups survey respondents into two maturity classes:

- **Leaders:** Top 35% of respondents based on performance
- **Followers:** Bottom 65% of respondents based on performance

These calculations show that organizations of all sizes spend a substantial amount on managing SUT compliance on a monthly and yearly basis (Table 2). This cost is only increased when organizations offload some of the burden on a services firm. In the case of small organizations, \$63,000 may just be something they cannot afford. On the other hand, this provides an opportunity for organizations to reduce costs and turn finance into a source of improved profit margins. For these reasons, a modern finance department must identify ways to reduce the cost of managing indirect tax compliance.

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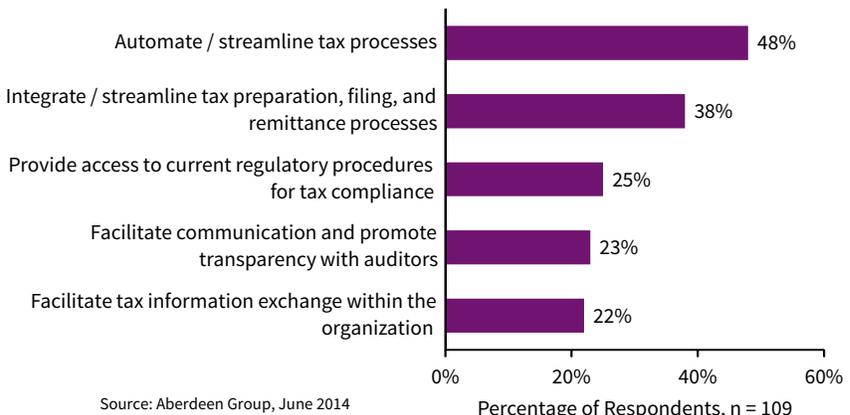
Table 2: Annual Costs of SUT Management

Function	Small	Midsize	Large
Monthly	\$5,267.22	\$5,618.59	\$32,805.33
Yearly	\$63,206.64	\$67,423.08	\$393,664.00

Automation Leads to Cost Reduction

Reducing the costs of SUT compliance is top of mind for organizations of all sizes. But how can this be accomplished? Aberdeen’s [2014 Excellence in Financial Management Survey](#) asked respondents to select their “top two” strategies for managing SUT (Figure 5). Automation through software is today’s number one strategy. Automation is intended to facilitate the process by providing instant access to regulatory mandates, helping employees to complete tasks, and improving communication with auditors. This is why 46% of Leaders have automated workflows for tax preparation, filing, and remittance / recovery in comparison to 14% of Followers. Further, Leading organizations are more likely to have implemented individual functionality that manages the different aspects of SUT compliance (see sidebar next page).

Figure 7: The Solution: Automation



In Aberdeen's [2014 Excellence in Financial Management Survey](#), Leaders are more likely than Followers to have functionality dedicated to the following aspects of tax management in their software:

- Tax rate calculation: **47% vs. 38%**
- Tax preparation and filing: **44% vs. 37%**
- Tax remittance: **39% vs. 35%**
- Tax exemption management: **38% vs. 31%**
- Audit control: **36% vs. 29%**
- Tax recovery: **33% vs. 32%**
- Fraud management: **31% vs. 27%**

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Why is automation through software an attractive solution for managing SUT compliance? Automation means that tasks become easier to complete. SUT management therefore takes less time, and may even require fewer employees. Fewer employees means that these organizations are spending less time on the individual tasks outlined above. All told, on average, organizations with tax automation software spend less to manage tax. When applying these calculations to the average cost by company size, the savings can be substantial.

But there are some costs that are harder to define. First there's opportunity cost. How much is your organization losing due to finance employees focusing on tax rather than tasks such as budgeting, and forecasting, accounting, billing, or revenue recognition? If your organization could drive down the cycle time of these business processes, what could it gain? And what impact does accuracy have on the success of audits and the ability to prepare for risk? Consider how automation can help to negate some of the hidden costs of SUT management, such as the cost of audits and other risks. The impact of tax automation goes far beyond reducing the amount of hours dedicated to tax, but spreads wider and deeper across the organization.

Cloud Solutions: Reducing SUT Management Impact Across the Organization

One often overlooked aspect of managing SUT is the burden that linking these tasks to business systems provides, and the resulting impact on IT resources. Top performing organizations do all they can to get the most out of their business systems by providing efficient links that are fully integrated to maintain usability, with little IT input (see sidebar). As far as IT is concerned, they are most interested in the effort they will have to exert to support the solution by keeping it up and running and helping employees to use it.

