Manufacturers ALLIANCE FOUNDATION

IN PARTNERSHIP WITH SOVOS SOLVE TAX FOR GOOD®

KEY CONSIDERATIONS FOR MANUFACTURERS

The Changing Landscape for Sales and Use Tax Strategies

SEPTEMBER 2021

Contents

Introduction: Why Sales and Use Tax Matters Now

Let's get this out of the way. Nobody likes to pay taxes. Not people. Not companies. Not manufacturers.

But overpaying taxes is even worse. Or paying penalties. Or wasting time chasing down all the nitty-gritty financial details needed to prepare and defend a filing during a tax audit.

This can all be difficult to avoid when it comes to sales and use taxes. For years, sales and use taxes weren't a big deal for many manufacturers, especially if they exclusively functioned as intermediaries in the supply chain and if their collection and remittance obligations were constrained by a limited physical presence footprint.

But a lot has changed.

More and more states are aggressively collecting (and auditing for) sales and use taxes, and more companies are now responsible for collecting taxes in more states due to economic nexus. A landmark 2018 Supreme Court decision, *South Dakota v. Wayfair, Inc.*, opened up many more companies to the responsibility of paying sales tax to states, allowing states to enact economic nexus laws, even when organizations don't have a physical presence in the state. In addition, manufacturers are investing in ecommerce as part of a new market strategy to improve customer experience, which complicates sales and use tax collections. Online sales have risen rapidly, resulting in a significantly greater need to track, collect, remit and defend sales tax payments for a myriad of possible jurisdictions. In cases where manufacturers don't need to collect sales tax, they should be collecting and managing exemptions from customers to be able to defend their decision.

"We only have a physical presence in a very small number of states, but then with the *Wayfair* decision, we've expanded our sales and use tax filings to every state."

– VP Tax, Transportation Equipment Manufacturer

There are over 12,000 standard sales tax jurisdictions in the United States. Each jurisdiction can have different rates and each state can have different rules, and manufacturers are responsible for keeping track of all of them. Additionally, manufacturers must keep track of exemptions and product details to discern when sales tax should be paid, and if so, how much? It's a mind-boggling collection of laws, regulations and financial details that need to be tracked.

So much has changed in sales and use tax over the last few years that Manufacturers Alliance, in partnership with Sovos, decided a sales and use tax survey was important for today's manufacturers. We wanted to explore:

- **Changes manufacturers have experienced over the last year**
- **Sales and use tax compliance strategies companies are pursuing**
- **The greatest risks**
- **Metrics being used to measure progress**
- **How many audits and penalty amounts companies are facing**
- **Software, solutions, or automation options being used**

Introduction: Why Sales and Use Tax Matters Now

For comparison purposes, we will be highlighting selected data points on what's changed (or what's not changed) from a similar sales and use tax compliance survey that was undertaken by the Aberdeen Group in 2017.* The previous report's survey questions are similar enough to this report's that we can draw general inferences for comparison.

In addition, we highlight selected findings for smaller and larger manufacturers, segmenting them by revenue — under $2 billion and over $2 billion.

Manufacturers Alliance and Sovos surveyed more than 70 tax leaders in manufacturing to better understand how sales and use tax compliance is impacting manufacturers, from sales and use tax priorities to compliance trends to strategies and software for simplifying sales and use tax. This report provides data insights to help leaders compare their organizations against others and uncovers best practices to increase the efficiency of sales and use tax compliance.

* *Sales and Use Tax Compliance for Manufacturers: Boost Confidence, Ensure Accuracy*, May 2017, Author: Nick Casteillina, Aberdeen Group.

Executive Summary

Five findings reflect key considerations for leaders making sales and use tax-related decisions.

- **Improving efficiency in sales and use tax compliance (64%) and integrating sales tax technology (52%) are key priorities for manufacturers** – These two areas were the top two selections by far among survey respondents when asked what their key sales and use tax priorities were for the next year. Given the increase in sales tax jurisdictions that companies may need to file with after the *Wayfair* decision, it's not surprising that manufacturers are struggling with streamlining and automating sales and use tax processes.

- **Business strategy or technology change adds considerable complexity to sales and use tax compliance** – Overall, 44% of executives reported that changes in business strategy (e.g., M&A) added the most complexity to the sales and use tax compliance process. Technology (e.g., migrating to a different ERP system) change followed at 35%.

- **There's still work to do in streamlining sales and use tax processes** – Nearly two-thirds (67%) of executives noted that reducing manual effort in the sales and use tax process was their top priority for the next year. Additional streamlining priorities, such as integrating tax information from different systems, streamlining the compliance process and reducing dedicated tax resources for compliance were also key priorities.

"We may not have to collect sales tax, but that doesn't mean we don't have to file everywhere. I don't think people have an appreciation for the amount of work that goes into managing sales and use taxes. It's a big challenge for us."

– VP Tax, Transportation Equipment Manufacturer

- **Sales and use tax audits are increasing** – The *Wayfair* decision and states' desire for additional income have created the environment in which executives are forecasting an increase in the frequency of sales and use tax audits for manufacturers, with 78% anticipating more audits in the next 12 to 36 months. While 22% forecast the same level of audits, it's perhaps telling that none forecast a decrease in audits.

- **Investing in additional technologies and analytics is the top strategy that executives are selecting to expand sales and use tax compliance** – A majority (51%) of executives stated that they were investing in additional sales and use tax technology as their most important strategy over the year.

Read on to see how manufacturing companies are managing sales and use tax compliance in their organizations. From compliance trends to strategies for increasing efficiency and reducing risk, the data collected in this report can help guide organizations to an optimal sales and use tax strategy.

PART 1:

Priorities in an Evolving Tax Environment

Smaller companies saw more significant growth in sales in a variety of areas.

Geographic expansion, direct-to-consumer sales, and ecommerce sales are impacting smaller manufacturers more than larger ones.

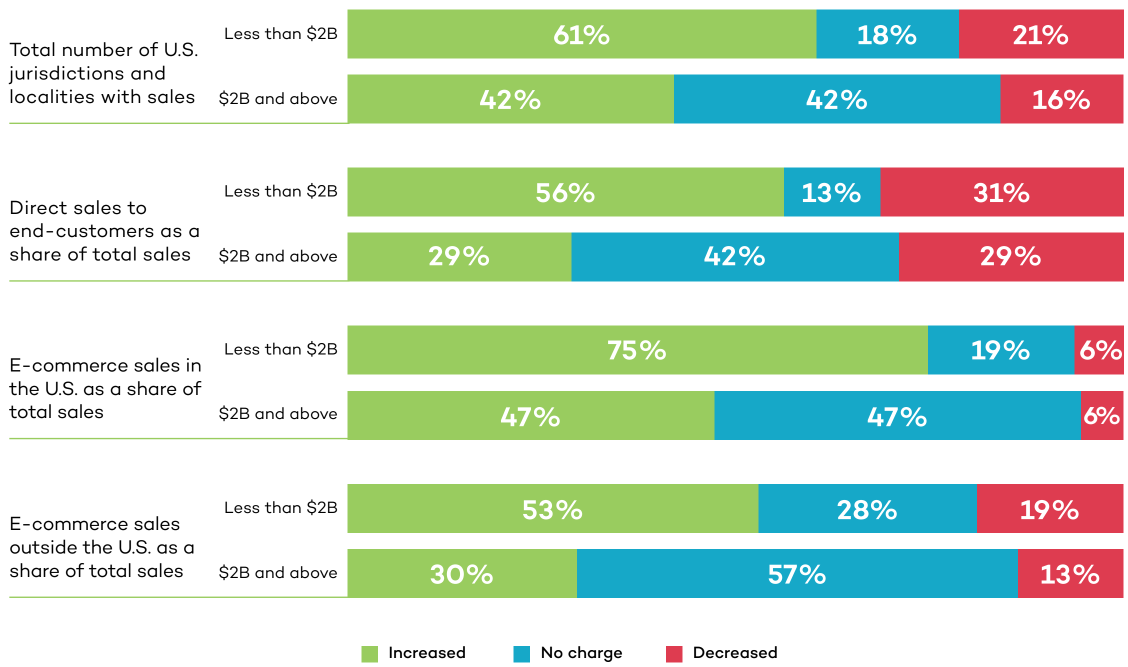
We asked manufacturers how sales changed as a proportion of total sales during the last 12 months across jurisdictions, direct sales and ecommerce sales. The responses showed:

- **Significant increased sales for smaller manufacturers (less than $2 billion), especially in ecommerce sales and the number of jurisdictions.**
- **Larger manufacturers (more than $2 billion) reported significant percentages (roughly 52%-95%) of unchanged or decreased sales across these areas.**

As a company expands and evolves, they should consider reviewing their approach to sales tax compliance. The strategies that served them well in the past may or may not be sustainable or sufficient for their future.

