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Government Mandated E-Invoicing

Laws Continue to Expand Globally

Here's What the Experts are Saying About IT's Role
in Leading This Change

Government-mandated e-invoicing laws are making their way across nearly every region of the globe, bringing more stringent mandates and expectations on businesses.

Inserted into every aspect of your operation, governments are now an omni-present influence in your data stack reviewing every transaction in real time as it traverses your network.

Real-time monitoring has also brought about real-time enforcement that can range in severity from significant fines to shutting your business down completely.

All of this has created a new reality for IT leaders who need a strategy to deal with these global changes. We asked our experts to offer their guidance on how this will affect IT departments and how they can best prepare.

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Steve Sprague
Chief strategy officer and general manager, VAT, Sovos ➡

With government authorities now in companies' data and demanding real or near real-time reporting, what impact will this have on IT departments?

CIOs need to make a choice – do they pivot with these changes and adopt a centralized approach to their data, systems, business processes and applications, or do they run a decentralized platform where every country is left to make their own decisions? More than 95% of companies have implemented a decentralized approach as these mandates have grown country by country.

However, as Latin America has grown from only three countries instituting these mandates in 2014 to more than 14 countries implementing them now, and with another 30 countries around the globe beginning the process of implementing similar regimes, including economies across Asia and Europe, like France and Germany – a decentralized approach leads to several long-term problems, including:

- Limited visibility outside of the country
- Multiple tools and vendors across different countries
- Disjointed processes with a focus on fulfilling local obligations only
- Solving the "problem at hand" vs. looking at the bigger picture
- Poorly defined roles and responsibilities
- Inconsistent approach to implementing additional countries

To meet government mandates and ensure operations continue uninterrupted, what should IT prioritize? What approach would you recommend?

IT should focus on the end goal: implementing a centralized approach to these government mandated e-invoicing laws to ensure a globally consistent approach to all digital filings. There will be cost reduction as the number of vendors and tools are consolidated, and risk will be further mitigated through increased standardization and visibility.

I can't overstate the importance of implementation synergies as requirements increase and expand. This is only going to get more complex as time goes on. The clarity of roles and responsibilities is the other benefit to IT teams, as this approach will lead to clearly defined areas of focus for the team. Finally, alignment on analytics through one data hub will now be possible, providing a centralized dashboard for your global operations.

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Oscar Caicedo
Vice president of product management for VAT Americas, Sovos ➔

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For me, this breaks down into four distinct categories:

1. Business Process Architecture - As regulatory entities become more advanced, it is important to look at the overall functional business process, not only the technical mechanism to report. Many business processes were solidified much before current capabilities were readily available. It is important to revisit the business process to be able to determine the best technical path forward.

2. Source of Truth – With the complex environment IT departments must navigate, you need to redefine the expectations of data/process source of truth. Back-end system ecosystems were not built with current compliance/regulatory needs in mind. In mature markets, where governments continue to advance technical capabilities, it is critical to have a clear strategy to protect against source-of-truth risks. Otherwise, local regulatory entities tend to become the ultimate source of truth.

3. Data Aggregation/Reconciliation – A lack of clarity on the source of truth for each functional business process can lead to major risks. Registering data in real time with local regulators was the initial challenge. The current challenge is ensuring all systems involved are maintained in sync and are always fully harmonized. IT departments must recognize it is now a must-have to navigate the current environment.

4. Master Data – Data in back-end systems was already complicated enough to support in a centralized manner. Once real-time regulatory needs were introduced, the data issue got exponentially larger. Data structures, data libraries and extraction programs are all attempts to solve the problem, but normally these attempts fail due to gaps in understanding what is mandatory vs. optional. Clear guidance on the local needs is critical before deciding on a technical strategy.

To meet government mandates and ensure operations continue uninterrupted, what should IT prioritize? What approach would you recommend?

I would prioritize a clear regulatory understanding of the markets/geographies in which you operate. This seems obvious, but it is not always the case. Ninety-nine percent of the time when I speak with a large multinational organization, they are not clear on the needs of the local market. Efforts to centralize or take a cohesive approach fail because key IT decision makers didn't understand the regulation.

