



Transforming Healthcare Tax Compliance: A Modernization Blueprint

Workday, Vertex and KPMG Improve the Indirect Tax Lifecycle

Introduction: Acute Compliance Challenges

Managing the indirect tax lifecycle is difficult in most industries. One notable exception is healthcare, where many aspects of indirect tax calculations, compliance, audit and planning activities are downright grueling.

There are ample reasons for these compliance challenges. The industry's tax rules are primarily definition-driven, meaning that multiple factors and nuances determine which tax rate applies to an item. Will the item affect the structure or function of the body? Is the item disposable ("single use") or reusable? Will the item be used to treat an illness or an injury? Will it be applied to a limb or an internal organ? Reduced tax rates and exemptions also proliferate, and these mechanisms rely on a dizzying collection of triggering factors subject to frequently ambiguous rules. It's instructive, and a bit daunting, to consider that Vertex's healthcare tax compliance solutions support 30-plus different taxability categories for catheters.¹

What's more, the stakes of tax compliance accuracy are sky-high in an industry where razor-thin profit margins prevail, and where organizations are subject to rapidly changing sales and use tax rules and rates. International operations and structural complexity (e.g., non-profit subsidiaries) further complicate tax compliance.

All of this makes it imperative for healthcare organizations to:

- Address industry trends that affect, and complicate, indirect tax compliance
- Prepare a thoughtful business case for tax technology upgrades and improvements
- Keep pace with leading tax automation practices

"The last thing you want when you're getting ready for your filing is a million-dollar swing in the wrong direction because you didn't assess appropriately. That can put an organization with thin margins in the red."

Jas Dhall, Managing Director, Advisory, Government, and Healthcare, KPMG





Needed: An Rx for Rising OpEx

Changing patient expectations, technology modernization needs, talent shortages, and employee engagement (including managing burnout) also represent widespread healthcare challenges that can have indirect implications on indirect tax compliance.

These tax-compliance ripple effects include:

- Tax determination errors
- Higher volumes of refund claims
- Audit risks triggered by large refund claims
- Inefficient tax operations
- Insufficient exemption management

Margin pressures frequently result in less budgeting predictability for tax operations. This issue combined with the fact that a shortage of tax professionals was identified as the top indirect tax pain point in a recent online survey of healthcare tax, finance and IT professionals suggests that tax automation investments and upgrades are attractive ways to address multiple tax compliance challenges.

“We’ve been focusing on the invoice automation process. We’ve reduced the steps required to get the right product, pricing and tax information on the invoice and ensure that it matches the corresponding purchase order.”

Keith Lohkamp, VP, Product Supply Chain Management and Healthcare, Workday Financial Management

Five Business Case Considerations

As indirect tax teams build a business case for implementing, upgrading and/or integrating (with Workday) the Vertex tax engine, they should consider addressing:

- 1. Overpayments on purchasing side:** Undetected tax overpayments add up over time in healthcare organizations that conduct high volumes of purchasing. In some instances, organizations have leveraged their newly implemented tax engine to uncover overpayments totaling as much as \$250,000 over three-year periods. Recouping that money can help make a business case a no-brainer.
- 2. Time-savings:** Shaving days off the month-end reporting process amounts to sizeable time-savings over the course of a year. Tax leaders should tally automation-driven time savings opportunities across tax compliance, invoicing and other payable activities.
- 3. Audit penalties:** Examine current audit assessments and quantify the benefits of mitigating those assessments. Those dollar savings can be added to reductions in overpayments, costs associated with enlisting a firm to file refund claims, and lower software licensing costs (vs. the cost of maintaining a legacy system) to tally the financial savings the organization can gain by implementing a Vertex solution in the Workday environment.
- 4. Technical debt and technology modernization:** These interrelated activities – reducing the maintenance costs and business agility impediments associated with legacy systems while easing the deployment of cloud-based system and advanced tools – rank highly on CFO and CIO priority lists today. Consider identifying how an investment in a modern tax engine can help reduce technology debt and support technology modernization.
- 5. Access to artificial intelligence (AI) features and tools:** A growing number of modern, cloud-based platforms possess AI features. Workday leverages AI to accelerate the payment process by automating the invoicing clearing and PO-matching. Vertex's AI features enhance the efficacy and efficiency of the tax categorization process, a crucial activity given the complexity of healthcare purchasing. ERP and tax automation upgrades can equip tax and finance groups with access to these cutting-edge capabilities.