Smaller Manufacturers, Bigger Sales Changes

Percentage of companies' sales changes as a proportion of total sales during the last 12 months



"We've tried very hard to automate as much as we can because we're just like most organizations in most industries: we're trying to do more with less. The more we can streamline, the better."

– Director, U.S. Indirect Tax, Global Construction Company

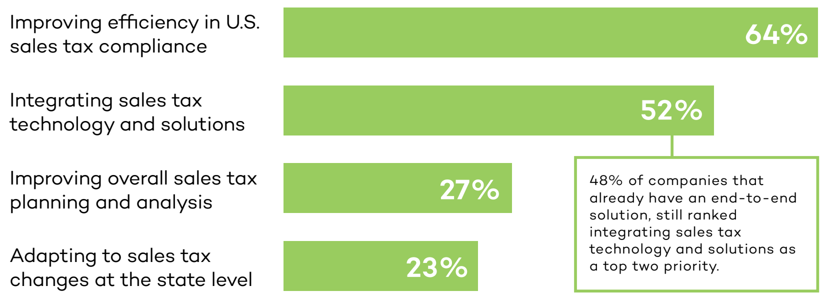
There are two clear priorities when it comes to sales and use tax: Improving efficiency and integrating sales and use tax technology.

The challenges associated with sales and use tax compliance can be different for any given manufacturer, depending on what they sell, who they sell it to and the maturity of internal processes and systems. As such it's not surprising that priorities also differ. The top two priorities (by a significant margin) were improving the efficiency of U.S. sales tax compliance and integrating sales tax technology and solutions. Improving the overall sales tax planning and analysis function and adapting to sales tax changes at the state level were the next two priorities.

However, there was an interesting difference between smaller and larger manufacturers when it came to the priority of improving overall sales tax planning and analysis, where significantly fewer large manufacturers (18%) identified that as a priority as compared to smaller manufacturers (39%). Beyond that difference, it's clear that all organizations value improving efficiency in sales tax compliance and integrating sales tax technology and solutions.

Priorities Driving Sales and Use Tax Strategies

Sales and use tax priorities for your department in the next 12 months*



*Respondents could select up to two options.

"The number of sales and use tax filings we have to do every month is certainly increasing. It's a big undertaking each month to get all the filings completed, since we're talking hundreds of filings across our four business units. The three states we have physical presence in (Colorado, Louisiana, and Alabama), could have 60 to 100 filings per month because of the different jurisdictions."

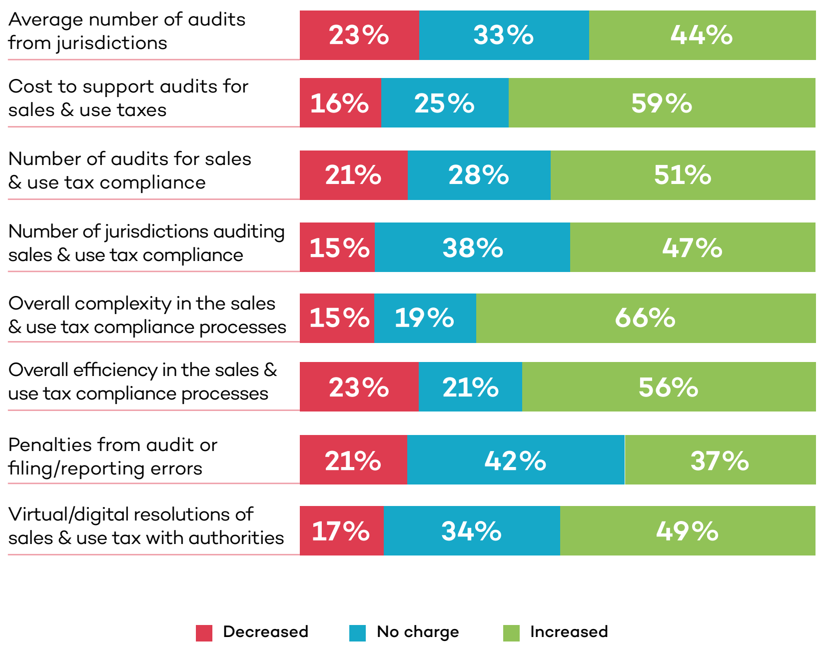
– VP Tax, Transportation Equipment Manufacturer

PART 2:

Sales and Use Tax Compliance Trends

Audits, Complexity, and Efficiency Driving Sales Tax Compliance Changes

Sales tax compliance changes in the last 12 months



CHANGE NOTE

In the 2017 Aberdeen survey, manufacturers reversed the order of the first two responses: the biggest risks then were audit penalties, followed by operational inefficiency (called opportunity cost in that survey).

The cost to support audits and increased complexity are two key factors driving manufacturers to change sales tax processes.

In the wake of recent changes, the importance of sales and use tax is only increasing for manufacturers, causing an increased focus on the resources and costs required for audits and ways to manage complexity associated with compliance processes.

When asked how sales tax compliance in their businesses changed in the last 12 months, 66% cited increased complexity in sales and use tax compliance processes. Increased costs to support sales and use tax audits (59%) and an increase in the overall efficiency in the sales and use tax compliance process (56%) were also top business changes. This shows the potential benefits of investments in process, organizational or technology improvements.

It's important to note that smaller manufacturers had a significant increase in the average number of audits from jurisdictions in the last 12 months (58% versus 38% increase), the number of jurisdictions auditing sales and use tax (55% versus 41%) and penalties from audit or filing/report errors (48% versus 26%).

Regardless of size, today's manufacturers are seeing increased sales and use tax compliance audits from more jurisdictions than before, with increased complexity and costs in associated compliance processes.

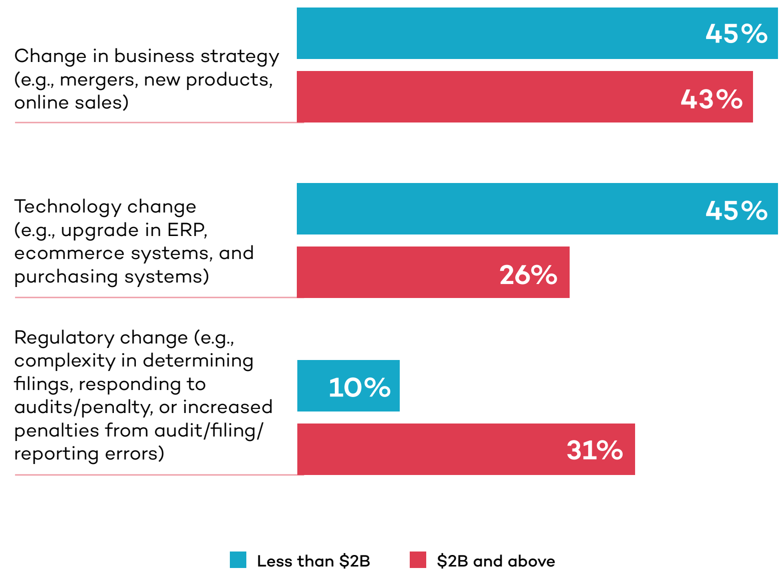
There are two key factors creating more sales and use tax compliance complexity for manufacturers: changes in business strategies and technology change.

Changes in business strategies included mergers, new products, online sales and more. Changes in technology included upgrades to ERP, ecommerce and purchasing systems.

It's important to note that smaller manufacturers experience significantly more technology change (45%) than large manufacturers (26%). At the same time, smaller manufacturers experienced less regulatory change (10% versus 31%).

Multiple Changes Add Complexity to Sales and Use Tax Compliance

The changes that have added the most complexity in sales and use tax compliance in the last 12 months*



*Respondents could select up to two options.

