

SOVOS



The State of Tax Compliance Report

The world of tax compliance has taken on a new level of complexity for businesses. This report combines the observations of Sovos' team of regulatory experts and data mined from the more than 16 billion annual transactions we conduct globally each year.

Introduction

Evolution of Tax Compliance

Source data has replaced declarative reporting.

+ Insight

The shift towards source data revolutionizes how tax administrations understand business activities. By requiring businesses to share standardized source data directly from operational systems, tax authorities can monitor compliance more effectively and at a lower cost.

Growing Global Complexity

A global shift towards real-time data collection and pre-filled returns.

+ Insight

As a result of growing complexity, 82% of companies believe they're more exposed to tax-related compliance risk than they were five years ago ([source: Bloomberg](#)), and 90% expect their compliance-related costs to keep climbing ([source: Accenture](#)).

The Government's Expanding Use of Technology

Government tax authorities are reshaping the way in which they collect and interact with businesses.

+ Insight

The government has inserted themselves into your business process. There is no longer such a thing as after the fact reporting. The government is inserting itself firmly into your accounts receivable (AR) and accounts payable (AP) systems as well as your logistics processes and general ledger for more granular, real-time information.

The Global Regulatory Landscape

19,000+

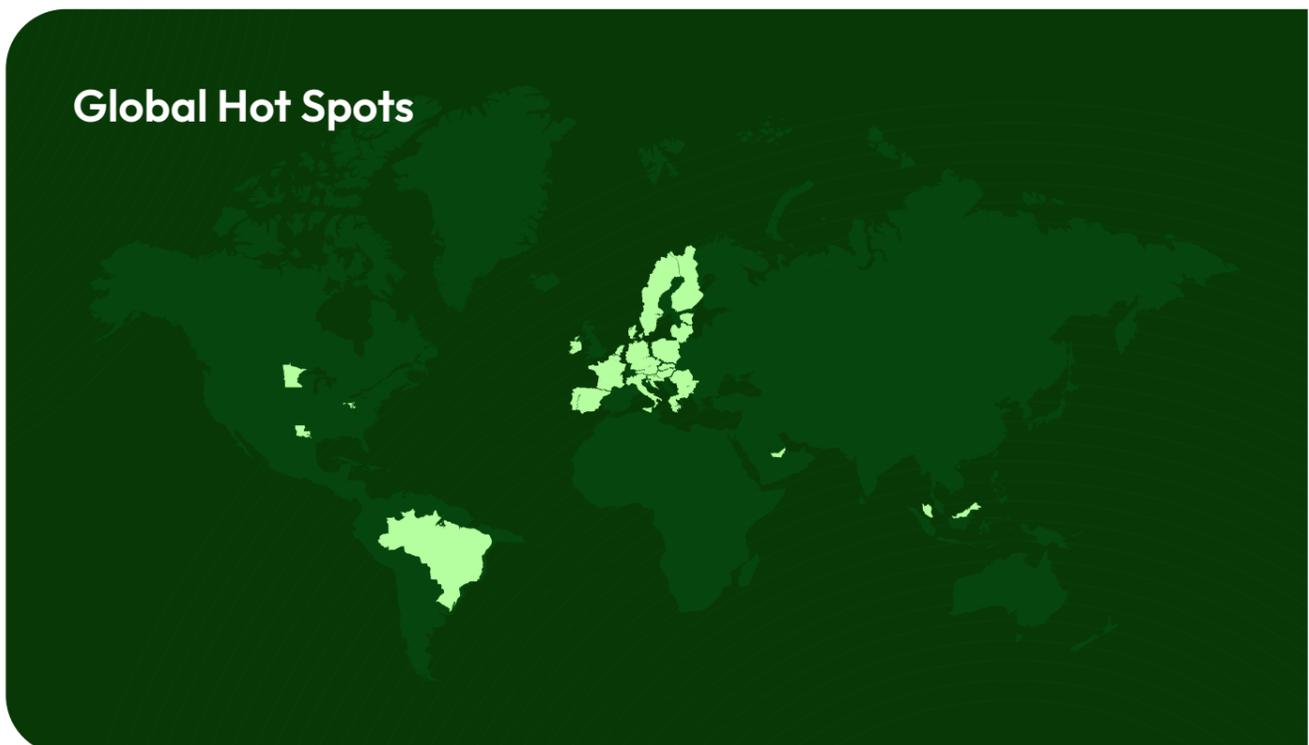
Global tax jurisdictions

14,000

Average changes per month

The global tax landscape shifts on a daily, weekly and monthly basis, forcing businesses to adjust in real-time to ensure compliance with all local tax laws for the regions where they conduct operations.

Global Hot Spots



Spotlight on the U.S. Regulatory Environment



Size and Scope of U.S. Sales Tax

12,999+

Jurisdictions supported

1,400+

Bills analyzed during the height of season

1,078

Sales tax forms tracked

7,900+

Total goods & service codes

643

Sales tax rate changes in 2024

603

Tax form changes in 2024

+ Insight

The United States has the highest number of independent tax jurisdictions of any country in the world and frequently introduces new tax laws while changing forms, rates and tax codes. It is the responsibility of the business to stay current.

