How Sovos Solves Five Facets of Global Tax Compliance

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As chief product and strategy officer at Sovos, Steve Sprague drives corporate strategy, go-to-market initiatives, and field enablement for the company's global value-added tax (GVAT) business. Steve's leadership style follows his core belief that for organizations to be successful, they must commit to and invest in the three strategic anchors of business – people, practices, and products.

Under Steve's guidance and leadership, Sovos' GVAT line of business has experienced double-digit revenue and sales growth over the past several years. He has been instrumental in helping the company expand globally while integrating new technologies and employees into the Sovos culture.

To meet the ever-changing needs of today's global businesses, Sovos has introduced an "always-on" global tax compliance platform, which can support and scale to suit organizations' future states while providing them with greater flexibility to explore new markets and audiences than regional solutions ever could. Removing the burden and risk of regulatory compliance, Sovos instead enables all levels of its customers' organizations to turn compliance into a competitive advantage.

Through his position at Sovos, Steve has come to see tax and compliance as a force for growth and driver for wider business transformation, rather than a checkbox. In conversation with ASUG, he explains why and identifies the five facets of modern compliance that only a global platform can address.

This interview has been edited and condensed.

Q: In your conversations with finance and IT leaders, what major challenges and opportunities do you see for businesses in the global landscape of tax compliance?

Compliance changes can be sudden, relentless, and consequential. With 19,000 taxing jurisdictions globally making an estimated 14,000 regulatory changes each month, three of the biggest challenges facing companies today are risk, cost, and lack of insights.

The risk posed by not meeting compliance obligations can range from a disruptive, time- and resource-intensive audit to financial penalties and even criminal proceedings, causing both reputational and performance damage. In fact, 82% of companies believe they're more exposed to tax compliance risk than they were five years ago.

As the pace of government-driven regulatory changes

continues to accelerate – and more tax authorities gain access to companies' transactional data in real-time – businesses are also being challenged to gain the same level of insight as the government has into their compliance obligations; and even better, to be able to gain predictive insights to spot transaction anomalies, errors, and outliers in the data.

The good news is that with a modern compliance approach, businesses will not only reduce risk and increase efficiencies but also gain business insights that can provide a competitive advantage and fuel their growth.

Q: What capabilities must a global tax compliance platform provide to allow customers to effectively manage all context around tax compliance across their ERP platforms and wider technology landscape?

Just as enterprise resource planning (ERP), customer relationship management (CRM), and human capital management (HCM) have all become holistic, cloud-based platform solutions that unlock tremendous business value, compliance management now requires a unified, always-on platform. Through the process of creating the Sovos Compliance Cloud, we identified the five facets of modern compliance that a global platform should address. Each one plays a critical role in a company's business operations and ensures that they remain compliant across every transaction.

1. Connect: Businesses, especially multinational enterprises, invest heavily in technology platforms across ERPs, procure-to-pay (P2P), eCommerce platforms, and others. Having a compliance solution that can connect seamlessly with a rich ecosystem of partners, financial technologies, and government agencies is critical to creating economies of scale in compliance processes, as well as future-proofing the system as more governments move to mandated e-invoicing and real-time reporting. Compliance should sit on top of or within an existing IT infrastructure, rather than forcing companies to redeploy decades of work.

2. Identify: In an online world with fewer physical forms of identification or handwritten signatures, legal certainty of who is engaging in a transaction is a foundational requirement to enable compliance. It is important to have a framework in place around the use of digital identity to ensure privacy and security. This includes an international context to help facilitate the cross-border transfer of a wide range of data.

3. Determine: When it comes to compliance, accuracy matters. Ensuring that every transaction conducted is completed accurately at the moment in which it is being conducted needs to be a centerpiece of any compliance solution. We operate in an always-on compliance world now, and correcting mistakes after the fact is no longer an option.

4. Report: Reporting is not going away. Summary reports are moving from more granular data to full-on ERP ledger extractions. All of this data must be reconciled with the transactions stored in the government systems and the data must be consistent across the lifecycle of that invoice data being reported. From invoice filing to monthly filings which are now being prefilled by governments, to audit files and

corporate tax filings, reports must now ensure that the data is kept consistent. What you file initially must match what you will file later.

5. Analyze: In an always-on world, you need the same view into your data as the government has so that audits don't impact your operations. This level of insight is the basic foundation. But obtaining this degree of insight doesn't have to be a burden, and the payoff can be immense. Based on this data, you can optimize business processes and leverage this information as a strategic advantage.

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Q: What's changed in recent years, and what's a constant for executives seeking to ensure the success of their businesses in this area?