In data collected for Aberdeen's *Business Process Management: Looking at the Plan in the Mirror*, Best-in-Class organizations are more likely than All Others to have capabilities that enable the organization to easily link processes such as SUT management to ERP:

- Ability to link processes to IT systems: **55% vs. 35%**
- Real-time visibility into the status of all processes: **39% vs. 18%**
- Process in place to manage non-compliance events across the enterprise: **43% vs. 32%**
- Business users can use software without relying on IT: **36% vs. 15%**

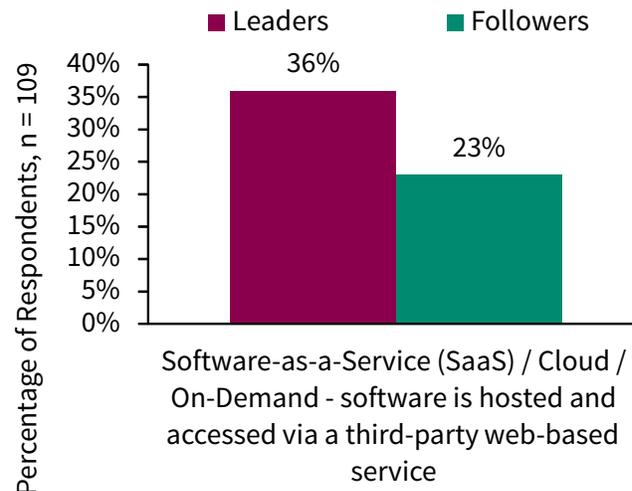
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In Aberdeen's [2014 Business Management and ERP Benchmark Survey](#), organizations were asked to select the reasons that they would be willing to implement a cloud solution:

- Must reduce IT costs: **35%**
- Need for collaboration amongst increasing number of geographies: **31%**
- Increasingly global workforce working in multiple time zones: **24%**
- Cost of capital funding is too high: **24%**
- Dated technology infrastructure: **22%**

In this case, IT would like to keep as much of this off of their plate as possible. One possible way they can do this is by implementing a solution that provides less of a burden on their resources. The number one reason that organizations choose a cloud solution is because they must reduce IT costs (see sidebar). Unsurprisingly, Leading organizations are more likely than Followers to use a cloud solution for financial management (Figure 6). With a cloud solution that employees can access through the internet, organizations can rely on the IT resources of their software vendor for support and maintenance, making the solution more accessible for everybody.

Figure 8: Leaders Choose Cloud Financial Solutions



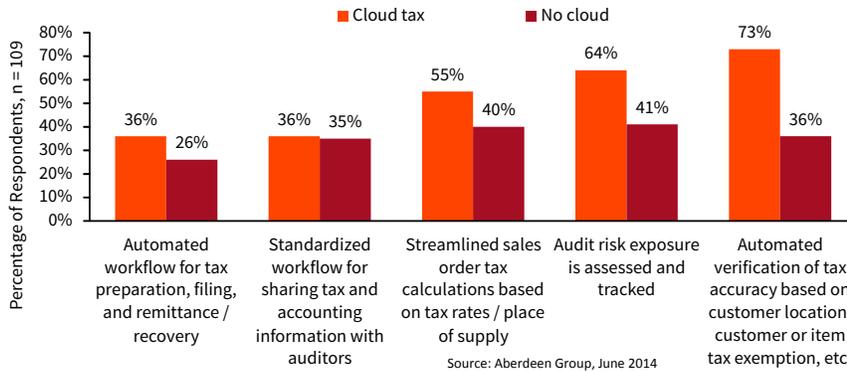
Source: Aberdeen Group, June 2014

But cloud solutions provide more than just lowered cost and impact on IT when it comes to managing SUT compliance. Note how a cloud solution improves collaboration across geographies. This can be helpful as employees attempt to understand the differing tax laws from state to state. In fact, cloud solutions are more likely to provide capabilities that can

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greatly impact an organization’s ability to complete tasks related to tax management (Figure 7).

