

ADDRESSING THE INDIRECT TAX CHALLENGES FACING COMMUNICATIONS PROVIDERS

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Tax mandates leave communications providers with a lack of understanding and capability to ensure compliance. Through tax automation, these challenges can be reduced; and employees can focus on serving customers.

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Tax Automation and Best Practice Processes

The communications industry is continuously evolving. The services that these organizations provide have become broader and more technical. Communications providers simply no longer provide telephone services alone. Instead, these companies provide varied services, often bundled together, ranging from local and long distance telephone services through VOIP, data, wireless and cable TV. As the typical makeup of these providers has evolved, regulatory bodies, such as the FCC, have scrambled to implement guidelines that detail how these services are to be taxed. The resulting confusion has made both the laws themselves and the understanding of them by the communications providers quite murky.

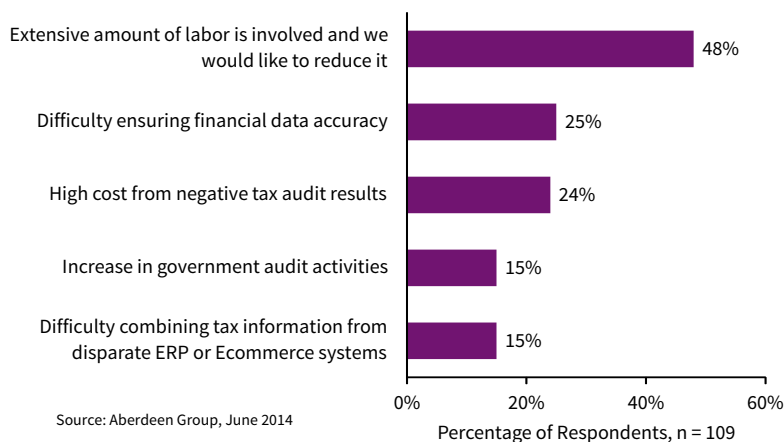
In their struggle to determine which of their services are subject to taxation, what exemptions they may have, if there are taxes on tax, and how taxes are to be calculated, collected, and filed, communications providers need help. For example, there are many differences from state to state in how communications services are regulated. Currently, providers must research

mandates that are frequently changing and hope that they are interpreting them correctly. In fact, there are varying definitions for individual types of VoIP services; thus, making it difficult for organizations to even define what they are selling and if the government or jurisdiction even has the authority to tax it. This research is time-consuming, and it is likely that they will make mistakes. In the face of increased regulatory scrutiny, the penalties can be severe. Those costs are in addition to any money the provider may be throwing away by paying taxes that they did not need to.

Tax Management Challenges

Communications providers face a similar and intensified set of challenges related to indirect tax management that Aberdeen uncovered in the [2014 Excellence in Financial Management Survey](#) (Figure 1). Of course, these processes are long and resource-intensive. This is particularly true when legislative mandates are confusing and frequently changing. In those cases, the process often involves extensive research and time spent addressing errors. This is only compounded when current financial systems provide inaccurate data or are not effectively integrated. Organizations of all types face significant difficulty completing indirect tax management.

Figure 1: Too Much Work Managing Compliance

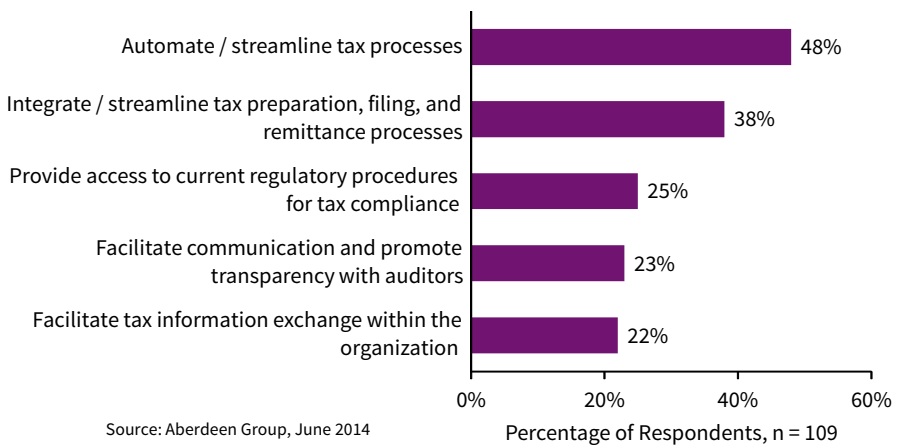


Of course, for communications organizations, the regulatory scrutiny component of indirect tax management is even more important. This industry is in a state of change, and with that change, regulatory bodies are looking for ways to take their cut. These bodies scrambled to get regulations in place, and in their haste, there is significant confusion and even more pressure to comply.

