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IDC MarketScape

IDC MarketScape: Worldwide Value-Added Tax Management Applications 2024 Vendor Assessment
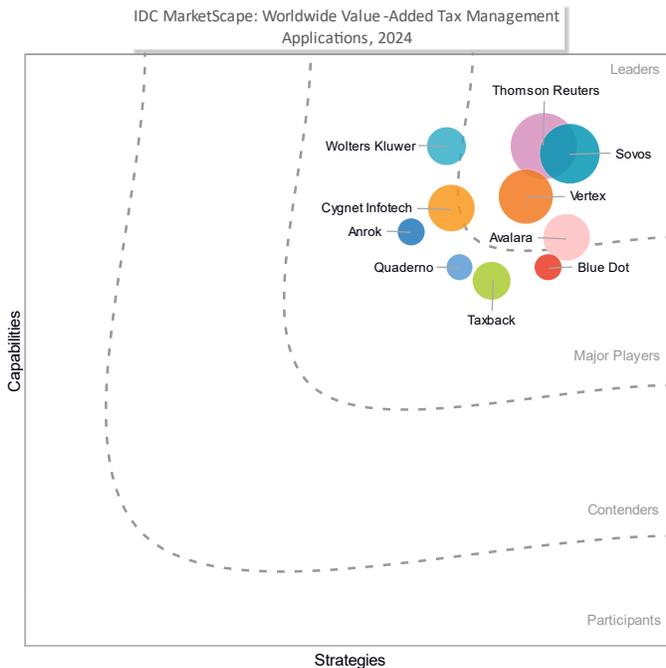
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THIS EXCERPT FEATURES AVALARA AS A LEADER

IDC MARKETSCAPE FIGURE

FIGURE 1

IDC MarketScape Worldwide Value-Added Tax Management Applications Vendor Assessment

IDC MarketScape: Worldwide Value-Added Tax Management Applications, 2024

Source: IDC, 2024

Please see the Appendix for detailed methodology, market definition, and scoring criteria.

ABOUT THIS EXCERPT

The content for this excerpt was taken directly from IDC MarketScape: Worldwide Value-Added Tax Management Applications 2024 Vendor Assessment (Doc # US52732824).

IDC OPINION

Several key trends and technological advancements are shaping the future of value-added tax (VAT) management software. AI and machine learning are automating complex tasks such as tax calculations and compliance monitoring, while real-time reporting and e-invoicing are helping businesses remain compliant with up-to-date tax information. Cloud-based solutions offer scalability and remote accessibility, making VAT data management more secure and efficient. Integration with existing accounting and ERP systems provides real-time tax data and insights, enhancing overall financial management. Advanced data analytics tools are optimizing tax strategies and improving decision-making. Routine task automation is reducing time and costs, enabling tax professionals to focus on strategic activities. As businesses expand globally, VAT management software is evolving to handle cross-border transactions and varying international tax regulations. Predictive analytics are helping businesses anticipate future VAT challenges and make strategic decisions. These trends indicate that VAT management software will continue to evolve, becoming more intelligent, efficient, and integral to business operations.

e-Invoicing Driving the Market Forward

An important tool for reducing tax errors and fraud is e-invoicing, which provides tax authorities with visibility into transactional data. It is particularly important in countries such as Brazil and Italy, where tax authorities play a direct role in the invoicing process. While the United States lacks e-invoicing mandates due to its governmental structure and lower sales tax fraud, initiatives such as the Federal Reserve's E-invoice Exchange Market Pilot program are underway to facilitate secure electronic document sharing among businesses, thereby improving cash flow and reducing processing costs.

IDC MARKETSCAPE VENDOR INCLUSION CRITERIA

The vendor inclusion list for this document seeks to accurately depict the vendors that are most representative of any given software application on the buyers' selection list based on the following criteria:

- Vendors must have a SaaS or cloud offering; on-premises-only applications are out of scope.

- Buyers can purchase software applications separately (not only functionality built into a larger system), which are available off the shelf without the need for customization.
- The software application has capabilities for determination, filing, recovery/reclaim, e-invoicing, and localized VAT support.
- The vendor had 2023 revenue in at least two countries.
- The vendor had at least $5 million in 2023 software revenue.
- The vendor has had at least one tax product in the market for at least three years.
- The vendor must have a significant footprint with businesses that have 1,000+ employees.

