



SOVOS

ERP

Where Does Tax Fit into Your SAP Transformation Strategy?

A letter from Tim Roden,
ERP Transformation Expert
[Page 4](#)

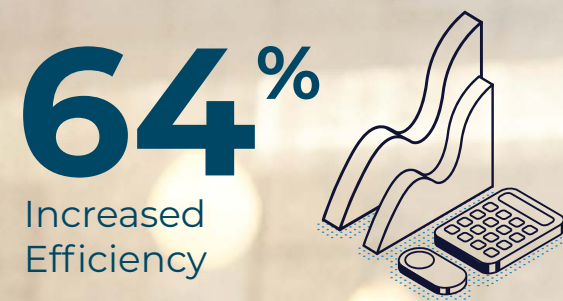
Three advantages to adding a tax
engine to my SAP Environment
[Page 8](#)

What is a tax technologist,
and should we hire one?
[Page 18](#)

Table of Contents

- 4 Introduction by Tim Roden, ERP transformation expert
- 6 ERP: Cloud, hybrid, and on-prem, the future
- 8 Three advantages to adding a tax engine to my SAP Environment
- 10 Seven unique qualities of tax and compliance systems
- 14 The right time to involve tax in our SAP implementation or migration
- 18 What is a tax technologist, and should we hire one?
- 20 Maturity model for tax compliance, where do we stand?
- 22 Conclusion

SAPinsider conducted a survey involving 138 members of the finance and tax community, to gain insight into strategic priorities and considerations regarding tax technology innovation and automation. Expected benefits from implementing tax technology innovation and automation strategies include:

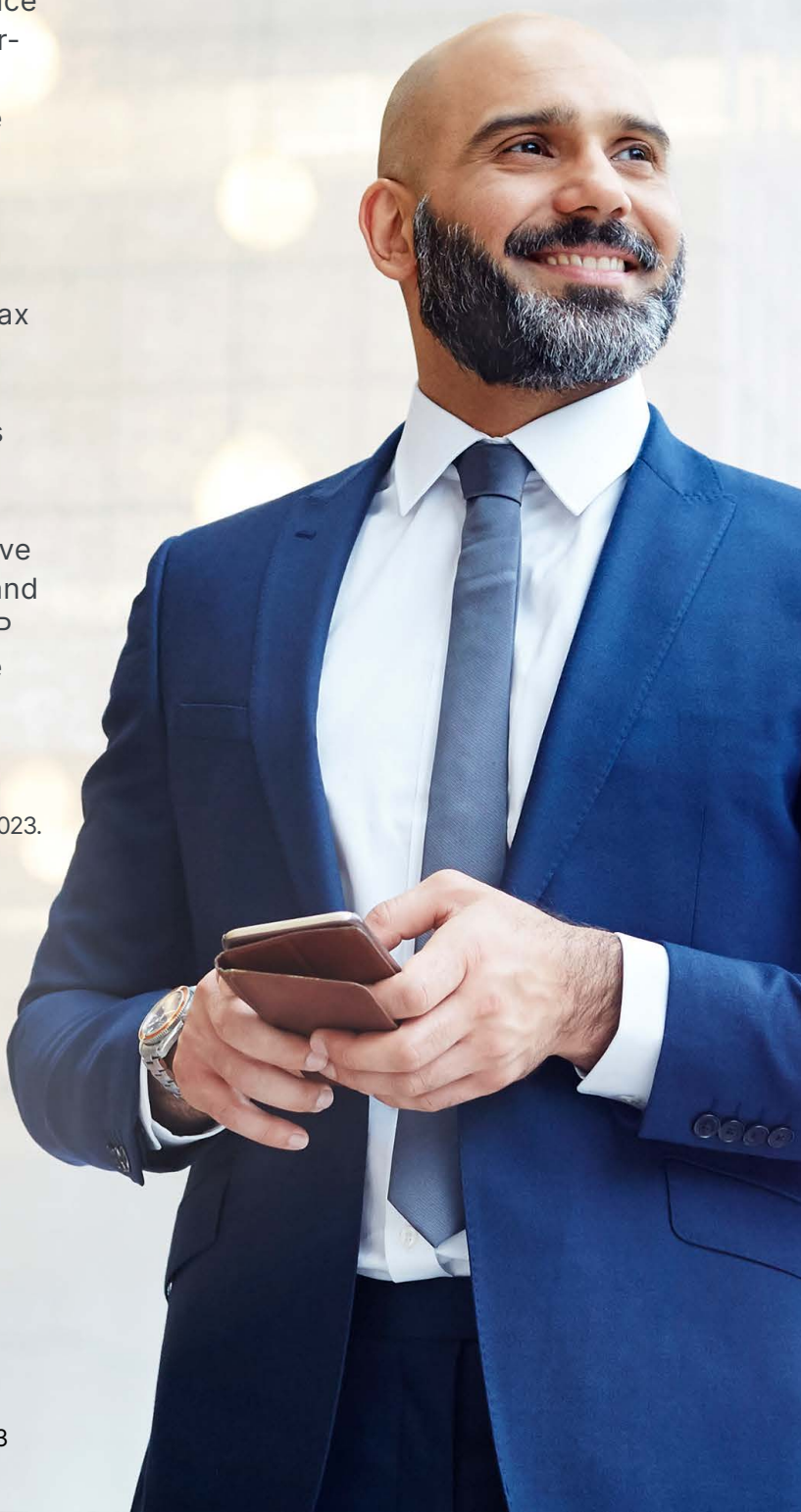


Tax technology innovation is a top priority for SAP customers, driven by interconnected factors. The primary driver is the desire to reduce tax risks and potential errors (34% of respondents), a concern for organizations aiming to maintain compliance and mitigate potential financial liabilities. The increasing regulatory complexity and compliance risk (31%), particularly with the ever-evolving global tax environment, is pushing organizations to seek more agile and adaptable tax technology solutions.

The survey findings highlight a growing focus among finance and tax leaders on harnessing the benefits of tax technology innovation and automation to achieve key business objectives.

Demonstrating an urgency to improve data quality, automate processes, and rethink operating models within SAP environments to capitalize on these advantages effectively.

Source: [SAPinsider Benchmark Report](#) | Tax Technology Innovation & Automation December 2023.





Introduction

Introduction by Tim Roden, ERP Transformation Expert

Tax has taken on increased importance in the ERP transformation process, largely due to increased complexity of compliance on a global scale. Businesses today, some out of an interest in creating increased efficiency and some out of necessity, are looking to streamline processes and standardize on one system of truth for all their data across all regions.

This is driven in part by the need for greater transparency across business units and regions and to ensure that the data concerning tax obligations are all stemming from the same single source of truth. There is a concept that many organizations are adhering to these days, largely influenced by SAP, regarding a clean core. The thought being, ERPs don't want businesses to customize their platform, instead, we'll make it easier for you to connect to other systems that can do what it is they do best, like a tax determination solution. As this is where your organizational data is going to live, it has to be clean, easily traceable and auditable.

Organizations are looking for a system of truth across all regions and across all entities

Organizations are looking for a system of truth across all regions and across all entities. In many cases, M&A activities have made it difficult to trust the data contained in the ERPs. This is often further complicated by the fact that a lot of these existing ERPs are older, on premise or more monolithic. Meaning they didn't have the ability to interface with best of breed third parties for areas such as tax compliance.

Modern ERPs have the ability, via API, to interface with other systems. This is serving as a catalyst for businesses to begin to map out which systems to use, identify which data need to be moved and which partner is best suited to meet their organizational needs.

Throughout this guide, we will provide answers to the most common inquiries we get from customers who are going through their own SAP transformations. Our goal is to inform you so that you can best navigate your own ERP and tax engine implementations.



ERP Cloud, hybrid and on-prem; what does the future hold?

Tax technology innovation is a top priority for SAP customers

The world of tax compliance has grown increasingly complex, with approximately 19,000 tax jurisdictions worldwide.

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.

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.

Tax technology innovation is a top priority for SAP customers, driven by interconnected factors. The primary driver is the desire to reduce tax risks and potential errors (34% of respondents), a concern for organizations aiming to maintain compliance and mitigate potential financial liabilities. The increasing regulatory complexity and compliance risk (31%), particularly with the ever-evolving global tax environment, is pushing organizations to seek more agile and adaptable tax technology solutions.

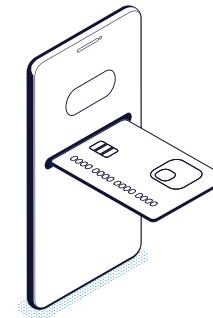
These findings highlight a growing focus among finance and tax leaders on harnessing the benefits of tax technology innovation and automation to achieve key business objectives.

Further demonstrating an urgency to improve data quality, automate processes, and rethink operating models within SAP environments to capitalize on these advantages effectively.

