WHITE PAPER

Can We Talk? Bridging the IT-Tax Compliance Gap

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Sorting out indirect tax issues was not traditionally on the top of the IT organization's to-do list, but new compliance mandates around the world have elevated its status. It is more important than ever that IT decision-makers and in-house tax and finance professionals enter into meaningful, strategic conversations about how—and why—to accelerate digital transformation to respond to invasive new tax mandates.

A cascade of tax compliance mandates

The globalization of trade and commerce is far from over. Multinational enterprises continue to leverage new technologies to optimize borderless supply chains. Moreover, the spectacular growth of e-commerce and a new generation of technologies is opening up global markets for even the smallest of micro-enterprises.

Tax administrations view these developments with mixed feelings; economic growth is a key political objective for every government and opens up new revenue collection opportunities—but at the same time, the digitization of trade and commerce coupled with the increased complexity of business models renders traditional consumption tax controls and audits wholly inadequate. Global businesses and supply chains increasingly intersect new national mandates, imposing sophisticated real-time controls on business transactions and making tax compliance more complex than ever.

Every time a product or service is sold in a new geography or under the watch of evolving national tax regimes, enterprises must respond, to ensure their tax recognition and reporting processes align to evolving mandates for continuous controls on e-invoicing and other critical sales and purchase processes and documents. Non-compliance carries a stiff burden, which can affect an organization in many ways—financial, operational, employee productivity, customer experience, legal, even brand perception.

But the challenges go well beyond that classic rationale for ensuring compliance. Continuous transaction controls (CTC) shake the very foundations of indirect tax compliance. As tax controls move to where the actual business process takes place, as opposed to after-the-fact audit of where a company records data from such transactions, indirect tax compliance changes in nature and goes from an activity that can be contained within a limited team of tax professionals to something that affects almost every function in a company. Companies that try to apply the proven formula for change management in countries with VAT requirements will quickly find themselves adopting local point solutions that are functionally broad but so inflexible and diverse that they will stop finance transformation in its tracks.

CTC regimes generally evolve to prescribe specific processes and data formats for invoices, credit notes, payment, logistics and payroll; by the time this roll-out is complete, each CTC country will have hard-coded its core financial processes around the local tax administration's preferences. To address this insidious paradigm shift, IT departments and their colleagues representing the tax function have to team up.

That can't be done until IT, Tax and Finance are communicating and collaborating effectively. If they can't, companies will likely find their digital transformations inhibited by disparate local enterprise systems that are so entrenched they are impossible to remove. The good news: with better collaboration and aligned action on tax, your entire organization can achieve real operational efficiencies.

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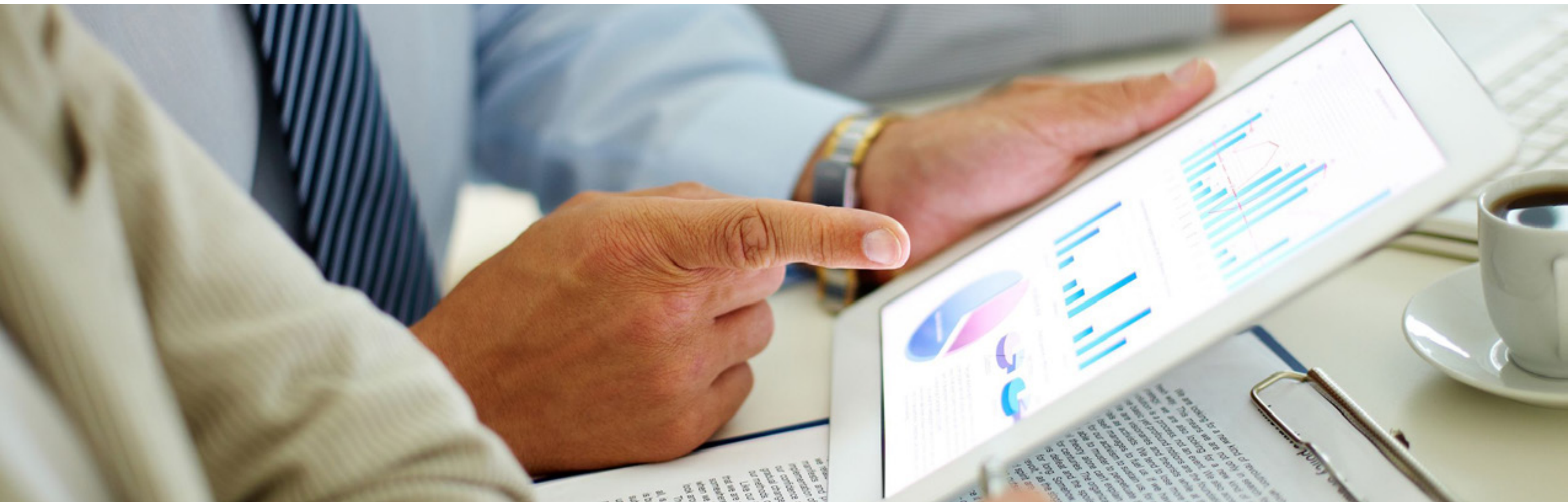
Not just compliance risks, but also opportunities

Many enterprises have started to see they are effectively painting themselves into a corner by treating the disharmonized, chaotic adoption of CTC methodologies by tax administrations as evolutionary rather than revolutionary. Only a few such companies have done the analysis needed to see this revolution for what it could bring: business opportunity.



This is a completely new perspective, and one that many companies have a hard time adjusting to. Until now, tax has been viewed as a necessary evil and not a vector of innovation and competitive positioning. The pervasive effects of CTCs provide an opportunity for the world's leading companies to use this insight to distance themselves from competitors who continue on the slippery slope to fragmentation via the old "compliance" paradigm. Some excellent opportunities emerge when Tax and IT get on the same page and begin working together on a modern, efficient and scalable approach that embraces tax digitization as not just a cost but a potential enabler.