CHANGE NOTE

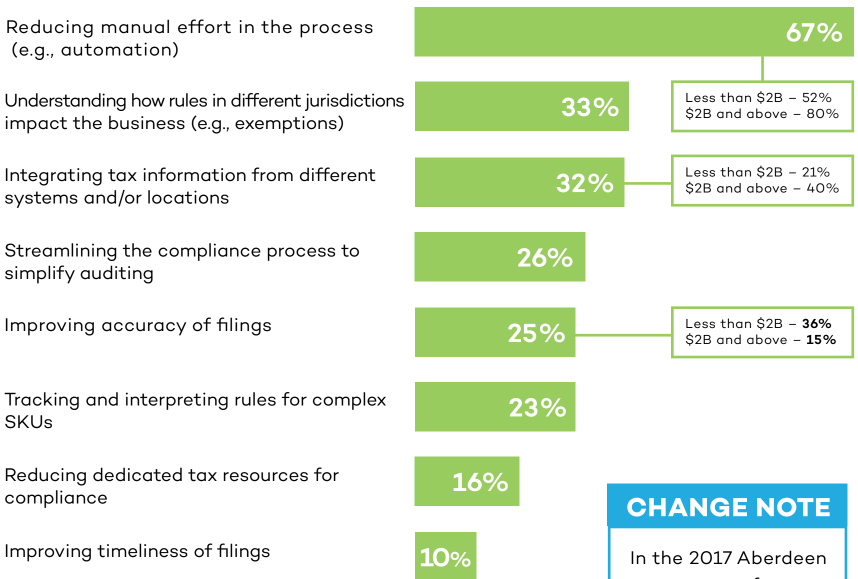
In the 2017 Aberdeen survey, manufacturers cited regulatory changes/ audit frequency as their key challenge, compared to the change in business strategy cited in this survey as adding the most complexity.

"We're trying to centralize our tax functions. It's not reasonable for each of our four segments to have an expert in 50 states' sales tax requirements."

– VP Tax, Transportation Equipment Manufacturer

Priorities Driving Compliance for Sales and Use Tax

Top priorities for compliance with sales and use tax at your company in the next 12 months*



*Respondents could select up to three options.

CHANGE NOTE

In the 2017 Aberdeen survey, manufacturers cited regulatory changes/audit frequency as their key challenge, compared to the change in business strategy cited in this survey as adding the most complexity.

"When we went from eight returns to 45 or more, we just knew we needed better tools in place to be able to handle the timeframe that was needed to turn them around and still do all our other work."

– VP Tax, Transportation Equipment Manufacturer

Manufacturers say that sales and use tax compliance takes too much manual effort.

Sales and use tax compliance requires a lot of manual effort to ensure the right amount of tax is being paid.

When asked what their top priorities for sales and use tax compliance were for the next 12 months, survey respondents were clear: reducing manual effort (67%). Understanding how rules in different jurisdictions impacted their business (33%) and integrating tax information from different systems and locations (32%) were the next two highest priorities. Streamlining the compliance process (26%), improving the accuracy of findings (25%) and tracking and interpreting rules for complex SKUs (23%) were lower priorities.

Larger manufacturers cited a significantly higher priority on reducing manual effort (80%) than smaller manufacturers (52%). Larger manufacturers also put a higher priority on integrating tax information from different systems or locations (40%) than smaller manufacturers (21%). This is logical for larger companies with more locations. However, smaller manufacturers cited a higher priority for improving the accuracy of filings (36%) than larger manufacturers did (15%).

For manufacturers that had implemented tax software, 59% were concerned with reducing manual effort and 20% cited streamlining processes as a concern. By contrast, manufacturers that had no tax software implemented were more concerned with reducing manual effort (95%) and streamlining their processes (47%).

Manufacturers tend to have centralized tax departments with 10 or fewer employees dedicated to sales and use tax compliance.

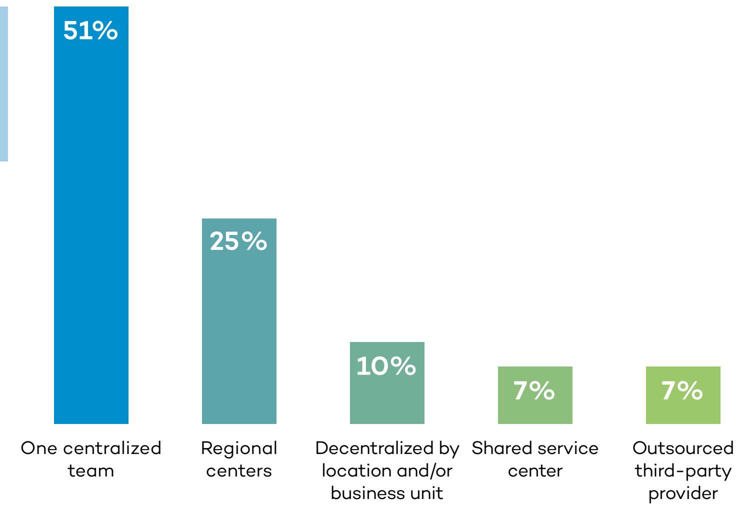
Just over half (51%) of manufacturers have one centralized team dedicated to sales and use tax compliance. Furthermore, 25% have regional centers, while 10% are decentralized by location or business unit. Just 7% have shared service centers or outsource it.

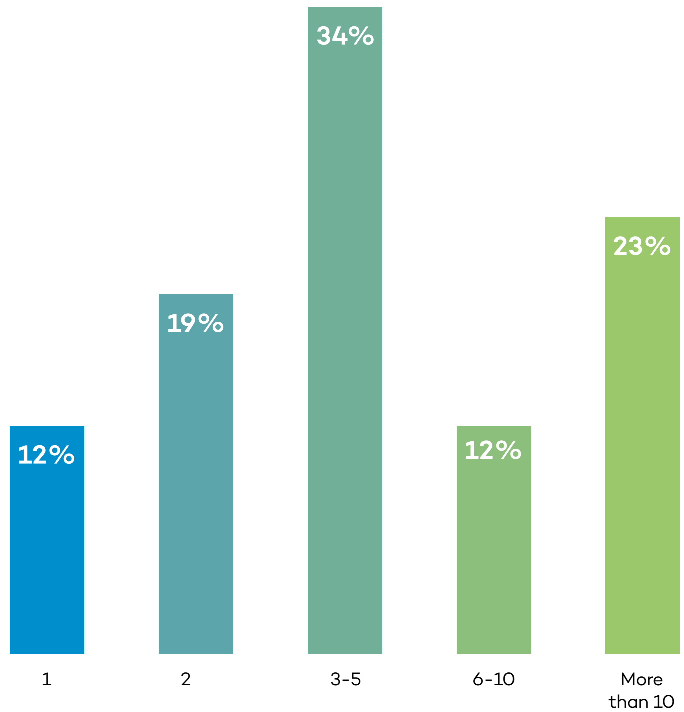
When it comes to FTEs dedicated to sales and use tax compliance, over 60% have five or fewer FTEs, with 34% having between three and five. On the high side (most likely for the largest companies) 23% have more than 10 employees dedicated to sales and use tax compliance.

> *"The tax department needs to be looped in on the front end of transactions. We've taken measures to make sure that contracts over a certain threshold are routed to me, so I can review them for taxability and potentially work with the vendor to make sure that tax is applied correctly."*
>
> *– VP, Global Tax and Treasury, Semiconductor Manufacturer*

Tax Department Organization and Employees

How tax departments are organized for sales and use tax compliance activities





Number of employees or full-time equivalents (FTEs) dedicated to managing sales and use tax compliance

CHANGE NOTE

In the 2017 Aberdeen survey, manufacturers cited roughly similar results: 77% of organizations had centralized compliance with 15% regional centers, compared to 52% and 25% in this survey.

Unfortunately, even with the ongoing pandemic and the associated reductions in travel, no manufacturers expect fewer state sales and use tax audits, perhaps because many audits are now being done remotely.

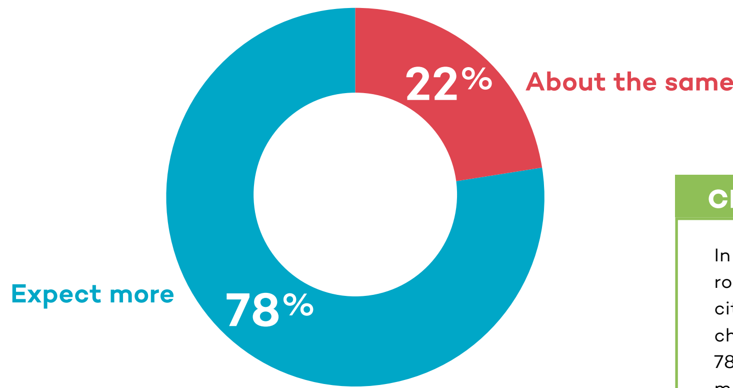
It will be interesting to see how traditional audit approaches adapt to the new reality. Digital transformation and evolving customer preferences have helped fuel the increasing complexity of sales and use tax, as well as an increase in audits.

