



Healthcare tax checkups

Podcast transcripts

Episode 4: Tax issues with healthcare transformation



Announcer

Hello, and welcome to Healthcare Tax Checkups, a KPMG podcast series, featuring KPMG tax leaders on emerging and perennial tax issues impacting the healthcare industry. Today's episode explores tax issues with healthcare transformation. How transformation in the healthcare industry has been slower than other industries. The forces driving transformation, back office implementations, and pain points in healthcare organizations and how to resolve.



Lori Robbins

Hello everyone. And thank you for tuning into this podcast episode. I'm Lori Robbins, deputy tax industry leader of KPMG's healthcare tax practice. With me is Phil Bartlett. Phil is a managing director in our developmental and exempt organization's practice. He has more than 30 years of experience in representing exempt healthcare organizations. Based in our Columbus office, Phil serves healthcare clients across the country and assist them as they evolve with the increasing demands of our changing healthcare environment. Among Phil's areas of expertise, our analysis and planning of reorganizations, joint ventures, affiliates, investments, and other types of transactions, diagnosis, and resolution of tax issues, evaluation of development of tax policies, corporate governance, procedures, and controls, and other general tax representation before IRS and state tax authorities. Phil, thanks for joining us. We're going to talk generally about some transformation within the healthcare industry and then practically lay over tax into that. What can you tell me generally about transformation within the healthcare industry and how that's evolved?



Phil Bartlett

Yeah, thanks Lori. I'm glad to be here. So from my perspective, the healthcare industry as a whole is developed at a much slower pace than other industries. So probably most people have the experience of going in to see their primary care physician and having the primary care physician dig out really the hard copy patient paper files that are behind the check in desk type of thing. And those records have typically been maintained by the primary physician, but you compare and contrast that with other industries, like the financial services sector. So how long have we had online banking or the retail sector in terms of the sophisticated nature of the supply chain. So, I mean, there's reasons for that, right?



Phil Bartlett

So I mean, most healthcare in the United States is tax exempt and much more of a mission oriented organization than a lot of these other industries that really have more of a profit motive. Also, historically in the US healthcare has been really much more community focused and so not necessarily larger organizations, smaller community hospitals, local focus. Then there's again, the idea that a lot of these organizations have been led by physicians whose focus is really on the clinical side of healthcare, as opposed to the operating side, if you will. And then there's market forces that have been in play health insurance, Medicare, Medicaid. A lot of consumers really didn't see the cost of healthcare. And so there wasn't a lot of transparency. There was complexity with billing.

 **Phil Bartlett**

But now, I mean, we're in a whole new era in terms of transformation in healthcare. I mean the Affordable Care Act has created mega health systems, mergers and combinations and permutations of various exempt healthcare providers with for-profit payers and insurance plans. We even see private equity coming into the sector. And then of course, demographics has played a role. I mean, as the population ages and healthcare becomes more of a focus. And then even this pandemic, I mean, we live with healthcare every day. Every one of us has to deal with healthcare every day. It's just not a question anymore. So a lot of these market forces are kind of driving transformation.

 **Lori Robbins**

So Phil, we're hearing a lot lately about healthcare organizations undertaking ERP implementations, such as Workday and Oracle. How does tax play a role in these types of transformations?

 **Phil Bartlett**

Yeah, so kind of going off on what I just talked about in terms of the history of healthcare and transforming the industry. I mean, healthcare has really been on a transformation journey over the last, I'll say five to eight years. And so a lot of health systems have implemented Epic from an operating standpoint. And now they're doing a lot of back office system implementation. So ERP implementations on HR. Again, with the combinations of merger activity of all these health systems, a lot of these health systems have, they're the biggest employers in a given state. So 20, 25,000 employees is pretty typical. But HR implementations, financial and supply chain implementations, like you said, Oracle and Workday. So, a lot of the back office transformation, if you will, has accrued heard. Now, unfortunately, from a tax standpoint, a lot of these ERP systems, even though they're great, they're cloud based and that sort of thing, they just don't have the level of detail and some of the buttons or levers to push for tax. Taxes, it's one department within the health system that probably needs the most detail than any other department.

