

→ TOP 10

VAT COMPLIANCE AND REPORTING LESSONS FROM LATIN AMERICA



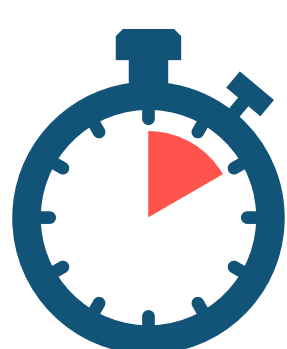
Pioneering Latin American countries have led the way with VAT initiatives that rely heavily on technology for compliance and reporting, giving governments greater visibility into business transactions. Now more than 30 European nations have begun to follow Latin America's lead, with the introduction of electronic VAT filings and an eye toward ultimately achieving real-time VAT reporting, automated audits, invoicing and eReceipts.

→ HERE ARE 10 LESSONS LEARNED FROM LATIN AMERICA'S INITIATIVES THAT CAN HELP COMPANIES IN EUROPE PREPARE FOR TAX REPORTING CHANGES:

1. REGULATIONS CHANGE WITH LIGHTNING SPEED. Europe is now on pace with Latin America, where compliance mandates spread like wildfire, impacting several business processes, such as accounting, operations and human resources. It's not uncommon for requirements to change multiple times per year, as we've already seen with the updates to Spain's SII.



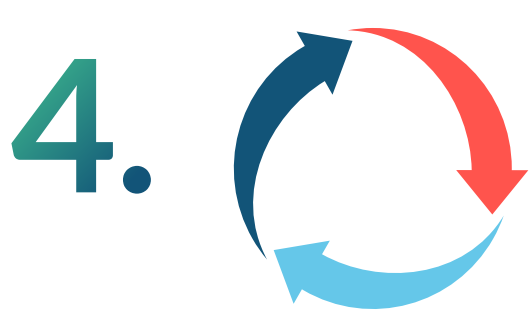
2. REAL-TIME REPORTING AT THE TRANSACTION-LEVEL IS BECOMING MORE COMMON. While some governments only require submitting invoices or invoice data after a transaction occurs, many are moving to real-time mandates in which government validation is needed to complete a transaction. Without this approval, invoices cannot be sent and, in some cases, goods cannot be shipped.



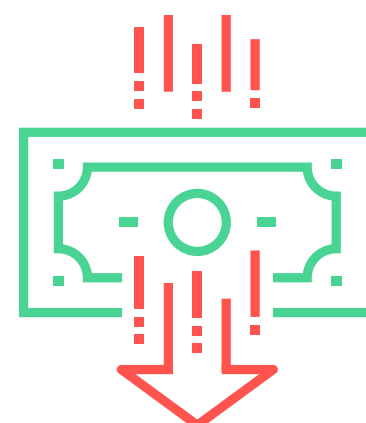
3. CROSS-BORDER INITIATIVES MULTIPLY VAT COMPLIANCE RISKS. Countries are increasingly working together to standardize tax reporting for easier information sharing. For example, nearly 50 countries have agreed to share detailed financial and tax information through the Base Erosion and Profit Shifting (BEPS) Action Plan in order to crack down on transfer pricing.



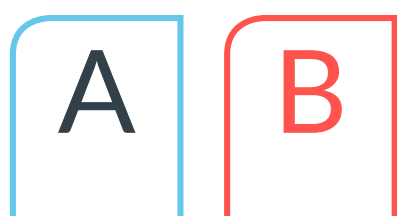
4. AUDITS ARE MORE FREQUENT AND AUTOMATED. With data being continuously acquired, governments have the ability to detect tax reporting errors quickly, often in real-time, and automate the audit process. The Standard Audit File for Tax (SAF-T) is a process common in Europe that facilitates the transfer of tax reporting information from companies to relevant authorities, requiring companies to provide governments with full transparency on business transactions.



5. COMPLIANCE ISN'T JUST A TAX TECHNICAL ISSUE – IT DIRECTLY IMPACTS THE BOTTOM LINE. Non-compliance can result in fines, penalties, operational shutdowns and missed tax deductions. Problems can quickly add up to millions for large companies.



6. CONTINGENCY PLANS ARE A MUST. When government-approved documents are needed to ship legally, companies need built-in backup processes to ensure there are no disruptions to business operations.



7. MANUAL PROCESSES MUST BE ELIMINATED. Relying on PDFs instead of government-approved XML invoices or continuing with manual, paper-based receiving processes requires many internal resources and can be prone to errors. Discrepancies between internal records and the government's files will trigger audits and fines.



8. COMPANIES SHOULDN'T RELY ON ERP TECHNICAL NOTES TO PERFORM UPDATES. ERP support updates affect the entire global system, a process most companies don't want to undergo frequently. Even with these updates, key information is entered manually, increasing the risk of errors.



9. DON'T UNDERESTIMATE THE COST OF ERP CHANGE MANAGEMENT. Most corporations have highly customized global ERP applications that don't match government requirements. The inability to adapt to these individual mandates results in compliance errors, creating huge tax and audit risks.



10. MAINTAINING MULTIPLE, LOCAL VAT COMPLIANCE AND REPORTING SOLUTIONS IS UNNECESSARILY COMPLEX AND COSTLY. Multinational companies that rely on various country-specific solutions will face time-consuming, expensive maintenance, support and updating nightmares. Plus, local solutions eliminate corporate oversight and visibility, leaving more room for errors and discrepancies.



Questions about how your business can ensure it's prepared for Europe's constantly changing tax regulations? **Contact Sovos** today to learn more.