A vast majority of survey respondents stated that their companies expect to see more sales and use tax audit scrutiny from state jurisdictions over the next 12 to 36 months. Only about one-quarter expect the same levels as before.

With the potential for sales and use tax audits increasing, it makes even more sense for manufacturers to invest strategically in centralizing, automating and integrating sales and use tax compliance capabilities.

Manufacturers DO NOT Expect Fewer Sales and Use Tax Audits in the Next 12-36 Months

How much audit scrutiny do companies expect in the next 12-36 months?



CHANGE NOTE

In the 2017 Aberdeen survey, roughly 46% of manufacturers cited increased audits as a challenge, while in this report, 78% of manufacturers expect more audits in the future, showing that sales and use tax audits seem to be a growing trend for manufacturers.

"Right now, we have about 15 to 20 open sales tax audits, and that's about normal for us. We have seen a significant uptick in the number of audits, with new jurisdictions coming in and others being more aggressive. We even saw Oklahoma doing some data mining of our corporate tax return to try and establish a new tax in Oklahoma."

– Director, U.S. Indirect Tax, Global Construction Company

Manufacturers are focused on two main risks when it comes to sales and use tax compliance: operational inefficiency and audit penalties.

The greatest risks cited for sales and use tax compliance are operational inefficiency (45%), including opportunity cost and audit penalties from inaccurate filing (33%).

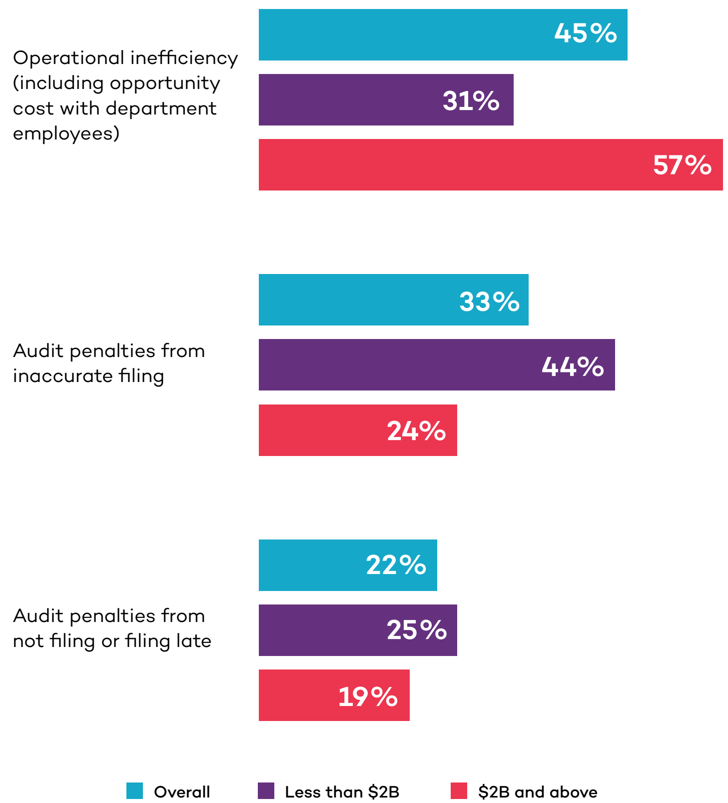
Penalties from not filing or filing late was also a top risk to respondents (22%). When combined with the other audit penalties concerns, overall audit penalties (from inaccurate, as well as late or non-filing) is seen as the top risk (55%).

Interestingly, 44% of smaller manufacturers identified audit penalties from inaccurate filing as the main risk, while 24% of larger companies did. Nearly one-third of smaller manufacturers (31%) saw risk in operational inefficiencies, with 57% of larger companies citing it as a concern.

Deploying tax software appears to reduce the risk of operational inefficiency. Approximately two-thirds (65%) of companies without tax software cited operational inefficiency as the greatest risk, while only 36% of companies with tax software did the same.

Audit Penalties Declared Top Risk

The greatest risks from sales and use tax compliance



CHANGE NOTE

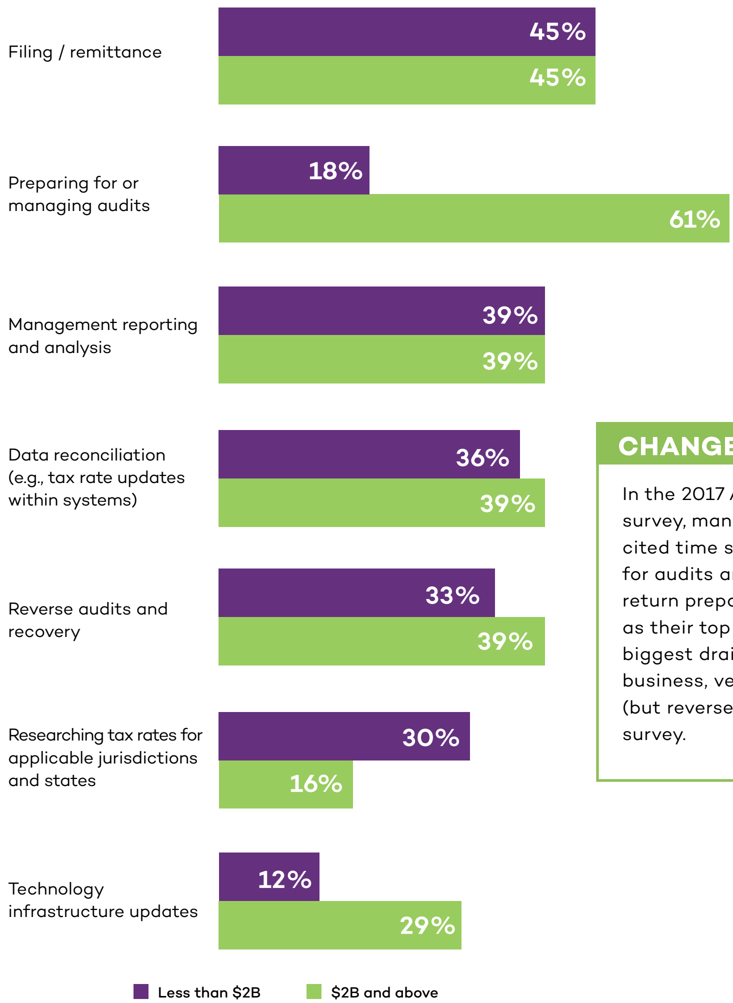
In the 2017 Aberdeen survey, manufacturers cited their top challenges as: maintaining rules for complex SKUs, limited resources, and manual effort.

"You never want to pay more than you need to, and you obviously don't want to pay less than you should. It's always trying to strike that balance."

– VP, Global Tax and Treasury, Semiconductor Manufacturer

What Resources Do Sales and Use Tax Compliance Consume?

Phases or areas that are the most resource intensive for tax departments*



*Respondents could select up to three options.

CHANGE NOTE

In the 2017 Aberdeen survey, manufacturers cited time spent for audits and tax return preparation as their top two biggest drains on business, very similar (but reversed) to this survey.

Sales and use tax compliance takes time.

For manufacturers, sales and use tax compliance consumes time across the board—from preparing and filing taxes to dealing with audits. Survey respondents identified a wide variety of resources that are consumed.

Filing and remittance was top, while audit-related responses—preparing for or managing audits and reverse audits and recovery—were also significant. Operational impacts were high, with management reporting and analysis and data reconciliation coming in third and fourth.

Smaller manufacturers spent significantly less time preparing for audits than larger manufacturers, at 18% and 61%, respectively. However, 30% of smaller manufacturers spent many more resources on researching tax rates for applicable jurisdictions and states, with 16% of larger manufacturers stating the same. As one might expect, technology infrastructure updates consumed more resources for larger companies (29%) compared to smaller ones (12%).

Deploying tax software appears to significantly reduce the resources required for audits, as 71% of companies without tax software cited preparing for or managing audits as the most resource intensive activity for their tax department. Just 30% of companies that had deployed tax software said the same. When it comes to filing and remittance, 59% of companies without tax software said it was a resource intensive activity, while 39% of companies with tax software did the same.

> *"We use a third-party software to manage exemption certificates for projects. It can send out mass emails requesting certificates and then upload them into a database. If we ever get audited, I can quickly pull up the account and pull all the certificates to submit to the auditor."*
>
> *– VP Corporate Tax and Chief Tax Counsel, California-based Energy Company*

Improving internal processes and investing in additional technologies or analytics are two key strategies for manufacturers.

