Tax Automation: Integrating Cloud VAT and E-Invoicing Solutions into Your SAP S/4HANA Migration

SOVOS

ASUG

INTRODUCTION

For the modern enterprise, cloud solutions that integrate with enterprise resourcing planning systems (ERPs) must remain current with the latest in software and compliance requirements, avoiding costly mistakes and improving financial accuracy.

SAP customers who host their tax solutions on-premises report higher costs due to manual work, as well as difficulty integrating disparate systems. However, third-party vendors that specialize in managing software issues and moving compliance to the cloud work to keep up with changing regulations, bringing needed automation and support to IT and finance teams.

Simplifying value-added tax (VAT) and e-invoicing in the process of cloud migration—and SAP S/4HANA adoption—frees up your team for more strategic work and reduces business risk.

CHAPTER 1

Current State of Indirect Tax Compliance

The world of tax compliance has grown increasingly complex, with more than 12,000 tax jurisdictions in the U.S. alone. At present, it's not enough for businesses to keep up with only the federal, state, and city taxes required for compliance; some states also require county and district taxes. ERPs often use zip codes to determine tax rates, but zip codes alone can't provide the full picture of location-based taxes.

Frequent changes to these tax rates require research and continuous updating of systems for businesses to remain compliant. Additional complexity arises when considering product and service-specific taxability. For example, clothing, software, and groceries are taxed differently (or not at all), based on jurisdiction. The same goes for shipping rates. Some customers might even have tax exemptions, further complicating taxes for the business.

Well before you even sell to a customer, there's value-added tax (VAT) to consider throughout the production process, adding to the intricacies of compliance.

As organizations expand product portfolios or grow their geographic footprint, they're discovering how tax landscapes can differ across locations—and how complexity is multiplied as a result. Manual processes and a lack of in-house knowledge are among the inefficiencies that can commonly lead to compliance issues and result in businesses falling behind their competitors in ERP adoption.

To manage the complexities of tax solutions, the majority of organizations (60%) are moving or plan to move their tax solutions to the cloud, according to a study by ASUG and Sovos in 2021. This movement helps keep them current in maintaining accurate rates, easily viewing VAT obligations, remaining compliant, and keeping up with the ERP technology evolution.

More than a quarter (28%) of SAP customers surveyed by Sovos in 2023 said they are adopting tax and indirect tax management solutions, a trend that is expected to grow further in the coming years.

