Tax Technology: To Build or To Buy?

Key Considerations for Technology Companies

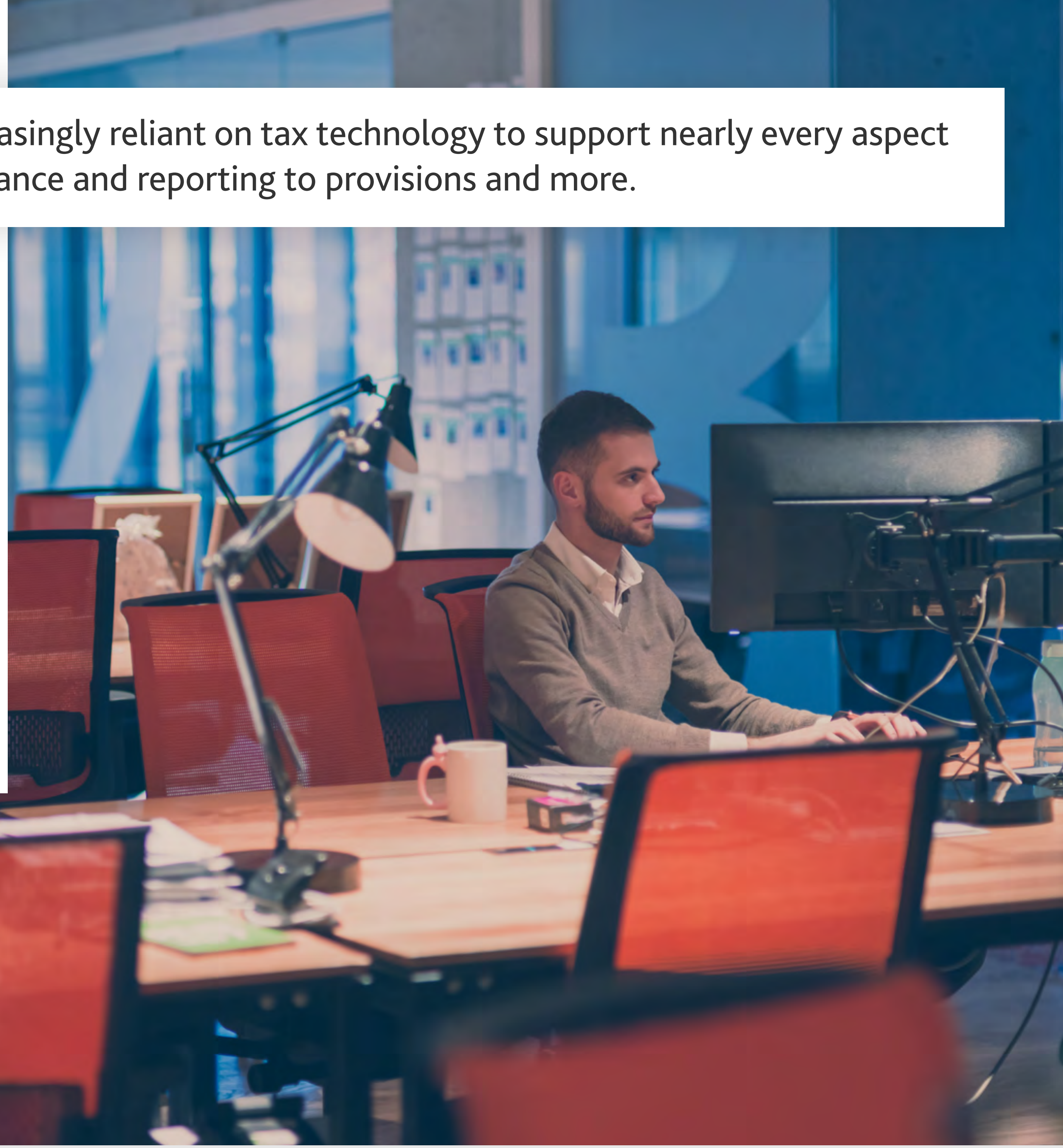
BDO

Technology companies are increasingly reliant on tax technology to support nearly every aspect of the tax function, from compliance and reporting to provisions and more.

