MERIDIAN VAT ADD-ON

A BUSINESS CASE FOR INDIRECT TAX AUTOMATION

WHY INDIRECT TAX NEEDS AUTOMATION

The indirect tax environment had seen a huge increase in digital obligations and real-time reporting, where data needs to be correct from the beginning with little option to make changes later. This creates additional exposure to tax authority requirements, and therefore mitigation of the tax and compliance risk is critical.

Improving the efficiency and accuracy in both transactional processing and reporting by automation will be high on the agenda for many companies.

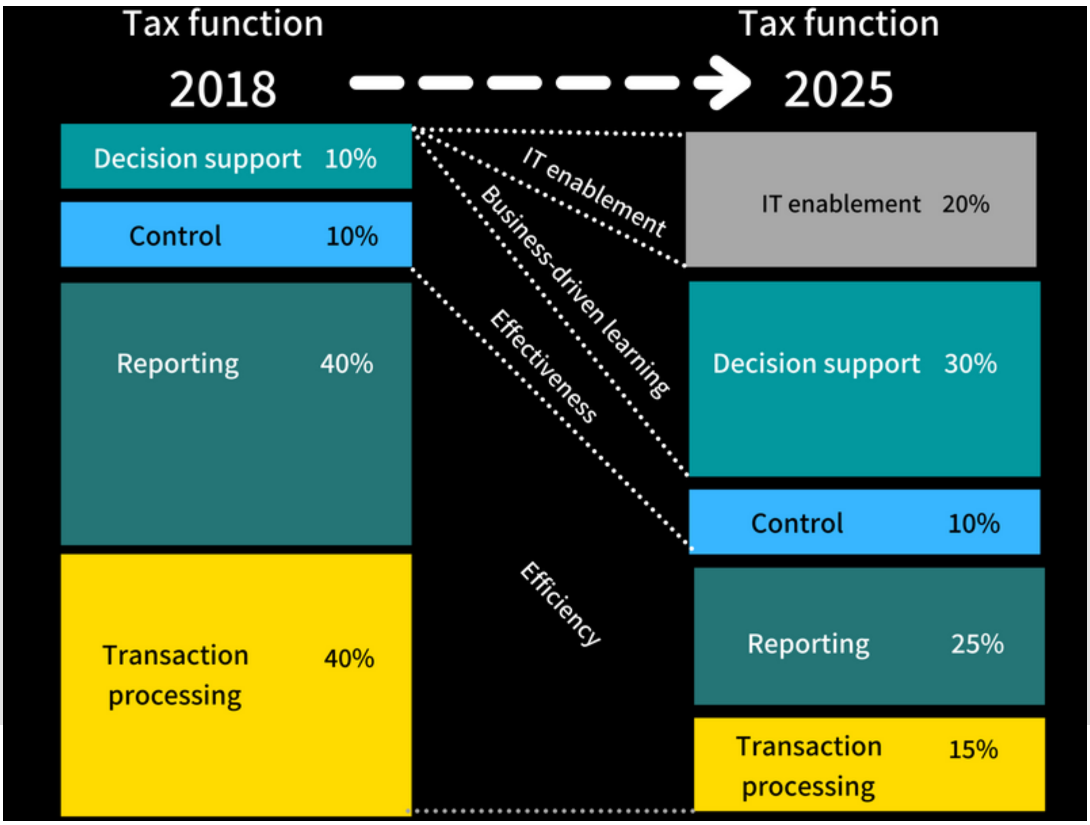
These developments are resulting in a change in the skillset needed for tax resources. Technology is becoming key, so future tax roles will require a combination of tax and technology expertise.

With automation, tax departments will spend less time on routine tasks, which should allow them to focus on planning and key decision making.

Need to automate VAT determination

- **Accounts receivable**
  - Documentation needed for process and compliance requirements.
  - Maintenance of master data - correct VAT registration numbers
  - Classification of goods and services
- **Accounts payable**
  - Currently little automation of the accounts payable environment
  - Improve data quality and reduce time spent processing invoices

Over time, increases in effectiveness and efficiency from automation will free up more resources for decision support, and will reduce manual reporting and transaction processing.