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CHAPTER 2

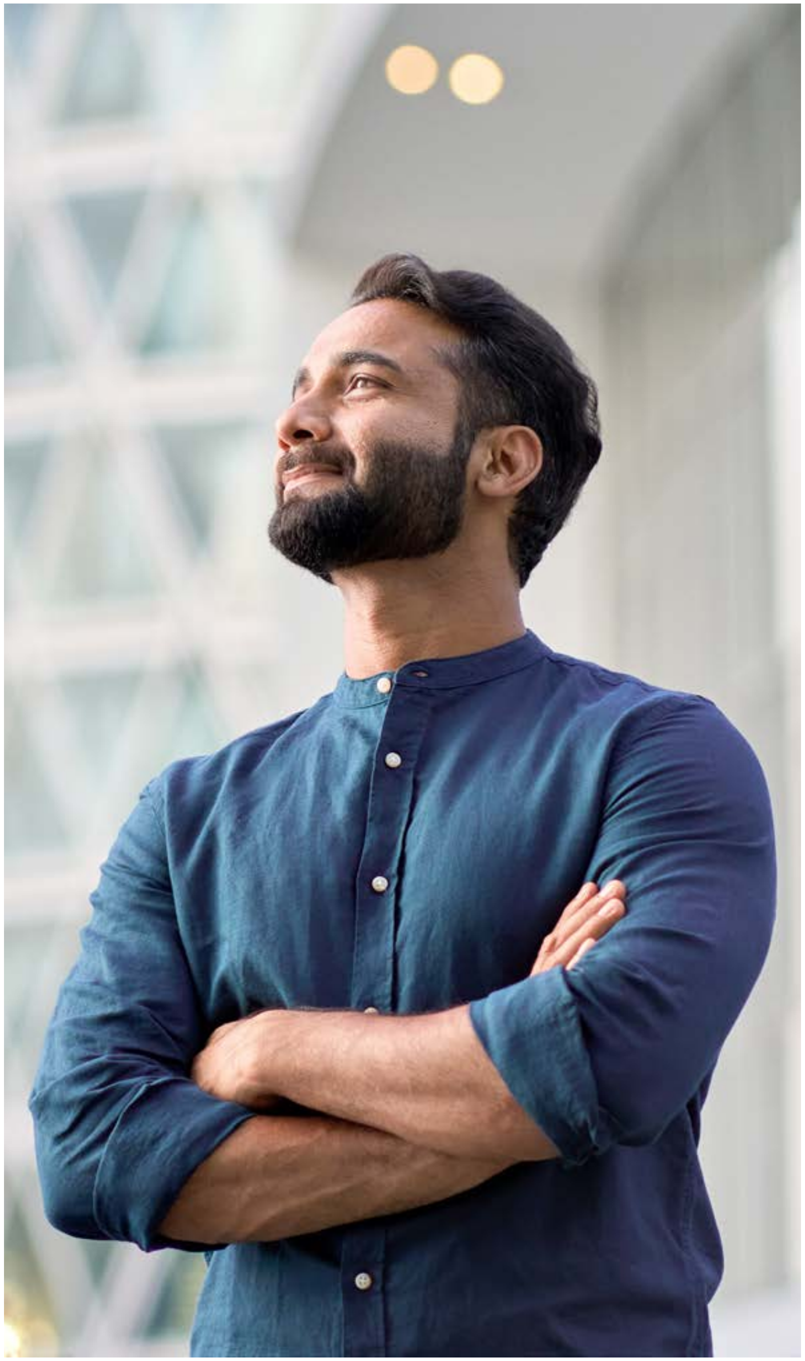
The Importance of Accuracy

Even for a local business, these tax complexities can be tricky to navigate. But for larger organizations looking to expand their operations—or even go global—the tax landscape is incredibly daunting.

If charges for taxes aren't accurate, an organization's financials won't be reliable. Audits create additional work for IT and finance teams, distracting them from their daily work. Furthermore, financial penalties and reinvoicing potentially unhappy customers can lead to a tarnished business reputation.

Integrating a cloud tax solution into your organization's ERP transition will lead to improved accuracy in tax collection and remittance, reducing audit risk and maintenance costs. On the technology side, using a hybrid cloud solution ensures that business disruptions will no longer pose a problem. Automatic failovers default to the on-premises engine node to continue calculations in case of an interruption to the cloud. And during high-transaction periods, the hybrid cloud can auto-scale to provide seamless service right when you need it.

Further, the technology keeps up with the latest software and compliance, while supporting your IT team and reducing their workloads. In our increasingly global business world, vendors are ready to step in to ensure compliance and free your staff up to focus on the bigger picture. The future of your business can't afford to fall behind the competition that's already optimizing its teams and taxes.



CHAPTER 3

E-Invoicing

Intelligent technologies are on the rise, with organizations increasingly using them across all job functions. In fact, implementing AI and ML solutions is an area of targeted growth for many enterprises.

Electronic invoicing, or e-invoicing, is a business process that connects the buyer and supplier for payment. Automation capabilities enable e-invoicing to be completed and allow businesses to gain visibility of accurate payments quickly.

E-invoicing is increasingly mandated by law in Europe and Central America, due to the authenticity it brings to transactions. Proposed regulations in the EU are now looking to standardize e-invoicing for value-added tax (VAT), making transactions either within the EU or by companies trading there adhere to these raised standards for authenticity. So far, numerous tax authorities in the EU are mandating e-invoicing for business to government (B2G), and soon they will be required for business to business (B2B) and business to consumer (B2C) organizations.

Obtaining a VAT number is a complicated task in and of itself. Each member state of the EU has its own rules and processes, and the place of supply will determine if there's even a need to be registered. Then, it's time for registration, a process that also differs by country. Plus, any non-EU company will also have to find a fiscal representative to register with the EU. Ultimately, working alongside an experienced partner who knows the tax laws will be immensely helpful.

