

# SAPinsider Benchmark Research: Global Tax Management with Micheal Bernard of Vertex

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[00:00:28] **Richard:** I'm Richard Howells, and this is the future of ERPA podcast where we discuss hot topics, best practices, and the latest innovations in today's global business. In this week's episode, we'll be discussing the key findings from an SAP Insider Benchmark Research Report, global Tax Management. And to do so, I'm excited to be joined by Vertex is Michael Bernard. Michael, it's great to have you here today. Welcome to the podcast.

[00:00:54] **Michael:** Thanks Richard. Thank you for inviting me in. I'm looking forward to, uh, discussing the topic today.

[00:00:59] **Richard:** [00:01:00] Great. Maybe you could quickly introduce yourself and your role at Vertex.

[00:01:04] **Michael:** Sure. First and foremost, before I came to Vertex about seven years ago, I was the general manager in US Tax Council at Microsoft for 28 years. And essentially I led about three quarters of that tax department and as. I think that was an SAP Rich environment. So know a lot about SAP and working with those systems. And essentially what I did was I came over to Vertex about, six or seven years ago, and essentially I'm the VP and Chief tax officer here, but I don't have a traditional tax role. What I'm here to do is to really help our product management teams and our engineering teams and our marketing teams develop software from the outside in. In other words, taking customers like me where I used to be an SAP customer and use the vertex engines and technologies to actually develop, software and services that are of importance to our customers. And so that's really what [00:02:00] I'm here to do. in addition to that, I do these things like podcasts here today. Always glad to do these. And then also we produce about 120, pieces of material on thought leadership. It can range anything from indirect tax to tax operations to reg to the regulatory environment. And then we host about 24 events, which is about a

third of our revenue base with our customers to really see and update them on what are our services and products that we're producing. So, pretty busy here in terms of that role and that's essentially what I'm hired to do and enjoyed it now for about my seventh year.

[00:02:37] **Richard:** We certainly have the background to have this conversation. It's great to have you on.

[00:02:41] **Michael:** Thank you.

[00:02:41] **Richard:** Maybe you can provide a little background on the research itself, the global tax management research.

[00:02:48] **Michael:** I've been involved with the Global Tax Management research project that SAP has done for the last, for many years, and we've been a sponsor actually, of that, or a co-sponsor of that survey. And anybody who's [00:03:00] looking to review it, I think it's one of the most insightful. Pieces of literature that I find in terms of what's going on with corporate tax departments. One of the things that I've seen over the years is that it's very dynamic so that what actually matters to tax departments changes every year. Depending on where they're at, whether it's they need to upgrade their compliance systems or if they're more concerned about regulatory reporting or they're trying to integrate a lot of their SAP environments, with their engines or with other technologies. So it really kind of changes from year to year. So it's really kind of a great thing that we've seen there. The other thing too, I would say about 54% of the respondents in the survey are from the finance area, so mostly in tax. About 30 are from IT, and the other 10% or so are from different other areas. And the other thing too is it's a global, it's a global survey so that it gives you a global perspective of what's actually going on. And then [00:04:00] also about 28% come from manufacturing, 22% come from technology and about 17 from financial services. And then the other third, the other two thirds are from other various industries. So a very broad area of industries that it touches and it's quite great survey. I'll mention one other thing too is this year they had some kind of key things that they were looking at. Tax departments are a little bit more keen on what, their performance measures are. We're gonna talk, I think a little bit later, Richard, about tax control frameworks. So I'm excited kind of talk about what that actually meant. And then there's a, there was a number of things that they wanna talk about in terms of the regulatory space. So those were just some things that are kind of contained in the survey.

[00:04:41] **Richard:** Looks like we have a lot to cover, , but based on the research, what factors are the, are most impacting and driving companies, tax

departments today? I know you said it varies year to year. So what's top of mind at the moment?

[00:04:53] **Michael:** It, it does. So, one of the top things was just governance and regulations. I [00:05:00] think a lot of that is, comes from CFOs that they wanna make sure that whatever tax departments are doing, they're getting their. Returns filed on time, that they're accurate, that it supports the order to cash cycle and their invoicing is good. The other thing too, I would add in there a little bit that's changed, and I think this reflected in the survey is, as you know with the tariff policies that came in with the Trump administration.

[00:05:23] **Richard:** I have heard of them. Yeah.