In addition, you need to focus on business processes and the data requirements to make them successful and solve the problem end to end. The challenge does not end with registering data. The problem ends when you have the proper visibility, maintenance, support, reconciliation and intelligence to be fully prepared.

Don't take chances. The regulatory environment is very dynamic, so it is important to ensure the proper testing of all business scenarios needed to operate. Failure to have clear testing scripts can lead to surprises in production environments, which can carry large implications for the operation.

Finally, consolidate as much as possible. This means simplifying end points, communication protocols, data structures, etc. This will allow for a more efficient way to manage the mandated processes in the different jurisdictions.

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Amit Venugopal
Chief information officer, Sovos →

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Centralization is the key, but there is a process that needs to be followed to execute correctly. At the outset, centralization needs to start with business processes, practices, tools and standardization on data push/pull technologies across the organization. Next, IT needs to consider data based on SLA-based needs. Starting with:

Delivery Data:
- Real-time data
- Data warehouse – reporting data
- Archive data

Once this has been solidified, IT can then focus on operational data, which contains:
- Mandate-driven configuration data or rules
- System telemetric

IT departments need to focus on availability of data by adding multiple replicated sources of that data. Location of data is another critical need driven by mandates mostly shifting to keeping data local, as we are seeing in countries such as Saudi Arabia and many other East Asian nations. IT departments need to ensure that satellite data stores can be provided, which are critical to countries with those specifications.

Centralization of processes and tools for delivery of data is step one. For step two, data needs to be split, moving away from storing data for years in a single data store, making it impossible to move/replicate and make available.

To meet government mandates and ensure operations continue uninterrupted, what should IT prioritize? What approach would you recommend?

As organizations make the move to a centralized approach, they need to be aware that the blast radius of "failure" affects more than a single country. To combat this, IT organizations need to have strong procedures and plans in place that help to both avoid these situations and quickly limit the damage if a problem does occur. I view it as three distinct focus areas:

Change control procedures. Strengthen impact controls not just for code changes or operational updates, but also include regulatory changes and configuration changes.

Testing procedures. Step away from just regional scope testing and incorporate global end-to-end synthetic testing, starting from the edge service to all the backend servers and back.

Incident management. Pivot from backend monitoring to a central monitoring and outage single pane view, supported by a global operations center in a follow the sun style model.

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Ryan Ostilly
Vice president of product and GTM strategy
EMEA & APAC, Sovos ➡️

With government authorities now in companies' data and demanding real or near real-time reporting, what impact will this have on IT departments?

IT teams will have to work hard to ensure their core finance and transactional tax systems have the enhanced capability to extract, transform, remit and consume real-time data with all tax jurisdictions across their global footprint, in compliance with an ever-changing myriad of legal and procedural requirements. With the pace of disruption accelerating, governments are rewriting the rules on taxpayer control and engagement, forcing direct connection and intimacy with the data itself.

I fear that in a growing number of cases, the owners of the data may be functional departments. The IT department will need to evolve its role in this relationship, viewing the government as a critical business partner – one with whom they must always be connected, continuous and complete.

To meet government mandates and ensure operations continue uninterrupted, what should IT prioritize? What approach would you recommend?

In this modern era of government-initiated tax transformation, the successful IT department will pursue a proactive strategy that prioritizes a connected, continuous and complete framework for government mandates and Continuous Transaction Controls (CTCs). These three principles are:

Connected – Architect a simplified integration and vendor strategy. Reduce exposure to multiple integrations and heavy projects when adopting new jurisdictions or implementing changes.

Continuous – Partner with regulatory and legal experts on a regular basis. Review upcoming mandates and assess impact on your current and future business requirements.

Complete – Think beyond technical aspects and schemas. Partner with tax subject matter experts when translating and validating mandate requirements, as these outputs will define the financial and tax position of your company with the tax authorities in real time.

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Christiaan Van Der Valk
Vice president, strategy and regulatory, Sovos →

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The digitization of VAT and other taxes considerably expands the scope of the finance and transactional systems that need to meet specific – and ever-changing – government requirements. This phenomenon of broadening and decentralizing tax compliance in a company's system and process landscape happens at the same time that more of these applications (for accounts payable automation, EDI, procurement, supply chain automation, travel and expense management, order-to-cash, customer communications management etc.) are used on a SaaS basis in multitenant mode.