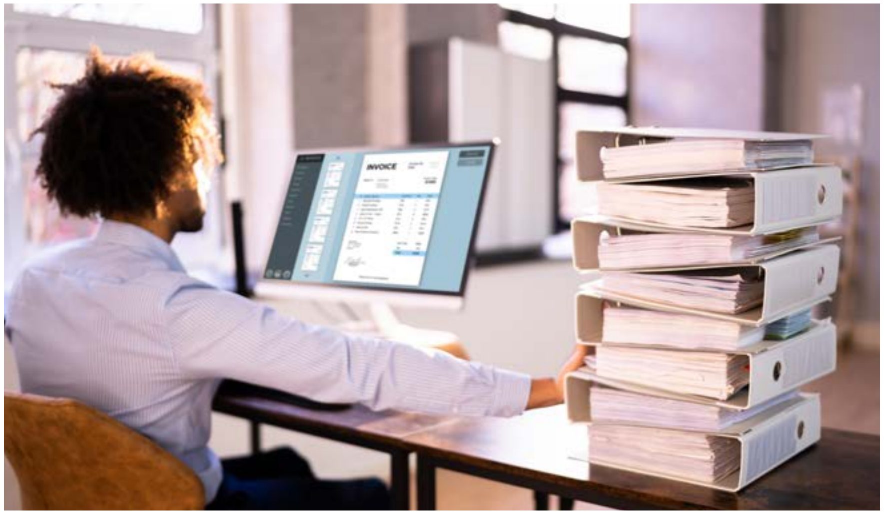
Not only will e-invoicing be required more globally in the coming years, but it will also reduce the need for paper and mail delivery, speeding up transactions.

While there are free and build-your-own options available for e-invoicing in SAP systems, end-to-end providers can be better trusted to do the bulk of the work for you. SAP manages the flow of information and data, but it is not a registered e-invoicing provider. Organizations will need an endpoint provider to finalize transactions and stay compliant. Over time, working with a vendor will require fewer resources to maintain the systems than dedicating a resource internally.

Pairing continuous transaction controls (CTC) with e-invoicing software further centralizes the transactions needed to run a business, simplifying recordkeeping and any necessary audit information. They also connect to a single provider, despite location, and keep up to date with the ever-changing regulatory and legal requirements.

When an organization taps numerous vendors for help in various areas of business, invoicing and compliance can become tedious and complicated. It may also lack a singular view of your compliance and financial data. But with a single, centralized global point of contact, managing these complexities becomes simple.

Read an introduction to VAT in the EU



CHAPTER 4

The Impact on Your Team

Tax and IT teams often work together, with tax teams relying on their counterparts in IT to enable their systems and set up automation.

