AVALARA STRATEGY AND VAT SURVEY 2025

The Evolving Role of Tax

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Foreword

by Stephen Bartholomew, Avalara Tax Technology Manager

The findings in the survey mirror what we see every day working with businesses across Europe. Many are caught between keeping pace with constant VAT rule changes and preparing for the next wave of digitalisation.

The pressure on tax teams is immense—they're expected to ensure compliance while contributing to strategic growth. The key is embracing technology not as a compliance tool alone, but as a driver of efficiency and confidence.

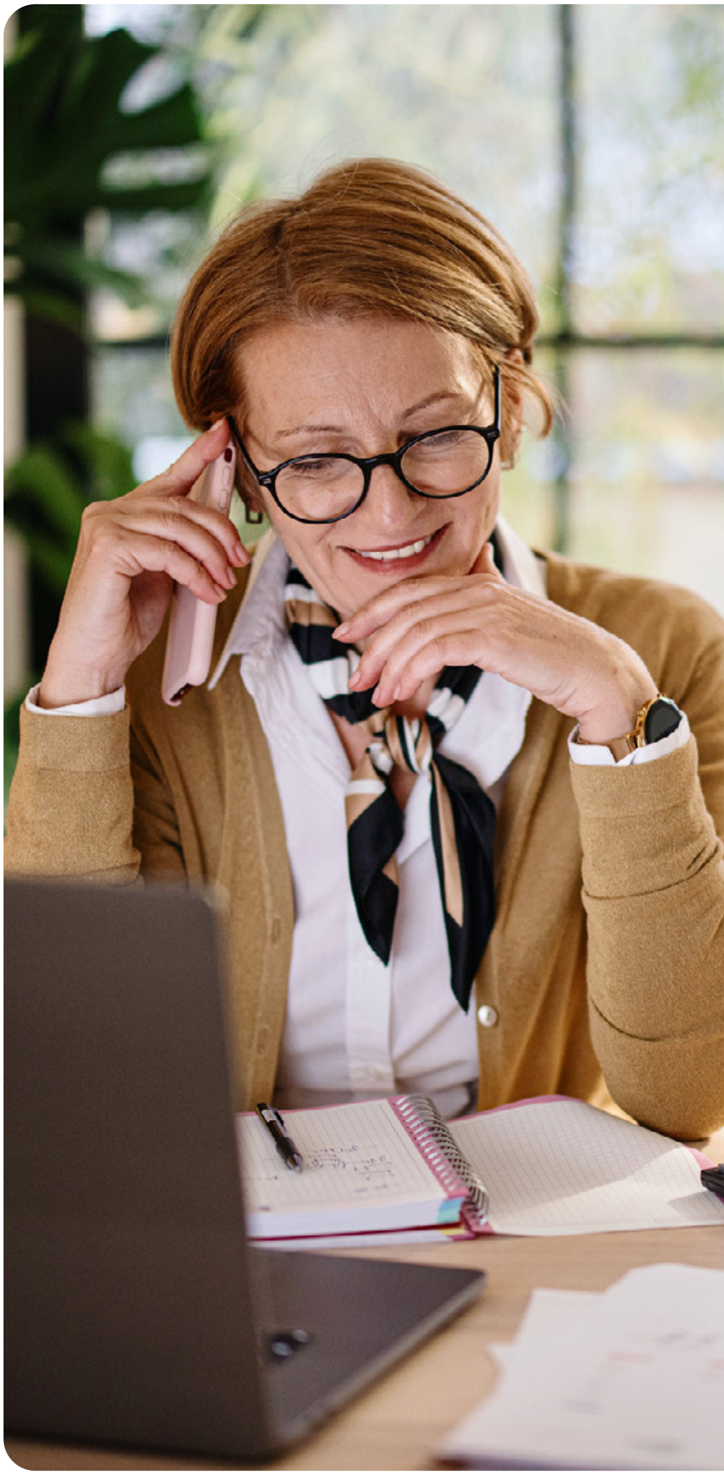
When VAT processes are automated and integrated, tax teams can move from firefighting to foresight. This turns complex regulatory demands into opportunities for better business decisions and growth.

