eBook

Beyond Mere Compliance:
Navigating Tax Information Reporting in the US Market

A Strategic Guide for Financial Institutions from Sovos and TCS BaNCS

SOVOS tcs BaNCS™

Contents

Executive Summary

Tax information reporting for financial institutions has evolved from a routine compliance exercise to a complex, technology-driven imperative that demands precision, speed, and strategic thinking. As regulatory agencies modernize their systems with AI-powered enforcement and real-time validation, financial institutions face unprecedented challenges in maintaining compliance while managing operational efficiency.

This guide, developed jointly by Sovos and TCS BaNCS, provides financial institutions with a roadmap for navigating the evolving tax information reporting landscape. Drawing from decades of combined expertise in regulatory compliance and core banking technology, it presents actionable strategies for transforming tax compliance from a cost center into a competitive advantage.

Key Takeaways

Financial institutions must adapt to fundamental changes reshaping the tax reporting landscape:

- Filing deadlines are tightening, as the IRS considers, through ETAAC recommendation, shifting additional forms (such as 1099-K, 1099-R, W-2G) to a January 31 deadline, with no time for corrections
- AI-powered enforcement systems are revolutionizing compliance by identifying discrepancies and fraud patterns in real-time across multiple filing types
- Cross-border reporting requirements are expanding rapidly with new frameworks covering crypto assets, digital payments, and international financial accounts
- Manual processes now create unsustainable operational risks due to staff turnover, system complexity, and the accelerated pace of regulatory change
- Strategic partnerships have become essential for maintaining compliance while managing costs and operational efficiency

These changes require a fundamental shift from reactive compliance to proactive, technology-enabled tax reporting strategies.

The Perfect Storm: Three Major Shifts Transforming Tax Reporting

1. Digital Transformation Imperative

The IRS has fundamentally transformed from a slow-moving bureaucracy into a technology-forward organization leveraging artificial intelligence throughout their systems. This digital evolution is accelerating enforcement capabilities and enabling real-time detection of non-compliance and fraud patterns.

Key technological and operational changes include:

- AI systems are analyzing comprehensive data patterns across W-2s, 1099s, and 1042s filings to identify inconsistencies that manual reviews would never catch
- Advanced detection capabilities now identify illogical combinations on complex forms like 1099-Rs and 1042s, flagging errors that previously went unnoticed
- Continuous error reporting systems operate year-round, requiring immediate corrections and resubmissions rather than allowing post-filing fixes
- Filing due dates are under review, with proposals to align more forms (like 1099-K, 1099-R, W-2G) to January 31 and remove time for corrections.

These changes eliminate the traditional buffer time that institutions previously relied upon for compliance management.

> "The IRS has completely changed the game. They're not the slow-moving bureaucracy they used to be. They're using AI throughout their systems, and that's accelerating enforcement."

Wendy Walker
VP of Regulatory Affairs, Sovos

2. Enhanced Enforcement Landscape

Modern IRS systems go beyond catching obvious mistakes. Their AI capabilities identify subtle discrepancies that manual reviews would never detect, creating a new standard for accuracy and consistency in tax reporting.

The enhanced enforcement landscape creates these new compliance realities:

- Misaligned filings between departments trigger immediate penalties when payroll teams and 1099 teams submit inconsistent information to the IRS or state agencies
- The traditional grace period for post-filing corrections will eventually be eliminated forcing organizations to achieve accuracy before submission rather than fixing issues after filing
- Detailed error reports are generated continuously throughout the year requiring immediate response, correction, and often complete resubmission of information returns
- Pattern analysis across multiple filing types increases scrutiny as AI systems cross-reference data across various forms to identify discrepancies and potential compliance issues

This shift from reactive to real-time enforcement fundamentally changes how financial institutions must approach tax compliance operations.

3. Expanding Global Regulatory Web

Cross-border reporting requirements are proliferating worldwide, creating complex compliance matrices that extend far beyond traditional domestic reporting obligations.

Organizations must now navigate an expanding web of international requirements:

- Common Reporting Standard (CRS) obligations continue expanding for financial institutions with cross-border customer relationships and international account holders
- Foreign Account Tax Compliance Act (FATCA) requirements are broadening with enhanced data collection and reporting standards for foreign financial accounts
- New crypto asset reporting frameworks now cover comprehensive transactions, including not only sales but also transfers, staking, and other digital asset activities
- EU's DAC 8 directive will impact digital payment platforms significantly starting in 2027 with new reporting requirements for cross-border digital transactions

These global requirements create layered compliance obligations that require specialized expertise and integrated technology solutions to manage effectively.

Key Challenges Facing Financial Institutions

Data Integration Nightmare

Modern banks operate dozens of interconnected systems (core banking platforms, wealth management solutions, trading systems, and CRM tools) each holding pieces of reportable tax data in different formats with varying update cycles.

