

Indirect tax software strategies with Workday Financials

Vertex and Slalom can help you make the right decision for your indirect tax software to boost efficiency and compliance.



For businesses worldwide, an obvious fact is that sales, use, and value-added taxes (VAT) must be paid. Less clear, however, is how to optimize tax compliance. For many organizations that have already selected Workday Financials as their overall enterprise resource planning (ERP) system, its native tax functionality has ample features for calculating and collecting indirect tax on transactions. Other organizations, meanwhile, are better served by integrating a purpose-built third-party indirect tax engine such as Vertex.

Discerning which approach is best is based on multiple factors that an experienced Workday implementation partner and a specialized tax software partner, such as Slalom and Vertex, respectively, can help guide you through.

The types of taxes businesses face depend on many factors, including a company's industry, as well as product types, customers, and locations of transactions. State, local, and federal authorities all may assess levies. In addition, many global jurisdictions have enacted indirect taxes, including sales tax, use tax, VAT, and goods and

services tax (GST), among others. Getting indirect tax calculation right is challenging due to the complexity of tax rates and rules across the 12,000+ taxing jurisdictions in the U.S. And outside the U.S., the disparity of VAT schemes in each country makes VAT/GST calculations complex.

Many companies put tax compliance on the back burner and are spurred to raise their game only when government auditors come knocking and assess penalties. It's not uncommon for a company to successfully expand into a new jurisdiction, only to be surprised by a tax audit because it was ill-informed about tax laws and failed to update its tax calculation rules accordingly.

Workday tax functionality or Vertex tax engine: Making the right decision

Many companies rely on Workday to run their financials. The software has robust tax capabilities that can meet global transaction and tax reporting requirements of tax authorities for sales, use, and VAT taxes. The same functionality is used to capture taxes for transactions

related to purchase, spend, revenue, and expense reports. Tax codes, applicability, and recoverability can be set up for purchase orders, supplier and customer contracts, and invoices, among other documents. Tax rate changes can also be made easily.

Workday tax features can be the best choice for customers that have less diversity in their product catalog, don't operate in multiple complex tax jurisdictions, and are not navigating through multiple sales channels and territories. For such companies, Workday can provide a simple, streamlined approach to tax compliance.

However, managing tax determination with native Workday functionality requires a company to continually update tax content, including rates and rules, in the ERP system to keep pace with legislative changes. As a company expands by adding product or service lines, by selling in different jurisdictions, or by implementing a multichannel sales strategy, its tax management costs are likely to increase.

In addition to a company's operations, its system architecture can play a significant role in tax calculation strategy. If a company records complex revenue, expense, or procurement transactions in third-party systems, using the native Workday tax functionality can result in complex integration tasks. In such cases, integrating with a third-party tax platform such as Vertex would be a better choice due to the Vertex engine's ability to handle complex tax calculations across multiple local and global jurisdictions with automated content updates as tax rates change.

In addition, for companies doing business where e-invoicing is mandated, particularly in Europe, the Vertex platform offers a single integrated solution with applications that handle both VAT periodic filing and e-invoicing, including reconciliation.

The objective is not to replace Workday Financials with Vertex for indirect tax management but to enable the two to complement one another – using Workday to manage financial transaction details while Vertex automates and streamlines tax calculation via a seamless integration.

Breakdown of indirect tax software considerations

Workday native tax engine

- For companies in tax jurisdictions that are smaller or less complex to manage
- For companies where required tax updates can be maintained via simple file uploads
- For companies looking for end-to-end simplicity in a single platform with built-in native tax functionality
- For companies that expect growth to occur in areas where they are already established

Vertex

- For companies with a complex tax footprint because they do business throughout the U.S. and in other countries and may also run multiple transaction systems that require consistent centralized tax calculation
- For companies that face heavy compliance requirements and want to improve their audit readiness
- For companies that expect to expand their product lines, conduct mergers and acquisitions, or expand into multiple geographic areas or sales channels
- For companies that would like to have a single platform for e-invoicing and VAT reporting

Indirect tax software selection best practices

Doing an objective assessment of a company's tax situation and future needs is an essential first step to

successfully determining the right approach. Answering the following questions will enable you to match the functionality and scalability of your chosen tax solution with your company's needs.

