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The Definitive Guide to Incorporating Sales Tax on Your S/4 HANA Journey
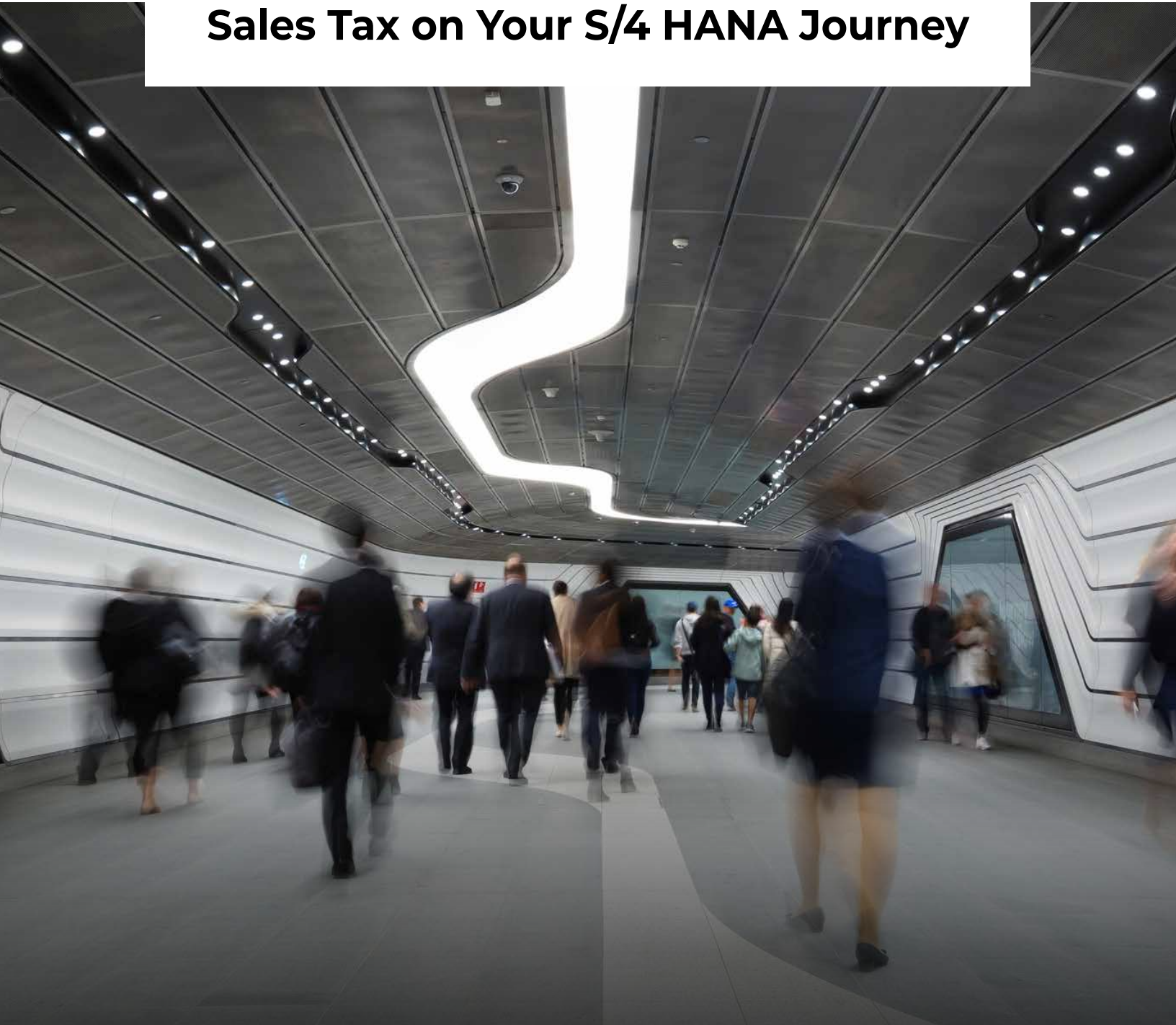
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In this eBook

Introduction

Organizations using SAP know that technology is evolving at an increasingly fast pace. When it comes to sales tax, those same organizations also understand the importance of compliance. But how can you maintain sales tax compliance without putting extra strain on your finance and IT teams? Is it really possible to keep track of all rate changes and sales tax obligations? What happens if you make a mistake?

