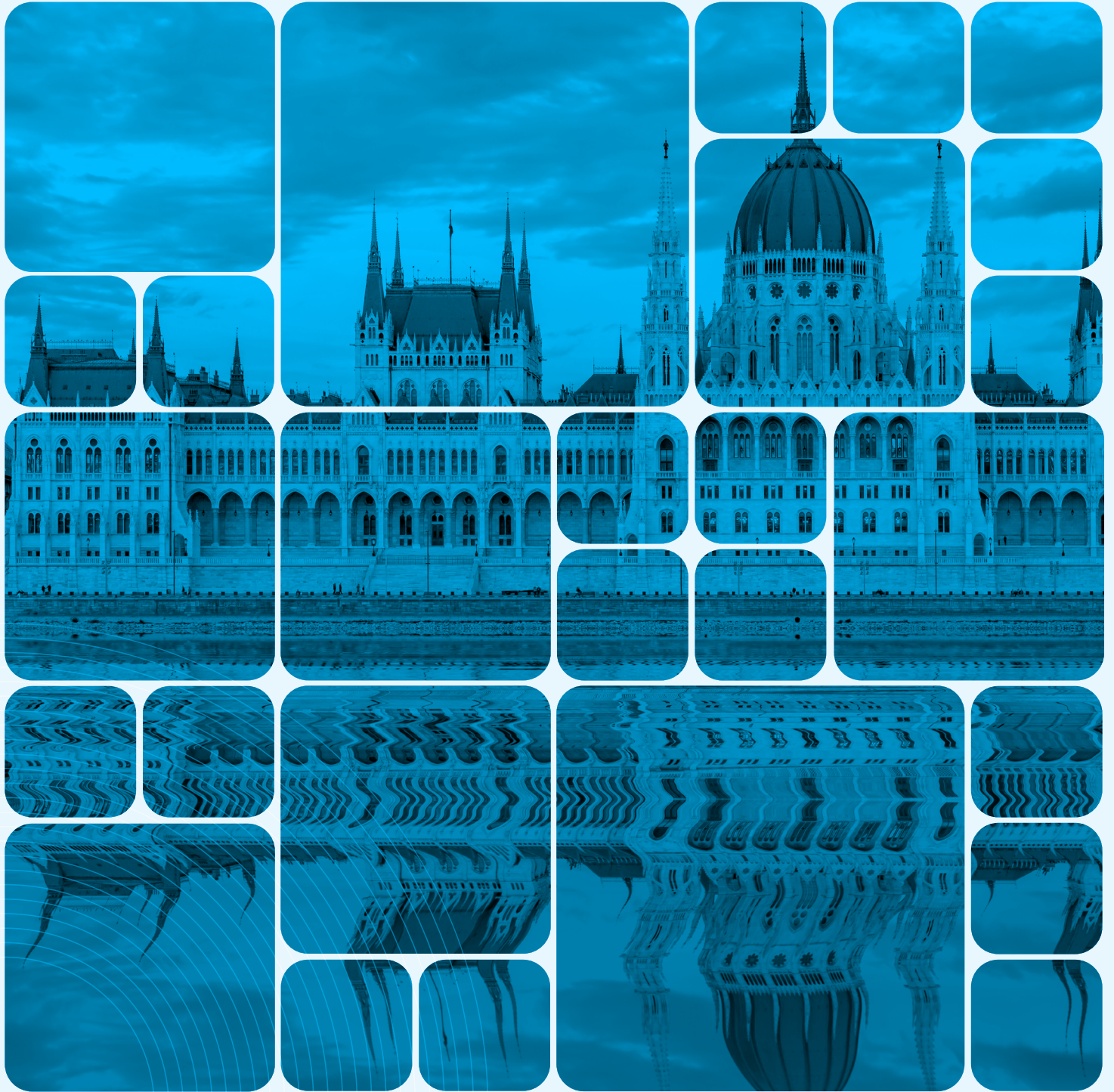


SOVOS



White Paper

Mirror Visibility™

Compliance Data that is Defensible Against the Position
of the Tax Authority



You can hear the conversations from the *‘accounting department of the future’* as clear as day.



