Tax Compliance 2025: Top Trends in Tax, Regulatory & Technology

KEY ISSUES AND CHANGES FOR BUSINESSES ACROSS THE TECHNOLOGY AND REGULATORY SPECTRUM

THE CONVERGENCE OF REGULATORY AND TECHNOLOGY

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Foreword

By Kevin Akeroyd, CEO

I don't think it's hyperbole to suggest that 2025 is shaping up to be on of the most significant periods ever for businesses looking to manage their tax and compliance obligations across multiple industries and geographies.

However, I do think it's fair to suggest that the ramifications of not getting tax and compliance right is not receiving the wide-spread attention it deserves.

I spend a great deal of time traveling around the world and talking with customers of all sizes based in any number of different countries. I can tell you to a person of those I've met with, all of them are moving compliance up on the priority list of organizational risks.

Here's the deal, plain and simple. Compliance has evolved considerably in the past decade. It's no longer file a tax return after the fact and hope you don't get audited by the tax authorities, which may lead to a moderate fine down the road.

Today, it's reporting in real-time. The government is in your data, in your applications and knows more about your transactions than you do. Declarative data where you have a business providing information after it has been filtered is no longer accepted. Today, it's all about source data which represents the in flight between two trading partners.

And that's not all. Governments have taken the gloves off in terms of enforcement. Fines today are just a starting point. Businesses who habitually run afoul of compliance processes can expect to have permits and licenses revoked until the government has been satisfied.

Imagine for a moment ships sitting full in a harbor and containers of product wasting away in holding areas. Because that's exactly what is at stake.

In this eBook you will learn from my colleagues about some of the more pressing issues in play for 2025, please take them to heart.

There is a massive global tax gap that exists today, and for the first time, governments have the tools at their disposal to go hard after it. Don't be the business standing in their way.

The Convergence of Regulatory and Technology and What it Means for Tax and Compliance

By Steve Sprague, Chief Strategy Officer

For multinational organizations looking to manage their tax and compliance obligations, we are on the precipice of what I would define as a once in a generation type of change. The reason being, in compliance we typically experience a dramatic shift from either the regulatory side of the house or on the technology front, not both. Yet here we are with new and far-reaching regulatory mandates being implemented across the globe at the same time SAP has finally laid down the law that by 2027, customers will be off legacy systems and onto S4 or face extended maintenance price increases.

These are two massive forces on a collision course and your business is what is standing in the middle of them. If you're a multinational company, make no mistake, this will impact your systems and your business process design. You are looking at a considerable investment and use of resources to get this right, because in reality, you have no choice

WHAT REGULATORY CHANGES ARE THE GOVERNMENT MAKING?

The government tidal wave of continuous transaction controls has changed the game for everyone as these agencies are now inserting 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.

Where it gets tricky for companies doing business across multiple geographies is that every tax authority in every country has its own set of rules. You may achieve compliance in Germany, but France is sending you notices telling you that you are out of compliance and threatening audits, financial penalties or worse, an order to cease operations. Sixty governments and counting are implementing sweeping changes that you need to account for and the only way to do this is through technology. Which brings us to...

The government is inserting itself firmly into your accounts receivable and accounts payable systems as well as your logistics processes and general ledger **for more granular, real-time information.**

WHAT CHANGES ARE SAP MAKING AND HOW DOES THAT IMPACT COMPLIANCE?

SAP is attempting to move its client base off of ECC, which is now well over 20 years old, and onto S4. This is not a surprise. SAP announced some time ago that all new innovation will be developed in the cloud and not on premise. And while the maintenance date has been pushed back several times, all indications are that they are and will hold firm to the 2027 date.

At the same time, SAP is introducing a concept they call Clean Core, which in its most basic form gets rid of all the old technology that inhibits adoption and change management and control. They are telling partners that as of October of 2025, this is the last time partners can build and certify extensions to SAP functionality that extend to the older ECC ERP systems. In other words, after this date, partners can only build and certify on S/4 Cloud ABAP or BTP – the SAP Business Technology Platfrom. With all the new innovation taking place in the cloud, you will have to move to realize the benefits. However, if you are relying on partners running legacy SAP, this may inhibit your move to the cloud due to the level of custom coding present.

WHAT IS THE RIGHT APPROACH TO TECHNOLOGY FOR MULTI-NATIONAL BUSINESS TO ENSURE COMPLIANCE?

As a CIO, you will need to manage and control the chaos created by installing the systems to grant the government access to what it wants. This means you have some pointed questions to ask and difficult decisions to make. For example, how many point solutions do you currently run and what is it costing you to manage them? What levels of customization exist in your current solutions, are these inhibiting your ability to migrate? How many more of these can our current infrastructure absorb? Even more complicated, will have to support multiple SAP solutions as you migrate countries and modules over a period of time.