Three advantages to adding a tax engine to my SAP Environment

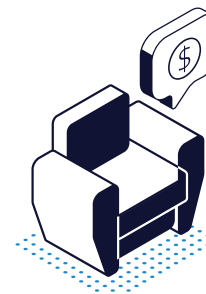
When your business is looking to expand by adding e-commerce options or exploring any number of other digital needs, integrating a tax engine with your SAP platform can be essential to ensuring positive growth. Organizations who do this see reduced maintenance costs and lessen the burden on internal teams, while also experiencing increased accuracy in filing taxes and a reduction in audit risk.

Leveraging a tax engine will accelerate the digital transformation of your financial core applications by removing the manual processes associated with tax compliance. Here are three advantages to adding a tax engine to your SAP platform.



1. Tax rate maintenance

Using the functionality of an ERP when it comes to compliance means the burden of knowing and understanding all the jurisdictions and their rates is on you. There are currently 19,000+ jurisdictions globally and they change frequently. This means that it is your responsibility to do maintain these rates across country, state and local levels.



2. Product and service-specific taxability

Product and service-specific taxability can be quite nuanced and can be taxed differently by location. Typically, within an ERP you will be required to designate items as taxable or exempt across the board. However, it's rarely that simple. A few examples: Clothing can be taxed at a standard rate in some locations, but tax-exempt in other jurisdictions. Shipping costs are subject to tax while also being dependent on items being shipped. Software may be taxed at the standard rate, at the exempt rate or it can be taxed at a special reduced rate.



3. Customer taxability

An ERP by itself also creates limitations for customer taxability. You can maintain customer lists within SAP; however, you may have different exemption types per customer which affects taxability differently. Jurisdictions will also impact tax differently, items may be taxed, exempt or partially exempt, depending on the jurisdiction. ERPs are incapable of handling the intricate details. And do not inherently have the ability to store images of exemptions to prove the validity.

The bottom line is this. Your business cannot afford to have an out-of-date system. If IT cannot update tax software on a regular maintenance schedule, all areas of the company feel the ramifications. Some updates can take up to several hours to implement,

test and put online. Tax changes are ever evolving and cannot always be predicted. Integrating a tax engine with your ERP will help your business stay current with rate changes, ensure you are in compliance and keep your customers happy.

Seven unique qualities of tax and compliance systems

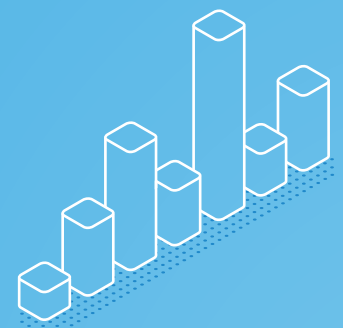
When it comes to tax, an SAP can only take you so far. Systems that were created specifically to address compliance across a complete business and geographic landscape are uniquely positioned to provide the level of support you need to reduce audit and financial risk.

A tax and compliance solution not only provides visibility into how the taxes are being calculated, but it enables you to extract all the information you need. Whether it's exemptions, certificates or another level of granular reporting needed for compliance, it can be quickly identified and reported on. SAP is not designed to the drive to that level of tax reporting.

"With proper, people-driven tax transformation, technology is only one aspect among people, process, technology, and data. We should be ensuring that tax data is accurate from the source The first time and futureproofing the tax function against any potential tax authority digitalization initiatives. This means products, platforms, and tools that complement upskilled humans, not complex point solutions that require deep IT skills to support."

- TAX DIRECTOR, SOFTWARE/TECHNOLOGY, EMEA

Here are seven unique qualities that a dedicated tax system can provide

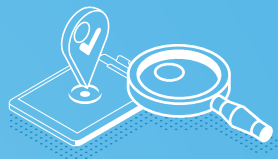


1. Scalability

Expand into new markets and geographies quickly and simply. No additional vendors, installs or delays.

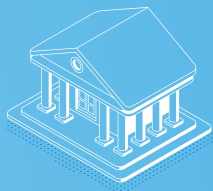
2. Granularity

Have the latest tax information at your disposal down to the most specific location, including street address.



3. Flexibility

Adapt quickly to changing mandates and tax laws to ensure compliance without lag times and delays that impact your business.



4. Accuracy

Global tax and compliance solutions are updated continuously so that you can ensure that every transaction is being calculated at the most current tax rate.



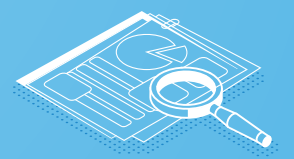
5. Useability

Tax systems can be updated quickly and easily by users with only a basic knowledge of the software as opposed to an ERP which requires expertise in coding.