Balancing Compliance and Strategy in a Changing Tax Landscape

Tax leaders can play a key role in strategic decisions for their businesses. Our survey of 100 finance and tax professionals across Germany, France and the UK reveals how their influence now extends beyond compliance to shaping mergers and acquisitions, identifying opportunities created by tax reform, and guiding the successful launch of new products and services. Companies embedding tax into strategic decisions can see improved commercial outcomes and faster decision-making. The tax function has evolved from a back-office necessity to a strategic partner driving growth and resilience across industries.

That's not to take away from its core focus of tax compliance. The increase in cross-border trade and the never-ending cycle of regulatory changes that accompany it mean that tax departments continue to manage many spinning plates. As a wave of digitalisation is promised by the governments in the UK and Europe, how to administer VAT becomes a key focus, as does mitigating the risk of falling foul of regulations.

In this survey report, we explore how workloads, budgets, and approaches to VAT compliance are evolving, and what areas finance and tax leaders are seeing as the greatest risks and opportunities.



How the Tax Function Drives Business Strategy

It's clear from The Evolving Role of Tax: Avalara Strategy and VAT Survey 2025 that **the tax function of businesses is an essential component of organisational strategic decision-making.** Almost all of the 100 finance executives surveyed (97%) say that they agreed with the statement: "The tax function within my organisation has a strong strategic role in the business".

The tax function is being relied upon to help with key business decisions, such as whether to expand into a new market, looking at mergers & acquisitions, assessing the financial viability of new ventures, and making strategic business decisions based on tax changes within a country. Overwhelmingly, 89% of our respondents say this is how they contribute to business strategy. It's a tall order, and the survey also finds that almost one in five (17%) say they find contributing in this way a challenge.

While only a small proportion (8%) of respondents currently see developing a forward-looking tax roadmap that incorporates emerging technologies like AI as their main strategic contribution, it's clear that this area is gaining attention.

Balancing the Challenges of Running a Tax Function

When it comes to their own role and responsibilities, like any business, the leadership of the tax function has its challenges. The top three most cited involve risk management, good internal working relationships and balancing costs and efficiency.

A large proportion (78%) say that managing risks is a top challenge, whether that was keeping data safe, worries about non-compliance of tax regulations, fraud or errors in VAT filings and missing deadlines. Almost one third (31%) say, given the option, they would choose to focus or invest in risk management efforts for the next 12 months.

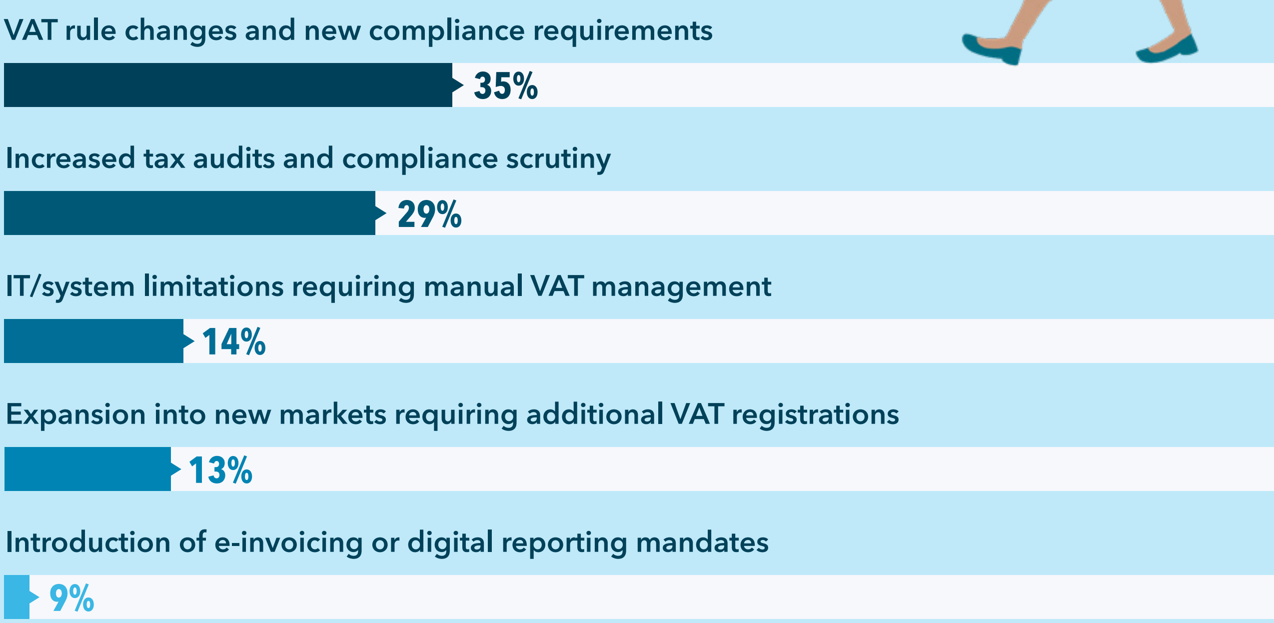
Half (53%) say nurturing good relationships with other departments, especially IT and Accounting, is a key challenge. In fact, one in six (17%) would select this as a key focus for the next 12 months. Managing the integration of digital technology into existing systems is also cited as a challenge by around half of respondents (53%).