There is a lot of government chaos coming at you and if recent history is any indicator, there is only going to be more and it's only going to come at you faster. If you are looking to solve this issue for the next six months, you could consider point solutions. However, if you are serious about solving this problem for the next 10 years you should investigate a platform-based approach that can handle your compliance obligations across geographies and that is SAP compliant.

AI and Its Impact on Tax and Compliance

By Eric Lefebvre, Chief Technology Officer

We currently live in a world where governments are telling companies, in real-time, what their tax and compliance responsibilities are. It doesn't matter if you are a Fortune 500 conglomerate or a small business. You have a set of obligations to meet, and compliance has become far too big and important to get wrong.

For organizations trying to manage the frenetic pace of a rapidly evolving regulatory landscape, AI holds the promise of being a powerful tool across all areas of the business. Industries that deal with tremendous amounts of data, like tax compliance, are already starting to see the potential in machine learning and intelligent automation.

Machine learning algorithms analyze transaction patterns, identify anomalies and generate alerts for compliance officers to investigate further. This real-time monitoring capability ensures timely intervention, minimizing the risk of regulatory breaches. By automating the interpretation of regulatory activities, AI ensures that compliance protocols are always aligned with the latest requirements, reducing the burden on human compliance teams.

Generative AI is a progression in technology that will allow everyone from the CFO to frontline compliance managers to solve use cases faster with off-the-shelf tools. It can work rapidly to make internal processes more efficient. That's incredibly powerful, especially for smaller organizations, yet I believe that it is important to point out that we view AI adoption – and its impacts – as more evolutionary than revolutionary.

For companies looking to introduce AI into their finance functions, there are best practices that can help make the evolution a success. From the outset, departments must have a clear understanding of the problem they are trying to solve, the value proposition and how feasible it is. Those making the decision need to consider the potential impact AI will have on stakeholders such as customers, employees, partners, and regulators and proceed accordingly.

THE IMPACT OF AI ON THE ORGANIZATION

There are many ways generative AI can make life easier for tax and compliance professionals. Used with the proper preparation and with the right partners, generative AI empowers business leaders to streamline processes, reduce risk and enhance decision-making – allowing compliance to move from just a functional necessity to a true force for growth.

Organizations that engage with innovative tax tech solutions that are already building AI into their technologies will gain a key competitive advantage. Generative AI frees finance leaders from tedious and time-consuming tasks and allows them to focus on strategic business functions, such as mergers and acquisitions, risk mitigation and more.

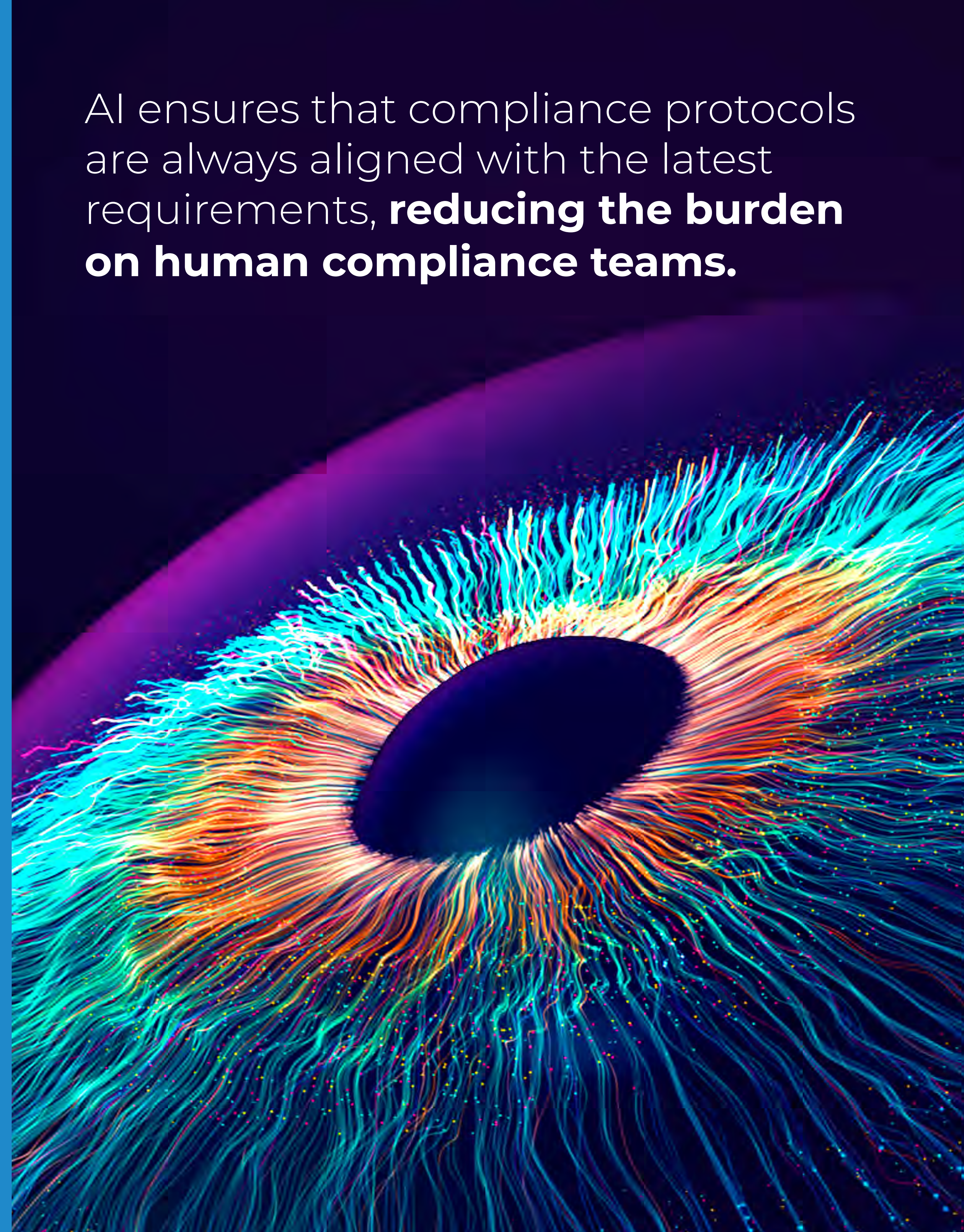
AI can be used to identify potential customers and geographies, driving top-line revenue while also helping bottom-line growth. For companies in the B2B space, AI fraud tools can cut detection times from days to minutes, meaning fraud detection can move from being reactive to happening in real-time. In the proof-of-concepts Sovos has piloted, we are already seeing accuracy up to 99%.