 **Phil Bartlett**

Again, it's partly driven by the fact that a lot of these tax jurisdictions, like their information presented in a certain way in a certain level of detail. And so a lot of

times, the chart of accounts that are established as part of the ERP implementations, they just don't have that level of detail. And then just again, how the tax authorities, like everything kind of sliced and diced and put together, these systems are not really built for that purpose.

 **Phil Bartlett**

And so from my point of view, I think that we'll continue to see back office transformation. I think you're going to see a lot more transformation in terms of kind of a digital front door and treating the patient more as a consumer. I think a lot of the transformation in that line that you've seen in other sectors will now hit healthcare. And I think you're starting to see the front end of that. But I also think that a lot of the back office functions like finance and then tax will continue. And if so from my point of view, it's not a question of if tax, the tax function will transform. It's just a question of when.

 **Lori Robbins**

So Phil, what recommendations do you have for those listening about integrating tax into those implementations so that things go more smoothly?

 **Phil Bartlett**

Well, ideally, even though I mentioned that a lot of these ERP systems don't really have a lot of buttons and levers to push ideally, tax is going to have a seat at the table when the organization's looking at a platform and deciding on which platform. And then on the initial design of the platform and the chart of accounts tax is going to have a seat and a voice in terms of what tax needs. But even if that doesn't happen and your midway through an implementation or maybe on the backend you've already implemented it, there are things that can be done from a tax reimaged or that we can come in as, almost as a Bolton, if you will, to look at the tax function and see what technology or process improvements could be made in terms of on the backend of a ERP implementation, like how can we improve tax?

 **Phil Bartlett**

And some of that, Lori comes down to almost like initially a lean six Sigma kind of approach where we have some of our data and information specialists come in and really kind of decompose all the processes

that are put in place. And what I mean by that is, what information is required? Where do we get the information? Who gets the information? Why do we get the information? Once we obtain the information, how do we manipulate it and get it in a form that the tax authorities are going to require. Or if it's not for tax compliance, what will management need in terms of data and information to make decisions intelligently about reducing the tax exposure or tax risk and tax liability.

 **Lori Robbins**

So, Phil, before we wrap up, I just want to know what are the pain points that most tax functions have within a healthcare organization, and how do you help resolve those pain points?

 **Phil Bartlett**

Lori, I think that there's really a couple pain points. Well, let me talk generally about the tax function. So even a larger health system might only have four or five to tax folks in their department. And even a mid-size tax function might have maybe one person overseeing the tax compliance kind of responsibilities and maybe only for part of the year. So part of the difficulty is, like I said before, with the merger and the consolidation within the industry, these health systems are becoming much more complex. So in a typical health system, if you look at their legal entity org chart, I mean, you're going to find exempt organizations, for profit subsidiaries, joint venture partnerships with for profit and exempt partners together, transaction between all of these organizations. And even with some of our health systems, we're starting to see them push internationally, take their brand overseas.

 **Phil Bartlett**

And so with that comes a lot of complexity. And right now really the tax function is a little bit overwhelmed. And not to mention the fact that when you go through mergers and you combine different organizations inevitably, some hospitals within the organizational chart are going to be on different systems and they're

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going to have different processes. And so orchestrating this and pulling all that data and information together is really a pain point. And you can combine that with the fact that there is somewhat of a tax talent gap and the more complex these organizations become, the more tax assistance they're going to need.

 **Phil Bartlett**

And right now, again, they're sort of operating under the idea that, Hey, we've got so many people on our tax function. We do not have the budget to hire more people. And we realize it's getting more complex, but they're somewhat at the crossroads right now. And so they have to start looking at technology. How can we look at some sort of transformation in tax and how can we bring technology to bear? So we don't have to hire more people and we can become more efficient. And it's not just technology, it's also process improvement as well. But I would say that the two pain points are a much more complex organization and really sort of a tax talent gap, if you will, in terms of being able to handle all that complexity.

 **Lori Robbins**

Well, and it sounds like both of those challenges are not going to disappear anytime soon as organizations continue to become more complex in their org charts and grow as you said, even internationally, which was unheard of really, almost a couple of decades ago. But then the tight labor market, probably the tax talent gap isn't going to necessarily close anytime soon. So Phil, thanks for your insights. To our podcast listeners, thank you for tuning in to this episode. If you have any questions about the topics we discussed today, please reach out to Phil, me, or your local KPMG representative.



Announcer

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