

Selecting the Right Transaction Tax Software **By Diane Yetter and Eric Christian**

Over the past few years there has been growing interest in enterprise-wide transaction tax automation. Before your company purchases a sales or use tax software system, it is critical to evaluate current business practices to ensure that you choose the right solution (and software partner) for your company.

The process can seem overwhelming, especially if you're still tasked with regular tax work during the planning and evaluation process. To help make the process simpler, the following article outlines nine steps to selecting a software vendor. With proper determination of the business requirements, effective preparation and vendor review, and consistent evaluation of the prospective vendors, you'll be able to find the right vendor partner for your team.

Step 1: Establish Business Objectives

As the first step a company should establish its business objectives for using a new system—what are the specific benefits that are important to your company? Focus only on the most important benefits and be very clear about what your company wants, such as:

- Improve accuracy in determination and calculation
- Eliminating tax decisions being made by other departments non-tax personnel
- Outsourcing the maintenance of tax rates
- Generate tax returns out of one system
- Streamline audits with a consolidated, detailed audit trail of all transactions
- Make tax more independent from IT by minimizing coding and custom work
- Maintain the highest level of compliance
- Automate mundane tax management activities

Next, pull together an evaluation team. The team should include employees who will be impacted by the company's use of transaction tax automation, as well as employees who are the decision makers. The evaluation team must quantify the benefits and improvements. Your team should be able to quantifiably answer the following questions. What is the current process cost in terms of employee time, third-party support or lost revenue? What kind of compliance issues are there, and what are their associated costs? Have there been audit issues; for what reasons?

Once the business objectives have been determined and quantified, you'll need to take a closer look at what you're working with today. Your company will need to track current processes for the tax requirements. The evaluation of current company tax procedures provides an opportunity to review the information used in tax management and to review the reporting method the company would like to use. What are the steps in tax management today? Which tax management procedures are manual and which are automated? What tax procedures can be automated and what information is required to support that process? Finally, are there any changes or improvements that need to be made to the existing systems to support the flow of tax and transaction information between systems or teams?

Your company's IT department can also help determine the technical needs and constraints for integrating a sales and use tax system. These technical requirements should include everything

from the ERP and legacy business systems, to architecture and servers. Having information on both needs and constraints will help you better distinguish between the solutions you're evaluating. This should all be documented and should include details such as vendor, version, platform and description information.

By clearly establishing the business and technical requirements, the evaluation team has the necessary information to determine how the tax software will be used effectively and how it can be integrated into current (or planned) business systems.

Step 2: Make the Case

Building a solid case for purchasing and implementing a sales tax software solution is critical for management buy-in. In order to do this you must illustrate a financial benefit for the project—otherwise it doesn't make sense to proceed. Taking the form of a business case document this will be used to sell your project internally. In Step 1, we talked about the evaluation team quantifying benefits and improvements. Those figures will be helpful here.

The business case document should contain the following information:

- The business objectives, as well as the benefits.
- Costs related to lost revenue, staffing, and audit penalties and interest.
- The background information for why the project was considered, including financial-related reasons or audit assessments, as well as a detailed analysis of any changes that have made the old company process ineffective.
- A visual flow of both current and proposed processes. Using a flowchart can make it easier to highlight how/where proposed changes will occur.
- The specific solution or recommended solutions. Does the company need a software package that includes returns processing? If so, include that detail.

Step 3: Identify Prospective Vendors

By creating the business case document described earlier, the evaluation team should have a sense for what type of software is needed and how will it be used. Identify how the software will be integrated into current business systems, or what changes need to be made to internal procedures if the company is considering end-to-end processing/reporting.

Research all the various vendor software packages in the marketplace that offer product functionality and benefits to match the established business objectives. Also, determine if an integrator will be required to implement the software package. Fellow ACT members and tax consultants can be very helpful in offering recommendations to develop a complete list of possible vendors.

Once the appropriate vendors have been identified, conduct an evaluation on each vendor's software. Ideally, companies should evaluate at least two vendors in order to select one. Send out a Request for Information and/or Request for Proposal (RFP) to each short-listed vendor.