It's easy to see how these two challenges are intertwined—digital transformation is a necessity across all business functions, but each department has its own distinct priorities and needs, which the IT function must deliver on. The key to success here is good working relationships between departments.

Finally, there is the balancing of costs and efficiency, which sits at the heart of most business functions, and the tax function is no different. Four in ten (41%) say balancing the dual priorities of managing costs and maximising efficiency is a top challenge. One in five (19%) say that showing that investment in digital transformation—a major way in which efficiencies can be found—has paid off is a particular concern.

Workloads are Increasing in the VAT Function

Why workloads have increased



Within the tax function is the area dedicated to navigating the complex world of VAT. In recent years, regulatory authorities have been driving change in how VAT reporting is managed, and a growing reliance on digital tools to manage tax obligations. The knock-on effects are being felt by those responsible for VAT compliance.

The findings leave little doubt that workloads have increased. Nearly all executives (96%) report their VAT compliance workload has increased in the past 12 months, with a majority describing the increase as "significant." They cite several reasons for this increase.

One third (35%) cite VAT rule changes and new compliance requirements; slightly less (29%) say increased tax audits and compliance scrutiny. A smaller proportion (14%) say IT/system limitations requiring manual VAT management, or an expansion into new markets requiring additional VAT registrations (13%), as primary reasons for their increased VAT compliance workload. One in ten (9%) point to the introduction of e-invoicing or digital reporting mandates as a reason.

Unsurprisingly, spending on VAT compliance has also risen. Nearly all executives (94%) say their spending on VAT compliance has increased in the last 12 months. Investing in new technology is leading the charge here (63%), as executives look to find efficiency and cost reduction, as well as business preparedness. They want to invest in technology that can help them prepare for mandates such as e-invoicing and make investments to automate the VAT compliance process.

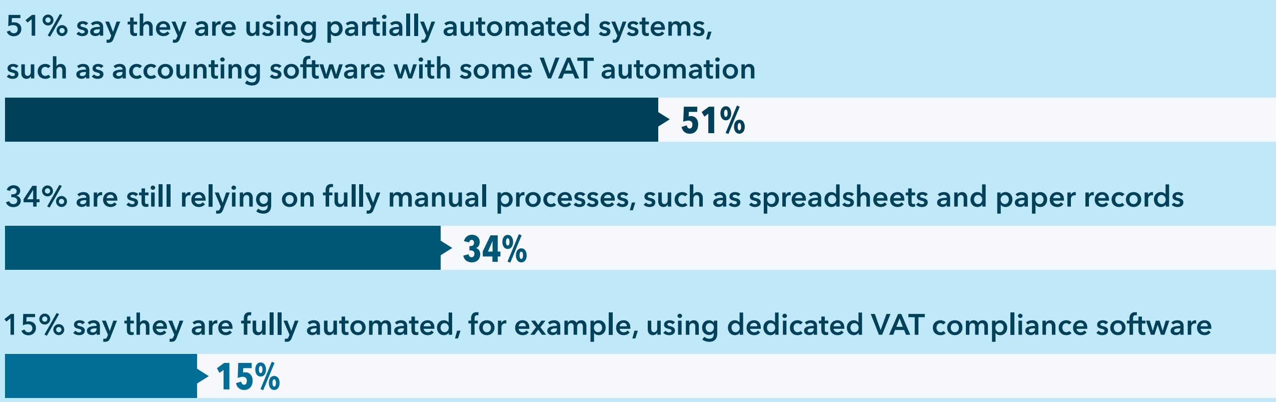
Almost half (46%) cite regulatory changes/ demands or enhanced scrutiny, or budget spent on hiring new talent or upskilling existing workforce as driving this increase in spend. Over a third (37%) mention the costs of outsourcing VAT compliance to a third party. Three in 10 (29%) hold the budget spent on auditing responsible. The increase in spending is also attributable to the fact that over half of respondents (53%) have experienced business growth during this period, leading to a greater need for investment in the VAT function.