SAP users cannot overlook tax compliance demands, but also shouldn't be overburdening internal teams to keep pace. Migrating to S/4HANA enables better business flexibility, allowing organizations to adapt rapidly to changing business conditions. It can also provide real-time visibility into business operations, including a company's tax strategy. This eBook will discuss the importance of including the transformation of tax as part of the S/4HANA journey and how it can help to remove undo pressure on finance and IT teams.

Tax compliance demands

High Data Quality	Integrated Processes	Compliance Orchestration	State of the Art Tech	Visibilty & Controls
How many documents have been rejected, corrected, cancelled last year? Were there documents approved automatically on your behalf inadvertantly?	How much stock was hold on your warehouse last month? How many bills weren't sent to customers last month?	Have you missed any deadlines? Have you been audited?	Do you have contingency plans if something goes wrong?	Do you know what your data is telling tax authorities? How timely and accurately do you handle errors?

Migrating to the cloud is essential for modern organizations

First the good news, updating your tax processes is a great way to streamline operations for your IT organization and the business as a whole. There is also lots of great technology out there to help you. The bad news? If you haven't yet started or aren't well into this process, you are very much behind.

Let's talk for a moment about why this move is so critical for your organization and why modernizing your ability to manage tax efficiently has become so important. It's called the digital transformation of tax. For the first time, government investment and application of technology is outpacing private industry. The pace of regulatory change and systems put in place to identify and prevent fraud are putting the pressure on organizations to quickly adjust to and comply with new standards to avoid costly audits and penalties. Governments are more serious than ever about ensuring they collect the revenue they're owed, completely and on time. Furthermore, multinational organizations must be mindful of a compliance strategy that works on a global level.

What we are seeing is that tax has evolved from a financial/tax issue within your organization to an IT issue that demands a technology solution. Managing regulatory requirements can be complicated based upon your IT structure. The most obvious question is, can your systems keep pace with modern tax environments? The pace of change is swift and requires near constant updating to ensure you meet all obligations. If you do not have a mechanism for automating these updates, the potential for audits and penalties increases significantly. Yet, overhauling your systems to accommodate tax and regulation can be an equally daunting task.

As a result of these pressures converging, a new paradigm for tax is emerging - one in which technology will help companies meet their obligations, guarantee operations continue uninterrupted and avoid financial penalties for non-compliance.

Companies both large and small are finding that their traditional procedures and business systems and legacy solutions are ill-equipped to manage rapid regulatory change. This is where the right technology partner comes into play, one who can successfully guide you through your migration strategy and ensure that tax is properly accounted for.