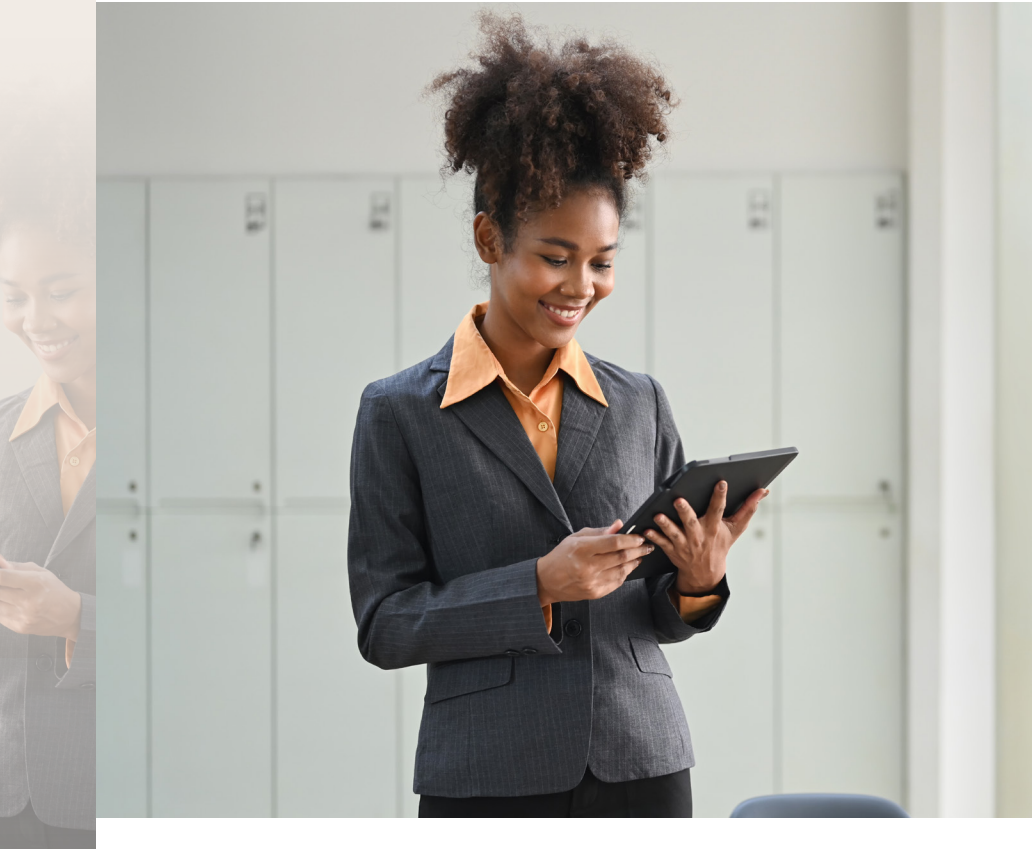
- What types of products does your company sell?
- In which geographic areas does your company operate?
- In which jurisdictions is your company liable to collect and remit taxes?
- Does your company do business in every U.S. state?
- Does your company have international operations now, or will it have them in the foreseeable future?
- Does your company have the operational capacity and experience to understand all the possibly changing tax rules and apply corresponding updates to your financials system?

In some cases, the degree of tax complexity might not be obvious to nonexperts. For example, some states, such as Pennsylvania, have a single statewide tax rate whereas neighboring Ohio has many different tax schedules, depending on locality. Thus, a small business

operating in both states could face a confusing array of assessments that might require more than the native capabilities of Workday.

For companies doing business across the entire U.S., the sheer volume of tax rates across the 12,000+ taxing jurisdictions – coupled with continual monthly changes to those rates – makes maintaining tax tables in Workday a staff-heavy proposition. And, unfortunately, the audit penalties for noncompliance can be steep.

Even those companies that decide to integrate a tax engine with their ERP system can take a misstep if they, ironically, fail to include those responsible for handling tax compliance in such a project. Because they consider a tax platform to be part of the company's ERP platform, they might involve only the accounting and IT staff. However, including tax accountants from the start ensures input into the process and buy-in for the decision from those who actually will be using the platform.



processes and designs the optimal solution to be configured in Workday. Slalom's Workday Financials consultants will collaborate with your finance and tax teams to pinpoint the gaps where the native Workday tax engine may not provide the level of precision needed and where a third-party tax platform such as Vertex might meet the requirements.

Slalom: A full-service, certified Workday Implementation Partner

If you are in an organization where the Workday native tax engine is sufficient to meet your tax requirements, Slalom has the experience to guide you in your Finance Transformation journey. As part of the implementation process, Slalom works with your organization to understand your indirect tax and reporting requirements across procurement, revenue, and expense

Indirect tax compliance is a critical business function that is often misunderstood or overlooked.

Unless sufficient attention is paid to a company's tax obligations, however, the company might lapse into tax practices that result in penalties and erode competitiveness. Choosing the wrong approach to tax determination can impede growth into new product lines and geographic regions.

Whichever path is chosen, the decision should be an important part of your overall technology vision.

Slalom is a purpose-led, global business and technology consulting firm focused on serving clients by delivering practical end-to-end solutions that drive impact and long-term value. Slalom is at the forefront of enterprise solutions, assisting clients in fully leveraging their Workday HCM and Financials capabilities, from initial deployment to optimization and everything in between. For more information, visit www.slalom.com/workday.

Vertex, Inc., is a leading global provider of indirect tax solutions. The company's mission is to deliver the most trusted tax technology enabling global businesses to transact, comply, and grow with confidence. Vertex provides solutions that can be tailored to specific industries for major lines of indirect tax, including sales and consumer use, value-added, and payroll. Headquartered in North America, and with offices in South America and Europe, Vertex empowers the world's leading brands to simplify the complexity of continuous compliance. For more information, visit www.vertexinc.com/partners/workday.

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