Percentage of time spent on tax functions

BUILDING THE BUSINESS CASE FOR VAT AUTOMATION TECHNOLOGY

Key drivers :

- **Mitigating tax and compliance risk**
- **Reducing cash leakage**
- **Improving efficiency**

Resulting in :

- Increased level of control and tax position
- **Increased insights and tax related information** reducing audit costs between 20-40%
- **Less human errors** and reduction in administrative costs due to higher automation saving 25-50%
- **Decrease in tax reporting time** 25-50%
- **Better calculate and manage transfer pricing and cash positions** leading better tax planning and forex management
- Reductions of penalties, high provisions and defense costs
- Reduction of 20-40% maintenance and human intervention in **calculation of required taxes**
- 25-30% cost reduction to generate, monitor and audit tax reporting **compliance requirements**

New environment

IDENTIFY CONCISE BENEFITS

The VAT automation case may be built over a period of time and also include key finance department decision makers. Benefits could be highlighted in a way that would get the attention of the financial leadership.

A key benefit could be the reduction in manual workloads:

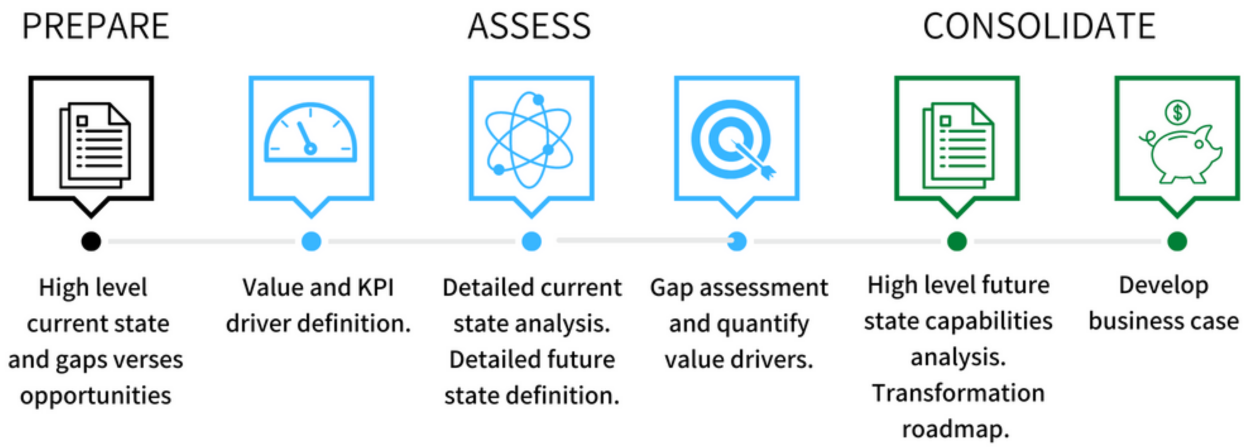
- **Corrrect VAT coding**
- **Maintenance of VAT codes**
- **Reduction in IT workload**

QUANTIFICATION OF THE BENEFITS AND COSTS

A key objective for the business case is to calculate the cost reduction between current and future state. The focus should be on frequent current issues to quantify where solution brings a benefit such as:

- **AP time spent on tax determination**
- **Time spent fixing tax coding errors**
- **Management of VAT rate changes**
- **Reduction in VAT consultancy costs**
- **Flexibility to adapt to new regulations**

BUSINESS CASE PROCESS FLOW



BRINGING THE BUSINESS CASE TO THE NEXT STAGE

The next stage in building the business should involve all relevant parties including tax and IT where necessary.

The first step is to **identify all current gaps and opportunities.** For example, the current VAT determination logic **not being able to cope with triangulation or drop shipments**. Also **master data issues** including classification of customers, materials, VAT registration numbers not being determined correctly. **Automated determination of accounts payable transactions** can help companies that are still using manual selection of tax codes.

A single reporting solution can also help with monthly reporting requirements, and also new digital reporting requirements that span multiple countries. Overall the aim is to **reduce the amount of human intervention** in the AR, AP nad reporting stages.

