VERTEX®

Curing Indirect Tax Compliance Headaches for Medical Equipment, Devices & Supplies

How to alleviate the aches and pains caused by native ERP limitations

The Growing Medical Equipment and Supplies Market

The medical equipment, devices, and supplies market has been growing steadily in recent years, driven by an aging global population. Projections indicate that by 2030, one in every six individuals will be aged 60 years or more. Other contributing factors include the rise in chronic diseases, advancements in medical technology, increased healthcare spending, and a trend towards home healthcare and remote monitoring.

These developments pose significant challenges in navigating the tax landscape for manufacturers and wholesalers of medical equipment and supplies as well as the group purchasing organizations (GPOs), hospitals, long-term care centers, outpatient medical facilities, and physician's offices buying these products. Each must manage complex indirect tax requirements to ensure compliance.

This guide will help you understand these unique challenges and demonstrate how an integrated tax engine can offer an effective solution.

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The Unique Challenges of Indirect Tax for Medical Equipment and Supplies

In the United States there are over 12,000 taxing jurisdictions, each with its own set of rules. For organizations operating globally, ensuring compliance involves managing more than 20,000 jurisdictions. These regulations and rates are constantly evolving, placing immense pressure on tax teams to stay up to date to avoid audit penalties.

In addition to the sheer volume of rules and rates, indirect tax for medical equipment and supplies is definition driven, meaning there are a whole host of nuances that impact what the tax rate will be. Here's just a sampling of the taxability decisions that must be factored into every transaction:

		Yes	No
1.	How are healthcare providers defined? Are they subject to general exemptions? What are their obligations to collect tax?	Yes	No
2.	Are parts (including repair parts, accessories, components, attachments) eligible for the same exemption as the underlying medical item?	Yes	No
3.	Is the product used in the diagnosis of disease or the cure, mitigation, treatment, or prevention of disease?	Yes	No
4.	Is the product intended to affect the structure or function of the body?	Yes	No
5.	Is the item used for the treatment of illness or injury or to replace all or part of a limb or internal body part?	Yes	No
6.	Is the item disposable (single use vs. reusable)?	Yes	No
7.	Is the item subject to the special exemptions available for the use of ostomy products and catheters?	Yes	No
8.	Is the product for home use? How is 'home' defined (i.e., does that include hospitals and nursing homes)?	Yes	No
9.	Are prosthetics furnished or fit for individual use?	Yes	No
10.	Is the item implanted and/or related to an artificial opening created for the elimination of human waste?	Yes	No

Think of a catheter as one example. Catheters are taxed based on various specifications such as size and material used. Different tax rates may also apply depending on the type of medical procedure it is used for. And that's just one of thousands of examples.

"Fun fact, Vertex supports more than 30 taxability categories for catheters — and that's just one instrument. Think of how many different medical items healthcare providers use daily, so it is a lot of data to help medical equipment manufacturers, distributors, and healthcare organizations get it right", said Karen Schroeder, Vice President of Product Management at Vertex.

Limitations of Native ERP Solutions in Managing Complex Tax Rules

Native ERP solutions often fall short in addressing these challenges effectively, resulting in inaccurate tax calculations.

Here's why:

1. **Complex tax rules and frequent updates:** Native ERP systems often struggle to keep up with rapidly changing tax rules and rates across thousands of jurisdictions. The tax rules for medical devices vary widely, requiring continuous updates that native systems cannot handle efficiently.

2. **Customization and flexibility limitations:** Native ERP solutions often lack the flexibility to accommodate the specific tax rules and complex scenarios for medical equipment and supplies, such as exemptions for prosthetics or different tax rates for disposable versus reusable items.

3. **Integration issues:** Integrating tax rules into native ERP systems may be cumbersome and prone to errors. For example, ensuring more accurate tax calculations for products used in both home and hospital settings may require additional modules or custom programming that native ERPs are not designed to support out-of-the-box.

4. **Scalability concerns:** As businesses expand globally, the volume of tax rules and jurisdictions increases significantly. Native ERP systems might not scale effectively to manage the growing complexity, leading to potential compliance gaps and increased risk of errors.

5. **Maintenance overhead:** Maintaining up to date tax rules within native ERP systems can be time-consuming and costly. Regular updates, monitoring of tax rate changes, and ensuring compliance with new regulations require substantial effort, which may not be feasible with standard ERP solutions.

Consequences of Non-Compliance

Failing to comply with these nuanced rules could lead to tax determination errors, which can:

- Increase IT maintenance and support costs

- Decrease tax operations efficiency

- Impact budgeting predictability

- Create a negative customer experience

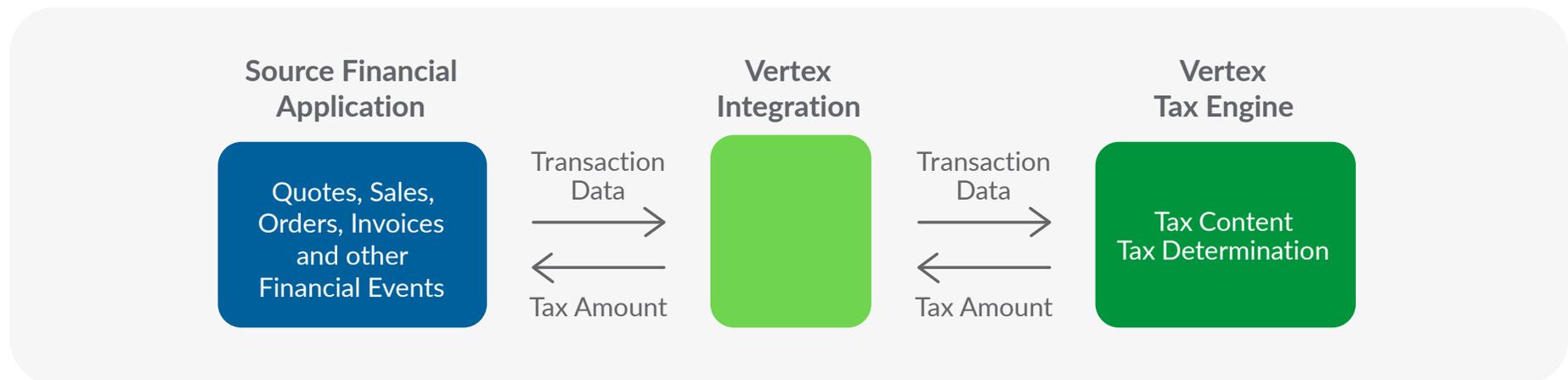- Increase audit scrutiny after refund claims