Of the tiny proportion who say their spending has decreased (2%), it was exclusively down to their adoption of VAT automation software.

When we asked respondents what their key focus or investment was over the next 12 months, just shy of a third (28%) say improving internal processes, including auditing and record keeping, would be their number one choice.

VAT Compliance and the Road to Automation

Almost all (98%) executives anticipate their company will invest in VAT software in the next 12 months.



Across Europe, there is an accelerating shift toward VAT digitalisation and automation. We only need to look at the HMRC Transformation Roadmap, which sets out the UK's plans for automating the UK's tax system, or how the ViDA Directive represents a major transformation in the EU's VAT system.

Businesses are looking to technology not only to comply with new directives, but also to identify opportunities for process automation and efficiency gains, all while managing costs. **The ultimate aim of both regulators and businesses is to leave more time for a focus on business growth.**

Our survey examined what approaches finance executives were using to manage their VAT compliance, including how much of that included automation. Clearly, there is room for improvement.

Half of the respondents (51%) say they are using partially automated systems, such as accounting software with some VAT automation. **One in three (34%) are still relying on fully manual processes, such as spreadsheets and paper records.** Only 15% say they are fully automated, for example, using dedicated VAT compliance software.

Given this context, it's no surprise that almost all (98%) executives anticipate their company will invest in VAT software in the next 12 months. But while the will is there, many executives acknowledge facing several barriers when considering VAT automation.

Over half (56%) say integration issues with existing ERP/accounting systems is one of the main barriers to their company's adopting VAT automation. It's an interesting finding, given that working well with other departments, including Accounting and IT, is a key challenge for tax function heads, as noted earlier in this report.

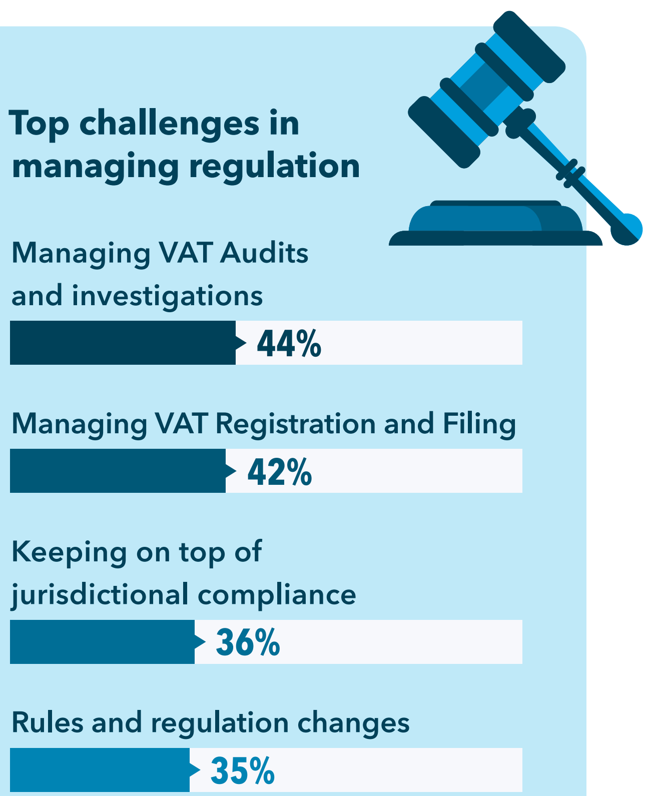
In that never-ending goal of balancing costs and efficiency, half (49%) of VAT executives cite high implementation costs as a key barrier to VAT automation. Just as many cite a lack of internal expertise or resources to help make the switch, or are uncertain which solution might fit their needs (48%). Only 4% say they don't have any barriers to adopting VAT automation.

With the majority of respondents saying that they have got plans to invest in VAT software, 9% say that digitalisation and automation is their MOST important thing to invest in or focus on for the next 12 months. Efforts are being focussed on risk management (31%) or improving internal processes, including auditing and record keeping (28%), as the biggest investment priorities for the next 12 months.