6. Reporting

Report on your compliance situation or break it down to specific business units or geographic locations quickly and easily.



7. Visibility

Analyze your global compliance posture at any time across business function or geographic location.

In a joint report issued by ASUG and Sovos, [Tax Automation: Integrating Cloud VAT and E-Invoicing Solutions into Your SAP S/4HANA Migration](#) we found that 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.

57% of SAP users' finance and accounting strategies involve reducing the complexities and costs associated with tax compliance.

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.

To learn more, [GET THE BOOK HERE](#).





The right time to involve tax in our SAP implementation or migration

IT and tax have not been traditional allies. While tax plays a critical role in generating increased financial transparency and ensuring cash flow, they have lived on the periphery or outside of many important business and infrastructure decisions. However, since governments of all levels and jurisdictions began embracing digital transformation to ensure proper tax collection and close existing tax gaps, these two units need to become more aligned.

The pace of regulatory change is accelerating. Governments are adjusting tax rules almost daily, and thanks to digitalized tax systems, implementing them in a period of hours and days versus the weeks and months that was the norm for so long. While tax departments have been making do with legacy solutions, these are ultimately not sustainable. Too often, tax is forced to choose between efficiency and accuracy. This is a losing strategy that results in either valuable resources being tied up for non-revenue-generating activities or assuming the risk of noncompliance. Organizations need to design a tax program that not only meets their needs now but allows for scale and flexibility as regulatory requirements evolve.

The time for standing on the sidelines has long since passed. Considering tax early and correctly is vital, and tax needs a seat at the table.

Why and when to involve tax:

Tax should always have insight into what the organization is doing from a strategic perspective, as many seemingly innocuous decisions could have far-reaching implications. For example, bringing new systems online can impact your ability to remain compliant. Have a new ERP or POS system? If not configured correctly and allowing for the most current regulatory updates, these systems can quickly go from more efficient to serious problems. Failure to properly align systems can increase your risk of an audit and create even more work for IT on the backend.

Changes to business structure is another critical area to involve tax. Mergers, acquisitions and other significant changes to business size and revenue can change tax obligations. Depending upon where new entities operate and the scope of their business, there is a high probability that your tax obligations will be altered in some way. Planning for these issues early in the process will help to avoid any issues with compliance. Finally, changes to geography or the types of goods and services you sell can have a substantial effect on your reporting and tax obligations. As examples, entering new states through ecommerce channels can establish new economic nexus in states that have to be accounted for. In addition, if you begin selling new types of goods and services that might have exemptions attached to them, this can lead to a whole new level of complexity that must be carefully managed.

How IT and tax can and should work together:

The relationship between IT and tax needs to be an active partnership. It is important that tax understands the system changes being proposed and can advise IT on their potential impacts on tax management.

IT should consult with and look to tax early in the process of identifying new technologies and systems to better understand how each might impact the organization's ability to correctly assess and report tax obligations.


By working together early and often, both sides can come away satisfied, and the organization stands to benefit greatly. IT can implement the systems and upgrades it needs with none of the changes adversely affecting tax or leading to manual processes and fixes. Tax will be secure in the knowledge that IT changes will increase efficiency without jeopardizing compliance status or heightening the risk of audit.

"If we had been brought in sooner, it would have minimized a lot of back and forth because I don't think IT knew what we were looking for from the start or what we were expecting. This was a learning experience. For future projects, identifying the key players and getting their involvement sooner will be a priority."

- SR. TAX DIRECTOR, SOVOS CUSTOMER

The relationship between IT and tax needs to be an active partnership.





What is a tax technologist, and should we hire one?

A tax technologist bridges the gap between traditional tax functions and modern technology in what has quickly become a much more digitalized world.

While this role has yet to be specifically defined as needing a background in IT or Tax, in essence, it's somebody who understands both the tax function and the technology systems at a high enough level to support any technology implementation supporting the tax function.

In a practice, it is a role being encountered with more frequency, even if the person doesn't hold the official title of tax technologist, which is currently the more common scenario. While we have seen an increase in the number of companies hiring a dedicated tax technologist, it has yet to achieve full adoption across industry.

A recent poll of 100 CTOs stated that 19% of participants have a dedicated tax technologist role on their team. Approximately 40% of survey participants indicated that they have a member of the tax team dedicated at least some of their time focusing on tax technology efforts. However, 41% of those polled continue to either rely heavily on IT alone (15%) or do not yet have any formalized focus on tax technology (26%).

When should we consider hiring a tax technologist?