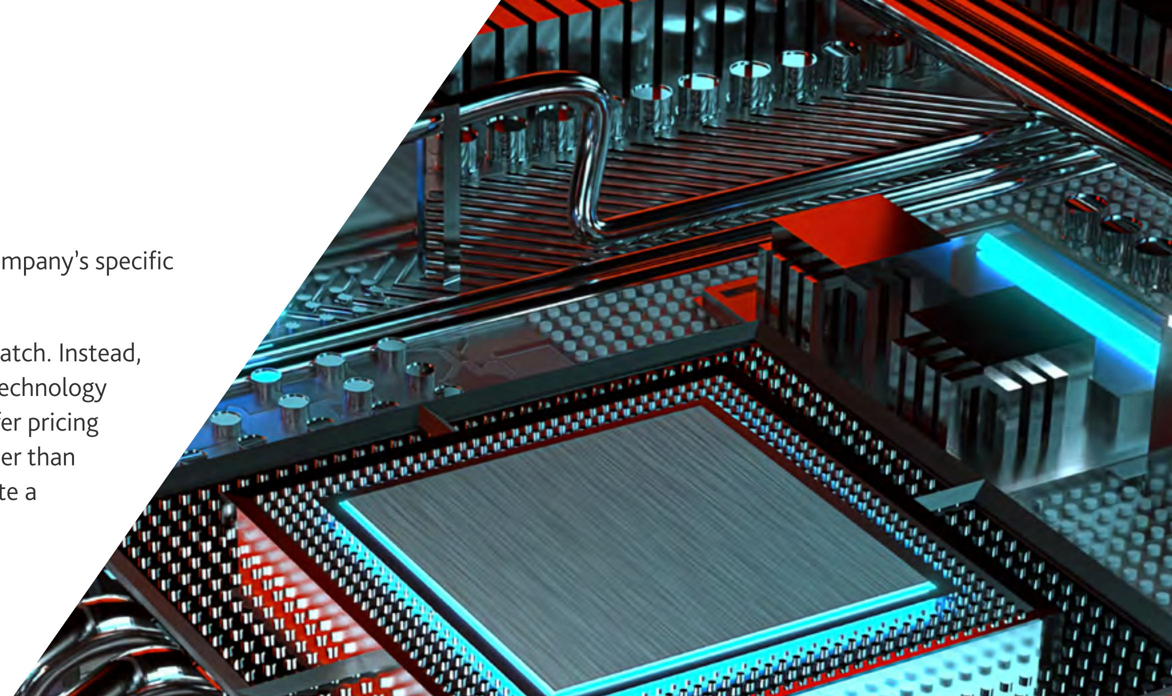
Leveraging technology can help tax teams address common pain points, such as navigating regulatory complexity, ensuring accuracy under tight deadlines, and maintaining efficiency with fewer resources, especially as tax talent becomes increasingly hard to find.

Company leaders know they need tax technology solutions to streamline the work of their tax functions, better understand data and apply insights, and reduce the risk of human error. But many leaders aren't sure which technology investments will have the greatest returns for their businesses, and whether they should build or buy these solutions. The answer depends on several factors, which differ for each organization.

This guide explores six key factors that tech leaders should assess as they determine whether to build or buy. ▶



Your Guide to Build vs. Buy



Buying is a large investment, and tax software often must be tailored to meet a company's specific needs. Meanwhile, building requires significant resources and time.

For most tax departments, building tax technology doesn't mean starting from scratch. Instead, it usually entails creating custom, tax-specific reporting functions within existing technology systems. For example, a tax department that wants to create efficiencies for transfer pricing might build analysis-and-adjustment posting directly within their ERP system rather than licensing third-party software or engaging with a professional services firm to create a bespoke solution.