When asked for the top two important strategies for managing sales and use tax compliance over the last 12 months, manufacturers identified improving internal processes and/or adherence to internal processes and investing in additional technologies and/or analytics as most important.

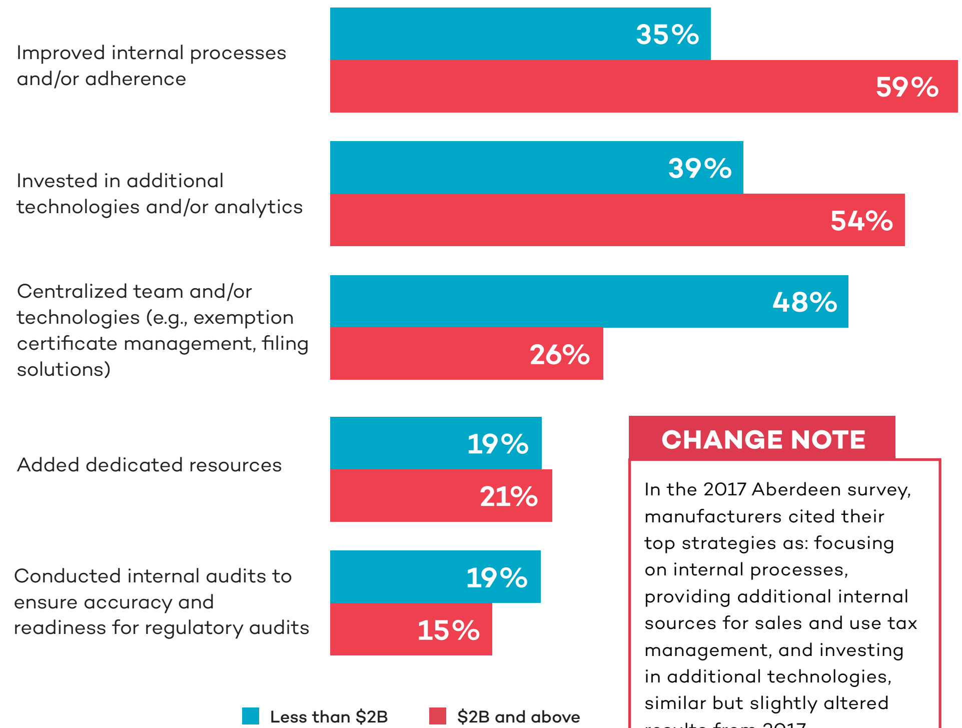
Centralizing teams and/or technologies (such as exemption certificate management) was the next top strategy. This was considerably higher rated for smaller manufacturers (48%) than larger ones (26%).

For larger manufacturers, 59% said improving internal processes was a top priority, while 35% of smaller manufacturers said the same. Larger manufacturers also placed a higher priority on investing in additional technologies (54%) compared to smaller manufacturers (39%).

> *"We're focusing on making sure that the tax advice we're giving is actually being followed after a project gets started. We have touchpoints to make sure everything is being done properly because we don't want to go too far into a project and see that tax wasn't being set up properly or that we're paying too much tax."*
>
> *– Director, U.S. Indirect Tax, Global Construction Company*

Optimal Strategies for Dealing with Sales and Use Tax Compliance ***So Far***

The most important strategies implemented to manage sales and use tax compliance in the last 12 months*



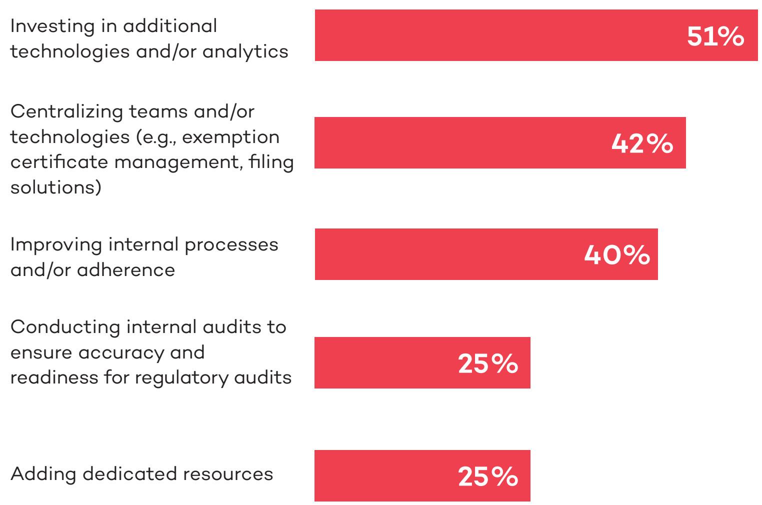
CHANGE NOTE

In the 2017 Aberdeen survey, manufacturers cited their top strategies as: focusing on internal processes, providing additional internal sources for sales and use tax management, and investing in additional technologies, similar but slightly altered results from 2017.

*Respondents could select up to two options.

Optimal Strategies for Dealing with Sales and Use Tax Compliance ***Going Forward***

The most important strategies under consideration for sales and use tax compliance*



*Respondents could select up to two options.

"When we implemented a sales tax software solution it significantly cut down a portion of the manual work such as invoice review and taxability rates. By automating it up front we can get about a 95% accuracy rate on taxability."

– Director, U.S. Indirect Tax, Global Construction Company

Manufacturers are resetting priorities for the best ways for dealing with sales and use tax compliance going forward.

Manufacturers are approaching their go forward sales and use tax compliance strategies a little differently than they did over the last 12 months.

Specifically, manufacturers chose investing in additional technologies and/or analytics as their top strategy going forward (51%).

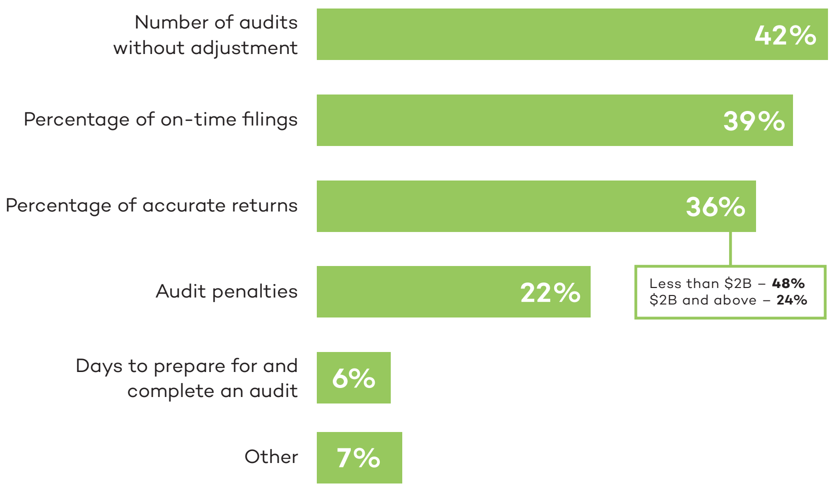
Centralizing teams and/or technologies (42%) and improving internal processes and/or adherence (40%) were also top strategies. This is a change from what manufacturers said they have focused on over the last 12 months, with improving internal processes slipping to third from first place.

PART 3:

Measuring and Managing Compliance

Key Performance Indicators (KPIs) for Tracking Sales and Use Tax Compliance and Efficiency

KPIs your company has established to track overall performance with sales and use tax compliance and efficiency*



*Respondents could select up to two options.

You can't improve what you can't measure. That's why it's important for manufacturers to have KPIs for sales and use tax tracking.

Manufacturers have three top KPIs when it comes to tracking effective sales and use tax compliance and operational efficiency: the number of audits without adjustment (42%), the percentage of on-time filings (39%), and the percentage of accurate returns (36%).

Companies also tracked audit penalties (22%), and a mere 6% tracked the number of days required to prepare for and complete an audit. Some companies in the Other category noted they were tracking exemption certificates.

Interestingly, there was an important difference between small and large manufacturers. Twice as many smaller manufacturers (48% versus 24% for larger companies) identified the percentage of accurate returns as a KPI for sales and use tax compliance.

Deploying tax software also influences an organization's KPIs, with 43% of companies that have deployed tax software citing the percentage of accurate returns as a KPI. Only 7% of companies that had not deployed tax software said the same.

> *"A lot of our sales are exempt, but it's making sure that we're getting the appropriate documentation as part of our sales process to be able to prove the exemptions and have the documentation for it that's important."*
>
> *– Director, U.S. Indirect Tax, Global Construction Company*

No manufacturer likes to be audited for sales and use tax compliance, but most will be, and repeatedly.