ADVICE FOR TECHNOLOGY BUYERS

Value-added tax applications are evolving rapidly as vendors invest research and development dollars into bolstering, augmenting and, in some cases, redesigning their applications. The applications must align with the new digital enterprise and its preferred way to absorb technology. The vendors must work to align their go-to-market and product development strategies with the new digital enterprise. While the vendors in this study may vary widely in size, experience, level of support, and sales model, their goal is the same: to create/curate a differentiating user experience. To do that, the user experience must go beyond the software to include the sales process, accounting management, implementation, and post-implementation support.

Buyers should consider several key questions during the purchase process.

They should begin by looking inward. Before making purchasing decisions on software, here are a few questions they should ask regarding their internal resources and processes:

- What are some of the issues I would like to resolve with this new system?
- Are the issues technology related?
- What are our internal support resources and capabilities?
- How should we define success for this implementation?
- Which internal stakeholders should we include in the evaluation processes?
- How will a new system change our organization?

Buyers should select the right internal and external partners. The first step in the journey to implementing sales tax management systems is developing a strategy and

plan for implementation. This includes doing due diligence in finding the right vendor. Here are a few key questions to ask about the software vendor:

- Does the vendor have experience with our organization's type of product, service, and size?
- Can the vendor show a hands-on demo with our "live/real" data to demonstrate the benefit to the business?
- Does the vendor understand the regulations that will impact our business? How does our current product reflect these regulations, and how will it change in the future?
- What is the vendor's strategic investment outlook for the next three to five years? Why? How will that change and enhance our business?

Buyers should consider the foundation. Sales tax management applications vendors have seen many technology architecture iterations. Even among cloud vendors, there are many different varieties of software architectural approaches. IDC believes that taking time to understand the software's foundation and advantages (or limitations) is critical during the buying decision. Here are a few key questions to ask regarding the software vendor:

- What is the data flow design within the current solution?
- What kind of APIs are available now from this vendor? RESTful? SOAP? GraphQL?
- What kind of developer tools does the vendor provide (e.g., sandbox, dedicated portal, low code/no code, and database management)?
- Is any part of the software currently built on a microservices architecture? If so, which parts?

To achieve the best results, organizations must take ownership of the actual software implementation. Sales tax management software impacts many other back-office systems (e.g., CPQ, accounts payable, payroll, sales management, and talent management). As a result, businesses must pay extreme attention to how the sales tax system is set up and interacts with other systems within the organization. Buyers should ask the following key questions regarding software implementations:

- What levels of support are available, and are they geographically available for our business?
- How should we set up the service-level agreement (SLA) before signing any contracts?
- Can the system integrate with our company's other IT systems and those of our partners?
- Which IT system needs to be integrated and to what degree?

- How are we set up to deal with frequent product updates?

Post-implementation is critical. In many ways, the success of any SaaS implementation hinges on what happens after the implementation is up and running. This is where change management takes center stage, and the people side of tax management becomes essential. Here are a few key questions to ask regarding the post–go-live phase of software implementations:

- Do we have a strategy to encourage rapid adoption among employees?
- Do we have the right amount of training for employees to master the new features within the system?
- Are we communicating the purpose and benefits of the system change to the relevant employees?
- Have we aligned existing policies and procedures to enable the adoption of the new workflows?

This IDC MarketScape helps answer these questions and others.

VENDOR SUMMARY PROFILES

This section briefly explains IDC's key observations resulting in a vendor's position in the IDC MarketScape. While every vendor is evaluated against each of the criteria outlined in the Appendix, the description here provides a summary of each vendor's strengths and challenges.

Avalara

After a thorough evaluation of Avalara's strategies and capabilities, has positioned the company in the Leaders category in this 2024 IDC MarketScape for worldwide value-added tax management applications.

The Avalara's SaaS VAT solution suite has a range of compliance features and functionalities within a single interface. Avalara VAT offers extractors to several key ERP/accounting systems, including SAP, to fully automate the ingestion of data. Avalara VAT scored highest points in determination, electronic invoice management, governance, and certification functionality and second highest in VAT reporting and filing among all the vendors evaluated. AvaTax from Avalara can automatically handle a wide variety of transaction types, including domestic, intra-EU, interstate versus intrastate, domestic, and extended reverse charges, exports, out of scope, distance selling, imports, and OSS.

Strengths

- **Integrations:** AvaTax has over 1,200 partner integrations, including deep integrations with major ERP systems. The prebuilt integrations can reduce time and resources needed during the implementation process. They also have 280+ certified implementation partners. Avalara's platform has a number of prebuilt extractors that retrieve the necessary data to generate returns. They also have an import mapping wizard that enables source data to be uploaded and applies enrichment and mapping rules to the data as required. Upon upload, the solution will automatically check whether all mandatory data fields are within the file and will allow users to amend within the system if required.