Tax authorities have doubled down on their use of technology in recent years. They have become adept at using it to ensure they are collecting all revenue legally owed, identifying fraud as well as irregularities in reporting. Tweaking existing mandates and introducing new rules and laws is part of the playbook now and won't stop as long as tax gaps exist.

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Some of the most important changes in recent years include the European Union's VAT in the Digital Age (ViDA) reform proposal. ViDA will enable EU countries to use technology to improve the current VAT system and better prevent fraud. The updates include the facilitation of e-invoicing, the introduction of mandatory digital reporting requirements of cross-border transactions, and legal mechanisms to facilitate cross-border business and compliance. When enacted, this will mean significant changes to how companies operate in these countries. The concrete impact of ViDA will hit different businesses at different times between 2024 and 2030.

Relatedly, e-invoicing mandates continue to expand, both within the EU and across the globe. According to ResearchAndMarkets' E-Invoicing Market Report last year, the global e-invoicing market reached US $11.2 billion in 2022, with the market projected to reach US $35.9 billion by 2028.

Q: **What are common obstacles you see businesses encountering when they don't approach tax compliance correctly?**

In the pursuit of meeting rapidly changing and widely varying tax rates and regulations, one of the biggest obstacles facing businesses is how they correct the approach they've taken for many years. Many businesses have responded to each regulatory change by investing in discrete technologies, processes, and teams for each compliance area, such as value-added tax, sales & use tax, e-invoicing, and tax reporting. While each point solution investment doesn't seem significant, they add up. It contributes to why 90% of companies expect their compliance operating costs to keep increasing by up to 30%. Moreover, that cost can increase more if you have to re-engineer your business processes for each one of these tax and compliance solutions to fit accordingly.

Once, point solutions may have represented the fastest way to compliance in each given situation, but companies have reached a point of critical mass where the total cost of management and associated IT and financial risks are all becoming prohibitive.

In any technology architecture, redundancy is a key element to increasing system availability; and yet, redundancy in vendors creates inefficiencies in buying power, exacerbates costs to operate, and results in suboptimal resource utilization. Multiple products providing the same service create inefficiency and duplication. Multiple vendors reduce the customer's ability to get the best deal, train their staff on one integration, and drive increased adoption through rinse-and-repeat implementations within business lines, while ultimately yielding higher support costs.

Q: **Sovos provides its customers an "always-on" global tax compliance platform to support and scale to suit organizations' future states. What advantages can businesses unlock from adopting this type of tax compliance platform, especially as opposed to a regional solution?**

Across the globe, the entire tax and compliance system has undergone seismic change. From the introduction of continuous transaction controls (CTCs) to the push for standard audit files from accounting systems, tax authorities want to remove the human factor from tax enforcement and audit entire business ecosystems automatically by inserting themselves into in-flight transaction data. So, as government systems are now increasingly "always-on" — businesses must embrace their own always-on approach.

Tax authorities often underestimate the need for business involvement in the development of new tax mandates; they also don't consult much with each other across borders. The result is a growing patchwork of rules and regulations that may use the same basic principles, but where each country has its own unique and ever-changing requirements.

This has become problematic for businesses that are attempting to manage these processes across multiple countries. Point solutions become part of the problem rather than forming a solution. For multinational companies, the time has come to break the cycle and reliance on a country-by-country, mandate-by-mandate approach. An always-on solution meets today's requirements and future-proofs a company against coming changes by:

1) integrating seamlessly with finance systems, government agencies, and other businesses;

2) transacting accurately, with compliance built into every buyer, supplier, and consumer transaction;

3) making determinations globally, accurately calculating and applying tax rates and rules in real-time;

4) reporting every transaction or tax obligation correctly, creating fidelity between business records and government agencies.

As the world gets smaller, it's time to think bigger when it comes to compliance. An always-on software solution, backed by global regulatory experts who monitor every tax regulation, keeps companies ahead of the compliance curve.

> **"As the world gets smaller, it's time to think bigger when it comes to compliance."**

Q: **How can Sovos help de-risk the tax management process? Can you cite a few examples of risk and complexity around global tax compliance that Sovos can address for customers?**

Navigating almost 19,000 tax authorities globally while making tens of thousands of changes monthly is daunting. What Sovos offers is the ability to reduce risk through several areas, most notably by providing real-time tax determination and accuracy in your data. Through both conscious and unconscious bias, data is constantly being manipulated. Each time it is moved along the chain and into the next system, there is a filter being applied. Tax authorities figured this out and, through e-invoicing, have replaced subjectivity with objectivity.