Weigh the pros and cons of each of the following six factors before coming to a decision:

	Buy	Build
Cost	Costs include significant upfront investment and recurring subscription fees paid to a third-party provider.	Costs include upfront investment, maintenance, and ample employee time dedicated to the project. Moreover, many organizations underestimate the full scope and time needed to build a tax solution, resulting in scope creep.
Urgency	If a tax solution is needed right away, buying can often result in a quicker launch, which may help companies save time and money in the long run by making their tax software usable sooner.	If an organization has ample time and flexibility, leaders may want to explore building.
Expertise	Leaning on a third-party accounting firm or software vendor gives tech companies access to the firm's in-house expertise. This puts the onus of software maintenance on the third party.	Building is an option for companies with internal specialized knowledge. However, tech companies should consider if using their talent to build tax solutions is a business priority and/or if it could affect talent retention. Companies also should keep in mind that employee turnover may affect their ability to maintain the tool once it is built.

	Buy	Build
Scalability and Regulatory Compliance	Subscription-based models typically handle a wide range of scenarios and can be nimble in the face of regulatory changes, making it easier to scale the tool as a business grows or new reporting requirements take effect. Consistent upgrades for regulatory purposes are a critical benefit of investing in a subscription-based solution, particularly with regulatory requirements evolving faster than ever.	Once built, internal tools often require customization and ongoing development to keep up with business growth and external changes. This includes more maintenance when new regulations come out, which can be a drain on internal resources. On the other hand, building tax technology can be beneficial if it reduces the risk of investing in external software that cannot meet a company's evolving needs.
Integration Compatibility	Tax technology from third parties is often designed to be customizable and to integrate seamlessly with other existing solutions within the tech stack. Additionally, integration assistance is often top of mind for third-party providers.	Tax software developed internally and built with an organization's technology stack and capabilities in mind allows for more bespoke integration. This is particularly important for tech companies if they are using internally developed revenue systems or operating on subscription models that make data gathering difficult. A custom build can address exact automation needs.
Data Security	When buying a tax solution, tech companies must invest time to understand how their company's sensitive data will be leveraged, where it will be hosted, and which employees of the third-party firm have access to it. For companies that choose to buy, the vetting process requires a thorough assessment of their cybersecurity protocols.	Because buying means sharing highly sensitive financial data, some firms may choose to build instead. This gives organizations greater control over the data being used for tax purposes and may reduce risk.

Establish the Data Foundation

Regardless of whether a company plans to build or buy a tax technology solution, establishing a master data foundation and data governance protocols must be the first step. A strong data infrastructure is necessary whether a company is looking to implement tax provision software, tax compliance tools, generative artificial intelligence (AI), or any other type of tax technology. It is especially paramount for leveraging AI.

For AI to generate reliable outputs, data must be consistently maintained according to high standards. This requires a robust data governance strategy to keep tax data organized, including:

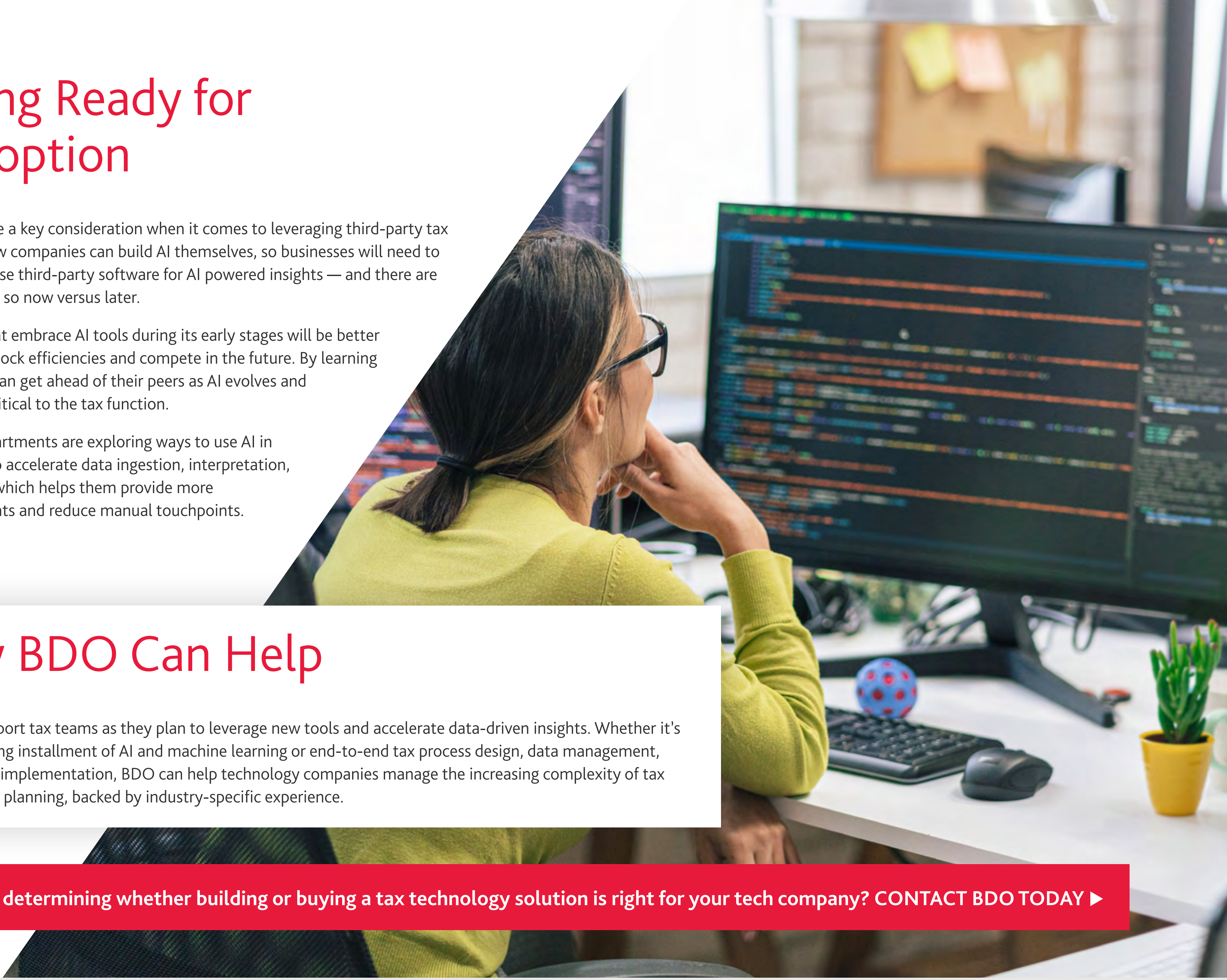
- **Master data management:** Tax departments should start with a consistent approach to structure data in a way that makes the structure work with data that can't be uniformly structured. By digitizing data sets and applying an agreed methodology, organizations and their tax teams can minimize disruptions caused by new or inharmonious data.
- **Data quality controls:** With the complexity and variability of tax regulations and financial data, ensuring the integrity, accuracy, relevance, completeness, and accessibility of data is an important element of a strong data governance framework.
- **Collaboration with the enterprise:** Some organizations may be hesitant to adopt AI, but being proactive, taking small steps, claiming quick but meaningful wins, and gradually introducing AI into specific functions or for particular tasks ensures tax teams become familiar with AI as it becomes more prevalent.

Getting Ready for AI Adoption

AI capabilities are a key consideration when it comes to leveraging third-party tax technologies. Few companies can build AI themselves, so businesses will need to license or purchase third-party software for AI powered insights — and there are benefits to doing so now versus later.

Tax functions that embrace AI tools during its early stages will be better positioned to unlock efficiencies and compete in the future. By learning now, tax teams can get ahead of their peers as AI evolves and becomes truly critical to the tax function.

Already, tax departments are exploring ways to use AI in everyday work to accelerate data ingestion, interpretation, and processing, which helps them provide more immediate insights and reduce manual touchpoints.



How BDO Can Help

BDO can support tax teams as they plan to leverage new tools and accelerate data-driven insights. Whether it's the overarching installment of AI and machine learning or end-to-end tax process design, data management, and software implementation, BDO can help technology companies manage the increasing complexity of tax reporting and planning, backed by industry-specific experience.

Need help determining whether building or buying a tax technology solution is right for your tech company? CONTACT BDO TODAY ▶

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Have questions or want to learn more? CONTACT US!

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