- **Reporting:** Avalara VAT Reporting provides a data validation process, which checks the format and completeness of invoice data and returns critically important error warnings, including over 160 error types. The solution will highlight issues for resolution and will enable the user to take corrective action where required. Audit logs are available within the portal to view all changes made per user.

Challenges

- **Implementation challenges:** The biggest implementation challenge is always related to customer data availability and quality. Both VAT determination and reporting need significant data, and many systems and companies do not have the adequate setup to provide this data, making implementation time and resource intensive.

- **Rapidly changing regulatory landscape:** The major challenge of producing the software is keeping up with the explosive rate of change in global VAT. Avalara has a dedicated VAT research team, updating and testing the content for its determination and returns solutions. The vendor invests significant R&D into content automation to help Avalara to scale faster to more countries.

- **Recovery/reclaim:** Avalara cannot currently check for recoverable VAT according to global rules or audit local travel expenses.

Consider Avalara When

Growing multinational organizations seeking a cloud-native software vendor with wide geographical VAT compliance coverage and an aggressive compliance road map should consider Avalara.

Reading an IDC MarketScape Graph

For the purposes of this analysis, IDC divided potential key measures for success into two primary categories: capabilities and strategies.

Positioning on the y-axis reflects the vendor's current capabilities and menu of services and how well aligned the vendor is to customer needs. The capabilities category focuses on the capabilities of the company and product today, here and now. Under this category, IDC analysts will look at how well a vendor is building/delivering capabilities that enable it to execute its chosen strategy in the market.

Positioning on the x-axis, or strategies axis, indicates how well the vendor's future strategy aligns with what customers will require in three to five years. The strategies category focuses on high-level decisions and underlying assumptions about offerings, customer segments, and business and go-to-market plans for the next three to five years.

The size of the individual vendor markers in the IDC MarketScape represents the market share of each individual vendor within the specific market segment being assessed.

IDC MarketScape Methodology

IDC MarketScape criteria selection, weightings, and vendor scores represent well-researched IDC judgment about the market and specific vendors. IDC analysts tailor the range of standard characteristics by which vendors are measured through structured discussions, surveys, and interviews with market leaders, participants, and end users. Market weightings are based on user interviews, buyer surveys, and the input of IDC experts in each market. IDC analysts base individual vendor scores, and ultimately vendor positions on the IDC MarketScape, on detailed surveys and interviews with the vendors, publicly available information, and end-user experiences in an effort to provide an accurate and consistent assessment of each vendor's characteristics, behavior, and capability.

Market Definition

IDC defines indirect tax software as software that supports the management of tax considerations for external business transactions of sales and use tax, VAT, GST, excise tax, and property tax. The software's key elements include functionality to enable corporations to calculate taxes for current transactions, estimate tax burden for future

transactions, determine tax exemptions, manage filing and compliance, and house tax-related forms/documents.

Related Research

- *IDC Market Glance: Corporate Tax Management Applications, 1Q24* (IDC #US51657824, March 2024)
- *Generative AI in Corporate Tax Management: Potential for Elevating Compliance Efforts Within the Tax Department* (IDC #US51920124, March 2024)
- *Worldwide Corporate Tax Management Applications Market Shares, 2022: Compliance Converging with Key Financial Applications* (IDC #US49193723, September 2023)
- *Market Analysis Perspective: Worldwide Corporate Tax Management Applications, 2023* (IDC #US50232523, September 2023)
- *Worldwide Corporate Tax Management Applications Forecast, 2023–2027: Digital Invoicing Adding Complexity to Tax Compliance* (IDC #US50231723, September 2023)
- *The Evolution of e-Invoicing: Examining the Accelerating Convergence of Compliance and Accounts Payable* (IDC #US50470623, April 2023)

Synopsis

This IDC study provides an assessment of value-added tax applications businesses and discusses the criteria that are important for companies to consider when selecting a system.

"Advanced technologies are revolutionizing VAT management by automating complex tasks, while real-time reporting and e-invoicing ensure compliance with up-to-date tax information. As businesses expand globally, VAT software is evolving to handle cross-border transactions and varying international tax regulations, making it more intelligent, efficient, and integral to business operations," says Kevin Permenter, senior research director, Enterprise Applications at IDC.