Fortunately, there is a remedy.

Automating Indirect Tax with Vertex O Series for Medical

Our solution, Vertex O Series for Medical, helps sellers and buyers in the medical equipment, devices, and supplies industry manage sales and value-added tax (VAT) determination on orders, AR invoicing, and billing as well as manage consumer use tax and value-added tax on purchase orders and AP invoices. This powerful tax engine integrates with source financial systems for both AR and AP to deliver real-time tax calculations.

Here's how the tax engine works:

1. **Seamless integration:** The Vertex tax engine seamlessly integrates with the leading ERP systems used by both sellers and buyers, ensuring smooth data exchange and compatibility with your financial applications. This moves the tax calculation outside the ERP to a highly robust tax engine.

2. **Transaction data handling:** The source system sends the transaction data to the tax engine via this integration.

3. **Address validation:** The Vertex tax engine applies address cleansing to help ensure the ship-to address is complete and accurate, and mapped to the correct taxing jurisdiction.

4. **Automated tax calculation:** Based on the transaction details, Vertex automatically calculates the tax using the embedded tax rules and rates for medical equipment and supplies, then sends the tax amount back to the source application through the integration to complete the transaction.

5. **Automated tax content updates:** The tax engine is continually updated with the latest tax rule and rates, removing this laborious process from internal IT teams.

Source Financial Application		Vertex Integration		Vertex Tax Engine
Quotes, Sales, Orders, Invoices and other Financial Events	Transaction Data → ← Tax Amount		Transaction Data → ← Tax Amount	Tax Content Tax Determination

Vertex pulls the transaction details from your Source Financial Application to calculate indirect tax in the Vertex tax engine and send that tax amount back to your Source Financial Application.

Key features of the Vertex tax engine include:

- **Continually updated tax content** built specifically for medical equipment, devices and supplies, manufacturers, wholesalers, distributors, institutional buyers, and GPOs. There are more than 400 of the most complex diagnostic and patient treatment medical equipment categories such as:

  - Medical Magnetic Resonance Imaging MRI Tables
  - Human Tissue Implants – Noncosmetic
  - Human Tissue Dressing or Skin Grafts – Noncosmetic
  - Autologous Skin Harvesting Devices, Systems or Accessories
  - Embolization Glues
  - Embolization Spheres
  - Angioscopic Valvulotomes
  - Diagnostic or Interventional Vascular Catheters
  - Cardiac Catheterization Lab Equipment
  - Vascular Graft Anchor or Fixation Device, and more

- **Custom rule creation for unique needs.**

- **Automated tax and liability determination at the line-item level.**

- **Exemption management** to store and apply customer and company exemptions more accurately and upfront on each transaction during the ordering process and at billing or time of payment.

"**What makes Vertex O Series for Medical unique is that our content covers an extensive range of items used daily in healthcare settings to meet our customers' complex tax requirements. Vertex O Series for Medical is powered by our extensive research department. Using our tax engine increases accuracy in upstream processes to reduces negative downstream impacts like costly reclaim, audit defense, and adjustments.",** said Schroeder.

Benefits of Implementing Vertex O Series for Medical

As a result of implementing Vertex O Series for Medical, you can expect numerous benefits for your Tax and IT teams.

Benefits for Tax teams

- **Tax research:** No more worrying about tax rates and rules. We've got you covered for all your sales, purchase, and billing transactions.

- **More accurate tax determination:** We help make sure that taxes for medical equipment, devices, and supplies are calculated correctly for every transaction, supporting your tax and finance teams in maintaining compliance.

- **Tax reporting and filing:** With our tax engine in place, you'll be able to better meet deadlines, and streamline tax filing to reduce audit risks.

- **Reduced compliance risk:** Our tax engine supports the invoicing process to help you meet necessary requirements.

- **Cost predictability:** Vertex's tax accuracy improves cost predictability while helping your tax team empower the business.

Benefits for IT teams

- **Reduced tax burden on IT teams:** Integrating our tax engine with your ERP system eliminates the need for your IT team to maintain tax rate files in each individual source system.

- **Minimized support and maintenance:** By centralizing tax calculation for all transaction systems in one tax engine, you can reduce organizational complexity, minimize spending, and automate tasks to improve the IT function agility.

- **Increased consistency:** Our tax engine creates structured data to improve accuracy and efficiency of cross-segment processes and reporting.

Getting Started

Vertex O Series for Medical is purpose-built and has supported integrations for ERP, ecommerce, and supply chain/procurement systems. Our experienced implementation experts can help you to configure the system and increase time-to-value.

Get started with Vertex O Series for Medical, contact us today.

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