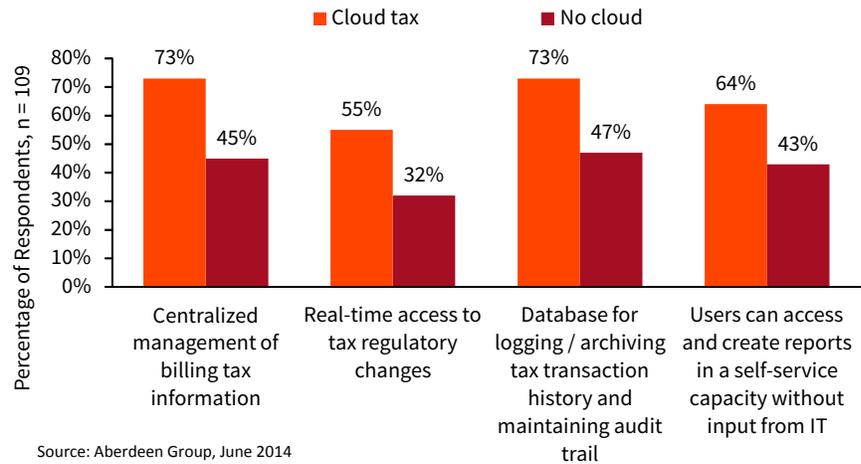
Figure 9: Cloud Tax Enables Efficiency



These capabilities improve efficiency because they contain best practices related to individual aspects of SUT management. Whether its automated workflows, improved ability to calculate tax, assess audit risks, or verify compliance, organizations with cloud tax management solutions are more likely to have enhanced functionality. This may be because cloud solutions are constantly and automatically updated by software vendors to include up-to-date tax laws and best practices.

The unique aspects of the cloud also enable organizations to maintain a centralized source of tax information so that employees and other stakeholders can find the information they need quickly (Figure 8). Not only does access enabled through the internet improve the time it takes for employees to input and find information they need to complete tasks, but it presents a consistent source of accurate information for auditors to use. This accurate source of data is essential for ensuring compliance and avoiding the cost of audits.

Figure 10: Cloud Tax Facilitates Compliance



The Results

The capabilities enabled by cloud tax management solutions help to reduce the strain that managing SUT has on organizations. Aberdeen’s research finds that organizations with cloud tax solutions report more accurately, have driven greater efficiency in business processes, have seen greater improvements in the cost of audits, and have done a better job of mitigating risk (Table 3, page 15). For example, organizations with cloud solutions saw twice the improvement in the cycle time of key business process, as well as half the loss due to unmitigated risk, that organizations without tax solutions saw over the past two years. Combined with the tangible cost benefits of a tax automation solution outlined above, this provides a compelling case to implement these solutions.

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Table 3: The Benefits of the Cloud

Average Performance	Cloud Tax	No Cloud
Percentage of accurate reports in the last 12 months	76%	75%
Improvement in cycle time of key business processes over the past two years	6%	3%
Percent decrease in the cost of audits over the past two years	11%	7%
Loss due to unmitigated risk over the past two years	2%	4%

Source: Aberdeen Group, June 2014

Key Takeaways

Due to ever changing tax laws, lengthy processes, and the threat of audits, managing SUT is a difficult task for organizations of all sizes. Not only is there the risk of the cost of audits and the opportunity cost that is spent when employees are taken away from other tasks, but the actual dollar amount that is attributable to the cost spent on employee wages when they are performing these tasks is substantial. In fact, the average cost of employees dedicated to managing SUT on a yearly basis is over \$63K for small companies, over \$67K for midsize companies, and over \$393K for large organizations. This is why top performers do all they can to reduce the burden. To perform like a Leader, heed the following recommendations:

- ➔ **Identify the costs (hidden and unhidden) of preparing for tax compliance.**
- ➔ **Investigate cloud solutions for tax management.**
- ➔ **Remove the reliance on manual processes and IT.**

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→ Provide visibility, automation, and compliance.

By utilizing a cloud tax management solution for SUT compliance, your organization can reduce the cost of tax compliance by educating, enabling, and empowering employees.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research

[VAT Management for Multinational Organizations: Efficiency and Compliance with Integrated Tax Engines](#); June 2014

[Relieving the Headaches in Value-Added Tax Management](#); March 2014

[Automating Sales and Use Tax Compliance: Making Sense of a Complex Regulatory Environment](#); February 2014

[The CIO's Role in Indirect Tax Compliance: Deploying Solutions on Spec and on Budget](#); March 2012

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