“We had to complete and submit a manual tax filing to the government every month. Mostly, these were rough totals from specific sales and purchasing operations. The government would analyse it, query anything they believed was incorrect and come to our offices to check against our accounts, binders, and boxes of documents.

“This happened frequently, creating all sorts of tension with our teams who had to guide them through our accounts and records, but in the end, the tax people had a major disadvantage because they were checking high-level information from months or years in the past,” said the seasoned accounting officer.”



“Wow, that seems so archaic. I can’t believe that’s how tax functioned. At least we were in control back then, and the tax authority had to counter-prove our position?” said the junior tax executive.



“Yes. Tax administrations had extensive audit rights to form an opinion of transactions that may have happened a long time ago, but they also had to respect certain boundaries. By and large, there was a balance that gave companies a decent shot at managing compliance risks. I can’t believe we worked like that for so long; it’s so different now...”

This may sound like an imaginary discussion, but it’s the reality facing us all. Today, tax and other authorities often know more about your business than you know yourself.



How did this happen?

Governments are moving away from historical declarations and are introducing data sharing requirements in which the human element is removed.

Subjective interpretation of law is essentially being replaced with objective observation of economic operations through mandatory computer code. Rather than deciding on appropriate controls to meet broadly drafted requirements from law, businesses must now implement detailed technical specifications to automatically send information from the actual ledgers and sales and purchase data exchange between businesses directly to government servers.

Businesses are familiar with e-invoicing and continuous transaction controls initiatives that continue to evolve. These all require continuous data submission in specific formats to government platforms.

Soon, businesses of all sizes will be at the mercy of tax authorities, who will tell them their tax liability with pre-filled returns. This is already the reality for many businesses in countries such as Italy, Hungary, Romania, India and Chile.

Have a concern with the supplied figures? Too bad. The pre-completed return will be treated as gospel unless a business can analyse and present the source data required to argue otherwise.

The antidote to this lies in “Mirror Visibility” – giving the business an ability to see exactly what tax authorities see, enabling you to validate or challenge their assessments with confidence.

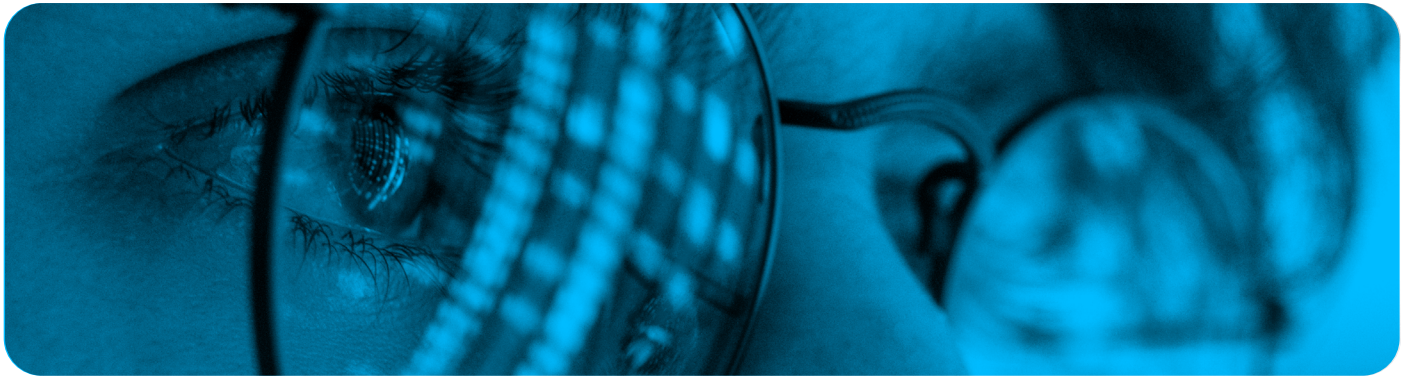
You can see why tax authorities are enamored with retiring the established order. Existing tax systems are laborious, error-prone and outdated. Their insight lags behind reality, and currently, they are open to interpretation.

