

Cloud vs. On-Premise Sales Tax Solutions

Which works best for your company?

If your company is growing, you operate as part of a supply chain, or have a high volume of taxable transactions, it may be time to re-evaluate how you handle sales tax in your business. Migrating certain business functions to the cloud or outsourcing them to third-party cloud providers can be a competitive advantage over having to build custom workarounds or maintain on-premise solutions that need constant management and updating. Sales tax is one of these business functions. The evolution of cloud-based software and software-as-a-service (SaaS) solutions has given businesses a more flexible and affordable alternative to costly on-premise installations for managing compliance.

The chart below offers a side-by-side comparison of cloud-based vs. on-premise sales tax solutions to help you weigh the pros and cons of each approach for your business.

CLOUD-BASED

ON-PREMISE

What is it?	Cloud-based sales tax solutions deliver accurate calculations from a remotely hosted tax decision engine accessed via the Internet.	On-premise sales tax solutions require use of hardware and software that is physically installed on a company's own in-house computer systems.
Price	Most cloud solutions follow a subscription model, with pricing based on cost-per-transaction or cost-per-use.	Purchase of hardware, software, and ongoing maintenance, including updates and technical support, can require a significant investment of time and money, often costing \$50,000 or more.
Management & hosting	The vendor typically hosts the tax engine. Companies effectively leverage off-premise technology to outsource their sales tax management process.	Other than software-specific technical support, the tax engine itself is typically handled and managed in-house by the IT department.
Address validation	Real time address validation that pinpoints sales tax calculations to "rooftop" levels.	Address cleansing, auto-jurisdiction to zip+4. May require mapping of geocodes.
Data centers & backup	SaaS is multi-tenant architecture. There are no customer-specific technology requirements beyond high bandwidth Internet. Many cloud providers offer back-up data centers with fail-over capabilities.	Often requires multiple servers for backup and storage of tax-related data, development environment and production environment.
Exemption certificate management	Exemption certificate management through entire cert lifecycle includes cert requisition, approval, storage, and application to transactions.	Limited Certificate Management to enter data and tag certificates. Certificate requisition, approval, storage and application to transactions requires additional software through 3rd party.
Implementation and go live	10-30 hour average implementation with 30-60 day average go live.	6-12 month implementation.
Integrations	Leading SaaS providers, like Avalara, integrate with multiple ERP, accounting and ecommerce systems including SAP, Oracle, Netsuite, Sage, Epicor, Intacct, Magento, etc., as well as SDK for .net, Java, PHP, COM.	Usually provides few integration options with only the most common enterprise accounting programs, including Oracle and SAP.

CLOUD-BASED

ON-PREMISE

International	Some services provide integrations for VAT and other international taxes.	Some on-premise solutions provide international VAT and other international tax support.
Product taxability	Can automatically assign tax rules by mapping to product and service categories.	Can automatically assign tax rules by mapping to product and service categories.
SSAE certified	Several cloud-based service providers are SSAE (Statement on Standards for Attestation Engagements) certified, indicating strict accounting and security controls in place for software over the Internet.	Not applicable.
SST certified	Several cloud-based service providers are SST (Streamlined Sales Tax Governing Board) certified to provide companies compliant sales tax software.	Only 1 or 2 on-premise solutions are SST-certified as a provider.

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