Tax is an essential financial driver for any organization. It can also be a high-maintenance activity for IT departments. By tapping into the power of the cloud, you can ensure your business is charging, collecting and remitting the proper level of tax, all while dramatically reducing the burden placed on IT..
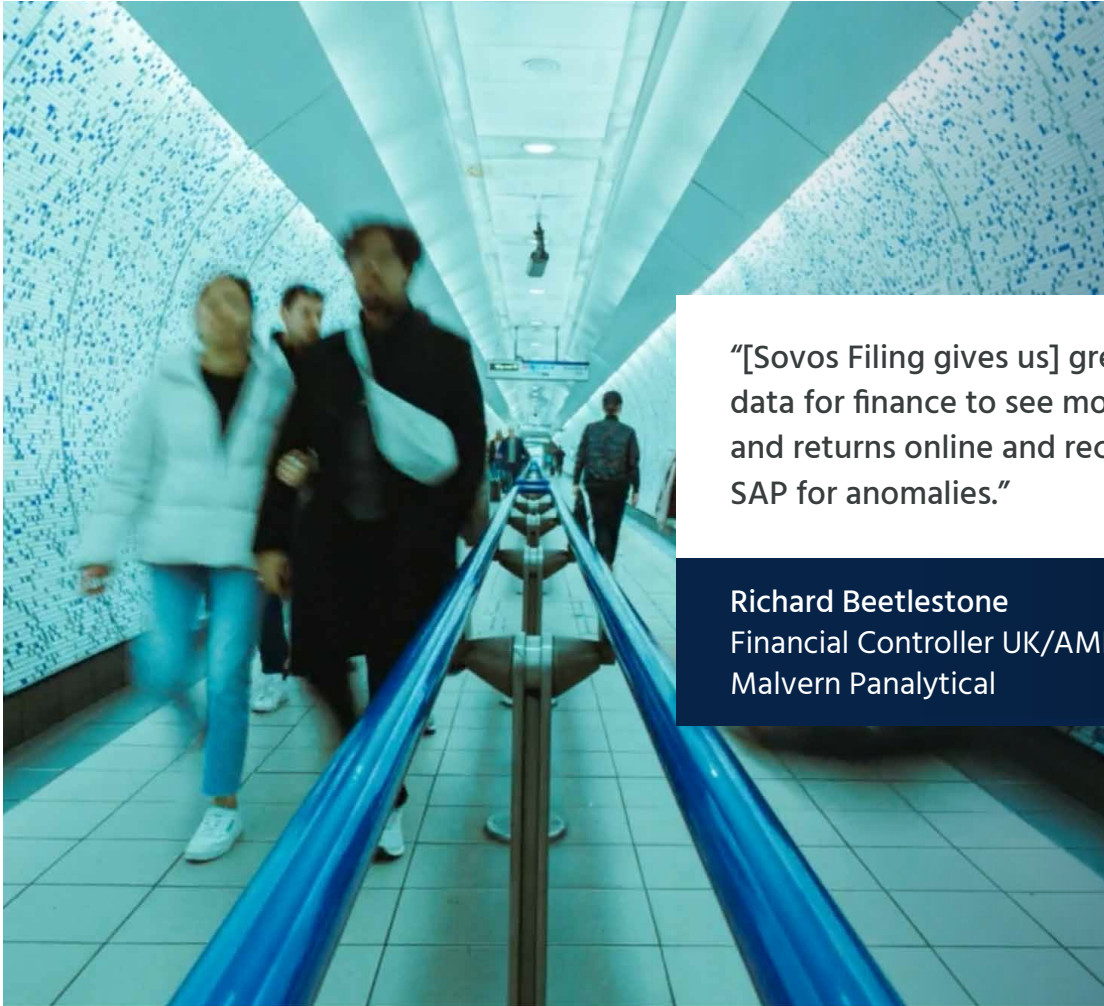
> "[Sovos Filing gives us] greater access to data for finance to see monthly transactions and returns online and reconcile against SAP for anomalies."
>
> **Richard Beetlestone**
> Financial Controller UK/AMEC,
> Malvern Panalytical