> The foremost challenge we hear from our clients related to tax reporting," explains Aaron White, Program Director, TCS BaNCs, "is the need to streamline and structure fragmented data that is spread across multiple applications. With the digital transformation of tax administration gaining importance, a robust data foundation underpinned by the right technology is key to simplifying tax reporting across a firm. TCS BaNCS, with its partner, Sovos, offers a joint solution that can help US firms meet the evolving requirements from AI and analytics-enabled tax regulatory bodies, helping usher in greater transparency and easy compliance."

Let's take a look:

Real-World Impact: A single customer like "John Smith" may exist differently across multiple bank systems with conflicting tax information. Data quality varies dramatically between real-time and batch processing systems, creating mismatches that compromise accuracy and trigger compliance failures.

Regulatory Complexity at Scale

Financial institutions must navigate thousands of taxing jurisdictions in the United States alone, each with unique requirements that often differ significantly from IRS standards.

A critical misconception many organizations hold is that states simply follow IRS requirements for 1099 reporting. In reality, states maintain significantly different standards:

- **Each state establishes unique reporting thresholds** that often differ substantially from federal requirements, creating confusion for both institutions and customers
- **States implement form-specific requirements and modifications** that require different data elements, formats, or validation rules than federal versions
- **Submission processes vary dramatically by state** with many requiring direct filing through state portals even when listed in federal sharing programs, while others still require paper or encrypted CD filings.
- **Filing deadlines frequently differ from federal timelines** creating multiple compliance calendars that must be managed simultaneously across jurisdictions and, unlike the IRS, most states have January deadlines which require quick reconciliation to be able to file during an already very busy month.

This complexity multiplies exponentially when managing compliance across multiple states and form types.

Over 41 different information returns exist, with the average US bank issuing approximately 33 different return types. Managing threshold changes across select form types while maintaining consistency across all others creates operational complexity that traditional systems cannot efficiently handle.

Operational Efficiency Crisis

Manual processes create single points of failure within financial services organizations. High staff turnover in compliance and operations roles, often due to repetitive, stressful work during tax season, leaves organizations vulnerable when key personnel leave.

Manual processes create multiple layers of operational risk, notably:

- **Process breakdowns occur in critical compliance areas** when experienced staff members leave and take institutional knowledge with them
- **Knowledge gaps emerge suddenly during peak compliance periods** leaving organizations scrambling to maintain accuracy and meet deadlines
- **Inconsistent application of regulatory requirements develops** across different departments, systems, and customer segments without standardized automation
- **Scaling operations becomes impossible with business growth** as manual processes cannot accommodate increased transaction volumes or expanded service offerings

These risks compound during merger and acquisition activities when multiple legacy systems and processes must be integrated quickly and accurately.

> "We're seeing high staff turnover in compliance and operations roles because some of this work can be repetitive and stressful during January and the tax season. When key people leave the organization, processes break down in areas where you just can't afford it."
>
> **Wendy Walker**
> **VP of Regulatory Affairs, Sovos**

The Critical Role of Tax Reconciliation

True reconciliation goes beyond basic compliance to create a comprehensive framework that ensures mathematical precision, regulatory accuracy, and operational consistency across all tax-related processes. This approach transforms tax reporting from a fragmented, reactive process into an integrated, proactive system that prevents issues before they occur. Organizations that achieve true reconciliation establish three foundational capabilities that work together to eliminate the gaps and inconsistencies that create compliance risks and operational inefficiencies:

1

Accuracy in Withholding Determination and Payments

Bank calculations for withholding taxes must be precise across various income types. Complex scenarios like backup withholding or non-resident withholding with treaty benefits require systemic accuracy, not manual case-by-case handling.

2

Perfect Balance Between Withholdings and Reporting

Banks need mathematical reconciliation between information reported on 1099s and W-2s, withholding returns (940, 941, 945, 1042), and actual tax deposits. Mismatches in this area generate millions of dollars in penalties from IRS and state systems.

3

Consistency in Customer and Vendor Information

Customer and vendor information must be consistent across backend systems, especially Name and TIN combinations, so reporting and withholding payments reconcile seamlessly. When data is misaligned, filings are flagged, payments go unreconciled, and teams waste time on corrections and audits instead of higher-value work.

Why True Reconciliation Matters More Than Ever

AI-enhanced enforcement means discrepancies that previously might have been overlooked now trigger immediate attention. For example, the IRS now rejects 1099 forms with missing TINs and no backup withholding in Box 4—forms that were previously accepted and addressed through later notices.