As with most technology, the value of the results of using AI is only as good as the data put into it – and selecting the right tool for the job. AI is not a one-size-fits-all solution. There are many different types, such as machine learning, natural language processing, computer vision and deep learning. Finance and IT should work together to evaluate the availability and quality of their data, the scalability and security of their infrastructure and the compatibility and interoperability of their systems.

SUMMING UP THE AI DISCUSSION FOR TAX AND COMPLIANCE

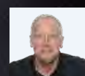
Traditionally, tax has been viewed as a cost center designed to avoid risk and ensure compliance. However, thanks to new technology, including AI, it's turning a corner and becoming a force for growth. With the right approach, there many use cases where AI can make a significant difference in compliance management.

However, it is incumbent upon business leaders to remember that we are at the beginning point when it comes to using this technology in tax and compliance. There are tremendous benefits, but there are also real risks. This amount of computing power has never been easy to implement, and it's also easy to get wrong. Leaders undertaking an AI implementation should keep the adage in mind that with great power comes great responsibility.



AI ensures that compliance protocols are always aligned with the latest requirements, **reducing the burden on human compliance teams.**

5 Key Trends in Indirect Tax Digitization



By Christiaan Van Der Valk, GM Indirect Tax

With indirect taxes growing in importance and serving as a primary source of funding, we are witnessing governments all over the globe embrace their public revenue potential. This has resulted in tax authorities continuing to adapt and evolve their practices, as well as drive innovation when it comes to monitoring and enforcement of regulations.

With this as a backdrop, it is imperative that businesses adjust their approach as well. Indirect tax compliance challenges are evolving and growing more intertwined with businesses' operations and other statutory reporting requirements every day. To keep your business one step ahead of the authorities will require a comprehensive strategy and long-term plan.

To aid in this process, I've outlined five of the key trends that me and my team are currently tracking to provide insight into where the global regulatory landscape is heading.

01

SOURCE DATA REPLACES DECLARATIVE REPORTING

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. The key to this tax administration paradigm shift is the introduction of automated processes for taxpayers of all sizes with a view to removing the human factor entirely from taw law enforcement. By declaring a standard data definition for business documents and accounts, this method enables advanced analytics to detect anomalies and independently determine tax liabilities more objectively.

The potential impact on your business could be: Tax administrations will use this more always-on method to gather more granular and more reliable source data to do two things: 1) prefilled returns for indirect and ultimately direct taxes, which will become available to the taxpayer as a 'suggestion', and 2) spot audits, which means tax administrations can challenge in-flight or very recent individual invoices if something does not compute with other data from the associated supply chain. For both of these immediate consequences of these unprecedented levels of data insight by tax administrations, you must maintain 'mirror visibility' to ensure a satisfactory level of ongoing data defense.

INCREASING DATA REQUIREMENTS

As public authorities recognize the benefits of source data collected for tax purposes, they will add more requirements – for e.g. sustainability reporting – for detailed information within individual documents and new categories of data that are needed for their specific area of regulation or law enforcement. The principle of 'collect data once' will increasingly be favored to minimize administrative burdens, making tax legislation a compelling path for data collection.