It should now be possible to define the value and KPI drivers for an automated VAT solution.

Detailed future state definition

The next task is to assess what the future design should look like. This would involve looking at available solutions for VAT automation, but also redefining internal process such as maintenance of master data, and re-allocation of resources for VAT determination.

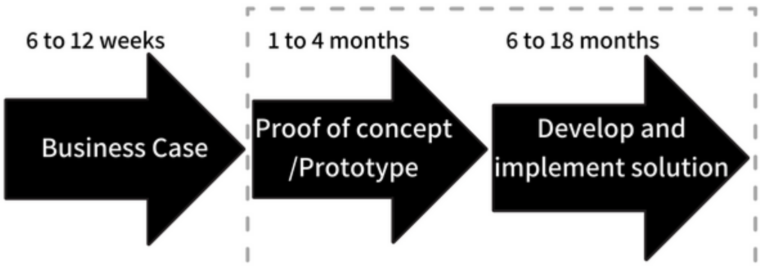
Based on definition of the future state, it should now be possible to calculate costs and benefits

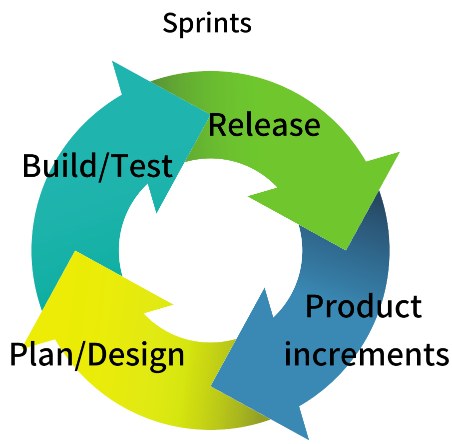
Consolidate the business case.

The final stage in development of the business case is a high level analysis of future capabilities and development of the transformational roadmap.

BUSINESS CASE IMPLEMENTATION

A tax technology project is typically started with a **business case** followed by a **prototype** or **proof of concept**, and finally a solution implementation .





Proof of concept/prototype

This allows you to create a flow for the future solution and get all stakeholders committed to the solution. Many global companies may implement a pilot or proof of concept on a regional or country basis before a wider rollout.

A successful pilot should demonstrate the advantages of tax automation and build the momentum for change.

- This should include a **prioritized requirement catalogue** describing solution functionality.
- Prototype build should be used for the final solution
- Plan phase 3 deployment (scope, resources, cost)

Develop and implement a full solution

- Requirements and design based on feedback form all stakeholders
- The prototype should be expanded into a full set of requirements. It is common to include global requirements although initial implementation may be on a country by country basis.
- Solution implementation is usually via a sprint plan
  - Plan/design
  - Build/test
  - Release
  - Product increments

Sustain

- This should include training internal resources to maintain and update the solution
- Responsibility for maintaining the solution after go live should move to a tax technology person
- The solution should undergo a full phase of testing to ensure user acceptability and functionality
- There should also be an ongoing process to update and expand technical and functional documentation
- The launch plan should also include implementation procedures (SOP) , training, and cut-over

CONCLUSION

Building the business case for indirect tax automation requires initial justification and quantification of key drivers : **Mitigating tax and compliance risk**, **Reducing cash leakage**, and **improving efficiency.**

Gaps and opportunities should then be identified and involve all relevant parties including tax and IT where necessary.

The business case may be built over a period time and include key finance and other department decision makers. Often a reduction in manual workload cost and a reduction in costs between current and future state are key elements.

MERIDIAN VAT ADD-ON FOR SAP

- Meridian's VAT Add-on for use within SAP revolutionizes the approach to automated, compliant VAT determination and reporting processes in SAP
- The VAT Add-on solution places all the required functionality directly into your SAP system, using standard SAP techniques
- Its flexible design makes implementation and ongoing maintenance simple, through the central VAT Cockpit, accessible from a single SAP transaction
- The VAT Add-on is SAP version independent, operating on ECC 6 to the latest version of s/4 HANA

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