True reconciliation transforms tax compliance from a cost center into a competitive advantage. Organizations that achieve comprehensive reconciliation experience significant operational and strategic benefits:

- **Customer confidence increases demonstrably** when tax processes, withholding procedures, and reporting accuracy are consistently reliable and transparent
- **Operational focus shifts from crisis management to growth initiatives** as automated processes eliminate the need for constant firefighting and manual corrections
- **Regulatory risk decreases substantially** through proactive compliance monitoring and automated validation that prevents issues before they occur
- **Resource allocation becomes more strategic** as compliance teams can focus on analysis, planning, and business support rather than repetitive data manipulation

This transformation enables organizations to view tax compliance as a business differentiator rather than merely a regulatory burden.

> "For most of my career, you could submit that information, wait for a notice from the IRS months later, and deal with it then. But now they won't even accept that information return."

Wendy Walker
VP of Regulatory Affairs, Sovos

The Information Reporting Maturity Model

Every financial institution exists somewhere along a spectrum of tax reporting sophistication, but most organizations struggle to identify their current position or chart a path toward improvement. Without a clear understanding of where they stand and where they need to go, institutions often invest in fragmented solutions that address symptoms rather than root causes, or they may overengineer solutions for challenges they haven't yet encountered.

The Information Reporting Maturity Model provides a structured framework for assessment and improvement, developed through extensive consultation with banks and financial services organizations worldwide. This model recognizes that transformation cannot happen overnight—it requires a systematic, staged approach that builds capabilities progressively while maintaining operational stability.

Organizations that understand their current maturity stage can make informed decisions about technology investments, resource allocation, and strategic priorities. More importantly, they can avoid the common pitfall of attempting to jump directly to advanced stages without building the foundational capabilities that ensure long-term success. The model serves as both a diagnostic tool and a roadmap, helping organizations identify their next logical steps while understanding the ultimate destination of true reconciliation.

The Information Reporting Maturity Model

Stage 1	**Fragmented Operations**	Tax reporting is siloed with redundant activities occurring across the organization. Different departments operate independently with minimal coordination.
Stage 2	**Partial Consolidation**	Some consolidation emerges—deposit operations may handle reporting and withholding for deposits, loans, and IRAs—while accounts payable and wealth management teams continue operating independently.
Stage 3	**Centralized Excellence**	Shared services centers of excellence are established to centrally store important tax information and consistently apply IRS and state requirements across different data sets.
Stage 4	**Proactive Compliance**	Organizations become proactive, ensuring data compliance before filing with government agencies. This includes: • TIN matching validations with IRS databases • Year-round data feeding to centralized reporting systems • Quarterly and monthly reconciliation processes • Pre-season testing to identify and resolve issues
Stage 5	**True Reconciliation**	Automated solutions provide comprehensive reconciliation from information returns to withholding returns and liabilities, all the way through to source data. This dramatically reduces the risk of late or incorrect filings.

Modern Solutions for Modern Challenges

The convergence of AI-powered government enforcement, accelerated filing deadlines, and expanding global requirements has rendered traditional tax reporting approaches obsolete. Financial institutions can no longer rely on legacy systems that were designed for a slower paced, more forgiving regulatory environment. The gap between what government agencies now expect and what traditional systems can deliver is widening rapidly, creating an urgent need for fundamental transformation.

Modern tax information reporting solutions represent more than technological upgrades—they embody a complete reimagining of how tax compliance integrates with core business operations. These solutions anticipate regulatory changes rather than react to them, prevent compliance issues rather than fix them after they occur, and transform tax reporting from an operational burden into a strategic capability that supports business growth and customer confidence.

Organizations that continue to patch and modify legacy approaches will find themselves increasingly disadvantaged as government agencies modernize their expectations and enforcement capabilities. The question is no longer whether to modernize, but how quickly institutions can implement solutions that match the sophistication and speed of the new regulatory environment.

Modern solutions deliver three core operational capabilities:

- **Single source of truth architecture eliminates data inconsistencies by** creating unified customer profiles that feed transactional data consistently across all reporting requirements and systems

- **Embedded compliance monitoring integrates validation directly into workflows** rather than treating compliance as an afterthought quality control process that occurs after data collection

- **Real-time validation and error detection provide AI-powered analysis** that catches issues before filing, giving organizations their own advanced detection capabilities to match IRS systems

These capabilities work together to create a comprehensive compliance ecosystem that operates proactively rather than reactively.

Critical Technology Partner Capabilities

Selecting the right technology partner requires a rigorous evaluation process that goes beyond surface-level features and marketing claims. Financial institutions must conduct thorough due diligence to ensure their chosen partners possess the technical sophistication, regulatory expertise, and operational maturity necessary to support long-term compliance success. The wrong partner choice can lock organizations into outdated approaches that become increasingly problematic as regulatory requirements evolve.