The potential impact on your business could be:
The 'legislative flywheel' effect whereby tax law becomes a vehicle for much broader data collection by government means that tax law compliance cannot be viewed in a silo. This means that within a business, functions whose compliance or relationship with public authorities may be impacted by this broader government use of data need to collaborate with the tax and IT functions. To enable such collaboration, companies must guard against the knee-jerk reaction that treats a new e-invoicing mandate as a 'plumbing' challenge and take measures to reformulate strategies through the lens of broader data 'meaning'.

02

MANDATORY OPEN NETWORKS – TOWARDS A 'DIGITAL B2B FREEWAY'

Governments are adopting the so-called 4-corner model to mandate or encourage interoperability among business data exchange service providers. This model allows businesses of any size to connect to one service provider that can link to any trading partner via their chosen service provider. This model will often be further extended to become a 5-corner model, whereby these same service providers take responsibility for sharing transaction-level data with the government. In some countries, an alternative model focused on a central government platform will create the same 'network of networks' result, typically also with specialized vendors that handle connectivity with the platform. Because of the diversity of network and tax compliance models, these vendors will become critical intermediaries in the enterprise sales and purchase data exchange ecosystem, and government certification requirements for these brokers will make them a must-have component in many enterprise software packages.

The potential impact on your business could be:
Where in the past large enterprises would often pay for the onboarding of their diverse supplier base by a specialized Electronic Data Interchange (EDI) or 'business network' vendor, this trend will enable businesses to focus more on their own process automation while all external sales and purchase communications are handled transparently by a certified broker that acts both as a generic network access point and, where applicable, as a conduit of compliance data to government platforms. Small and medium-sized businesses that in the past were captive network endpoints with diverse data exchange requirements across larger trading partners are in this environment 'freed' much more independent, which provides more opportunities to embrace business process automation. For businesses of all sizes, it becomes important, as they anticipate and respond to e-invoicing and other tax digitalization mandates, to avoid investing in old-style trading partner onboarding and community management functionality and rather invest towards taking advantage of these open network models where the total cost of trading partner data exchange will be much lower.

03

04

IMPACT ON ENTERPRISE SOFTWARE ECOSYSTEM

The shift towards certified brokerage alters market functions. Certified brokers become gatekeepers in tax compliance and transaction management, providing value-added services and maintaining regulatory compliance. This new landscape affects various vendors, including EDI, transactional BPA, and ERP vendors. Globally, a natural alliance emerges between, on the one hand, software vendors that compete on functionality to remove friction from business processes, and on the other hand vendors that specialize in maintaining regulatory brokerage certification and associated functionality. Whilst recognizing that these are two specializations that require different specialized vendors, the market will require these alliances to focus on a seamlessly integrated experience between business and compliance functionality.

The potential impact on your business could be: Larger businesses particularly should resist the temptation to seek a single vendor that natively handles all aspects of business and compliance automation. Sooner or later, such vendors will provide a 'worst of both world' experience which may reduce your competitiveness against companies that have chosen a 'best of both worlds' approach by working with two separate but tightly integrated vendors, each providing excellence in their area of specialization.

05

BROADER DATA OPPORTUNITIES

As noted, governments' need for comprehensive, timely data drives business requirements for maintaining 'mirror visibility'. The data thus centralized and analyzed to ensure an appropriate level of defense against spot audits and prefilled returns is also a unique single source of high-quality standardized data from across diverse enterprise systems. This creates opportunities for certified brokers to offer data consolidation and analytics services, fostering strategic collaborations with large advisory firms in alliances that can offer extended compliance and business analytics from this consolidated data source.

The potential impact on your business could be: Many larger businesses struggle with system and process diversity, which makes it very hard to get data in one place to maximize business intelligence. Businesses' many competing objectives also often don't create strong incentives to create such perfect data consolidation – it would be excellent to have perfect insight, but in many cases businesses have to settle for just 'good' prioritize other core investments to remain competitive. Now that tax and regulatory compliance is generating structured, high-quality data for government reporting purposes anyway, and because businesses need to consolidate that data for mirror visibility with the government anyway, businesses can make compliance a force for growth and overcome the system diversity challenge by putting analytics on top of this pool of compliance data.

As you can see, there are no shortage of changes taking place in the world of indirect tax at any point in time. The best way to prepare your business for any new initiatives being introduced by tax authorities is to have a comprehensive compliance strategy and platform in place that can absorb added complexity quickly and without the dedication of additional resources.

Removing Barriers for International Expansion

By Alex Pavel, Managing Director, APAC

The past three decades have overseen unparalleled growth in global trade and international expansion of multinationals. As a result, the mergers and acquisitions (M&A) landscape has increased in economic value, yet equally so in complexity – it is now harder than ever to execute operationally on post-acquisition integration when dealing with multiple country regulations simultaneously.

While migrating systems, data and combining teams of people in a global M&A scenario, it is crucial to maintain operational efficiency and business continuity in core processes such as procure-to-pay, order-to-cash and record-to-report. In a global context where 80+countries are regulating the invoice flows, moving them into the digital world - by default, and not by exception - it is critical for businesses to single-source their global compliance needs for e-invoicing and tax.