When it Comes to Reporting, Always Verify

20%

of all Tax Identification Numbers (TINs) submitted for verification were incorrect.

+ Insight

In 2024, Sovos conducted over 55 million tax identification number checks for customers, with one in five found to be incorrect. Verifying this information before filing reduces IRS notices and eliminates red flags.

Real-time Check Bulk Check

TIN/Name

TIN (SSN/EIN)
457555462

FULL NAME / COMPANY NAME
Todd Davis

Run Check

Top 10 Reasons for State Sales Tax Audits in the U.S.



Predictive Modeling
and Data Analytics



Industry Targeting



Incongruous Periodic
Returns



Inconsistent Filing
History



Inconsistent Filing
Approach



Flow Down/Flow Up
Audits



Conspicuous
Presence



Random Selection



Whistleblowing



Prior Audit History

+ Insight

States use data mapping, target high-fraud industries, or sometimes it's just bad luck. If an audit is "productive," expect repeated audits until full compliance is demonstrated.

5 Biggest Sources of Sales Tax Audit Exposure



Failure to recognize a nexus obligation



Failure to request or maintain exemption certificates



Tax rate errors and product taxability rule errors



Failure to assess the use tax on purchases



Failure to remit taxes collected from customers



Once identified as the target of an audit and the audit has commenced, these are the top five areas in which most businesses are flagged for noncompliance.

4 States Most Likely to Launch an Audit

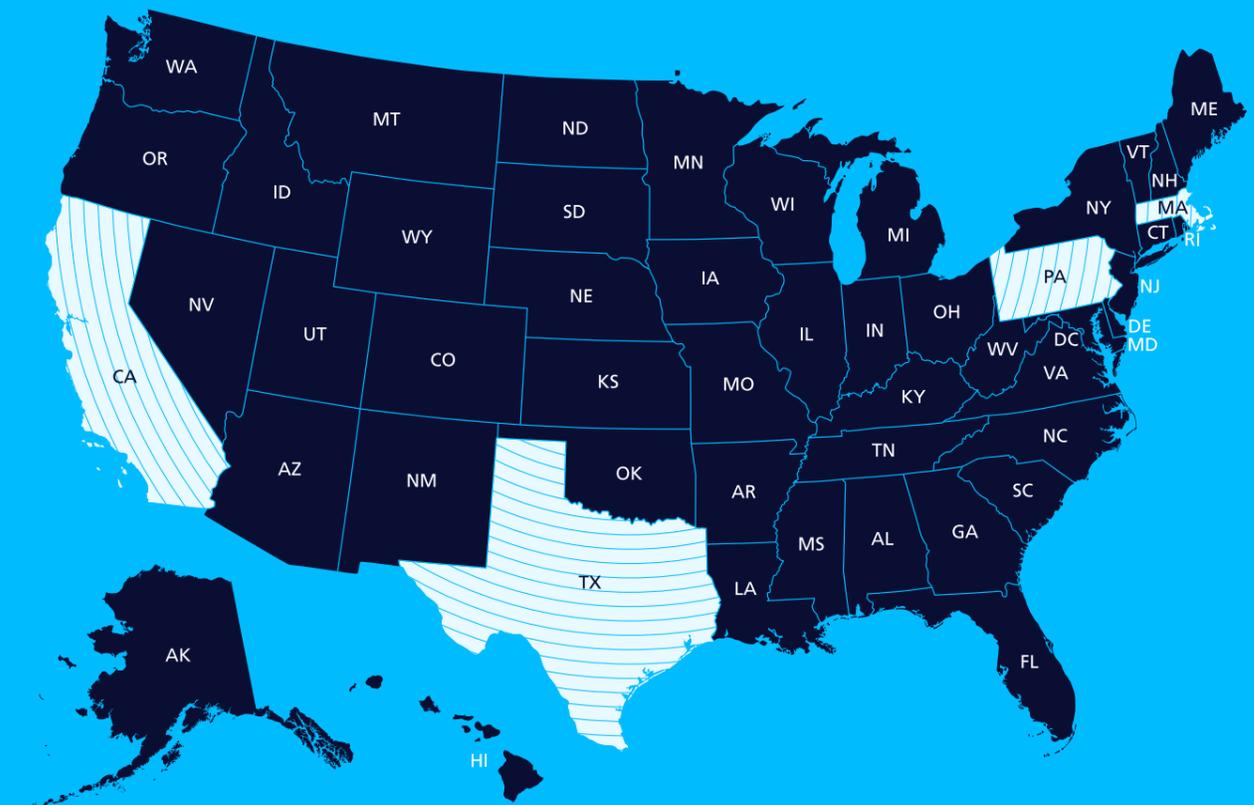
If you reside or conduct business in one of these states, you have a higher likelihood of an audit being launched:

✓ California

✓ Massachusetts

✓ Pennsylvania

✓ Texas



Although these four states are the most aggressive in their audit approach, increased audit activity is occurring across all 50 states due to advancements in technology

Spotlighting EMEA and VAT Compliance



3 Countries with the Most Frequent VAT Rate Changes

Greece



Poland



Romania



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VAT rates can change unexpectedly in any country or jurisdiction. Businesses must ensure they always apply the current rates.

