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Is EMEA Ready For Tax Transformation?

Investigating the impact of e-invoicing and digital taxation

Introduction

EMEA is in the middle of a tax collection transformation

For this report, produced in partnership with Sovos, ceo.digital contacted over 2,000 C-level, Heads and Directors, during Dec 2018–Feb 2019.

Italy and Spain have already introduced requirements to speed up tax collection and create electronic records for easier auditing. While 1 April marks the introduction of the UK's Making Tax Digital mandate. For businesses, these changes mean simplified transactions. For governments, the aim is primarily to reduce the VAT gap – between the amount expected and the amount collected.

This report uncovers what this whirlwind of regulations means for the rest of EMEA. It gives insight into what extent other countries may follow. Plus, it reveals which systems and architecture needs to be in place for organisations to succeed.

Key findings

- 96% of respondents expect further introductions of e-invoicing mandates globally over the next 12–24 months
- 'Simplifying tax processes' is the top strategic driver for companies seeking a global tax compliance solution
- Legacy systems and meeting international regulations are seen as the biggest challenges of introducing an electronic invoicing solution

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What best describes the impact of Italy's mandate on your business?

From 1 January 2019, Italy introduced mandatory electronic invoicing for private businesses. The country's VAT gap is one of the largest among EU countries, so the stakes – and rewards – are high. This question sought to uncover the extent of impact among EMEA organisations. Over half (57%) have responded to the impact, having already introduced measures to comply. A further chunk (29%) have been impacted and have introduced a solution to comply.

"As governments across the EU seek to reduce their combined annual VAT gap of €151 billion, we're increasingly seeing the introduction of state-controlled, real-time IT platforms that place national tax administrations at the heart of business transactions."

Christiaan van der Valk,
Vice President Strategy at Sovos

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What impact will the new e-invoicing requirement have on global business operations?

For companies wanting to operate across borders, internal processes are often the biggest challenge. The lack of standardised formats, multiple systems, plus a fastmoving regulatory landscape – these all ask unprecedented questions of tax teams.

Combine these with the new e-invoicing requirements and you can see why almost eight-in-10 (79%) of EU respondents expect a high (50%) or medium (29%) impact.

> "The forces pushing finance into the digital era could face numerous frictions that may slow things down. Peers and senior leadership may hesitate to get on board even as competitors, suppliers, or other business units reap the benefits of digital in finance. Combining technologies to reimagine how finance work is accomplished is not straightforward and will take time."
>
> Deloitte

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How much do you agree with the following: "There will be further introductions of einvoicing mandates globally over the next 12–24 months?"

Latin America has long been a hotbed of e-invoicing innovation. Brazil was the first country to implement e-invoicing, back in 2008. Mexico, Chile and Peru have similarly stringent – and complex – regulations.

With several European countries following suit, most respondents appear in strong agreement (38%) or agreement (58%) that this is the start of a worldwide trend.

> "As more governments move toward mandatory e-invoicing adoption, businesses now face a tighter window in which to provide a tax-compliant invoice. In addition, regardless of whether a company faces such requirements in any given country, they will eventually face mounting pressure to implement e-invoicing amid a growing tide of adoption by industry partners in countries and jurisdictions where it is a requirement. Sooner or later, uniformity will reign supreme."
>
> KPMG

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How much do you agree with the following statement: "E-invoicing mandates / government real time reporting will be a major driver of digital transformation?"

Gaining real-time financial visibility, complying with complex mandates, changing traditional processes – just some of the reasons why three-quarters either strongly agree (25%) or agree (50%).

Digital transformation has revolutionised how people interact with each other. Among many industries, disruption is the new normal. So, it makes sense that these new mandates will have a similarly transformative impact.

> "We are convinced that embedding indirect tax issues early on in planning your digital strategy is the best route to avoiding unexpected and unwanted surprises that could hurt your business. It could even turn constraints into opportunities."
>
> EY

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What do you see as the strategic drivers behind the need for a global tax compliance solution?

While some countries may be passing e-invoicing reforms to make tax compliance easier, these results show there's a long way to go. 'Simplifying tax processes' is the clear leader here, chosen by 75%. China's complex Golden Tax System, designed to ensure strict control and increase transparency, is one example of how entering potentially lucrative markets come with high complexity.

However, these e-invoicing reforms show that most countries are open to new ways of doing business. Tax leaders are therefore tasked with finding out how best to take advantage, by identifying the right technology. And judging by the high number of votes for real-time auditing and fraud risk prevention, it's clear what that technology must offer.

> "This is a new era for state reporting regulations and enforcement. Payers need to stay on top of state-level reporting regulations–which, of course, can change in any state at any time. Only with help from a third-party partner can companies stay ahead of regulations and avoid state financial penalties."
>
> Sovos

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What do you see as the biggest challenges of introducing an electronic invoicing solution?

With e-invoicing so transformative and disruptive, it's a concern – if not a surprise – to see 'compatibility and readiness of internal systems' rank so highly. Particularly when it's joined by 'meeting country-specific regulations for e-invoicing reporting' (both chosen by 66%).
As technology opens new doors to new opportunities in new regions, companies face a race against time to digitally transform their tax processes. It's up to finance leaders to accelerate this

> "It's remarkable that almost half of global financial services organisations are still in a very early or even immature stage of their digital transformation journey, as they fall either in the traditional business or early-stage digital clusters."
>
> Gartner

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What is the biggest issue with how payments are currently processed in your organisation?

In today's transformative era, speed has become a crucial differentiator. Of course, within the world of tax that's when mistakes are more likely to happen. The top answer, 'risk of errors due to manual processes' (33%), is something that digital tax initiatives can solve – if the right technology is in place. As for data held in different systems (20%), this again relies on the right platform that can gather, crunch and sort data.

> "For many businesses, the UK's Making Tax Digital regulation will necessitate an investment in software that can satisfy the requirements of the digital link. The consequences for not complying include not only financial penalties but also potential prosecution for false VAT declarations or tax evasion."
>
> Sovos

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With current mandatory SAP migration to HANA by 2025, if SAP is your current ERP, what time scales are you planning to initiate the migration process in your organisation?

For those with SAP as their ERP, the preferred approach for more than one-in-three (36%) appears to be 12–36 months. This planned approach makes sense for companies, but the question is whether this is fast enough for tax departments who need access to HANA's advantages, specifically its ability (according to SAP) to 'deliver data-driven insights throughout your business and predict real-time outcomes'.

> "SAP users must migrate to HANA by 2025, but a majority have not yet started the process. Since the move requires major changes to ERP infrastructure, SAP users with global operations should take advantage of the unique opportunity to be more strategic in their implementation. With the right approach, companies can future-proof their solutions in a way that ensures they can keep pace with constant changes in tax regulations throughout Latin America, Europe and beyond."
>
> Sovos

Conclusion

Technology and innovation may have transformed companies, industries, economies – but this report shows that the world of tax has some way to go. It's significant that so many respondents cite legacy systems and country-specific regulations. After all, a key feature of modern transformation (and disruption) is the ability to enter new markets at speed and scale. Naturally, increased speed means increased risk of error – at least with manual processes – which respondents have also highlighted in this report.

> "The CFO is the second-most-common leader, after the CEO, identified as initiating a transformation."
>
> McKinsey

Sentiment like this, coupled with the insight in this report, should serve as a catalyst for EMEA companies to accelerate their tax transformations. And that's why the natural place to start is by identifying the right digital tax platform for this new reality.

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