Moreover, e-invoicing and tax capabilities must be deployed in such a way that the businesses have the continuity to access records which are crucial for audit defense. They must also be fully compatible with current systems, while independent from the enterprise systems coming in and out of use as structures come together over months and years. This aspect is often overlooked in the preparation phases of M&A initiatives, leading to erosion of value and unwanted extensions to realizing the full value of creation plans that underpin M&A initiatives.

THE ROLE OF TAX AUTHORITIES AND DATA COLLECTION

Regulation and taxation go beyond collecting revenue for public finances – they are political levers and a looking glass into the economy. Therefore, your company tools, capabilities and insights should be similar to those of the local authorities and your industry peers.

The Tax Advisory industry has explored, at length, the drivers behind Tax Authorities around the world deciding to introduce new regulation, such as e-invoicing and SAF-T, focusing on aspects such as closing the tax gap, rewarding good economic actors and punishing bad ones, and ensuring a fair and equitable economic environment.

However, a less explored aspect is how such regulations, more specifically the underlying data, act as input data for shaping policy decisions and can become levers in economic competitiveness between jurisdictions. For example, pan-European regulation such as ViDA is designed as a protective measure for EU-based retailers against foreign headquartered online retailers who have proven in the last decade to evade their tax obligations.

Governments around the world have generated much more granular data from similar regulatory programs, by economic sector, by taxpayer size, as well as specifics on the origin and destination in the flow of goods and services. As a result, more targeted and timely policies are being analyzed, modeled and scenario-tested before being implemented. As a result, their impact can be measured with great accuracy.

In the realm of economic policy, whether the priority is creating local or regional industry champions, attracting FDI, or protecting key sectors, the benefit of near real time trusted data is transformational and cannot be understated.

A consequence of this new reality is that multinationals can be left playing catch up with governments and some of their peers and may find themselves in a loop of costly reactive adaptation. Adopting technologies which grant them parity of insight, coupled with built-in adaptability and scale would be a sound business decision for multinationals working across a number of different borders.

How are governments replacing **tax revenue?**

By Charles Maniace, Vice President Regulatory Analysis and Design

"According to Darwin's Origin of Species, it is not the most intellectual of the species that survives; it is not the strongest that survives; but the species that survives is the one that is able best to adapt and adjust to the changing environment in which it finds itself." - Leon C. Megginson

The admonition "adapt or die" does not just apply to living beings, it's also a warning to governments. As the economy evolves and technology advances, there is no guarantee that existing taxes and fees will continue to serve as reliable sources of needed revenue. While states were undoubtedly delighted by the spike in sales/use tax revenue driven by increased online purchasing during the global pandemic, they must now turn their eyes to those societal changes that threaten what have been historically dependable revenue sources.

LET'S LOOK AT SOME EXAMPLES.

Fuel taxes have been a highly reliable source of government funding over the years. From 2012 – 2019 total gas and diesel sales increased steadily year over year. Unsurprisingly, the Covid pandemic caused an 11% decrease in fuel sales but what prognosticators now believe is that 2019 represented the peak of fuel consumption in the United States. [source: https://documents.ncsl.org/wwwncsl/Transportation/Regan-The%20Problem-%20Transportation%20Revenue%20For_Mia%20Geoly.pdf]. This trend is unsurprising given the proliferation of flexible work models, improved fuel efficiency from combustion engines, and the gaining popularity of electric vehicles.

As fuel consumption decreases so will fuel tax revenues, with some prognosticators suggesting a decline from the 2020 high water mark of $65b to a comparatively paltry $20b by 2050. Given that fuel taxes are the largest funder of state and local transportation initiatives, a possible decrease of this magnitude should be setting off alarm bells in state capitals across the country.

Likewise, taxes on tobacco products, a historically dependable 'sin tax', reached $17.16 billion in 2010. That number shrunk to $11.26 billion by 2022 and is further estimated to drop to $8.92 billion by 2028. [source: https://www.statista.com/statistics/248964/revenues-from-tobacco-tax-and-forecast-in-the-us/] In other words, even before accounting for inflation. in less than 20 years we have seen tobacco tax revenue cut by close to half. While decreased tobacco consumption is undoubtably a positive outcome from a public health perspective, the budgetary impact must be accounted for.

Understanding the continued viability, or lack thereof, of traditional revenue sources is only half the battle. The question then becomes how will governments react? Can and will they find alternative revenue sources that align with societal, economic, and technological trends? Most importantly, will they create tax regimes and requirements that are easily supported and maintained by the business community? Businesses, after all, are the ones ultimately responsible for collecting and remitting consumption taxes. Since governments don't collect consumption taxes, it's incumbent on them to structure compliance requirements that that fund their governments without burdening or hindering commerce. The question remains, are they living up to that obligation? To answer that question, let's review some initial forays into the possible "replacements" for fuel and tobacco taxes.