5 Biggest Sources of Sales Tax Audit Exposure



Insight

VAT is a complex tax system that places responsibility on the seller at each stage of the supply chain. Businesses in these industries are likely to face increased scrutiny from tax authorities.

5 Countries with Highest Number of VAT-exempt Transactions



4 Reasons E-invoices are Likely to be Rejected

Missing information

Invoice Timing

Format Errors

Failure to Report in Real-Time

- Correct information, such as VAT numbers, invoice dates, and currency, is essential for e-invoice acceptance. E-invoices filed too early, too late, or not meeting real-time standards will be rejected.

4 Most Common VAT Penalties and Fines Issued by EU Tax Agencies

Late VAT registration

Late filing of the VAT Return

Late payment of the VAT due to the Tax Office

Incorrect VAT treatment

- Most penalties and fines stem from procedural issues. Meeting deadlines and maintaining accurate data keeps you off the tax authority's radar.

Spotlighting VAT Compliance in Latin America



Number of Electronic Documents processed by Sovos in 2024

3,575,500,000

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Sovos processed more than three and a half billion transactions for customers all across Latin America in calendar year 2024.



Percentage of VAT Transactions Requiring Real-time Reporting

100%

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All transactions require real-time reporting to tax authorities to ensure adherence to applicable tax rules.



5 Biggest Sources of Sales Tax Audit Exposure

Chile



Colombia



Peru



Mexico



 **Insight**

Latin America leads globally in e-invoicing, with Chile, Colombia, Mexico, and Peru having the most robust compliance initiatives in the region.

4 Common Challenges of Multinational Companies within SSA



Compliance complexity



Systems inoperability



Visibility and information transparency



Strategic scalability



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Unique e-invoicing regulations and technologies in different countries make compliance challenging. Constantly evolving regulations pose a risk of non-compliance, requiring continuous monitoring and adaptation to local rules.

5 Reasons Your Business Will be Audited in a LATAM Country



Inconsistent Reporting



High Refund Claims



Non-compliance with E-invoicing Regulations



Unusual Transaction Patterns



Industry-specific Risks



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Discrepancies in sales and purchases, large VAT refund claims, non-compliance with e-invoicing, irregular transaction patterns, and high-risk industries like construction or pharmaceuticals can trigger audits to verify legitimacy and prevent fraud.

Brazil Stands Alone in the World of Global Compliance

How Big are the Penalties for Failure to Pay Taxes in Brazil

Up to 225%

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The standard penalty for unpaid taxes in Brazil is 75%, increasing to 115%, 150%, or 225% if fraud or lack of cooperation is found.

% of Businesses Using Automated Tax Compliance vs. Manual Methods

100%

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Brazil's tax environment is the most complex in the world, requiring businesses to use automated systems for compliance.

5 Reasons for NF-e and NFS-e Rejections by Tax Authorities in Brazil



Errors in the digital signature



Inconsistencies in product or service codes



Incorrect or missing recipient information



Discrepancies in tax calculations



Non-compliance with the required XML schema standards



Insight

Brazil has some of the tightest compliance controls globally. Any inconsistent, erroneous, or potentially fraudulent data will be flagged, resulting in transaction rejection and increased audit potential.

% of Companies Required to Provide Added Documentation for ICMS Compliance

4%



Insight

Although only 4% of companies are closely audited, they account for 34% of the total tax burden and 98% assertiveness in tax assessments

Tax Compliance According to Finance Leaders

Source: CFO Dive's Studio ID/Sovos Survey April 2025



When asked about key initiatives for improving tax and compliance

91%

Of finance leaders prioritize lowering or maintaining compliance costs

94%

Say investing in additional technology to automate tax and compliance processes

86%

Are focused on better preparing for future e-invoicing mandates

95%

Of leaders say ensuring accurate real-time data reporting within and outside of their company is critical.

76%

Of finance executives have seen a positive return on investment (ROI) on centralized indirect tax platforms

Sovos by the Numbers

100,000+

Customers

250+

Fortune 500 Customers

16+ Billion

Transactions Conducted Per Year

19,000+

Tax Jurisdictions Monitored

100%

Uptime for Global Tax Determination

99.99%

Uptime for Integration Adapter

10%

Of All Transactions in Brazil Flow Through Sovos

137 Million

Line Items Processed on Black Friday

141 Million

Line Items Processed on Cyber Monday

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The State of Tax Compliance Report

This report combines analysis from our international regulatory experts and anonymized Sovos customer transaction data to examine the global tax compliance landscape.

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