Integrating tax in your S/4HANA journey

As you can imagine, IT and tax have not always 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, with governments of all levels and jurisdictions embracing digital transformation to recover sales tax owed more accurately and quickly, these two units need to become more aligned. This is why tax needs to be a critical consideration as you embark on your journey to S/4HANA.
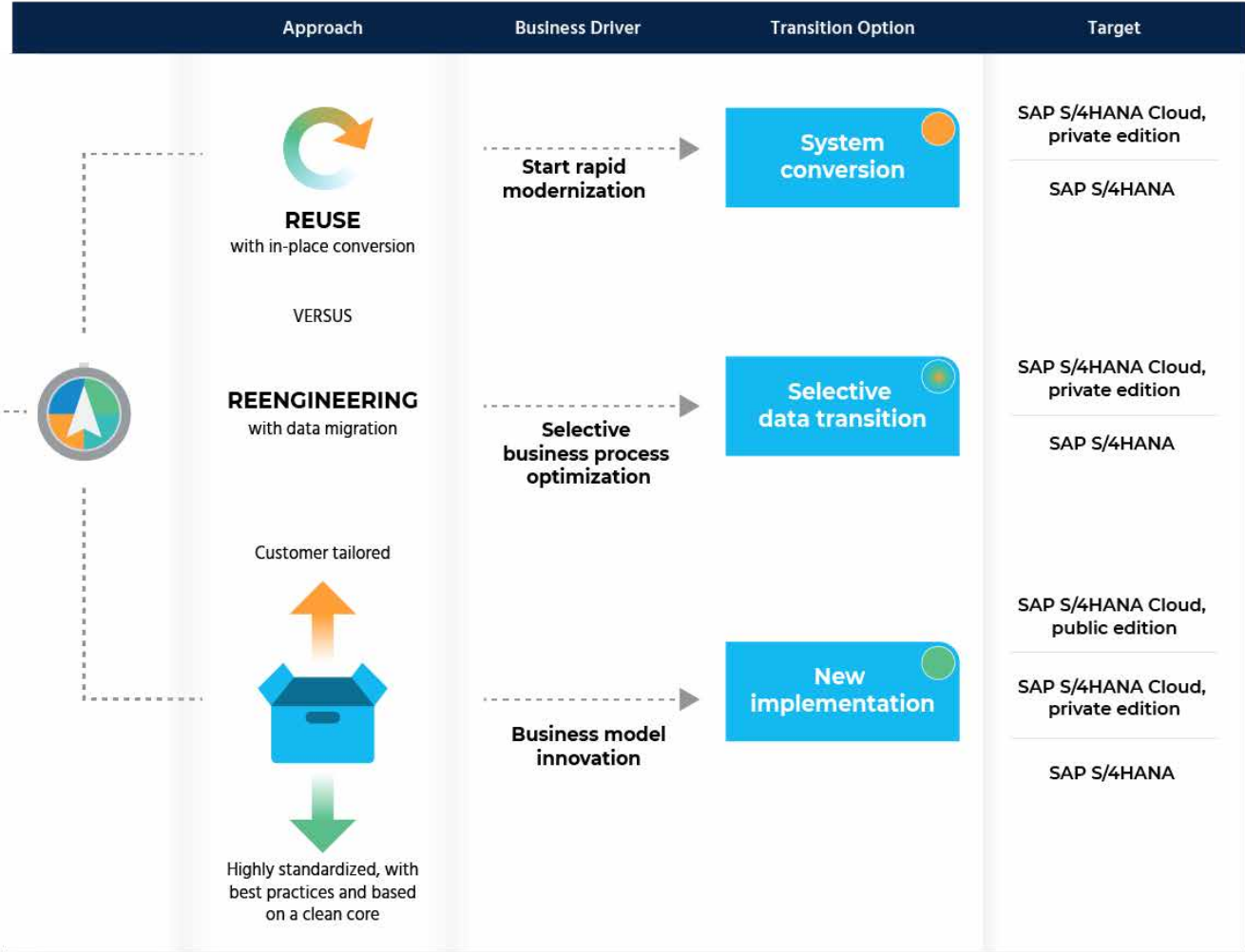
The pace of regulatory change is accelerating. Governments are adjusting tax rules almost daily, and thanks to digitalized tax systems, implementing them in a period of hours and days versus the weeks and months that was the norm for so long. While tax departments have been making do with legacy solutions, 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 in your migration is vital. Tax needs a seat at the table.

Transition to SAP S/4HANA

Transition paths recap

Approach	Business Driver	Transition Option	Target
REUSE with in-place conversion	Start rapid modernization	System conversion	SAP S/4HANA Cloud, private edition / SAP S/4HANA
VERSUS REENGINEERING with data migration	Selective business process optimization	Selective data transition	SAP S/4HANA Cloud, private edition / SAP S/4HANA
Customer tailored / Highly standardized, with best practices and based on a clean core	Business model innovation	New implementation	SAP S/4HANA Cloud, public edition / SAP S/4HANA Cloud, private edition / SAP S/4HANA

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. If you don't configure your systems correctly, allowing for the most current regulatory updates, these systems can quickly go from more efficient to serious problems. Failure to properly align systems and tax can increase your risk of an audit and create even more work for IT on the backend.