Audits take up time and resources and may result in extra payments or penalties. That's why the number of audits manufacturers are experiencing and the resources they utilize matter. It's important to note that when states have a "productive" audit they come back to the company for additional audits in the future. That's why it's a good strategy for manufacturers to make sure that when a state audits them, the state doesn't find additional outstanding tax liabilities, possibly reducing the frequency of future audits.

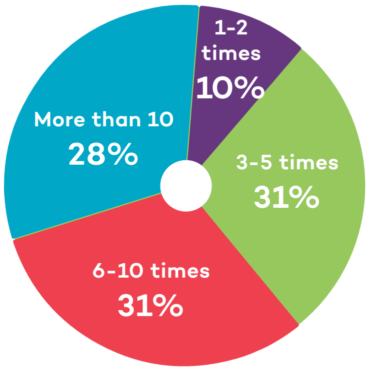
Over 60% of respondents were audited between three and 10 times, with 31% being audited three to five times and 31% experiencing between six and 10 times. Just under one-third of respondents (28%) had over 10 audits, while 10% were audited one or two times only.

The survey also delved into exactly how many total workdays it took tax departments to prepare and complete a sales and use tax audit during the last 12 months.

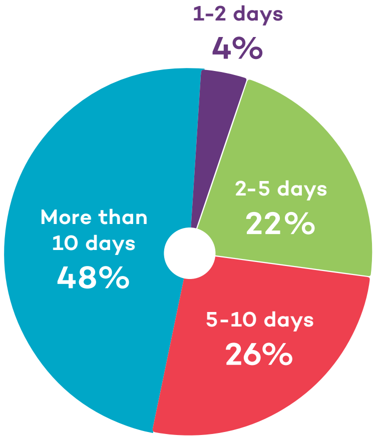
By far, the largest response (48%) said it took more than 10 days to prepare and complete an audit, with 48% also saying it took between two and 10 days. Specifically, 22% reported a two to five day window, while 26% said it took six to 10 days. Consider the implications of that data – if an audit takes more than 10 days to prepare for and a department has 10 or more audits in a year, that's an astounding amount of time allocated to audits.

How Many Audits and How Many Days?

Number of times company has been audited for sales and use tax in the last 12 months



Total number of workdays for departments to prepare and complete a sales and use tax audit during the last 12 months



In looking at the data by revenue, it's worth noting that large companies never took less than three days to prepare for an audit and 58% actually took more than 10 days. For small companies, audit preparation times were more evenly distributed, with a third taking one to five days, a third taking five to 10 days, and a third taking more than 10 days.

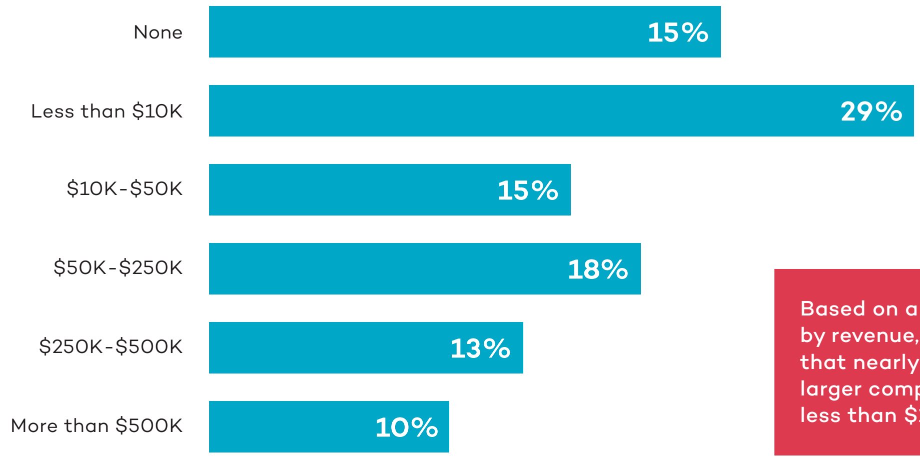
41% of the manufacturers interviewed have paid over $50K worth of audit penalties.

An additional 15% paid an average penalty between $10,000-$50,000 for penalties associated with sales and use tax audits.

A limited number of companies (10%) ended up paying an average penalty of more than $500,000. Only 15% of companies paid no penalties.

Penalty Payments from Audits

The average penalty paid from a finding when audited for sales and use tax compliance in the past 12 months



Based on a breakdown by revenue, we found that nearly 60% of larger companies paid less than $10,000.

"We had an audit that started with a potential liability of $10 million for us. By the time we were done with the audit, we received a check for a few million dollars instead. But a lot of work went into getting that refund. We had items that were extrapolated 5,000 times, and when you find something small that's extrapolated that much it can make a big difference in the overall audit numbers."

– VP Tax, Transportation Equipment Manufacturer

The majority of manufacturers (77%) have an end-to-end software solution in place for sales and use tax compliance.

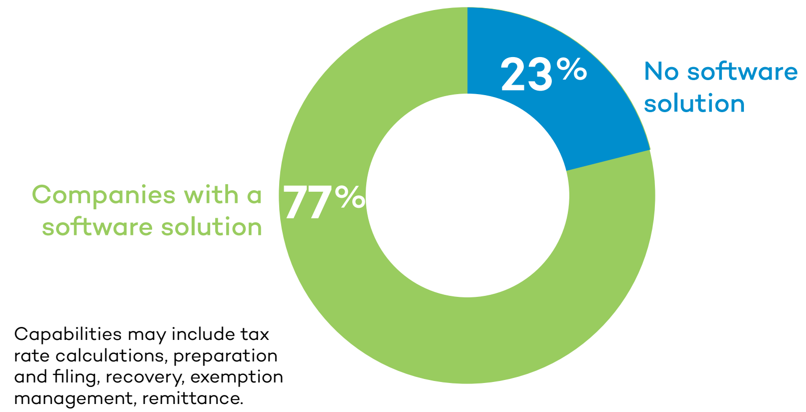
With the amount of effort that's required to assemble the information needed to calculate correct sales and use tax, or to manage exemption certificates, it's no wonder that a majority of manufacturers have software solutions in place that will help them manage the process.

Most manufacturers use software that is cloud-based (55%), with 15% of respondents saying that they were considering adopting cloud-based solutions. Others (16%) stated that some of their solutions were in the cloud, but not all.

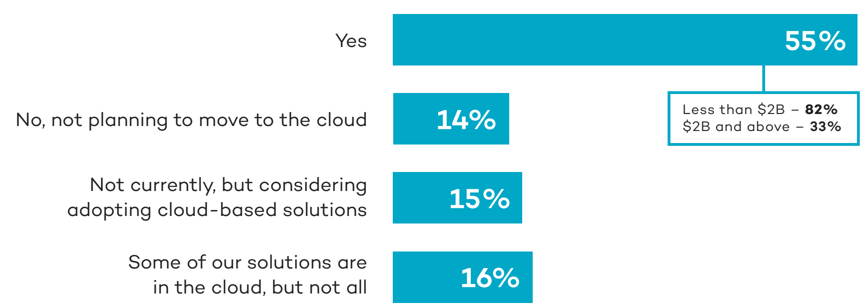
Smaller manufacturers had a significantly higher percentage of cloud-based tax software when compared to larger manufacturers, at 82% and 33%, respectively.

Software for Sales and Use Tax Compliance

End-to-end software solutions in place for sales and use tax compliance



Is your company's tax software solution(s) cloud-based?



A purchased tax solution is fairly common.

In addition to ERP solutions, the majority of manufacturers (63%) use a purchased tax solution only, or they use a purchased tax solution and other systems (e.g., AP/AR, purchasing, ecommerce, POS).

One-third of manufacturers had an additional purchased tax solution only, while 30% had a purchased tax solution and other systems.

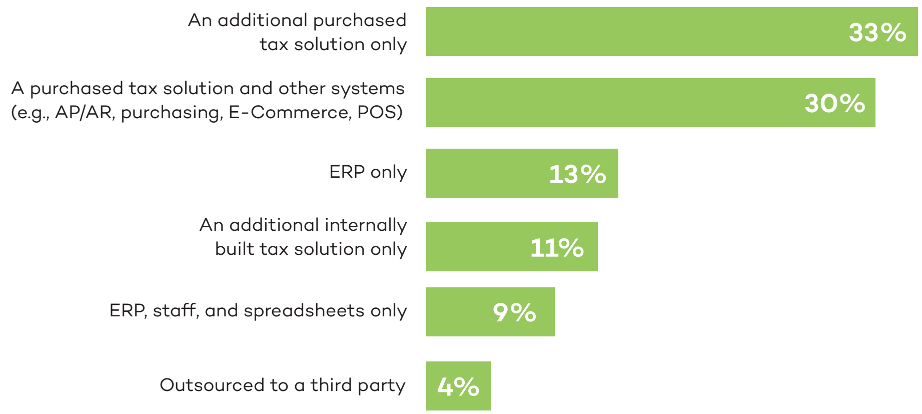
The survey also asked which ERP systems companies were using, with respondents primarily citing SAP on-premises (32%), NetSuite (30%) and SAP S/4HANA (27%).