Within the RFP, start with your business objectives and make it clear to vendors that those business objectives are what you want to achieve from the project. Ask them how they can help you meet those objectives. Specifically, ask the vendor to provide details on how and where the tax requirements are met. Is it within the tax application itself, the connections with business applications, within the business applications, or are the requirements met by having users do something different? This information will give you important insights for evaluating vendors later since when the requirement is met within the tax system it should be easier for you and probably less expensive.

Ask prospective vendors to confirm that they support the technical requirements outlined in Step 1. Vendor support of your technical requirements should be determined before a vendor is invited to present.

This may also be a good time to create a vendor evaluation document. This describes the integration, maintenance, training and other requirements and should be shared with the vendors before the vendor presentations. See the sidebar for more information on key vendor evaluation points.

Step 4: Determine the Cost

Now that the tax activities/processes have been documented, the next step is to identify the business systems your company will need to either "bolt onto" or "interface with." The scope of the project should be clearly addressed across the company. Large diverse corporations may require the software to be implemented in all divisions or subsidiaries.

Key Vendor Evaluation Items

Vendor Attributes

- History of successful implementations
- Relationship and projects with your ERP and in your industry
- Financial stability
- Customer support
- Tax knowledge
- References in similar business or technical environment

Functionality

- Number of tax drivers available
- Real-time or batch tax determination
- Sales, use or alternate tax rates
- Product taxability
- Customer exemptions
- Tax calculation process
- Reporting
- Audit documentation
- Sarbanes-Oxley compliance
- Forecasting ability
- Usability

Integration

- Is an interface to ERP available?
- Does the standard interface meet your tax and business requirements?
- Will a custom interface need to be developed?
- Scalability

Maintenance procedures

- Automated monthly rate updates
- Taxability changes
- Compliance process
- Archiving capability

Training

- Is the training public or customized?
- What is the frequency of the training?
- Where is the training offered? Can it be at your site?
- What is the cost of training? Is it per person?

Documentation

Other companies who have already gone through a similar evaluation process can be great sources of information to determine the time and costs for implementation of various systems. Talk to internal IT experts, prospective vendors and their customers who have implemented the software, as well as integrators.

All internal and external costs should be considered, such as upgraded servers, computer programming hours both internal and external, integrator hours, software costs, consultant travel, access fees (if web-based), internal tax personnel, and ongoing yearly costs for upgrades and licenses.

Step 5: Create Evaluation Details

Armed with the information your evaluation team has collected so far, create a preliminary schedule of all steps and costs as identified in the research from internal and external sources. As part of this schedule, include a contingency factor to the cost evaluation. It is always wise to assume something could delay the project or increase the cost—whether it is an act of nature, or a critical team member becoming unexpectedly unavailable, so incorporate a budget buffer—around 20-30 percent is a good rule of thumb.

In this step, include anyone who may be a valuable contributor. Within the tax department, there may be many employees ideal for the vendor evaluation, including decision makers, management, and users. Since tax processes are integrated with/impacted by other processes within a company, consider involving people in accounting, including A/P and A/R, customer service, supply chain and sales/order entry. For technical expertise, be sure to include appropriate contacts from within information systems/technology, such as programmers, database administrators, and analysts.

Consider other specific needs that may not have been addressed earlier. For example, who will be responsible for managing the software system? Is there someone on the tax team, or will the software require IT staff to maintain? If there are interfaces required for internal business system integration, who is responsible for programming the interface, an internal or external resource? What is the frequency of software updates and how is that handled? How many users are projected and where are they located? Finally, tax professionals need to continue to manage day-to-day activities during this process, so consider whether additional resources are required to manage the software project. If you need to increase headcount, include this information in the business case document.

If you haven't already in Step 3, confirm that the vendor's products have been used in a production environment. Also, find out whether the solutions proposed require any additional programming, and whether IT assistance is needed.

Step 6: Define Real-World Scenarios

One of the most critical tasks to ensure a software solution is appropriate for a company is scenario-based evaluation. After the business case document is completed, your evaluation team should define scenarios that reflect the company's specific tax situation and representative transactions. These scenarios should be shared with the vendors so they can use them in their

presentation. Scenarios help the vendor demonstrate how the software specifically meets your company’s unique business requirements.