[00:05:24] **Michael:** Yes. Good. I'm glad you have. And so it's a lot of other people and the way it's affected tax departments is it's kind of changed the supply chains of where they get their goods and services. So that changed, that changes in terms of reporting. So that's kind of tied into the governance and regulations. The second thing I would say that was also important there is that a lot of. Governments, particularly here in the States and also nation states outside the us, they are looking for digital transformation. In other words, that all of the reporting that is done from a company in into a [00:06:00] government agency is done digitally. So whether that's payments, whether it's returns, whatever it might be, that companies have had to meet those different requirements, and while there may be two or three platforms that they can file all that on. It still can be a challenge for them. And then lastly, the thing I'd also like to mention, Richard, we mentioned tariffs a little bit earlier but there is a lot of effort going on, particularly in Europe, around e-invoicing. And the issue there really is that the e-invoicing standards, everybody, every nation seems to be picking their own standard and what kind of information they want. Whereas historically all of that work would've been done at the OECD and the OECD would've come out with all of that participation kind of in a one uniform standard for Europe. But between Italy and Europe and or it's between Italy and Germany and France and all of 'em, they seem to have their own way of how they wanna do e-invoicing and that's [00:07:00] really made it extremely difficult. For taxpayers who owe that and have to file that returns to actually meet those requirements so that the what we call the unilateral aspect, where it should be really a bilateral aspect has been extremely challenging for tax departments, unfortunately. So that's some of the things that we're seeing and that's what the survey reflects.

[00:07:20] **Richard:** So the good news is there are standards, the bad news is there's lots of them.

[00:07:25] **Michael:** There's multiple standards. Yeah, that's,

[00:07:27] **Richard:** the benefit

[00:07:29] **Michael:** You got it.

[00:07:31] **Richard:** With that in mind, what are the pain, what pain points are clients challenged by the most?

[00:07:35] **Michael:** They, one of the things that, particularly the CFOs and the CIOs wanna get to and the chief information officers particularly wanna do this, particularly in the indirect space and with tax, is they wanna get to what are called. Automated tax control framework. So what they really wanna make sure is that all of the systems that either whenever you're selling something or the company is actually buying something [00:08:00] or whatever else, you're transacting, that all of those systems work flawlessly where they have little to no manual adjustments to them. They just want everything to just flow evenly so that whether they're doing financial reporting. Or they're doing AP or AR or whatever they're doing, tax included, is they just wanna make sure all of those things can be done, can just be done seamlessly. The second thing I would also put too, as it relates to some of the other pain points that we're seeing in the tax departments is the tax departments have the most granular information. In the company. And I think that would resonate with you, Richard, because if you could think about it, particularly as it relates to reporting VAT or reporting sales and use taxes, they need granular information down to the postal code, right? And not only that, they have information of where those things get sold and where things are selling in certain geographies. And so because of all that analytics, more and more we're seeing more and more [00:09:00] companies are relying on the tax department analytics to actually tell them, particularly as it relates to marketing or sales, as to what's actually selling them a certain geography. And what's not selling is certain geo geography or why is it selling in that geography? So, and we are not only seeing that just on their, on-prem locations in their brick and mortar stores, but particularly as it relates to either third party e-commerce websites or their own party or their own marketing commerce sites. So that granularity of that really kind of feeds a lot of. Marketing and sales decisions. And so we're, and so they want like really crisp analytics, so tax departments being asked to provide that. And then lastly, I would just say, and we're gonna, this is gonna be a key theme that we're gonna, you're gonna hear from you probably over the next during this podcast, is that they really need to make sure that their SAP environment is really optimized for whatever their business is. So whether they're in retail. Whether they're in leasing, whether they're in [00:10:00] commodities or they're in

financial services, they really wanna make sure that those that SAP environment is optimized for that business itself. So again, automated tax data controls, analytics, and then optimizing the ERP system. Those are the three key things.

[00:10:17] **Richard:** In that first point was really eyeopening to me that the digitization of the tax area can help. Sales and marketing because it has better data than sales and marketing has about the actual volumes being sold. That's quite eye-opening actually.

[00:10:33] **Michael:** Yeah. And don't, forget it, it also infects the procurement side of it too, because you have to do the tax reporting for procurement as well. So not only what you sell, but what you buy. And so the analytics associated with that are quite rich, quite deep, and very insightful to groups outside of the tax department.