Sovos' Global Tax Determination engine provides automated, accurate tax rates and rule updates for sales and use tax (SUT), value-added tax (VAT) and goods and services tax (GST) in 195 countries. We also help you understand and validate key exemptions and reduce audit risk.

Sovos' e-invoicing compliance for continuous transactions controls adds transaction compliance to accounts receivable and accounts payable processes with industry-leading B2B e-invoicing and B2C e-receipt capabilities. Whether for emerging standards such as PEPPOL. or France's PDP, enterprises can connect once to the Sovos Compliance

Network and deploy worldwide, avoiding massive cost and time commitments with other compliance vendors that require country-specific deployments.

Q: **With digital transformation increasingly top of mind for executives in all areas of business, how can executives effectively approach tax and compliance as a force for growth and driver for wider business transformation, rather than a checkbox?**

The use of technology to ensure the accuracy of tax reporting is only gaining momentum. Instead of continuously playing defense, companies must go on offense and embrace the benefits of digitization. One of the primary areas where businesses can experience wider business transformation is in the area of e-invoicing.

Over 80 countries have already adopted e-invoicing requirements, with many more expected in the coming years. Global companies that have invested heavily in digital transformation to optimize business processes for document exchange, procure-to-pay, and transactions must adapt to these requirements.

In early April, there was a joint statement between the U.S. and EU, stating that "The United States and the European Union share an interest in recognizing mutually compatible technical standards as a way to expand transatlantic approaches for the deployment of critical and emerging technologies that reflect our shared values." We also recently announced that Sovos has aligned with the Digital Business Networks Alliance (DBNAlliance), showing our substantial support for its mission to rapidly deploy a framework of standards and supporting services for

seamless electronic data exchange in the U.S., across the Atlantic and globally.

Satisfying tax compliance obligations and business growth may not seem like a natural combination. However, there is a tremendous opportunity here for businesses to benefit greatly from areas set up to satisfy the tax administration. Along with guarantees of timely real-time and periodic reporting, a unified compliance platform can provide unparalleled – and accurate - analytics at every stage of the process.

If managed correctly, companies will seamlessly satisfy their global compliance obligations while uncovering invaluable business insights that are very hard to gain otherwise.

Visit the Sovos website.   ⤷

Q: What other types of benefits can businesses unlock through global tax compliance?

A global approach to tax compliance can unlock additional business benefits, including:

- Improved productivity: With less time spent retrieving information and managing manual processes, teams can spend more time analyzing and modeling strategic decisions.

- More effective collaboration: A single view of data across a connected, unified platform means information can flow more easily between business units and cross-functional teams.

- Reduced costs: While regional point solutions may save money in the short term, the long-term cost of replacing and updating disparate systems – combined with the cost of staff resources – adds up. The long-term savings of moving from point to platform can save $1M or more.

Q: Sovos has recently introduced the Sovos Compliance Cloud. Tell us about this offering and what value it can drive for businesses,

especially those that have historically invested in disconnected point solutions to address this area?

The Sovos Compliance Cloud is the one place for businesses to orchestrate, manage, and analyze their tax obligations in a single, cohesive platform. The industry's first and only solution that unifies tax compliance and regulatory reporting software in one platform, our innovation provides a holistic data system of record for global compliance.

Sovos Compliance Cloud addresses a critical need in a time of rapid regulatory change. It is a one-stop solution; determining SUT and VAT globally, transacting accurately through e-invoicing and e-reporting, filing, and reporting in real-time, and providing a single source of truth to analyse a company's obligations. Our flexible integrations also empower seamless connections between a company's existing enterprise business systems, like ERPs, and government tax authorities. It is an always-on, centralized solution to future-proof a company's compliance obligations and provide business intelligence that fuels growth.

Q: What's the future of tax compliance, and how does Sovos see its platform evolving to meet it?

The pace of regulatory change will continue to accelerate, so compliance will continue to take on elevated importance, and Sovos will continue to enhance our offerings to serve customers. We've recently enhanced our Connector Marketplace to accelerate the ability of businesses to plug into a unified compliance solution, one that works with their existing ERPs and other enterprise financial systems without significant development cycles or costly infrastructure deployments.

Because of the vast variations between compliance stacks and regional regulatory requirements, we recognize that many companies may want economies of scale in specific areas. To meet those needs, we are creating bundled suites of Compliance Cloud products, the first of which is the recently introduced Indirect Tax Suite. The Sovos Indirect Tax Suite automatically adapts to indirect tax obligations in 196 countries. These suites are designed to accelerate an organization's transition from point to platform through robust, scalable, and seamlessly integrated solutions.

SOVOS

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.

ASUG

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.