Also, provide real-world data from your company so that the vendor can specifically demonstrate how their software meets your business objectives, and ensure accuracy with your unique business situation. But having the right answer is not enough. The example should be used to get the vendor to demonstrate where and how they achieved the correct answer in determining and calculating tax.

The vendor should also document how the right answer is obtained in the context of your business objectives. For example, if one of your business objectives is to remove tax decision-making by other departments, but the vendor solution requires that the AP specialist must pick a correct tax code, this won’t fit your needs.

Step 7: Vendor Evaluation Criteria

Once the technical and software requirements are determined, develop detailed evaluation criteria for your evaluation team will use during the vendor presentation. A simple method to use for documenting and managing this is a spreadsheet. This helps list all the requirements for scoring and differentiating between the vendors. See Exhibit 1 for an example.

Exhibit 1: Sample Evaluation Matrix

	Group Weight	Weight Factor	Max Score	System A		System B	
				Raw	Weighted	Raw	Weighted
A: Vendor Attributes	12						
History of Successful Implementations		3	1.5		0.00		0.00
Financial Stability		3	1.5		0.00		0.00
Excellent Customer Service		3	1.5		0.00		0.00
Real-Time Demonstration		3	1.5		0.00		0.00
Tax Knowledge		4	2.0		0.00		0.00
Ability to Execute / Experience		4	2.0		0.00		0.00
Willingness to partner with Environment/Needs		4	2.0		0.00		0.00
Subtotal			12.0		0.00		0.00

Be as focused as possible in developing the evaluation criteria. While this project is about achieving specific business objectives for tax, not all of the requirements may be met in the tax

system itself. Some of the requirements may be in ERP/business systems, legacy applications or even internal processes. These may well be more important than the tax software itself.

The software requirements need to be weighted by level of importance to support the overall business decision. Create a scoring range with enough variability to distinguish responses, and include a rating if the requirement can not be met by a vendor. For especially important criteria, consider offering negative scoring to fully account for unavailability.

You may consider sharing your evaluation weighting with vendors, but it isn't a requirement.

Step 8: Meeting with Vendors

Once your company has identified the evaluation criteria, you're ready to proceed with vendor demonstrations. Do not overlook any scheduling details, including requiring all the evaluation team members to attend the meetings. To better evaluate the strengths and weaknesses of each vendor, in context of others, it is best to schedule all the presentations for the same day. Scheduling the vendor meetings throughout a work week may seem more convenient for evaluators, but having the presentations fresh in the team's mind when comparing the strengths and weaknesses of the various solutions is important.

In advance of the meetings, give prospective vendors the following information:

- Tax scenarios, technical requirements and the software requirements. Provide them enough time to prepare for the scenarios in their presentations. As a courtesy to the vendor, give them as much as a week.
- An agenda that includes timeframes for specific topics, including a product and vendor company overview, demonstration of tax scenarios, and review of technical specifications.
- An overview of the project. This will improve the meeting effectiveness and allow the discussion to focus on your business' needs.
- A description of the overall business technical environment. This description will be helpful for the vendors to properly position their software features in addition to the technical requirements. Critical requirements should be identified and emphasized.
- If necessary, reference materials.

Don't forget the details for the meeting. Provide vendors with directions, arrival time for security clearance, and offer a point of contact for vendors in advance of the meeting. If possible, provide a list of company attendees, including names and titles to the vendors. Remember the vendor's presentation needs, including having projection equipment and whiteboards available. They may also need Internet access, however, be sure to understand their requirements. If your scenario can only run on a back-end system in their offices—it could mean the system is complex to manage!

When meeting with the vendors, ask the tough questions. Prepare as many questions as possible in advance. Verify when assumptions are being made by the vendor in the presentation. Also, notify the vendors in advance if they need to demonstrate any key functionality during the meeting. Finally, ask vendors to provide documentation on how they approached and answered each of the tax scenarios. Again, you need to know where and how they are meeting the tax requirements—in the tax system, business system, connections or with people.

Be sure to plan in detail for the meetings with your prospective vendors, as the interaction, or audition, can be an indicator of overall communications and the relationships once you are a customer.

