The Importance of Scaling Your Tax Technology

A Primer for Tech Companies

To realize their full strategic potential, the tax teams of today must parse and deliver larger quantities of information at faster speeds than ever before.

The technology industry is facing a vast — and expanding — set of tax liabilities as its revenue and market share continue to grow. Tech companies are generating sales and providing services across both national and international jurisdictions, and remote or hybrid work arrangements have resulted in a distributed workforce, all of which can create tax obligations in numerous locations.

Meanwhile, tech companies are experiencing significant technological advancements, most notably because of efficiency gains from artificial intelligence (AI) and automation. But what about their tax technology? There is often a gap between the technology resources available to the tax team and those used by the rest of the business — and that gap could become even more pronounced in the tech industry.

Tech companies cannot allow their tax teams to fall behind. Technology can help close the resource gap, giving tax teams the means to claim new opportunities that may benefit their growing companies, better mitigate compliance risks, and provide deeper insights to support evolving business strategies. For example, advancements in extract, transform, and load solutions — automation to produce a closed-loop tax cycle among enterprise resource planning (ERP), tax provision, and functions like compliance, workflow, data management, and analytics — can help tax teams reduce execution time and limit risk.

To realize their full strategic potential, the tax teams of today must parse and deliver larger quantities of information at faster speeds than ever before. Armed with up-to-date tax technology, they will be empowered to meet and exceed that mandate.

What's Driving the Need to Scale Up?

Expanding tax regulations and increasingly sophisticated enforcement methods and tools, both in the U.S. and around the world, are chief external factors driving tech companies' need to scale up their tax technology. According to **BDO's 2024 Tax Strategist Survey**, tech companies cite increasing scrutiny and enforcement as their top tax risk this year.

Globally, more jurisdictions are aligning their tax policies with Pillar Two of the Organisation for Economic Co-operation and Development's (OECD) **framework** to address base erosion and profit shifting (BEPS). Many countries are also continuing to invest in e-invoicing, electronic invoices that automate transaction reporting. E-invoicing will allow authorities to process information and spot inaccuracies or misstatements more quickly.

In the U.S., the Inflation Reduction Act (IRA) allocated billions of dollars in additional funding to the IRS. The agency **recently announced plans** to use this funding to substantially increase its audit frequency for large corporations and partnerships. Some U.S. states are also adopting e-invoicing for their returns, enabling them to enforce more specific audit structures and requirements.

External compliance obligations are a powerful motivator, but internal factors are also driving the need to scale tax technology. In particular, tech companies often need to scale up to support the fast growth that has become a hallmark of the industry.

For example, in **planning for the year ahead**, tax teams can leverage technology enhancements to **reduce tax risks**. Advanced tech can also alleviate time spent on manual tasks in favor of focusing on strategic priorities like claiming funding opportunities under the CHIPS and Science Act, pursuing renewable energy credits under the IRA, or forecasting new tax liabilities to help shape strategic discussions.

Tech companies **expanding operations** or moving to new states also need tax technology to support their teams as they assess requirements for tax credits and incentives in a candidate location and work to meet them.

In a time when many tech leaders are prioritizing cost optimization, scaling up tax technology requires an unavoidable upfront investment. But proactivity can prove cheaper than waiting until unforeseen burdens or missed opportunities create necessity.

Taking the First Steps

The first step in scaling up your tax technology is understanding where and how your tax team's current technology, or lack thereof, might be falling behind. Tech company leaders should work with tax leaders and their teams to identify top pain points in the tax team's ability to support growth and keep up with increasing compliance demands, and then determine how technology can help address them. Once the process is underway, keep the following best practices in mind:

- **Tailor plans to complement existing capabilities.** You cannot identify technology gaps without knowing how your tax team's current capabilities do or do not align with the needs of the business. What does your existing technology allow you to do? Are you taking full advantage of the capabilities of your current licensed technology? What time-intensive, manual, or repetitive tasks could benefit most from a technology solution? Regularly revisiting these questions will help you target your fixes and prevent cost or scope overruns.
- **Use what you learn to build a roadmap.** Your roadmap should offer a clear process for scaling up your tax technology and include a change management plan, key performance indicators (KPIs) to measure success, regular status reports, and training sessions. Keep in mind that your roadmap should be flexible so you can adapt it if business priorities or needs change.
- **Foster cross-functional collaboration.** According to the 2024 Tax Strategist Survey, 83% of tech companies say their tax teams use financial and accounting data to provide tax analytics or business insights. For tax functions to make use of financial and accounting data, their technology must be fully integrated with the rest of the business, which requires cross-functional collaboration. As your company integrates new tools, ensure that your tax and IT teams are coordinating. Assess and reassess the effectiveness of your internal controls and data security programs. Identify ambassadors to champion new technology, with a focus on answering employee questions.

The Right Support

Scaling up your tax technology can be a daunting prospect. Even when you have identified your needs, it can still be difficult to know where to start. BDO's tax automation professionals can help. They leverage real-world experience and deep technical knowledge to identify and address gaps in your tax technology. We can help you build a tech adoption roadmap and segment a complex process into concrete and practical steps.

How BDO Can Help

BDO can support tax teams as they plan to leverage new tools and accelerate data-driven insights. Whether it's the overarching installment of AI and machine learning or end-to-end tax process design, data management, and software implementation, BDO can help technology companies manage the increasing complexity of tax reporting and planning, backed by industry-specific experience.

Want to learn more about how the tax landscape is evolving? Read our *2024 Tax Strategist Survey* ▶

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