[00:10:51] **Richard:** So with that in mind, it sounds like automating the process, having that automated tax control [00:11:00] framework becomes critical and as other business benefits. So how are companies progressing with this implementation of these control frameworks?

[00:11:07] **Michael:** Sure. So let me first describe again what a control framework is and where that idea comes from. Mostly it's an idea that either comes from the Chief Information officer or comes from the CFO. It could come from the audit committee, from the board of directors, but really what those individuals want is they want a controlled framework, particularly around finance groups, where it's documented where all your tax flows are coming from, and then what is the necessary reporting. Either for financial statement purposes or to some government agency that they need to have it. Again, we talked about this earlier, Richard, about it all being automated. So the documentation would center around what kind of data flows are in the ERP system in sales procurement. It would also say how you reconcile things always at the end of the month and how you're gonna support the order to cash cycle. And as you know [00:12:00] invoicing is one of the key things that every single company has to be able to do. 'cause it does support the order to cash cycle. So that is basically what a tax control framework is, or a control framework is. Now, the one thing I would say there is this is an ever ongoing effort by finance groups including tax departments because about. 99% of all tax appointments report into the CFO. But basically today about 56% are still in kind of a strategy and planning mode. Trying to figure out how do we kind of get to this optimized control framework. We see about a quarter of them today are probably doing pretty good on their implementations. So those are the companies that I think are kind of the standard bearers and what you'll see is a

lot of other companies are looking to see how. These other, the ones who are leading the way are actually implementing those things. And so they build off of that. And then unfortunately, Richard, as you know, there's, struggles around [00:13:00] budget and personnel and those things. And so what we're seeing is about 20% of company state just simply have no plans, kind of haven't thought much about this. Eventually we'll get around to doing that. But currently not actively using strategy or implementing any of those any of that work.

[00:13:17] **Richard:** You mentioned that 20% would claim, at the moment they've got no plans 'cause they don't have a budget, for example. But also that 56 to 56% are still in the planning or strategy phase. That's quite surprising actually. That's a huge percentage. So given the relative, the relatively small percentage of organizations who fully implemented the tax control frameworks what's other than budget? What's stopping the others? What barriers exist and how can companies accelerate their adoption and become fast followers even if they're not early adopters?

[00:13:50] **Michael:** There's just a number of things. I think one of the things that I think tax departments have to do is they have to be much more connected. To the controllers [00:14:00] group tied to financial reporting, the closer you can get to the financial reporting folks, the closer you can be to, particularly to internal audit groups who would see some of these things as being a risk to the organization. And when I say risk, there are a lot of manual processes in place just to kind of close things out and report things every month. And on the quarter, you don't want that. And you know that's an area that, that always needs to be improved. So I think what we're trying to see is that there are, betty, one of the things that we try and encourage tax departments to do is be better storytellers, okay? In order to tell your story that, look, if you can give us the budget and give us the people to kind of automate a lot of these systems and do a better chance of updating our tax control framework, actually we get stronger. You benefit from it. And our reporting is much better and we have much less risk. And I think overall for the CFO and for audit committees that's one of the key things they have to do. So they really have to come up with a solid work plan. [00:15:00] And when I was at Microsoft previously, that's what we did and we were. Actually we were quite successful in developing those narratives and then being able to get the resources we need to kind of update our framework.

[00:15:11] **Richard:** Actually that's great advice for any software implementation. You're really doing a business assessment and business benefits assessment of what the ROI will be. So with that in mind, where are companies looking for help and support in, in managing their teams, evaluating

solutions, keeping and keeping up with the latest regulations? Who can help them?