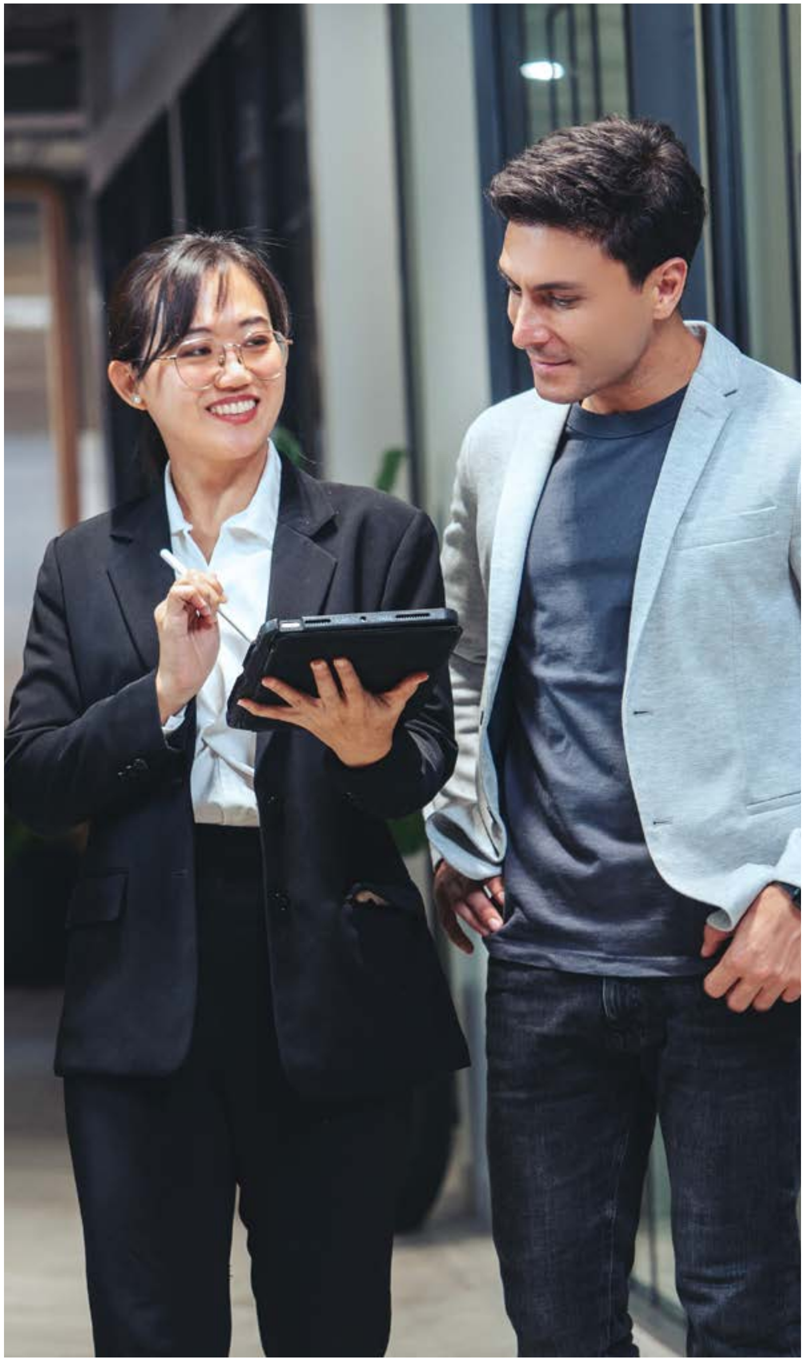
With the promise of reducing complexities and costs, organizations are embracing the migration to the cloud, but they're also realizing that they lack in-house knowledge to manage the transition. Without integration support, unplanned system downtime can impact the business and its ability to complete transactions.

When one organization grew internationally, its IT department faced greater pressure and demand when it came to e-invoicing. They needed a solution to ease their workload and limit business disruption. After implementing a tax solution to ensure compliance, they continued to remain compliant, even among the frequent regulation changes where they operate in Brazil and Mexico. When SAP upgrades its systems, a cloud solution partner can manage the transitions and keep the burden off of IT.

Another organization operating in Latin America aimed to solve language barriers, and their cloud tax solution provider helped with translation and local support in Spanish, English, and Portuguese. The company first looked to have different e-invoicing solutions in each country of operation, but it needed to operate seamlessly to meet its shipping demands and limit downtime. Their system helped isolate the compliance issues and save the team's time.

In research with ASUG and Sovos, nearly half (47%) of respondents said that reduced manual work for their IT teams was a top perk of sales tax solutions in the cloud. After the automation software is set up and tested, IT teams report that they spend minimal time — just one to two hours per month — resolving indirect/sales tax-related issues.

Managing disparate systems and updating them along with complex and constantly changing tax laws requires manual work for IT and finance teams, who could use automation to focus more on strategy.



CHAPTER 5

What SAP S/4HANA Can Do for You

Real-time visibility into finance is a top strategy that companies are focusing on to improve reporting. SAP customers are also managing the complexity of their systems, and they seek analytics, automation, centralization, and system consolidation to gain greater insight into the business — easily.

Clean data is always a concern when implementing or managing an ERP system, and any inaccuracies in tax jurisdiction can dramatically affect the financial outcomes.