We are often asked if there is there a threshold in terms of company size or transaction level where it is time to invest in this specialized role.

While there are no hard and fast rules when it comes to the tax technologist role, there are some key considerations that every business should account for when making this determination.

- **How many jurisdictions are you operating in?**
- **What is the level of complexity in your buying and selling process?**
- **How many products do you sell?**
- **What types of sales do you make?**
- **How many systems do you currently run?**

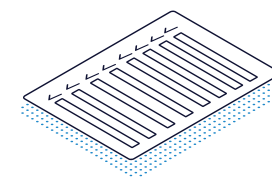
The point being the need for a tax technologist in your organization is more dependent on your level of complexity as an organization rather than company size.

As an example, manufacturers based on the breadth of products they sell and the complicated selling and buying processes they encounter are a prime candidate for the tax technologist role.

Maturity model or tax compliance, where do we stand?

In our experience, businesses genuinely want to address and improve their approach to tax and compliance. However, one of the frequent roadblocks is a lack of understanding as to where they currently reside on their journey and how to take the first steps.

To assist with this, we've created five classifications of where most businesses currently sit in their compliance and technology journeys. Once you have identified where you are as an organization, you will be empowered to take the first steps in improving your systems and processes.



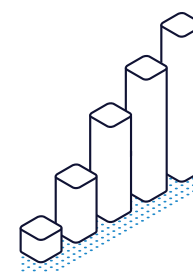
Stage 1 Minimalistic & Reactive

A “checking the box” approach to periodic, aggregate reporting from a single accounting system. Good faith suffices, and makeshift approaches are the norm. This results in department-led & manual approaches to avoiding penalties. Downstream and disconnected from the business efforts are disparate and time consuming.



Stage 2 Some Assembly Required

Point solutions in place but not integrated or sufficient to keep pace with reporting requirements that proliferate across systems and processes. Inconsistent applications, controls and oversight combined with a deficit in talent, technology, operations and governance creating urgency to transform. Costs and risks are growing as band-aid approaches contradict business strategies.



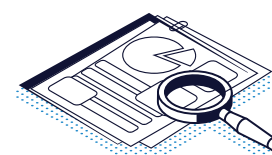
Stage 3 System of Record

Tax and compliance are pervasive across the business leading to boardroom visibility. Complexity and tech transformation converge to drive an integrated approach to replace point solutions. Shared accountability between finance and IT emerges with leadership aligning on strategic requirements beyond transactional data. Tax technology and transactional sources are aligning to ensure evidence vs compliance, driving towards a compliance system of record



Stage 4 Data Driven

Executive leadership ensures enterprise-wide comprehensive compliance and strategic tax management with always-on visibility & controls that is responsive by design. Compliance is proactive not reactive. A single source for trusted, full lifecycle enterprise data transforms the value of tax, financial and operational data. The business strategy and compliance evolve in full alignment unlocking new and innovative value between business, governments and citizens.



Stage 5 Trusted and Transparent

From SMB to enterprise, open networks based on recognized brokers reshape intelligent automation across the ecosystem such that tax and compliance is systemic. Trust across tax, compliance and digital identity delivers a level of transparency, security and data intelligence that empowers businesses. Always-on compliance across the economic and regulatory lifecycle is assured by an embedded tax, operational and financial system of record removing friction and synchronizing business and taxation models by design.



Conclusion

As businesses continue their journey with SAP to ERP transformation, we are witnessing positive signs that they are engaging tax earlier in the process. In some cases, we are even seeing some businesses upgrade their tax systems first as a precursor to the larger ERP projects to come.

The important thing for any business, no matter your size, market or geographic distribution is that tax needs to be an important part of your planning process. There is a symbiotic relationship that exists between your ERP and your tax engine. One that will help to ensure that your business remains compliant in any tax environment while driving greater levels of operational efficiency.

Every business will have their own drivers for needing to modernize their tax solution. The good news is that a robust compliance solution provides the flexibility and scalability needed to meet your requirements today and into the future.



Where Does Tax Fit into Your SAP Transformation Strategy?

October 2024

About Sovos

Sovos is transforming compliance from a business requirement to a force for growth. Our flagship product, the Sovos Compliance Cloud platform, enables businesses to identify, determine, and report on every tax obligation across the globe. Sovos processes 14 billion+ transactions per year, helping companies scale their compliance strategy in 196 countries.

More than 100,000 customers – including half the Fortune 500 – trust Sovos' regulatory expertise and unparalleled integration with their business applications. Learn more at sovos.com.

©2024 Sovos. All rights reserved.