[00:15:36] **Michael:** One of the things that you've seen particularly over the last couple years is and this is kind of two parts. One is in the area of managed solutions. Richard, you and I are old enough to know that managed solutions also has another word associated, which is outsourcing, right? And so what you're really kind of seeing is why is this trend starting to happen more and more? The reason it is because simply there [00:16:00] just aren't enough finance people today that actually kind of come outta college and actually are there and available for. A lot of these companies to actually take advantage. But what we're seeing is this tremendous investment by say the Big Four and other consulting groups where they are literally they're almost doubling their offshore resources in terms of people to actually not just serve the foreign markets. And when I say foreign, I mean non-US, but really to serve the US markets. And I think you've seen that and so. What we see in the area of managed services and I wanna say this, something also too, 'cause we use those extensively when I was in the industry, is you have to pay attention to what. You actually send to the managed services folks and actually they, that they have a really good competency around that the other thing I would say too is make sure that whatever managed services you use, or whatever service center that goes to you really want to try and find a service center with a where the retainment of employees is high, maybe around [00:17:00] 85 to 90%. Because I think, as you know, Richard, through your career, you've seen where a lot of managed services centers have almost 25% or 30% turnover, right? And that's annually. That's, and so you really need to make sure that there is a stable leadership group there that is investing in those individuals. So the things that we see where. Where a lot of tax departments are investing money in is it's either in updating their tax engines, so if they have an on-premise solution, we've also seen it in areas where they will test the production environment before the, say, the production environment for an indirect tax group gets updated every month because of all of the regulatory changes. So those service centers will actually test the production environment before they actually put it in and start selling to customers. Obviously I think you're very familiar with the fact that they filed returns. You can send your tax returns there and those things can get filed. So you can get a lot of a lot of benefit from that. And then lastly, what we're also seeing is that in some instances, the managed services centers can actually [00:18:00] take a portion of the tax department responsibilities, things that maybe are. Of not as great value add, but very, very kind of repetitive and offer some services around that. So that's kind of where we see a lot of those things happening. And it's growing and it's, we've seen some of them have had some of the tax departments have quite a good success around that.

[00:18:21] **Richard:** But there's some things that you can outsource to manage services. There's still some skills that are needed to be kept in-house, and I know that the workforce skill skills gaps was identified as a critical issue, and you referred to that a little earlier. There's just not enough people to fill the jobs that are needed. So how can companies best develop or acquire. Experts, these tax who blend tax experience with technology and to better utilize the workforce.

[00:18:51] **Michael:** Yeah. So one of the things is we found with a lot of customers is that it, firstly you have to kind of understand it's [00:19:00] an kind of an ageless thing here. It's really more around, and they could be early career, mid-career, or late career or even retired, but it's really people who have an aptitude for accuracy and are kind of like lifelong learners. So in other words, tax obviously requires accuracy to it, and technology and tax are always changing. So these have to be people who really enjoy lifelong learning things that really kind of move them forward. So what we found is, if you have those kinds of qualities and that kind of aptitude, we've seen people hire people out of legal departments paralegals or secretaries. We've seen 'em hire people from accounts payable or from accounts receivable. Procurement, the controller scoop. And then we've also seen amazingly enough, Richard, we've seen 'em hire a lot of people out operations who have been in operations, you know, one way or another, whether it's through manufacturing or through other areas. And they've said, Hey, you know. I've always [00:20:00] had kind of an interest in technology and tax and I want to come over. And so we've seen a lot of that happen. I do wanna mention one other quick thing that I think needs to be mentioned and it has been unfortunate the last say 20 or 30 years you probably remember. This is one statistic though is that this past year in 2024. It was a 17 year low of the number of accountants who were actually taking the CPA exam here in the United States. Okay. And some of that's demographics, just fewer people going to college. But a lot of it is other younger people, they made a decision, I'm gonna go to tech. Or I'm gonna go to finance or I'm gonna go to engineering. So that's, one of the things. And then the second thing is that almost 75% and the accounting profession feeds the tax profession, obviously, and you know that, but over the next 12 years, about 75% of the CPAs in this country who actually have a CPA will actually be retiring. And that was caused by the fact that you had to get a master's over the last 20 or [00:21:00] 20 so years to actually. Take the exam. So many of those people, because of those requirements, the number of pool or the pool of people who actually were able to take the exam. Kept going down and down and down. And so now we're kind of in this crunch period where now you're starting to see states who are saying, no, you don't have to get a master's anymore. If you've got a four year degree, we'll do that. And I think you understand Richard asking a young person to go another year in school at all those costs and all that studying is, is really kind of

a, a tough thing. So things are changing, but they also are, quite dynamic still in that area.

[00:21:36] **Richard:** Right. Another question I have is around the strategies being adopted to overcome compliance time constraints in areas such as corporate income tax, e-invoicing, and transfer pricing. So how are companies overcoming these compliance issues or challenges?