SAP S/4HANA for Finance with Central Finance promises to streamline processes and share accurate real-time information, so organizational leaders can make data-informed decisions. Research done by Sovos in its State of the Market report found that 57% of SAP users' finance and accounting strategies involve reducing the complexities and costs associated with tax compliance.

However, simply adding a module to SAP S/4HANA isn't enough; some use objects that SAP forbids. They must be SAP-certified for compatibility to ensure integration. When choosing a provider to add modules or integrations with SAP S/4HANA, make sure to check their track record, experience, customer service, financial stability, reputation for dependability, and continuous research and development. Consulting tax experts will help in your decision-making.

Sovos is certified for SAP R/3, ECC, and S/4HANA platforms, and we even worked alongside SAP to shape the SAP S/4HANA Cloud solution and its future of tax software. Additionally, our e-invoicing capabilities are compliant in more than 60 countries, so you can audit-proof your business on every continent. Together, we created a program for our customers, championing early adopters of tax automation software on SAP.

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CHAPTER 6

Incorporate a Tax Management Solution During Your ERP Transition

There's an immense opportunity to set up automation for tedious processes such as sales tax when you're transitioning to SAP S/4HANA.

Transitioning software always involves change management, and aligning teams should always be part of the process. For tax automation, specifically, it's a great opportunity to get IT and tax teams to discuss priorities and align cross-functionally.

According to surveys with ASUG and Sovos, just over half (52%) of companies are considering tax prior to the start of an SAP S/4HANA migration, and 20% are thinking about it during the first phase of the project. The others are undecided or waiting until after the core functionality is live.

The best time to incorporate sales tax automation in your SAP S/4HANA migration is at the start. Waiting to add automation software might be tempting, but it means future manual processes and increased workloads and costs due to manual processes and re-engineering projects, not to mention the increased potential for audits and non-compliance with government regulations. Additionally, you risk straining customer relationships. Migrating platforms can be difficult and complex, so anything you can do to simplify the work should be considered.

While going through a merger, one organization consolidated its tax compliance into a single ERP. After integrating a vendor's tax suite, they found that centralized finance reconciliations are more manageable, re-invoicing takes far less time, and customer service cases are overseen online.

Getting started with integrating sales tax automation into your SAP S/4HANA migration begins with selecting a system, then working with the vendor to determine a migration path. They will evaluate your existing solution for its capabilities and if you should consolidate disparate systems, assess customizations, and determine if you should add new features from SAP such as Central Finance and Central Billing. It's important to examine the scope of an add-on to find potential conflicts or overlaps in functionalities that already exist in SAP S/4HANA.

A great vendor and partner will train the end users during the installation, helping them understand the functionalities and changes that are occurring. Then, after implementation, they will help analyze how the migration and tax automation integration affect sales tax filing and remittance.

ASUG is the world's largest SAP user group. Originally founded by a group of visionary SAP customers in 1991, its mission is to help people and organizations get the most value from their investment in SAP technology. ASUG currently serves thousands of businesses via companywide memberships, connecting more than 130,000 professionals with networking and educational resources to help them master new challenges. Through in-person and virtual events, on-demand digital resources, and ongoing advocacy for its membership, ASUG helps SAP customers make more possible.

Sovos is a global provider of tax, compliance and trust solutions and services that enable businesses to navigate an increasingly regulated world with true confidence. Purpose-built for always-on compliance capabilities, our scalable IT-driven solutions meet the demands of an evolving and complex global regulatory landscape. Sovos' cloud-based software platform provides an unparalleled level of integration with business applications and government compliance processes.

More than 100,000 customers in 100+ countries – including half the Fortune 500 – trust Sovos for their compliance needs. Sovos annually processes more than 11 billion transactions across 19,000 global tax jurisdictions. Bolstered by a robust partner program more than 400 strong, Sovos brings to bear an unrivaled global network for companies across industries and geographies. Founded in 1979, Sovos has operations across the Americas and Europe, and is owned by Hg and TA Associates. For more information, visit Sovos.com and follow us on LinkedIn and Twitter.