Staying on the Right Side of Regulation

Despite the ever-changing regulatory landscape and the digital mandates and cross-border complexity of VAT compliance, most respondents say they are happy with their current VAT compliance process. Almost all (99%) say that they think their processes are efficient and accurate, most of the time. Practically all executives (98%) express confidence in their organisation's ability to remain compliant with evolving VAT regulations, particularly when supported by the right solutions and expertise, whether managed internally or through trusted partners.

Top challenges in managing regulation



They do face a wide variety of challenges, though. **Managing VAT Audits and investigations (44%) or VAT Registration and Filing (42%) are cited as the biggest challenges.** But almost as equally challenging is keeping on top of jurisdictional compliance (36%), and rules and regulation changes (35%).

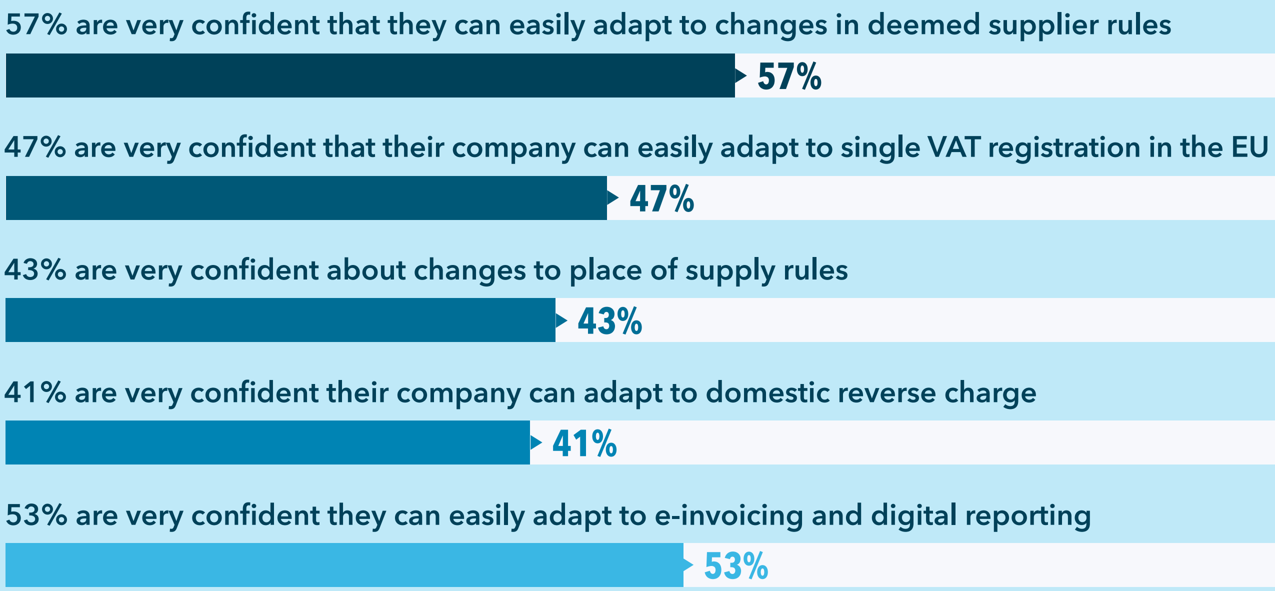
To minimise these risks, they rely on a range of strategies. These include keeping fully updated with changes in regulations (55%), regular audits of their processes (51%) and adoption of technology (49%). Training and development of workforces (47%), and a centralised management of the process (43%) are also cited.

It's interesting to note the wide variety of ways VAT compliance is managed. There's an even spread of those that manage through the in-house finance/accounting team (27%), a mix of in-house/automation (24%), or a mix of in-house/outsourcing (23%). About one in seven rely on automated VAT compliance software (14%) or an outsourced VAT compliance provider (12%) for this purpose.

Just under two-thirds (61%) of respondents say they spend between five and nine hours a month on VAT compliance, 20% spend between 10 and 19 hours, and 18% spend over 20 hours.

Cross-border VAT complexities

Tax professionals are confident



Of course, much of the complexity of VAT compliance comes from today's cross-border trade. While the number of VAT IDs held by companies varies, the majority of respondents to our survey have more than five. Almost all (90%) say that **over a quarter of their transactions involve cross-border VAT compliance.**

Our survey covered finance executives in the UK, France, and Germany, and most say that they had a high level of familiarity with the VAT regulations of the countries in which they operate (between 59% and 63%), but challenges remained.