This requires you to take stock of the applications that may come within the scope of VAT requirements in all relevant jurisdictions, and to review vendor contracts to ensure clarity as to responsibility for compliance. Procurement practices to license such external applications may also need to be reviewed to ensure proper contracting around tax compliance from the start.

To meet government mandates and ensure operations continue uninterrupted, what should IT prioritize? What approach would you recommend?

A key success factor is the degree to which IT and tax can team up to affect change in the organization. The default response to indirect tax changes will be to view these as evolutionary and best resolved by local subsidiaries. The introduction of CTCs, however, is a paradigm shift and one of the consequences is that solving these challenges in a decentralized manner can be harmful to a company's digital transformation potential.

IT and tax need to work closely together to raise awareness among all corporate and country stakeholders on the importance of a coordinated, strategic response to this profound change. The role of tax technologists who specialize in these interdisciplinary challenges cannot be underestimated.

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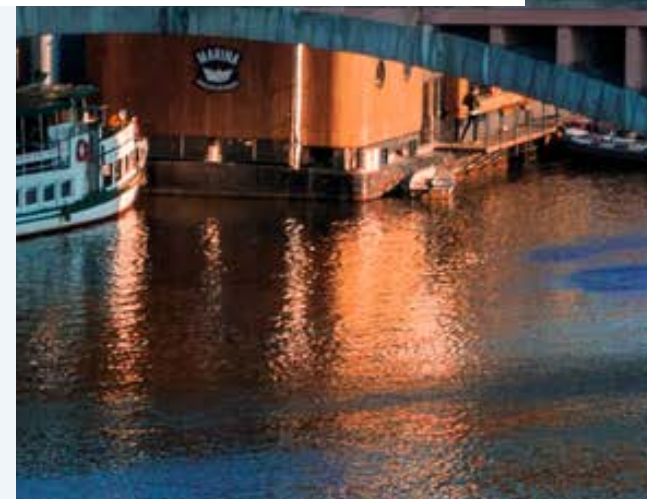
Common pitfalls of the decentralized approach
What to watch for

Poor data quality
Issue: Missing or incorrect data fields within ERPs
Impact: Manual, inefficient processes or costly workarounds

Complex transaction types and system maintenance
Issue: Complexity of differing transaction types and business processes (including those from acquisitions or "one-off" processes)
Impact: Additional monitoring necessary to ensure compliance with all identified scenarios

Inconsistent business processes
Issue: Taking a "one-off" approach to each country's mandate(s).
Impact: Decreased headquarter visibility, and cost inefficiencies from non-streamlined global processes

Unknown tax exposure and operational shutdowns
Issue: Not sufficiently analyzing for risk ("What is my data telling tax authorities?")
Impact: Surprises and/or business impact as tax authorities e-audit submissions

Formulating your IT strategy
Questions to ask

Who is monitoring the changing requirements?
- How do you stay up to date on all digital tax requirements and upcoming changes so you are ready to comply?
- How do you plan for IT changes without negatively impacting other projects in the pipeline?

Data quality and integrity
- How do you build a solution that maintains data integrity and quality, which tax does not control?
- How can you pre-audit data prior to submitting?
- How do you gain visibility to what is reported locally?

Support and skill sets for this new government data paradigm
- How do you help other functions understand the impact that these changes are having?
- What will the tax and IT resources that support tax look like in the future?

Operating model – roles and responsibilities
- Who ultimately has responsibility for digital tax?
- How will you balance local vs. global processes given the different requirements and systems?
- How will you gain and maintain cross-functional support?

Conclusion

A lot has changed in the world of government mandated e-invoicing. Continued investment in technology by government authorities have put regulators in the position to demand greater transparency along with more detailed and real-time reporting. To meet these demands, companies are looking to their IT organizations. The good news is, you don't need to go it alone. Sovos has the expertise to guide you through this global evolution based on our experience working with many of the world's leading brands.

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Don't go it alone.

Before implementing point solutions to manage government mandated e-invoicing, talk to the experts.

Learn how Sovos can help.

sovos.com/contact-us