When prevention is the best medicine

A health care organization stops managing sales tax leakage and starts treating the cause.
IT STARTS SMALL, LIKE A TICKLE IN YOUR THROAT.

THE SITUATION
A subtle misclassification here. A legislative change there. And then, before you know it, you’re coughing up millions of dollars in sales tax overpayments. Our client, a large health care organization with operations throughout the country, was feeling these symptoms as they worked to determine taxability on large volumes of medical supplies purchased across various states.

One state might require sales tax on one bandage but provide an exemption for another that’s nearly identical except for an added drop of germicide. A different state might tax a cane used solely within hospital walls but exempt the same type of cane if it’s intended for a patient’s home use. Such subtle complexities can easily slip past vendors and, especially if an accounting system doesn’t provide enough visibility into sales tax, past the health care organization as well. Despite their best efforts, our client lost a significant amount in sales tax leakage each year.

They tried to stem the flow by working against the clock to apply for refunds on overpayments before statutes of limitation expired, but this manual method proved inefficient and costly. Realizing that the lost time and money diverted resources from their true work of caring for people’s health, the organization resolved to determine the root causes of overpayments and reduce them before they happened.
Deloitte’s team of tax and technology specialists conducted a full diagnostic. Our prescription? Sales and use tax services powered by digital tools that can ingest all of the organization’s hundreds of millions of transactions and use artificial intelligence (AI) to find over- or underpayments with greater accuracy and speed.

We combined the functionality of multiple technology platforms to analyze over half a billion of the client’s transactions, unleashing machine learning capabilities to complete analyses that would previously have taken weeks or months in just days. The team quickly identified payments the organization may be able to seek refunds for, well before any deadlines. Next came the deeper work of rooting out the reasons overpayments were occurring and preventing them in the future.

Through the analysis of large volumes of transactions and training from health care industry tax specialists, the AI tools learned to distinguish between taxable and nontaxable transactions and gained the ability to draw on this highly technical, complex knowledge in real time. This greater visibility into purchase analytics and powerful data visualization enabled our client to make more-informed decisions and anticipate trends and potential procurement gaps.

The advanced analytics, trainings, and our tax specialists’ recommended process improvements—particularly refining the tax mapping in their sales tax bolt-on engine—helped the health care organization more accurately predict transactions’ taxability and adapt their internal process for analyzing current invoices to mitigate the leakage.
Transforming sales tax analysis from a manual, administrative process to a technology-driven, proactive one proved to be just what the doctor ordered. The organization continues to draw on the insights gained from our services, including from the data analytics the tools produced, to reduce potential overpayments.

**Significant savings—now and later**

With the original analytics results and customized data flows, the organization has substantially reduced processing time for transactions and can use these time savings to redeploy resources to higher-value projects within the tax department. Additionally, they will spend significantly less on recovery fees and time needed to recoup overpayments while also mitigating potential tax risk from underpayments and the future penalties they could bring.

**Putting their money where their mission is**

Rather than trapping funds in a cycle of overpayment and recovery, the organization can now keep more working capital available to put where it really matters—in innovating and improving care.
LET’S CONNECT.

Do these challenges sound familiar?

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