Smaller manufacturers had considerably more NetSuite deployed than larger manufacturers, with 53% and 13%, respectively. Larger manufacturers had considerably more other software than smaller manufacturers, at 38% and 13%, respectively.

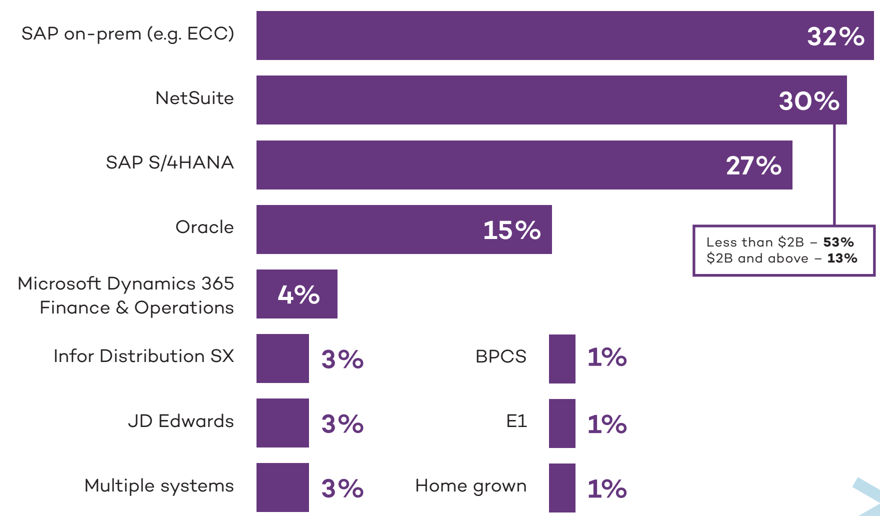
> *"When we converted to our new sales tax software we took our compliance process from about 18 days down to about three."*
>
> *– Director, U.S. Indirect Tax, Global Construction Company*

The Technology Mix for Sales and Use Tax Software

The technology mix in place for your sales and use tax solution (in addition to ERP solutions)



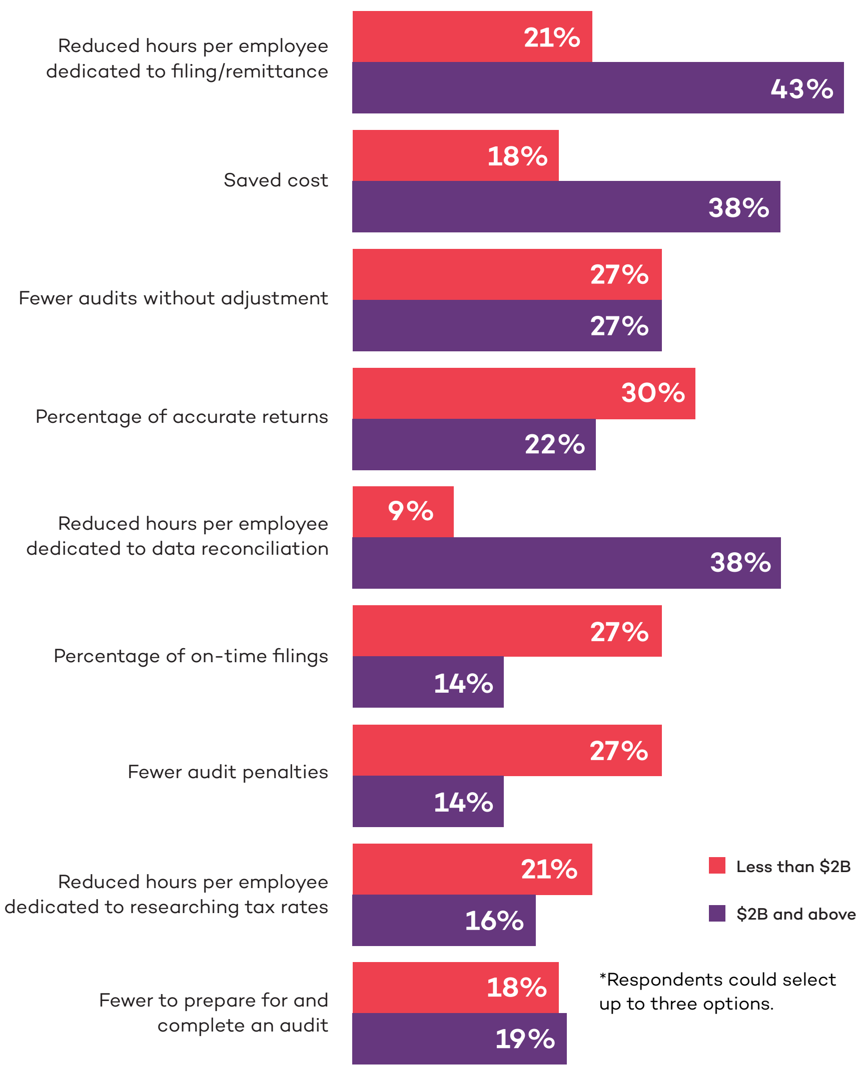
What ERP is your business running on currently?*



*Respondents could select all that apply.

Most Significant Benefits of Sales and Use Tax Software

The most significant benefits of one single end-to-end sales and use tax software solution that advances automation in the compliance process*



*Respondents could select up to three options.

When manufacturers use sales and use tax software there are a wide range of benefits.

Manufacturers were asked to select up to three of the most significant benefits from sales and use tax software. The top overall responses were: reduction in hours per employee dedicated to filing and remittance (32%), saved costs (28%), fewer audits without adjustment (27%), a higher percentage of accurate returns (25%), and a reduction in the hours per employee dedicated to data reconciliation (24%).

There were noticeable differences between larger and smaller manufacturers. Just 9% of smaller companies experienced reduced hours per employee dedicated to data reconciliation, while 38% of larger manufacturers said the same. Smaller manufacturers saw a greater benefit in the percentage of accurate returns compared to larger companies, at 30% and 22%, respectively. Smaller companies also reported more benefits from the percentage of on-time filings (27%) and fewer audit penalties (27%), with larger manufacturers reporting 14% in each of those categories.

"We have one full-time person who's responsible for audits. We've ended up having audits open for a year or year and a half because we had so many. We're not going to be pushed around, we're not going to be in a hurry because we're going to do it correctly."

– VP, Tax, Global Industrial Equipment Manufacturer

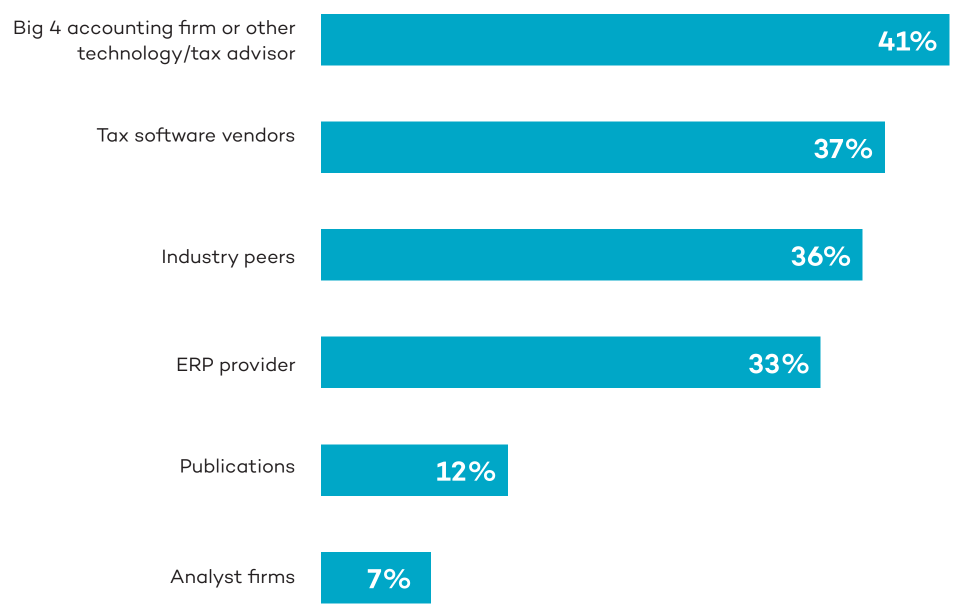
Manufacturers turn to a variety of resources when looking for information on major process or technology changes (such as ERP or purchasing software).