Fuel taxes are the largest funder of state and local transportation initiatives

One of the reasons behind the decline in tobacco tax revenue is the recent growth of the vaping market, yet as of July 1, 2023, only 31 states imposed special excise taxes on vaping products. [source: https://taxfoundation.org/data/all/state/vaping-taxes-2023/]. Where vaping is taxed though, the rates can be particularly high, including a 95% wholesale tax in Minnesota. https://taxfoundation.org/data/all/state/vaping-taxes-2024/#:~:text=Minnesota%20imposes%20the%20heaviest%20wholesale,New%20Hampshire%20at%20eight%20percent.

From a strict tax policy standpoint, there is a certain appeal to subjecting vaping to the same regime of taxes that apply to tobacco today. However, there are also conflicting social policy issues at play. While vaping companies are constantly under fire for purportedly marketing their products to children, there is also belief that vaping is a less unhealthy habit than tobacco. In this environment, states could take conflicting approaches. Some may opt to reduce the tax on vaping to encourage people to switch while others may wish to utilize high tax rates as a vehicle to price younger users out of the market.

The growing legality of marijuana is also likely cutting into tobacco consumption and within the subset of US states that permit the sale of recreational marijuana, its common to see a robust panoply of new tax requirements at both the wholesale and retail level. https://taxfoundation.org/data/all/state/recreational-marijuana-taxes/. The challenging policy issue at play here is whether particularly high taxes in this space will simply drive consumers away from legal dispensaries to the still-thriving illegal market.

In terms of fuel tax replacements, it's far from surprising to see states impose additional taxes and fees on electric vehicles as a means of replacing lost fuel tax revenue. After all, EV's use the same roads and bridges as their gas-powered brethren, While the closest parallel to a gas tax are special levies on EV charging as they exist in at least 6 states, governments are also considering mileage fees, registration fees and other levies specifically directed at EV drivers. To at least some extent, these additional levies counterbalance the existing federal tax credit available to certain purchasers of new or used electric and hybrid vehicles.

Colorado and Minnesota have also found a novel way to generate revenue from eCommerce while simultaneously addressing falling fuel tax revenues. Both have recently begun imposing a small fee on each retail delivery of taxable merchandise into their respective states. We cannot fault their logic. Consumers demand near-instant delivery of the stuff they buy online and the network of delivery vehicles crisscrossing the country relies on a stable and efficient infrastructure. States see it as only logical that every online sale contributes a little money to maintaining roads and bridges.

The social policy argument against additional fees on retail deliveries is that they disproportionally impact the segment of consumers who rely on deliveries because they don't own their own vehicles. Those states that considered this argument largely dismissed it, suggesting that the incremental burden on individual consumers is minimal. The tax-complexity argument should not be so readily dismissed. Adding an additional governmentally imposed fee to a sales invoice is not a straightforward effort in and of itself, and both states have special rules and requirements. For example, in Minnesota the fee does not apply to orders priced less than $100 and while the fee generally only applies to invoices containing taxable items, it also applies to deliveries of non-taxable clothing. Should other states adopt similar fees, each with their own nuanced rules and requirements, the additional compliance complexity placed on businesses will be substantial.

Someone famous once said the only two certainties in life are death and taxes. Given the modern economy in which we operate, we may want to add "tax system evolution" as an additional certainty.

Four trends to watch in tax & regulatory reporting

By Wendy Walker, Solution Principal

2025 is shaping up to be another year of continuous change, multiple moving parts and increasing complexity. As tax authorities continue to adjust to keep pace with evolving business and financial landscapes and close tax gaps, we can expect to experience multiple rounds of form changes and other procedural adjustments across the reporting spectrum. Over the next twelve months, I'll be paying particular attention to these four trends and the impact they are going to have on both the public and private sectors.

01

GOVERNMENT SYSTEM MODERNIZATION

Federal and state governments have not traditionally been synonyms with innovative technology. However, that is changing and quickly. As they begin to realize the benefits of modern systems, governments are rapidly earmarking funds for upgrades and replacements to current systems that allow them to more quickly and accurately track and collect revenue streams and enforce policies with greater speed and accuracy when needed. This effort is expected to increase revenue collection while eliminating older, less efficient processes including paper in many instances.

02

ACCELERATED FILING DUE DATES

In order to prevent rampant and growing fraud, the government is taking steps to accelerate information return filing deadlines to better allow the IRS to match information reported on third party returns to corresponding income tax returns for the same taxpayer in real time which would prevent refunds from being issued associated with fraudulent claims. This is a key change in the law which would accelerate the filing deadline for all information returns from the end of March to the end of January annually. This will certainly impact industry processes and systems.