Indirect Tax Automation

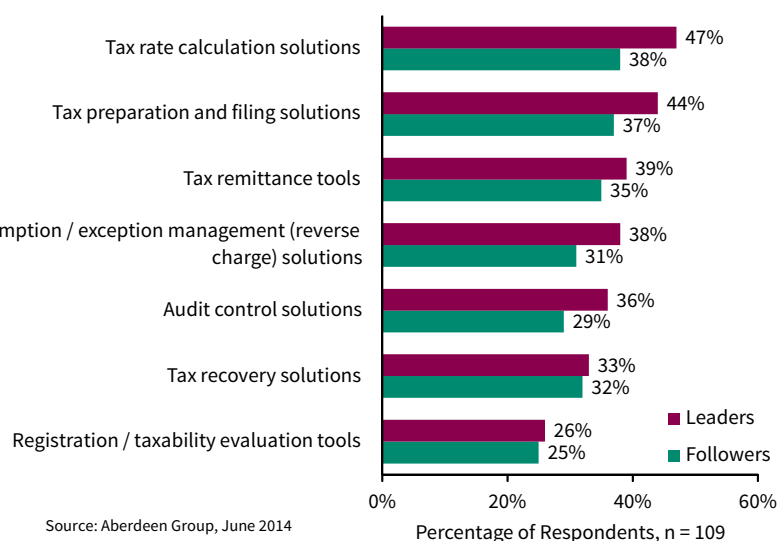
Communications providers can sympathize with many other industries about the challenges they face in managing indirect tax. Due to the fact that the communications industry is frequently changing, many of the challenges related to regulation change are exponentially increased. Therefore, communications providers have even more reason to study and enact the top strategies that organizations use to improve indirect tax management. All of these strategies tie back to tax automation. They include: streamlining tax processes, improving insight into regulatory change, and facilitating communication internally and externally. But how can tax automation be achieved?

Figure 2: Automation is the Solution



In order to enable tax automation, top performers are more likely to implement a variety of tax management tools (Figure 3). These solutions remove the confusion from these processes by integrating with ERP and billing systems and combining with internal and external information to ensure that these processes are completed efficiently and within compliance. For example, Leaders are more likely to have taxability evaluation and tax rate calculation solutions. For communications providers, these tools can provide significant benefits due to the fact that there is much confusion about which services are subject to regulations, and how to calculate rates across many geographic locations and types of services. Without these tools, a significant amount of research would be required, and would not even guarantee that calculations would be correct. It is very likely that employees will not have the expertise to support communications tax management. A tax solution, particularly one dedicated to a specific industry, is constantly updated by the software vendor to provide functionality that is up-to-date with the current regulations. Further, Leaders are more likely to have remittance and filing tools to ensure compliance and help organizations to maintain their margins. On the whole, top performers look for a comprehensive solution that is dedicated to handling the tax regulations that their industry is subject to. Ultimately, these tools help reduce the amount of time it takes to complete processes, remove the need for research and improve accuracy, freeing up your finance department to focus on other tasks.

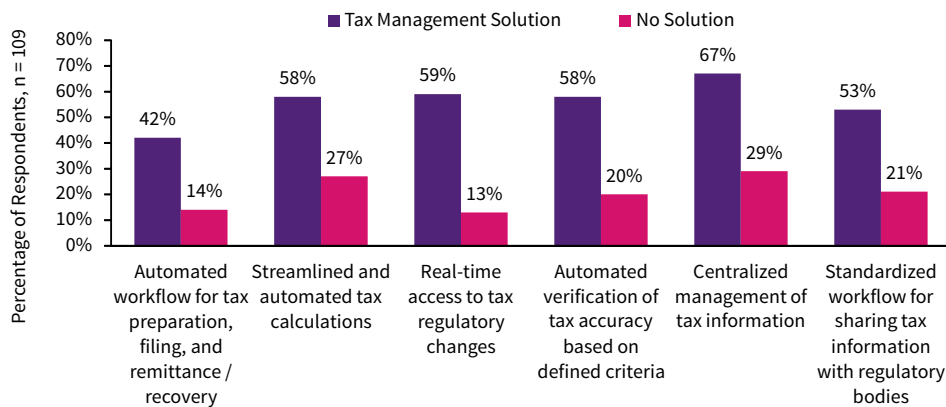
Figure 3: Leaders Rely on Tax Tools



The Value of Automation

So how can these tools help your communications organization in practice? Organizations that have implemented a tax management solution benefit from functionality that automates the process from situsing through filing. In fact, organizations with tax management are three times as likely to have automated workflow for tax preparation, filing and remittance (Figure 4). Crucial components of this capability include automated calculations (based on updated jurisdictional rules and regulations) to ensure that proper rates are applied as well as automated verification to establish which services are even taxable. In communications, oftentimes services are bundled, but each piece of these bundles is subject to different mandates. This type of functionality can remove significant confusion and ensure compliance.

Figure 4: Notable Capabilities



Source: Aberdeen Group, June 2014

But the benefits of tax solutions are not just limited to automated processes. These solutions can also provide enhanced visibility for decision-makers, as well as regulatory bodies. Organizations with tax solutions are 2.3 times as likely to have centralized tax information. Therefore, business leaders can get a full, real-time view of how tax impacts their bottom-line. Additionally, since there is a historical record in one place, it becomes easier to share with regulatory bodies. Therefore, your organization could greatly reduce the cost and impact of audits.

Summary

While the tax environment impacting today's communications providers is confusing, time-consuming and aggressive, there is an opportunity to combat these challenges. In order to ensure compliance and reduce the cost of completing these processes, your organization should look for a tax management solution that is built to support the unique regulations that impact communications. Rather than struggle with these tasks on your own, why not rely on the expertise of a software vendor committed to enabling communications tax compliance? The

results will be improved compliance, lowered costs and less stress for your employees.

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