Prior to making purchases related to major technology changes, manufacturers tend to turn to four main sources: one of the "Big 4" accounting firms, or other technology/tax advisors (41%), tax software vendors (37%), industry peers (36%), and ERP providers (33%).

However, smaller manufacturers obtained a significantly higher percentage of their information from publications as compared to larger manufacturers, at 24% and 3%, respectively. Smaller manufacturers also relied more on ERP providers (39%) than larger manufacturers (28%), and much less on the Big 4 accounting firms (30%) than the larger companies (50%).

Sources of Information

Sources of information used to help select a major process or technology change (e.g., ERP, purchasing, etc.)



Recommendations

As manufacturers grow and evolve their business to adapt to a changing global economy, accurate and efficient sales tax compliance must remain front of mind. Centralized compliance with heavy reliance on software and automation appears to be the best path forward. Tax, technology, and strategy teams must all work in harmony to ensure efficient and optimal compliance through a fully integrated cloud-based solution.

Next Steps

Review internal tax processes as they relate to sales and use tax.

Manufacturers should be aware that when it comes to sales and use tax, what worked for them yesterday may not work for them today or tomorrow. This survey highlighted how business changes, such as evolving approaches to the market or an increased need for omni-channel distribution strategies, and growing sales and use tax requirements make accurate compliance a moving target. Manufacturers should consider their future growth and scalability requirements as they review internal sales and use tax processes.

Identify a trusted source for up-to-date sales and use tax information.

It's not helpful to make decisions on inaccurate or outdated information, especially related to taxes. With rapid evolution in the sales and use tax landscape over the past few years, and continued changes by states and local municipalities, it's critical for manufacturers to ensure they have a trusted source for up-to-date sales and use tax information. Investing the time or resources into this up front will be more advantageous than having to address inaccuracies during an audit.

Strategically expand the use of automation for sales and use tax with a single source of truth.

Manufacturers should focus on strategically expanding their use of automation for sales and use taxes, aiming for a single source of truth. Manufacturers with different business units or lines of business may have varying requirements, but they should ideally all be driven off the same systems whenever possible. In the past, many manufacturers have used disparate solutions in different parts of their business and may have even used different solutions for each tax compliance requirement (determination, certificate management, filing, etc,). Adopting a single, fully integrated, cloud-based solution that handles all your sales and use tax compliance requirements creates consistency and enables enormous efficiencies.

Recommendations

Have tax and business units work together as partners to make sales and use tax compliance more efficient.

Effective tax compliance requires close collaboration, especially today when both businesses processes and tax requirements can change at a moment's notice. Strategy and technology leaders must seek out the advice of the tax professionals within their organization so that compliance requirements are well understood and accounted for prior to material business changes. Likewise, tax professionals must seek out their cross functional colleagues, so that they are they are among the "first to know" of any change impacting or expanding tax compliance.

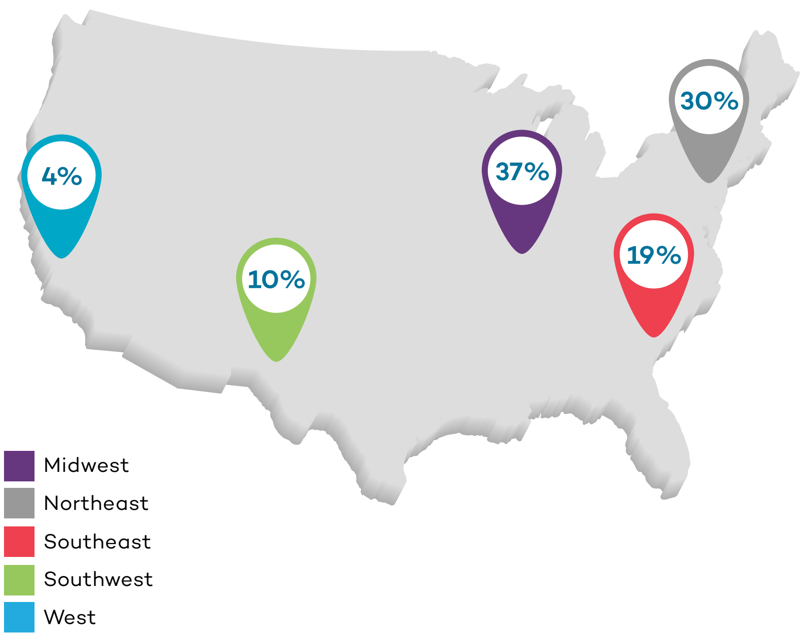
When considering software solutions, organizations should make sure they are user friendly and "tax centric" so tax department users can set and maintain their own configurations. By giving transparency and control to tax professionals and removing the need to involve IT in software changes, organizations can ensure a more responsive and accurate sales and use tax process.

Streamline documentation processes for tax audits.

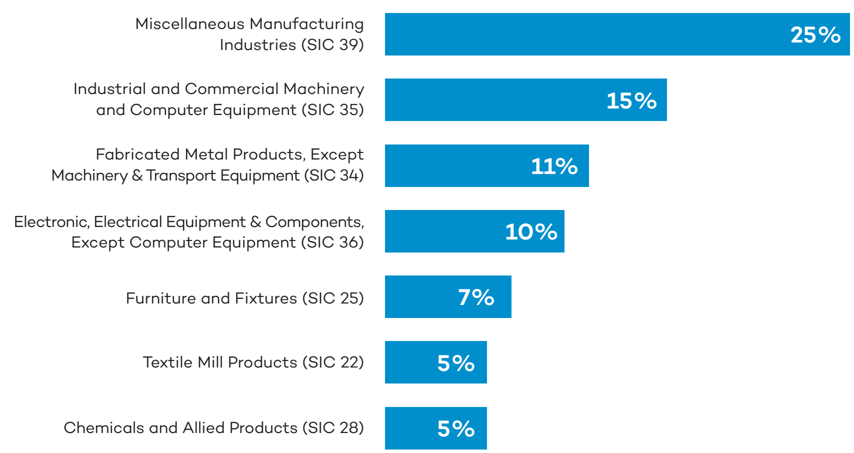
One challenge that some manufacturers noted was having multiple systems for dealing with different parts of the sales and use tax process. Manufacturers should look to consolidate tax systems to simplify ongoing processes and provide greater agility for the future. In addition, consolidated systems or streamlined sales and use tax automation can greatly simplify the process of preparing for a tax audit. As respondents in the survey noted, audit frequency is expected to continue to increase. With relatively few FTEs dedicated to sales tax compliance and the critical objective of increased efficiency at top of mind for most manufacturers, data consolidation for the purpose of easing audit preparation is tantamount.

Appendix: Survey Demographics

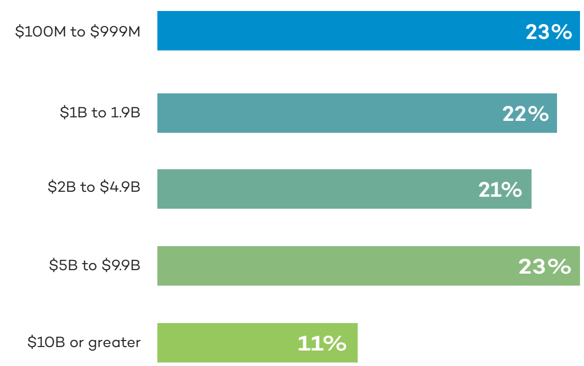
Headquarters by Region



Top 7 Manufacturing Sector Industries Represented



Annual Sales



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SOLVE TAX FOR GOOD®

Sovos was built to solve the complexities of the digital transformation of tax, with complete, connected offerings for tax determination, continuous transaction controls, tax reporting and more. Sovos customers include half the Fortune 500, as well as businesses of every size operating in more than 70 countries. The company's SaaS products and proprietary Sovos S1 Platform integrate with a wide variety of business applications and government compliance processes. Sovos has employees throughout the Americas and Europe, and is owned by Hg and TA Associates. For more information, visit **sovos.com** and follow us on LinkedIn and Twitter.