Over two-thirds (41%) say that evolving mandates such as r**eal-time VAT reporting and the introduction of mandatory e-invoicing were their biggest challenge**, as it often meant updating systems and processes. Fewer (25%) say preparing for and carrying out cross-border VAT compliance audits, and the time and effort spent doing that was a challenge. A similar amount (24%) say dealing with VAT refunds & input VAT recovery is a challenge because of the slow process, leading to an impact on cash flow.

To keep on top of things, the executives rely on multiple sources. A small majority rely on their teams to stay abreast of developments, with 69% saying they subscribe to official tax authority updates, and rely on the internal communications process and quarterly update sessions to stay informed about changes in VAT regulations.

Around half (47%) gain updates through their VAT software, or through industry groups/organisations (46%). Slightly less use third-party VAT advisors/consultants (38%) or use their good relationships with regulators and advanced notice (37%). Hardly any (4%) mention keeping track through relevant trade and business media.

Despite these challenges, confidence levels remain ok, with around half of executives reporting being very confident that they can easily adapt to various new VAT regulations, such as changes in deemed supplier rules (57%) or e-invoicing and digital reporting (53%). Over four in ten (47%) are very confident that their company can easily adapt to single VAT registration in the EU and a similar number indicate they are very confident their company can adapt to changes to the place of supply rules (43%) or the domestic reverse charge (41%).

Emerging Trends

We asked our respondents to list what they thought were the emerging trends in VAT compliance that they considered to be the most significant to their industry. They generally spoke of increasing complexity and increasing use of technology, as can be seen by these comments:

Increasing complexity of/constant changes in managing VAT requirements

> "Due to the frequent policy changes in various countries, the demand for the finance team to learn and train on the updates of VAT regulations is constantly increasing."
>
> **VP FINANCE, MANUFACTURING, UK**

> "VAT compliance in cross-border sales is complex and requires attention to tax policies and reporting requirements of different countries."
>
> **VP FINANCE, SOFTWARE, GERMANY**

> "Greater regulatory complexity as governments introduce advanced technologies like AI and real-time data analytics for oversight and fraud prevention."
>
> **C-SUITE, WHOLESALE AND DISTRIBUTION, UK**

Digitalisation

> "Increasing digitalisation of VAT reporting processes for faster and more accurate reporting and compliance."
>
> **C-SUITE, RETAIL, FRANCE**

> "More and more enterprises are using AI tools for VAT data analysis, risk identification, and compliance checks to enhance efficiency and accuracy."
>
> **VP, MANUFACTURING, UK**

> "Increased automation of VAT processes through advanced software solutions."
>
> **C-SUITE, RETAIL, UK**

> "Expansion of real-time digital reporting and e-invoicing mandates across major economies."
>
> **C-SUITE, RETAIL, UK**

> "Integration of tax automation into corporate ERP systems."
>
> **VP, WHOLESALE AND DISTRIBUTION, GERMANY**

> "As a CEO, I see this as a shift from periodic tax filing to real-time transparency. It demands substantial investment in ERP upgrades, tax engines, and automation tools."
>
> **CEO, RETAIL, FRANCE**

Survey methodology

A total of 100 senior-level executives with financial responsibilities, either CFOs or reporting directly to CFO, across several industry sectors participated in the research. They were evenly spread in the United Kingdom (32), Germany (35) and France (33). Their primary business was in retail (30), wholesale and distribution (26), manufacturing (25) or software (19). They had annual revenues of over £50 million, with the majority in a business generating between £100 and £249.00 million (46) or between £250 million and £499.99 million (41).

The Increasingly Busy Tax Function

In our survey, we find finance executives spinning multiple plates, from contributing to key business decisions to keeping abreast of all the latest developments in VAT compliance. Despite the advancement of technology, many still find the system hugely complex and more and more time and money is being spent on avoiding falling foul of the law. The increasing digitalisation of tax is a key feature of the challenges facing tax functions, not only in terms of keeping up with new mandates, but also integrating new technology, such as e-invoicing, into their existing systems. That said, it's gratifying to see that many feel confident they can stay on top of regulations, and they believe that their tax compliance processes are running well. There remains room for improvement, however, particularly regarding automating processes.

Avalara is committed to ensuring tax compliance doesn't interfere with the growth or success of your business. Discover how automating tax compliance helps businesses track and comply with ever-changing tax laws around the world.

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