[00:21:54] **Michael:** Yeah, sure. One thing that they're trying to do is they're trying to hire the best people they can with the best [00:22:00] technologies. Because hiring people requires an extremely rich investment in your technologies because if you don't have certain technologies say as the SAP systems in ERP or say a Vertex tax engine or other types of technology people. People will just make a decision not to come to that company. So you have to hire really good people and you have to hire, put really good systems in there. Those are the two biggest things. And then I think a lot of things too is there has to be, and we talked about managed services, but there has to be some kind of review of all of that. And so what we've encouraged a lot of our customers to do is just make sure that you find experts in those field. You just mentioned it. Richard e-invoicing and transfer pricing, income tax reporting that they have, that they can provide you. What are the best practices that you should be putting into place around reporting to those? And actually use those people who are national experts to actually enhance your [00:23:00] environments. And that's what we really encourage them to do.

[00:23:02] **Richard:** I think I've broke a record. We've talked about 24 minutes and we haven't mentioned AI yet, so I've gotta do it before the end of the podcast. It's contractually applied. So, what are the current adoption status of advanced tax automation technologies like AI? You mentioned analytics and the importance of analytics and strong analytics within the control framework?

[00:23:26] **Michael:** Right.

[00:23:27] **Richard:** What are inhibiting people in taking advantage of these?

[00:23:30] **Michael:** I'll go to the first thing is that a lot of machine learning, as you know, Richard, is kind of a form of AI where it allows tax departments to take a big data sets and produce a report. And so that actually they, the CFOs have had a directive around that for about the last eight to nine years. Absolutely is. And that's, that's exactly what drove all of that. You got that right? A hundred percent. The second thing is, what [00:24:00] they've done is they've used RPA, which is not ai, it's data extraction. It's form filing. It's file

movements. So they've used two technologies. One technology, RPA, which is not ai, and the other one is machine learning, which is a form of AI. But, but when you speak of AI, the reason and what we found, even in our own data and some of the data that the survey reflects, is only about 18% of tax departments are deploying some form of ai, and the where they're really deploying it is in tax research. So in other words, if they need to file a ruling with a government agency or they wanna know how something gets treated for accounting purposes, or they want to file a brief, take initial cut on, say a brief that they're gonna file where they might sue an agency. That's really where they're using it because they can take the...

[00:24:53] **Richard:** The research.

[00:24:54] **Michael:** Exactly. And you've got it. That's perfect. Yes, because what they're trying to do is they have to point it to a very [00:25:00] detailed annotated. Base of knowledge, uh, and so that they can actually produce something that really works for them. So that's where they're using it. You're also starting to see it be used in account reconciliations and some SAP I know has made some significant investments in trying to almost what we say is use AI to self-help. Finance people or tax departments where if something doesn't seem right within the system, they can ask the question and then the platform, the SAP platform and the Vertex platform can actually answer their question without filing some kind of service ticket or something like that. So that's where you're kind of stealing it. So that's really, and then the second thing is, why isn't it be deployed more in a longer, or wise, in a deeper, it's because something we said earlier that a lot of AI is directed at sales departments. It's directed at r and d, it's directed at it and other places where they don't have a budget yet to kind of actually put things in. And so that, but it's coming, but it's just a [00:26:00] little bit latent compared to where it's being used elsewhere.

[00:26:03] **Richard:** So Michael, we've had a great conversation. We've covered a lot of topics and I, I ask my guests, the, all my guests, the same question at the end of the podcast, so you won't get off easily without answering this question. So, from your perspective and from a tax perspective, what is the future of ERP?

[00:26:20] **Michael:** ERP is just a critical pillar of business and not only reporting, but analytics and planning moving forward and will be for as long as I can actually see. And I think again, it's essential that companies have the ability to have ERPs that service them in their line of business and that they're optimized for that and clearly are able to produce what I would call frictionless

commerce along the way to allow them to not only make good decisions, not just on a quarterly basis, but also in the future.

[00:26:54] **Richard:** Great answer. Hey, thanks for a great conversation. It's been really interesting.

[00:26:58] **Michael:** Thank you Richard. I [00:27:00] appreciate it.

[00:27:01] **Richard:** We'll make sure that we include the SAP Insider report in the show notes and contact for Vertex and for Michael. But thanks everyone for listening. Please mark us as a favorite. You can get regular updates and information about future episodes. But until next time, from Michael and I, thanks for discussing the future of ERP.