In recent **research conducted by ASUG and Sovos**, we found that nearly half of SAP customers have limited (38%) or no visibility (5%) into most or all of the current tax processes at their organization. Just about half of customers (48%) are not making tax a strategic priority prior to their SAP S/4HANA migration. This leaves organizations open to integration and compliance issues.
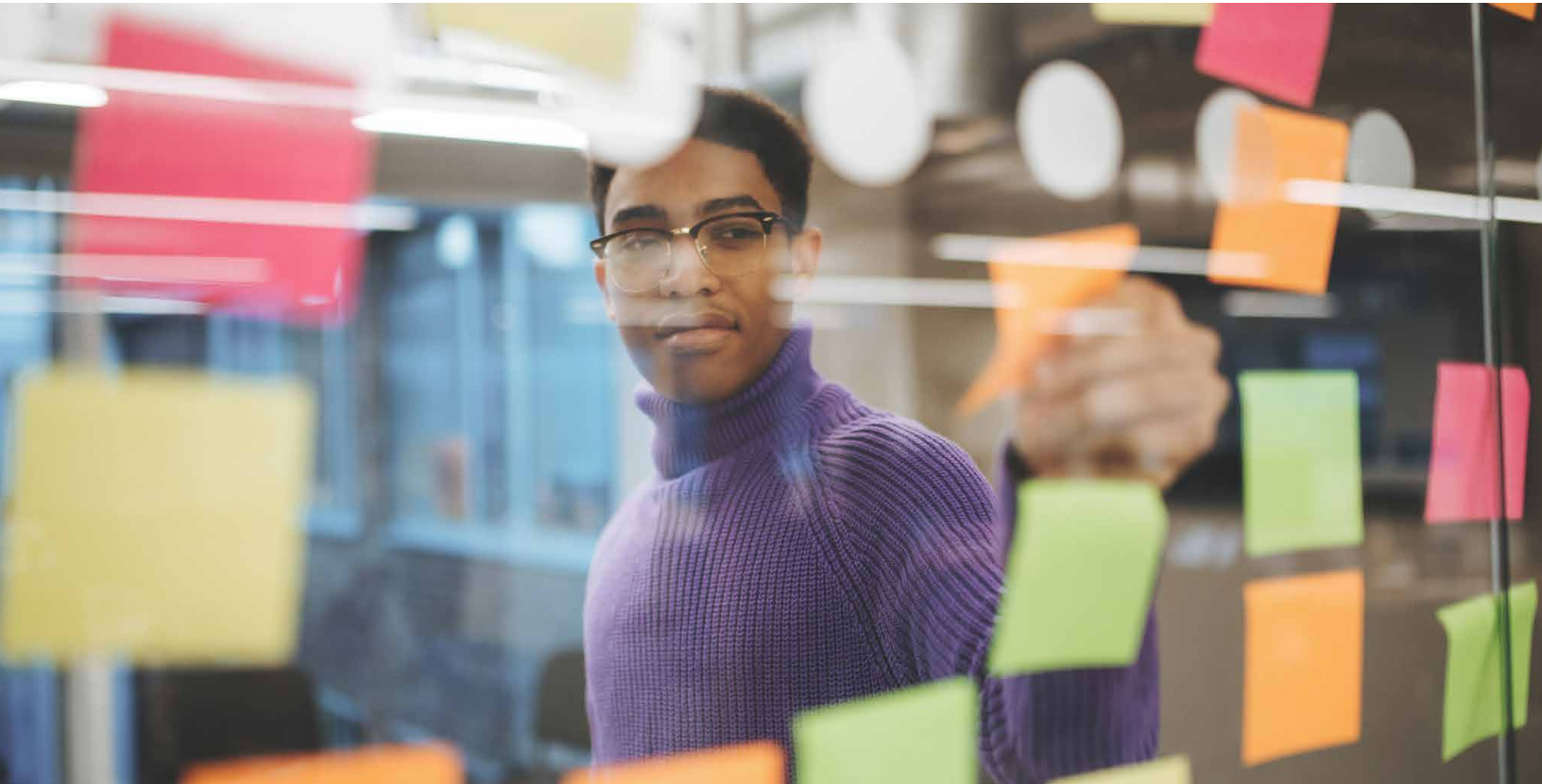
The ramifications of not involving tax

If you don't involve tax early enough in the migration process, you run the risk of having to re-engineer projects. It is far more expensive and time consuming to go back after the fact and automate tax processing capabilities than it is to just include them up front.

There are several possible outcomes to not involving tax early in your S/4HANA migration that impact business processes, and nearly all of them are bad.

The most obvious is that you open your organization up to the risk of a prolonged and costly audit. If you fail to involve and properly account for tax, there is a high likelihood that you will make errors and be called to account for the errors by a tax authority. While this can lead to costly fines based on the severity of the infractions, at the very least you are looking at a timely ordeal that takes critical resources away from business priorities.

In addition to the actual dollar cost, you also run the risk of individual departments creating manual workarounds, which can exist under the radar of both IT and tax, leading to a significant risk for the organization.