Real-time data enables governments to flip the script on tax liability, putting the onus on businesses to query and disprove.

Tax enforcement based on ‘the now’ reduces fiscal shortfalls and accelerates the pace countries can invest in critical infrastructure and public services. Tax evasion and avoidance become trickier as there’s less room to hide.

But tax is not the only government area interested in the rich data being collected. Nearly every type of regulator, public authority or policymaker can use this incredible source of real-time economic data to their benefit.

This hunger for high-quality, objective, real-time data will push tax law to collect more business documents, and more data per document. Data held by governments will grow exponentially, and so will authorities’ insights into your every business activity.



Returning to the source data for truth

So, that’s the why, but what does our collective tax obligation future look like?



The Past

Manually filed tax returns and audits; your business in the driving seat



The Present

An expectation to play ball with these new tax systems and legal mandates



The Future

No room to maneuver unless you have the data to prove it

It’s fair to say that board rooms are awakening to these challenges. After years of inadequate reactive approaches, executives are mobilizing an untangling of their company’s technology estates, accounting workflows and tax processes to ensure they have defensible data should they require it.

Equally, however, expect to hear plenty of the following:

“The government says we owe this. We don’t agree but can’t prove otherwise. We don’t know what to do”.

Companies that bury their heads in the sand and drag their heels will face uncomfortable truths, severe financial consequences and, if publicly traded, some frank responses from shareholders.



The only solution is to lean into the discomfort, accept that change is coming, and design a data strategy that equips you with the same level of visibility as the tax administrators to be able to validate their claims.

When we refer to source data, that's the data from:

- ✓ Invoices and receipts
- ✓ Logistics documents
- ✓ Payment processes
- ✓ HR systems
- ✓ Accounting ledgers

Source data doesn't only refer to data from your ERP system but rather the actual data from any processes and systems involved.

Consequently, where in the past indirect tax compliance impacted only some of your accounting data, the future footprint of data sharing obligations will be pervasive, affecting every electronic data interchange, purchasing, sales, electronic marketplace, direct-to-consumer e-commerce and point-of-sale system you use.

This source data must be high quality and consistent across the many solutions that form an organization's digital footprint. Absolute confidence in this data is necessary, and this is where the complexity lies.

It has never been a major objective for different types of software used to support corporate functions to be kept in sync continuously. In a world where cloud-based multitenant software is used for many business transactions, this would be impossible to achieve.

However, this same paradigm has also been applied to tax compliance software, with different vendors used per country as well as across functionality such as tax determination, periodic reporting, e-audit, and tax-compliant electronic invoicing.

This is more problematic, because tax administrations now receive source data from multiple systems – which they can combine, triangulate and analyze, while a business cannot.



Data validation with Mirror Visibility

This disjointed data flow makes it exceptionally difficult to deliver Mirror Visibility – the ability to see and understand what governments see and understand about your activities.

When we speak to businesses about this data challenge, they first react with frustration and fear.

They think they need to replace the software they have chosen to run their business with software that is designed primarily to meet government specifications. Sadly, many e-invoicing and tax compliance software vendors reinforce this kneejerk reaction.

This is not the solution, nor is it even required. Mirror Visibility isn't about replacement or reconstruction of systems and processes that make sense to your business.

Mirror Visibility is about data harmonization and trust. And the way to achieve that is to choose a single compliance partner with a profound understanding of the enterprise software ecosystem to offer the best of both worlds – business efficiency and compliance – through a modern, forward-looking integration strategy.

Investing in a single compliance partner simplifies how you meet mandatory reporting requirements set by governments and is a counter to the increasingly powerful analytics capabilities tax administrators possess to define your tax position.

An easier way to visualise this in practice is to ask, "What will you do when tax authority data doesn't match yours?". A strategic platform solution that seamlessly integrates with your business applications will help avoid conflicting data and build the capabilities to mount the defence with accurate data.

It's either that or unquestioningly accepting what the tax authority says you owe and paying your bill.

I know which one I'd choose for our business. Contact me if you want to discuss Mirror Visibility in more depth.

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