These opportunities include:

- **Ease your migration path to next-generation ERP systems,** like SAP S/4 HANA.
- **Drive inefficiencies out of your supply chain.** If your data and systems are ready, you can use the force of legislation to not just automate your real-time reporting to the tax administration, but in parallel automate your accounts payable (AP) and accounts receivable (AR) trading partner exchanges.
- **Enhance data quality and surface historically hidden transaction data** with timely adoption of automation based on structured data exchange standards and the power of new technologies such as in-database processing. This not only makes both business and tax reporting easier and faster, it creates opportunities for management dashboards that provide unprecedented data insights for CFOs, CEOs and boardrooms.
- **Shrink IT's maintenance, infrastructure and support burden** by re-using components across CTC country systems and focusing only on what differs from jurisdiction to jurisdiction. This eliminates the need to manually intervene every time regulations change.
- **Redeploy resources to core business functions** by reducing the number of people dedicated to indirect tax reporting and audit support in compliance and shared services teams.

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Some companies have taken a first step toward unifying the perspectives of Tax and IT by creating a new role—the tax technologist—specifically to address issues, such as the proper prioritization of tax compliance and an appropriate balancing of the potential risks and opportunities of tax digitization within IT's overall roadmap, especially as an integrated part of digital transformation. The tax technologist can play a leadership role in bringing the IT and tax organizations to the same table at the same time to talk about effective ways to get ahead of the curve and adopt programs to turn CTCs into a competitive advantage.

Fostering better conversations to reduce risk and uncover opportunities

How can IT and Tax organizations have more productive conversations? It starts with questioning traditional conceptions of "where tax fits."

Here's one way to go about it:

- Create an inventory of existing and planned digital tax mandates in every market where your business operates; map out where your business has already adopted local point solutions.
- Whiteboard your tax-relevant systems and process landscape and create a common view across tax and IT of the corporate functions affected.
- Remember, when tax controls become an operational condition rather than an accounting concern, indirect tax compliance becomes an organization-wide responsibility. Tax and IT leaders should spearhead programs to ensure these responsibilities are embedded within the company's procedures.
- Work with the office of the CFO to attach potential dollar amounts to risks and opportunities to determine which priorities are more closely connected to savings and ROI—and are therefore more critical—and which may be softer savings tied to efficiencies and avoided risk.
- Jointly get buy-in from top management on a vision that will enable your company to not just deal with new digital tax mandates but use them to boost your own digital transformation.
- Among other things, draw up a charter outlining the minimum requirements for any system or application that handles tax-relevant data for your organization. External vendors should be forced to demonstrate conformity against this charter, which should become a standard part of every technology request for information (RFI) or request for proposal (RFP).

Once you have a shared vision, a modern tax solution can help

Once your organization's Tax and IT teams have had those important conversations, have found common ground and jointly embraced a commitment to tax compliance as a strategic initiative, what's next?

A modern tax compliance solution must be engineered from the ground up to handle modern regulatory mandates. This is particularly true for global manufacturing and retail organizations that do business in dozens of countries and must comply with mandates established by hundreds or even thousands of taxing authorities.

Some of the key requirements tax technologists should look for include:

- The ability to link to essential business applications for tightly integrated data sharing and transfers, either through native integrations or third-party application programming interfaces;
- Support for real-time reporting and controls based on a consistent and continuous approach that considers the needs for operational efficiency, risk management and automation;
- Ensured performance, availability and resiliency at scale, as operations expand into new geographies;
- Modules for key functions, including sales and use tax determination, VAT and fiscal reporting, e-invoicing compliance and cryptocurrency;
- Support for tax as an integral function within all business transaction-related systems, rather than as a bolt-on capability;
- Built-in awareness of and support for regulations across dozens of countries where an enterprise does business; and
- Single sign-on to disparate archives holding critical tax evidence associated with a growing number of cloud-based business process platforms. As CTCs get rolled out worldwide, tax administrations will increasingly be calculating liabilities based on data they collect from transactions—businesses will need impeccable evidence archives against which to reconcile such pre-filled returns.

Better conversations drive a better compliance process

As tax compliance becomes more interconnected with core business processes, organizations must make all aspects of tax reporting central to, and integrated with, core business activities. Tax and IT teams have a unique opportunity to craft and deploy tax compliance solutions that reduce risk and create exciting business opportunities—if their teams can find common ground.

Tax and IT organizations should collaborate on a vision that allows indirect tax to be managed seamlessly and transparently so the business can focus on objectives, regardless of the constant change inherent in modern tax. And your Tax and IT organizations should get "under the hood," supporting the business rather than getting in each other's way. By working together more closely, the emergence of continuous transaction controls provides Tax and IT with an opportunity to remove operational and regulatory friction while maximizing the potential of technology to drive efficiency and support growth.

For more information, please see our Sovos Yes, Tax! Conversation Guide to get valuable tips for better, more productive conversations among tax and IT professionals.

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How Sovos helps IT and tax drive compliance and use tax for business advantage.

Sovos is a leading global provider of software that safeguards businesses from the burden and risk of modern tax. As governments and businesses go digital, businesses face increased risks, costs and complexity. The Sovos Intelligent Compliance Cloud is the first complete solution for modern tax, giving businesses a global solution for tax determination, e-invoicing compliance and tax reporting. Sovos supports more than 7,000 customers, including half of the Fortune 500, and integrates with a wide variety of business applications. The company has offices throughout North America, Latin America and Europe. Sovos is owned by London-based Hg.

For more information visit www.sovos.com.