03

EMERGING DIGITAL ASSET REPORTING REQUIREMENTS

The reporting regulations were finalized in June and the final version of the new 1099 is expected from the IRS by the end of the year for the purpose of targeting digital asset transactions. Form 1099-DA as it's known is being required by the IRS to be filed by brokers when effectuating trades of digital assets such as non-fungible tokens (NFTs) or cryptocurrency. It is required that all brokers settling trades of digital assets issue this form for all sales or exchanges beginning on January 1, 2025 (reporting in early 2026) Form 1099-DA is designed to provide a standardized and more accurate approach to reporting digital asset transactions to reduce income tax reporting errors or opportunities for tax evasion.

04

IRS GUIDANCE

Another major change we are currently tracking is the anticipated guidance from the IRS on what the threshold for Form 1099-K reporting for third-party settlement organizations (TPSO's) will be. Previously, TPSO's were required to report when they paid a taxpayer $20,000 over 200 transactions during the tax year. However, as a component of the American Rescue Plan Act passed in March of 2021, this reporting threshold is intended to be reduced to $600. The IRS released official guidance in November of last year that indicates that while they continue to work to implement the new law, the agency will treat 2023 as an additional transition year and that they were 'planning for' a $5,000 reporting threshold for 2024. However, the IRS has not followed up and released any official guidance and the instructions for filers of Form 1099-K for 2024 indicate that TPSO's must report 2024 transactions following the $600 threshold. It is fully expected that the IRS will release an official Notice before the end of the year announcing the phased -in threshold of $5,000 for 2024 reporting. Otherwise, TPSO's need to be prepared to report at the $600 threshold for 2024 season.

CONCLUDING THOUGHTS

At the time of writing this piece, these are the four big trends that are poised to have the most significant impacts on the tax and regulatory landscape this year. I encourage everyone to become familiar with these issues and to stay abreast of the latest developments and changes taking place by keeping current with our Sovos blog and regulatory analysis feed. I also offer a word of caution that the IRS is always good for a surprise or two throughout the year as business and economic conditions shift. When it comes to tax, never assume what the policy was last year is still the current law of the land and take the time to confirm that you are filing correctly and avoiding potential issues down the road.

Unclaimed property enters the spotlight: Three key trends

Freda Pepper, General Counsel, Unclaimed Property

By definition, unclaimed property is an area of the compliance market that is largely ignored and forgotten about. However, left unchecked and it can create untold issues for businesses and financial institutions alike. To help you keep pace, we've outlined three trends that are garnering a great deal of attention from states across the United States.

01

DEATH OF AN OWNER

States are amending their laws to include the death of an owner as a component for the escheatment of unclaimed property. The new provisions include:

1. **The reduction of the dormancy period for property with a deceased owner by one or two years;**
2. **Changing the dormancy trigger to either to the date of death or the date of the confirmation of death of the owner**
3. **An affirmative obligation of the holder to confirm death within a certain time period for any property where the holder learns of the death of the owner**

The new and inconsistent provisions related to death pose a variety of compliance challenges.

The states that have changed the trigger for the dormancy have either changed the trigger to the date of death or to the date when death was confirmed. What that state considers a confirmation of death or knowledge of death is not always defined leaving holders to determine what that means.

For those states that have changed the dormancy trigger to date of death, property will often be considered late when reported. Indeed, Holders often learn of and confirm death years after an owner has died, particularly when the mail is not returned as undeliverable.

In several states that apply the change of the dormancy trigger due to death, there is often a conflict with another provision that already addresses the analysis of that property. The states enacting the new laws are not always identifying to which property type the change applies. Therefore, we are left to ask, should the trigger date for an uncashed check change to the date of death? It seems that the uncashed check will eventually escheat making the change to date of death meaningless. And, what if the date of death predates the issue date of the check.

There are also property types where death is already contemplated causing a conflict. For example, the death accelerator provisions can contradict a state's IRA provisions. Applying the new standard can cause an account to be presumed abandoned due to an owner's death long before distribution of the account is required. This could ultimately result in taxable consequences to the owner and perhaps an action against the holder.

Finally, States applying a shortened dormancy period running from the owner's death puts holders in a difficult position if they are working with a beneficiary who has not yet finalized an estate, for example. The Holder has no control over the beneficiary and thus an account may escheat even though a beneficiary is actively involved with an account.

BROKERAGE ACCOUNTS ACTIVITY

Push to inactivity standard for brokerage accounts - Recently, more states are taking the position during audits and at the urging of third-party audit firms to analyze brokerage accounts under the state's "catchall" provision. All state laws contain a catchall provision that provides that "any other" property not addressed specifically by the unclaimed property laws are reportable 3 or 5 after the date of last contact only. No other criteria are required. Therefore, these states consider brokerage accounts presumed abandoned after 3 or 5 years of inactivity. Returned mail and uncashed checks are not a factor to consider. This is problematic particularly in states where the law specifically requires returned mail and/or associated uncashed for accounts containing securities. Escheating brokerage accounts with securities too early can result in a loss to the owner since the states liquidate the securities and only provide owners claiming their property the value at the time of liquidation. This result exposes companies to wrongful escheat claims.

