In light of the rapid changes in technology and the tax environment, an increasing number of healthcare companies have realised the opportunities and challenges they currently face and have begun to actively formulate countermeasures to improve their standard of tax management. PwC's team of professionals, combines industry-related tax expertise with cutting-edge digital technologies, are committed to help these businesses address the changes in the tax environment of this new era!

Bill Yuan
PwC China Healthcare Industry Tax Partner

Getting ready for technology updates

The changing tax regulations require companies to upgrade their financial reporting system to obtain new and different types of information. As a result, companies should examine their own finance and taxation systems and identify critical points for change. Companies should also plan to gradually integrate technological updates into their tax management strategies on a continuous basis.

Establish a tax process in changing compliance environment

The particularities of the healthcare industry make tax compliance a challenge and pain point for tax management. Under the backdrop of more intelligent tax administrations, healthcare companies should review their own tax processes and use of digital technologies in improving the automation and accuracy of many basic tax processes. By leverage digital and automation in accounting, invoices and filing management, company improve the tax management and reduce tax-related risks.

Design more efficient data analysis models

Healthcare company often engage in extensive external collaborations. This also expose them to unexpected tax risks. An effective and accurate analysis model allows healthcare company to detect abnormal transactions and tax risks earlier. Gradually, some company also start to automate the risk detection process.

Implications

Currently, the tax environment in China and around the world is changing at an unprecedented speed. With the deepening of tax reductions, China has introduced a series of tax reforms. Value-added tax (VAT) in particular, newly issued tax regulations changes not only the VAT tax rate, the input tax credit mechanism but also invoice management to a large extent, presenting opportunities for companies to reduce their tax burden and facilitate tax payments. At the same time, new challenges have arisen in the areas of tax management and risk controls.

In this new context, the ever-changing tax environment is compounded by the particularities of the healthcare industry, which include a complex value chain, strict industry supervision and low data transparency. This presents healthcare companies with greater challenges in daily tax administration. Enterprises therefore need to put forward higher requirements to improve tax analysis and invoice management, and also maintain close alignment with its operations.

On the other hand, the mature of digital technologies has speed up the wide application across industries. Its features, including stability of data, large transmission volumes and quick processing speeds, have greatly improved the management efficiency. At present, healthcare industry has gradually integrated digital technologies into their tax management systems. For example, technologies such as robotic process automation (RPA) and artificial intelligence (AI) can effectively streamline and automate various processes that were completely handled manually in the past. Tax personnel can greatly benefit from these technologies, thereby improving the efficiency of financial / tax management and reporting. It also help companies make right decisions.

According to PwC’s survey of corporate CEOs, 66% of the respondents believe that China’s tax system is too complex; 39% of the companies have invested in AI, machine learning and predictive analytics; and 75% of the healthcare industry CEOs plan to invest in AI technology over the next three years.
In recent years, the application of digital technology has also made tax supervision and management tools more intelligent. China tax authority launch the Golden Tax III System not only to enhance the collection, processing and analysis of tax data but also strengthen tax administration. With the roll-out of the "Thousand Enterprise Groups" program, this tax supervision has also presented new requirements and challenges to large enterprises for tax compliance.

By using early warning assessment technologies in the Golden Tax III System, the tax authorities can now more easily screen the tax-related information of taxpayers, and has been gradually building up an enterprise database. Tax authority understand better tax payer’s status, including overall tax burden, annual changes in taxpayers' income/costs and expenses, VAT special invoice information and related-party transaction information. Through data analysis and comparison, the system can alert the tax risks of taxpayers and feedback to the tax authorities. Particular for healthcare companies, tax authorities can also timely monitor invoice receipt and issuance, and detect false invoicing behaviours based on data from the Golden Tax III System.

At the same time, the application of digital technologies by tax authorities also encourages taxpayers to update their own information access technologies. Healthcare companies can obtain data through an increasing number of channels even including tax bureau’s system. These data and technology can enhance tax compliance and improve management efficiencies.

Thanks to increasingly stringent external tax administrations and ready available technology, more healthcare companies are driven to deploy digital technologies to optimise their tax management.

For instance, we’ve observed that some of the following digital technologies are being deployed increasingly in healthcare companies’ tax system:


  - **Optical Character Recognition (OCR)**
    As an application of visual AI, optical character recognition (OCR) converts various invoices and other printed materials into image information via image processing tasks such as scanning, and then converts that image information into digital information through the use of text recognition technology. For healthcare companies with large volume of invoices, this technology can effectively transform paper invoice information and other text (such as contracts, etc.) into structured digital information within the enterprise system. It improves the efficiency of invoice management, and effectively control invoice risks. This also can help manage abnormal trades and other risks.
    
    With technological advance and transition, the integration of OCR and machine learning, significantly decrease the rejection and error rates of OCR and improve their recognition speed and stability. We believe that the transition from OCR to intelligent character recognition (ICR) has already begun.

  - **Data analytics**
    Based on their specific needs, companies establish corresponding data platforms and analytical models. They then integrate newly available tax data to provide fast and accurate reporting and offer a new basis for decision-making. The Platform enriches the data and further empower data intelligence and allows management to timely spot out issues. Company has also embed complex analysis into daily financial / tax management and processes. By increasing the automation and data intelligence, company improves financial operational efficiencies and decision-making capability.

  - **Process automation**
    Process automation is a digital technology that is currently most contemplated by healthcare companies. Because many tax assignments feature highly-repetitive and process-oriented work, robotic process automation (RPA) can automate workflows by simulating and enhancing the interaction between humans and computers. While RPA simulates human-computer interactions, an increasing number of embedded integration technologies such as rules engines, OCR and artificial intelligence have been used interactively to complete complex tasks.
    
    In tax management, process automation technologies can effectively manage and control the entire tax calculation, filing and subsequent analysis work. At the same time, it can optimise the approval processes of various internal departments and reduce human resources, thereby lowering the costs of enterprise operation.