Effective evaluation requires asking specific technical questions and demanding detailed demonstrations rather than accepting general assurances. Partners should be able to provide concrete evidence of their capabilities, reference implementations, and regulatory track records. Most importantly, institutions should evaluate partners based on their ability to anticipate and prepare for future requirements, not just their current feature set.

When evaluating technology partners, financial institutions should validate these essential capabilities: TCS BaNCS and Sovos strategic partnerships can deliver scalable, future-ready compliance solutions. By combining regulatory depth with core banking technology expertise, such alliances help institutions stay ahead of evolving mandates.

- **API-First Architecture**
  Government agencies are moving toward real-time API connections rather than file uploads. When the IRS sunsets the FIRE system in January 2027, IRIS will require bulk submissions (100+ records) to be transmitted via API.

- **Real-Time Data Synchronization**
  Partners must demonstrate seamless data flow from account opening through year-end information reporting without manual handoffs or data exports.

- **Compliance as a Service**
  Given rapidly changing regulations, technology partners must monitor regulatory changes and update systems automatically rather than requiring quarterly manual updates from client organizations.

> “When they sunset the FIRE system in January 2027, the new IRIS system will only accept more than 100 records at a time through an API connection—no more file uploads.”

Wendy Walker
VP of Regulatory Affairs, Sovos

Looking Forward

Preparing for Continued Evolution

The tax information reporting landscape will continue evolving at an accelerated pace. Financial institutions must prepare for:

- **Regulatory changes will continue emerging from new legislation** with requirements like those in the “One Big Beautiful Bill” Act creating ongoing compliance complexities around thresholds, form types, and reporting standards
- **Technology advancement by government agencies will accelerate** requiring financial institutions to maintain compatibility with modernizing systems and evolving API requirements
- **Global expansion of reporting requirements will continue** necessitating comprehensive international compliance strategies that address multiple jurisdictions simultaneously
- **Integration complexity will increase with business growth** as mergers, acquisitions, and new service offerings create additional data sources and compliance obligations

Success requires proactive preparation rather than reactive responses to these changes.

Strategic Recommendations

Based on the analysis presented in this guide, financial institutions should take these specific actions to improve their tax reporting capabilities:

Organizations should implement these strategic recommendations systematically:

- **Assess your current maturity level accurately** using the Information Reporting Maturity Model to evaluate your organization’s position and identify specific improvement opportunities
- **Evaluate technology infrastructure comprehensively** to ensure technology infrastructure supports end-to-end compliance, from accurate data capture to a complete audit trail for audits and penalty abatement, with real-time API connectivity to keep systems aligned
- **Evaluate strategic partnerships** to ensure they deliver the expertise, agility and capabilities needed for evolving compliance requirements
- **Plan for integration systematically** by developing comprehensive strategies for consolidating fragmented data across multiple systems and platforms
- **Focus on automation prioritization** by implementing solutions that eliminate manual processes and provide automated compliance monitoring and validation

Each recommendation builds upon the others to create a comprehensive transformation strategy.

Conclusion

Tax information reporting has evolved from a routine administrative function to a strategic business imperative requiring sophisticated technology solutions and specialized expertise. The combination of accelerated regulatory change, AI-powered enforcement, and expanding global requirements creates challenges that traditional approaches cannot effectively address.

The strategic partnership between Sovos and TCS BaNCS enabled through the TCS BaNCS Marketplace demonstrates how financial institutions can transform tax compliance from a cost center into a competitive advantage through:

Comprehensive data integration across multiple systems

- Automated compliance monitoring and validation
- Proactive regulatory change management
- Operational efficiency improvements
- Risk reduction and penalty avoidance

Success in this evolving landscape requires more than incremental improvements to existing processes. It demands a fundamental rethinking of how tax information reporting integrates with core banking operations and strategic business objectives.

Financial institutions that embrace this transformation—leveraging modern technology solutions and strategic partnerships—will not only achieve superior compliance outcomes but will also free internal resources to focus on growth, innovation, and customer service excellence.

About the companies

Sovos brings essential RegTech capabilities that complement core banking solutions for financial institutions across the United States. With decades of experience in regulatory compliance and specialized expertise in tax information reporting, Sovos helps organizations navigate complex compliance requirements while optimizing operational efficiency.

TCS BaNCS provides comprehensive core banking technology solutions that support financial institutions' operational needs. Through continuous monitoring of regulatory requirements and advanced product development, TCS BaNCS enables banks to maintain compliance while focusing on customer service and business growth.

Together, Sovos and TCS BaNCS offer financial institutions a comprehensive approach to tax information reporting that combines best-in-class technology with specialized regulatory expertise.

SOVOS tcs BaNCS™

For more information about implementing these solutions in your organization,
contact our teams through the resources provided on our partner page.