Time may be an issue, so require the vendor presenters to adhere to the agenda schedule for the benefit of your company's participants, as well as the vendors. Pay attention to the time during the meeting and assign a time keeper, if necessary. Let the vendor know that they must stick to the agenda schedule. If additional questions come up during the presentation, ask them to defer questions that require a lengthy discussion to the end of the presentation. Be sure to build a question session into the agenda and notify your internal team to be respectful of the vendor's presentation time frame. In some cases, some questions may require follow-up after the meeting. Keep everything on schedule so each vendor has the same amount of time as the other vendors for their presentation.

Immediately following the vendor meeting, ask vendors about any follow up questions the team might have. Often lingering questions arise once the review team has met with all the vendors. Prepare a document with these questions and provide it to the vendor. Given the vendor plenty of time to respond to the questions—a couple of business days should be sufficient.

Step 9: Select the Right Vendor for Your Business Objectives

With all the hard work complete—now it is time for, hopefully, the easy decision. This is the time to carefully consider the best solution that supports your business objectives. During the post-meeting evaluation, consider multiple perspectives for the proposed solutions, including technical, tax and team impacts.

The technical perspective:

Was the presentation effective, and did it answer your technical questions? Did the presentation answer your questions? Were there any technical difficulties? If a real-time demo was requested, did the vendor deliver? It is important to review the fit of the technology in your own environment? Consider scalability and the product's ability to handle the transaction volume. Also consider the security aspects of the products.

Implementation and management that requires customization can be very expensive. Does the vendor have pre-developed interfaces for your business systems, or will interfaces have to be customized? Also, understand the product roadmap and update process for each solution. Consider if it will require additional programming work from your technical team. Understand the ongoing maintenance process and the vendor's plan. Is it documented? Is it adjustable? Are the technical aspects acceptable? Be sure to clarify any details before making your decision. If you are requesting online decision-making, can the package accommodate this?

If the project also requires outside software integration support, your company also must conduct an evaluation for integrators. This is probably the time to evaluate this aspect, if you haven't already. Since an integrator evaluation is less about feature lists and more about service, determine how you will evaluate and select the integrator service, such as referrals and experience with similar projects. Send out a Request for Proposals to integrator prospects,

similar to the RFP process for vendors. If you used a third party consultant to assist with the vendor evaluation phase, it will likely be more cost and time efficient to use them for the integration as they participated in all the preliminary work.

The tax perspective:

Of course, any tax team wants to be assured that the software package includes the functionality you requested. Look beyond just the application itself, if an end-to-end process is important to your organization. Does the vendor's package offer this? While some level of training is appropriate, it is important to have a solution that is easy to use. Do the proposed products require in-depth training to operate? Is the training included or is it extra? The training documentation should be clear and comprehensive. Also, consider the programming issues for rules set-up and management. Can changes be performed by tax professionals, or do they require significant IT expertise to code?

Compliance is so much of tax management, so reporting and audit preparation is critical. Does the available reporting fit your needs? Is it customizable and/or exportable for business analysis? Reports should be easy for a tax professional to develop—make sure IT doesn't need to get involved. Does the package offer a clear audit trail? Are changes date stamped? Will you be able to comply with Sarbanes-Oxley reporting requirements?

The team perspective:

Consider the experience with the vendor before and during the review process. This can be an excellent indicator of the ongoing experience. Was the vendor easy to work with leading up to the presentation? Did they accommodate your requests or did they offer excuses? The presentation should have been customized for your company and its unique tax situation. Was the presentation targeted or canned? Was the presenter friendly, knowledgeable and easy to understand? All of these can help you determine whether the company will be easy to work with and accommodate your special needs.

Also, if you haven't already contacted user references, be sure to contact them. Use the call to find out not only how happy they are with the software, but their overall experience. Do they or did they have any limitations or concerns?

Conclusion

By this time, with the weighted evaluation, face-to-face demonstration, and follow up questions, your choice for vendor should be very clear. Once you have selected a vendor partner, be sure to provide a debriefing session to the vendors that were not selected. Be clear and honest about where they were lacking—this is especially important for vendors that didn't get your business due to your overall experience with them.

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