“We’ve seen companies recoup as much as \$250k per year after implementing Vertex, looking at the past two-three years and realizing that they’ve been overpaying tax while purchasing at scale.”

Jason Warren, Senior Partner Development Engineer, Vertex



Five Leading Practices

Based on their work on hundreds of healthcare-industry ERP and tax engine implementations, upgrades and integrations, experts from Workday, KPMG and Vertex suggest considering the following deployment practices:

- 1. Leverage your partners:** Thanks to their amassed experience, consulting partners like KPMG understand the tax transformation journey and how it fits with larger finance transformation efforts.²
- 2. Secure a seat at the table:** The tax group's involvement with finance transformation efforts, including ERP implementations and upgrades, helps ensure that system configurations and process changes are aligned with tax compliance needs and priorities.
- 3. Ask detailed tax questions early in the initiative:** Identifying the nuances of indirect tax compliance early in the implementation planning process is helpful. Consider posing the following types of questions during the planning phase: *How are we setting up the chart of accounts? How are we designing the legal entity structure? How do those structures affect us from a tax perspective? How are we setting up accruals of use tax?*
- 4. Zero in on exemptions:** Reduced tax rates and sales tax exemptions proliferate in the healthcare industry, so it is important to conduct a broad and deep review of relevant exemptions, including items used for on-site employee care and wellness (an increasingly common employee offering).
- 5. Test a comprehensive set of tax scenarios:** Testing marks an important component of any software implementation or integration. In healthcare, testing is absolutely crucial given the complexities associated with indirect tax compliance. In addition to straightforward compliance scenarios, projects should work through complex and outlying scenarios to ensure the system configuration produces expected results.

Case Example: A 75% Improvement in Compliance Efficiency

Indirect tax leaders in organizations whose purchasing crosses multiple state and local tax jurisdictions confront a difficult choice: hire more full-time employees (FTEs) to manage bulging month-end reporting and filing workloads or pile additional work and stress on tax professionals with other pressing priorities. In one healthcare organization, that month-end close work – adjusting entries, accruing more use tax (or reversing previous accruals), and preparing compliance reports – consumed five to six days.

Instead of adding new staff to mitigate this challenge, the organization enlisted KPMG to perform a diagnostic test of its existing tax technology. The analysis indicated that upgrading to the latest version of Vertex O Series and integrating it with the company's Workday ERP system would improve the accuracy and efficiency of tracking and accruing use tax along with other compliance processes. The new solution enabled the organization's indirect tax group to:

- Leverage the Workday-Vertex integration to combine month-end reconciliation with compliance reports in each state with filing requirements
- Reduce month-end compliance work to an average of 1.5 days (an annual efficiency gain of 45-50 days)
- Increase time and effort devoted to special projects the team performs to drive business value
- Reduce the volume of manual activities and stress shouldered by tax.

“A healthcare organization with numerous sales and use tax returns due each month spent 5-6 days on month-end close to complete their final report. After performing our diagnostic, we upgraded their tax automation configuration and reduced their month-end compliance process to 1.5 days.”

Mark Ray, Managing Director of SALT Indirect Tax Technology, KPMG



Conclusion: A Tax Automation Rx for Efficiency Improvements

As they deploy capital in 2025, operational efficiency improvements remain a top priority throughout the healthcare industry, according to KPMG research.³ As finance, tax and IT groups contribute to these efforts, it makes sense to make the case for deploying a modern tax engine that seamlessly integrates with Workday Financial Management.

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End Notes

¹ <https://www.vertexinc.com/resources/resource-library/answering-healthcare-providers-indirect-tax-faqs>.

² KPMG ranked #1 in the 2025 Best in KLAS report for ERP Business Transformation & Implementation Leadership: <https://klasresearch.com/best-in-klas-ranking/erp-business-transformation-and-implementation-leadership/2025/438>.

³ <https://kpmg.com/us/en/media/news/hcls-investment-outlook-2025.html>.

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