How can you use your S/4HANA migration plans to simplify tax?

When you are migrating to S/4HANA to simplify processes in systems, your tax strategy needs to be part of that plan. Along those lines, a cloud-based sales tax solution can benefit your business in numerous ways. From reducing complexity and cost, to decreasing internal burdens on employees, to ensuring your company can rapidly—and accurately—adapt to the latest changes, there are lots of considerations for moving to S/4HANA. Let's break those down:

> "We are on one consolidated tax engine system that accommodates our global business and taxation rules. Going with the SaaS solution has alleviated the onus on internal IT to continually maintain and configure the tax engine."
>
> **Joshua Klein**
> Senior Developer, SAGE Publishing

Reduce tax compliance complexity and cost

- 57% of SAP users said reducing complexity and cost was a primary driver of their overall finance and accounting, including tax strategies.

- Staying current with ERP solutions and avoiding aging out of support were also the top reasons respondents that currently host on-premises sales tax solution(s) plan to move their solution(s) to the cloud.

Reduce manual work for internal teams

- 47% of respondents said reduced manual work for IT staff is the top benefit in hosting a cloud-based sales tax solution.

- A **Sovos survey** also found that 83% of individuals with responsibility for sales tax management/administration at their organization said automating their company's tax management process would make them happier in their current role.

Increase visibility into financial transactions and reporting

- Sovos' survey found that nearly 80% of individuals managing sales tax fear generating an audit or facing a financial penalty following a mistake made when remitting sales tax.

- However, less than one-third of businesses can update sales tax in a matter of hours.

Utilize a centralized source of truth for all tax compliance documentation

- Gain better oversight and management of exemption certificates and evolving tax forms.

- There are an estimated **800 sales tax bills under consideration** by state legislators each month, highlighting the ongoing complexity of sales and use tax.

Rapidly adapt to changing business conditions, regulatory requirements

- Businesses can implement a completely automated process for tracking and updating regulatory changes.

- Sovos found that 35% said that the growing complexity of sales tax distracts from core business priorities.

Closing

Sales tax is not getting simpler. Rates and regulations continue to change at an accelerating pace, with new policies—and technologies—capturing tax more accurately and faster. The digitization of tax is at the center of many growing business' agendas, and more organizations are realizing that migrating to the cloud is essential. If your company hasn't already started that process, it's already behind.

For SAP users, migrating to S/4HANA enables sales tax compliance automation and integrating tax early on in your S/4HANA journey will help keep your business up to date on all regulatory requirements. Remember that that right sales tax provider will offer:

- Increased visibility into the data

- Reduced costs and complexity

- Less manual effort from internal teams

- The ability to adapt to rapid changes

"If I were to offer a company advice on choosing a sales tax provider, I would definitely steer them towards a model like Sovos, where you have an individual who's responsible for your account, understands your business and is responsible for it month over month."

Lisa Larson
VP Finance & Operations,
Holmes Corporation

With Sovos, your S/4HANA journey will be a smooth one. We've partnered with SAP for over 20 years, and the Sovos Intelligent Compliance Cloud is the first complete solution for modern tax certified for SAP. Our support team is unmatched, and optimized workflows will reduce the burden on your staff.

Eliminate human error by centralizing calculation and reporting into one platform with the additional option to leverage Sovos managed services. Additionally, a centralized global reporting option ensures that real-time tax rates for sales and use tax, excise tax, VAT and GST are all certified for S/4HANA. Sovos solutions work so tax won't disrupt your ERP initiatives. With a complete end-to-end solution covering global tax determination, e-invoicing compliance and tax reporting, SAP users can rest assured that they're compliant with all tax requirements.

Want to learn more about how to incorporate tax as part of your S/4HANA journey? Chat with our experts today.

GET IN TOUCH

About Sovos

Sovos was built to solve the complexities of the digital transformation of tax, with complete, connected offerings for tax determination, continuous transaction controls, tax reporting and more. Sovos customers include half the Fortune 500, as well as businesses of every size operating in more than 70 countries. The company's SaaS products and proprietary Sovos S1 Platform integrate with a wide variety of business applications and government compliance processes. Sovos has employees throughout the Americas and Europe, and is owned by Hg and TA Associates.

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