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FALSE CLAIMS ACT (WHISTLEBLOWER) ACTIONS ON THE RISE

A recent trend seen in the unclaimed property industry is the filing of lawsuits under state False Claims Acts (FCA), for alleged underreporting and remittance of unclaimed property obligations. The FCA allows people to file civil actions on behalf of the government and then to take a generous share of any recovery.

Typically, these cases come about when a company's employee or former employee alleges the company defrauded the government by intentionally paying the government less than what is owed. The person bringing the lawsuit, known as the relator, can earn up to 30% of the ultimate recovery to the state. This is a substantial incentive for relators to bring such cases.

In terms of liability, those found to be in violation of the FCA are subject to treble damages (3x the value of the underreported property), penalties, interest and attorney's fees. As a result, liability under the FCA can turn a small mistake or uneducated failure related to compliance obligations into a multi-million-dollar legal battle with long-term public relations implications.

To avoid these consequences, companies should create and maintain policies and procedures relative to the unclaimed property laws and ensure proper compliance by regularly reviewing and reporting unclaimed property to the appropriate state authorities. Companies should also make sure to address employee complaints including those of independent contractors who may be brought in to assist with aspects of financial reporting. It's important to investigate credible complaints by employees as his may reduce the likelihood of an FCA claim.

The modernization of the beverage alcohol shipping market

By Alex Koral, Regulatory General Counsel, Sovos ShipCompliant

A Modern Market Requires Modern Solutions

Surely and steadily, the beverage alcohol market is modernizing. The three-tier system, which has been the prevailing method for distributing and selling beer, wine and spirits across the country for over ninety years, is increasingly unable to support the tens of thousands of alcohol brands sold in the U.S. and satisfy consumer demand.

To fill the gap, new and developing channels, like direct-to-consumer (DtC) shipping and direct-to-trade (DtT), have arisen, providing greater opportunities for suppliers and retailers alike. DtC shipping of wine has become particularly entrenched, regularly bringing in billions of dollars in additional revenue for wineries that are often left out of state wholesale channels. As such, it is no surprise that the beer and spirits industries have been actively lobbying state legislatures to gain their own access to DtC shipping privileges. While they must contend with pushback from certain corridors, these efforts have seen success, including in New York, the latest state to permit DtC shipping of spirits.

These expanded channels come with increased regulatory obligations, though, as states require suppliers selling directly to consumers or retailers to prevent improper sales, track their shipments and remit all relevant taxes. Any supplier looking to take advantage of the modernizing alcohol market needs to get ahead of these obligations and be ready to meet their compliance needs from day one.

Regulators Are Utilizing Software to Better Track Compliance

As the beverage alcohol market modernizes, state and federal regulators are responding in kind. Just as alcohol suppliers can no longer rely on the old, outdated channels for selling their products, regulators have also moved to adopt modern methods for enforcing their laws. Many of these modernizing efforts have been beneficial to all, such as online systems that have drastically reduced the time and cost of doing things like applying for licenses or registering brand/labels. Electronic tax returns and shipping reports have also greatly increased the ability of regulators to track sales within their borders and monitor them for non-compliance.

This does, however, mean that the regulated parties—the suppliers and retailers and shippers of alcohol—must be prepared to work within whatever new tools that a state adopts. Using their own software services to track changing state systems, maintain the records and documents that states require to be filed and connect directly with whatever system a state adopts is invaluable for any modern alcohol supplier to stay ahead of an ever-evolving regulatory world.

Make no mistake, this is far from a plug and play activity. Tax authorities and lawmakers are continuously adjusting the rules and with each state managing its own, unique regulatory framework, keeping up with sweeping changes and growing complexity is no easy task. Ensuring compliance takes constant vigilance, regulatory expertise and the ability to make changes in real-time.

Conclusion

We are caught in a seemingly never-ending cycle of change and growing complexity as it relates to tax and regulatory compliance. As new and more powerful technologies further enable governments and tax authorities to gain greater insights into the operations of businesses and extract transactional data in real time, it demands a more sophisticated technology response from the organization.

To date, many businesses, including multinational corporations, have tried to address compliance changes taking place on a global scale through endless point products created to address a singular standard in a sole geographic location. Sweeping change across all regions of the world require a high degree of flexibility and scalability in compliance solutions to keep pace.

Unfortunately, point solutions were not designed for this level of continuous change and evolution which has created a quagmire of sorts for businesses who are realizing that disparate point solutions silo your data, business processes and teams. At Sovos we advocate for a different approach, one centralized platform where your finance and IT teams can identify, determine, and report on all of your tax obligations globally.

TAKE ACTION

If your organization is struggling to remain compliant with the multitude of technology and regulatory changes taking place, we encourage you to speak with one of our experts to learn what other approaches and solutions are available.

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