



THE IMPORTANCE OF DOCUMENTING CHARITY CARE AND COMMUNITY BENEFIT

The trends at both the national and state levels relating to obtaining and maintaining tax-exempt status are obvious. Tax-exempt healthcare providers must have accounting and other financial reporting processes in place to identify and report charity care provided and community benefits made available in support of the exemption for federal, state and local property taxes.

The healthcare industry has been closely watching the case involving Provena Covenant Medical Center in Urbana, Illinois. The Illinois Department of Revenue has determined that the hospital no longer qualifies for exemption from Illinois property taxes. According to the record, the hospital spent only 0.7 percent of its 2002 revenues on charity care, while its property tax exemption was valued in excess of \$1 million.

All tax-exempt healthcare providers should carefully review the following:

- 1) Charity care provided is recognized in the accounting records and reported in both the Form 990 filing and the financial statements. The measurement of charity is currently based on lost revenues, costs or other measurements; however, we recommend that healthcare providers report multiple measurements.
- 2) Procedures should be established for tracking revenue shortfalls (Medicaid, for example) and the conversion to those lost revenues to costs and reporting such shortfalls in both the Form 990 and financial statements. These do not represent charity care.
- 3) Procedures be established for tracking other community benefits provided for which there is little or no reimbursement and reporting those benefits as well.
- 4) Sliding fee schedules relating to the determination of charity eligibility be carefully reviewed. In the Provena case, the Department of Revenue found it impossible to determine that the hospital's sliding scale discount was charity and referred to this discount as "the illusion of charity."

continued inside

IN THIS ISSUE

- **FUTURE WITHHOLDING OF MEDICARE REIMBURSEMENT TO FOR-PROFIT HEALTHCARE PROVIDERS**
- **HOME HEALTH COST REPORTS STILL MATTER**
- **MEDICARE PAYMENTS FOR HOME HEALTH AND HOSPICE TO INCREASE FOR INFLATIONARY IMPACT**



UPCOMING NAHC CONFERENCES

Mark your calendars—Dixon Hughes will be exhibiting at these events!

For additional information visit www.nahc.org.

The National Home Care and Hospice Policy
Conference and Law Symposium

Washington, DC

April 22 – 25, 2007

NAHC & HHFMA's 13th Annual Financial
Management Conference

Boston, MA

July 18 – 20, 2007

26th Annual Meeting of the National
Association for Home Care & Hospice

Denver, Colorado

October 6 – 10, 2007

continued from front page

The Catholic Health Association (CHA) has published "A Guide for Planning and Reporting Community Benefit," which provides comprehensive guidance for ongoing procedures, identification of community benefit, accounting for community benefit and reporting those activities and benefits. For additional information visit www.chausa.org. We commend CHA for their efforts regarding this matter.

Of course, if Dixon Hughes can provide any assistance in regards to your tax-exempt submissions or assist in your efforts to document and report the tax-exempt efforts of your organization, do not hesitate to contact us.

FUTURE WITHHOLDING OF MEDICARE REIMBURSEMENT TO FOR-PROFIT HEALTHCARE PROVIDERS

For future budgeting and planning purposes, for-profit healthcare providers should be aware of a new provision in the Internal Revenue Code resulting from the Tax Increase Prevention and Reconciliation Act of 2005 ("ACT").

Subsection 3402(t) of the Internal Revenue Code ("Code") now requires federal, state and local governments and multi-state agencies to withhold three percent of all government payments made to for-profit entities for property and services effective January 1, 2011. Thus, for-profit entities supplying goods or services to Medicare program beneficiaries, paid by the Medicare program, will initially receive payment of 97 percent of the amount to which they are entitled. The withholding will be returned after the for-profit entity files its annual income tax returns.

This withholding would apply to Medicare payments to all Part A providers, physicians and suppliers reimbursed under Medicare Part B, as well as health plans under Medicare Parts C and D.

This provision does not apply to tax-exempt or governmental entities or payments related to the Medicaid program.

Section 511 of the ACT, which amends Subsection 3402 is as follows:

Section 511. Imposition of Withholding on Certain Payments Made By Government Entities.

(a) In General—Section 3402 is amended by adding at the end the following new subsection:

(t) Extension of Withholding to Certain Payments Made by Government Entities-

Home Health News InContext is a quarterly publication intended for administrators, CEOs, CFOs, accounting personnel, compliance officers and clinical management personnel for home care agencies. The publication is intended to:

- Highlight current developments relating to financial and compliance matters for agencies
- Address cost reporting issues for agencies
- Notify agencies of educational offerings for home care personnel
- Provide informative, although limited, discussion of topics of interest in home care agency management

The newsletter is intended to benefit all types of home care agencies. Other facilities that deal regularly with home care agencies, such as nursing homes, hospice providers, physicians or hospitals, may also find the newsletter of benefit to them.

Board members and others responsible for oversight of home care agencies may also benefit from this newsletter. If you want others to receive a copy of this newsletter, do not hesitate to contact us.

Your comments regarding this newsletter, including ideas for future topics, are also



(1) GENERAL RULE- The Government of the United States, every State, every political subdivision thereof, and every instrumentality of the foregoing (including multi-State agencies) making any payment to any person providing any property or services (including any payment made in connection with a government voucher or certificate program which functions as a payment for property or services) shall deduct and withhold from such payment a tax in an amount equal to 3 percent of such payment.

(2) PROPERTY AND SERVICES SUBJECT TO WITHHOLDING- Paragraph (1) shall not apply to any payment—

(A) except as provided in subparagraph (B), which is subject to withholding under any other provision of this chapter or chapter 3,

(B) which is subject to withholding under section 3406 and from which amounts are being withheld under such section,

(C) of interest

(D) for real property,

(E) to any government entity subject to the requirements of paragraph (1), any tax-exempt entity, or any foreign government,

(F) made pursuant to a classified or confidential contract described in section 6050M(e)(3),

(G) made by a political subdivision of a State (or any instrumentality thereof) which makes less than \$100,000,000 of such payments annually,

(H) which is in connection with a public assistance or public welfare program for which eligibility is determined by a needs or income test, and

(I) to any government employee not otherwise excludable with respect to their services as an employee

(3) COORDINATION WITH OTHER SECTION- For purposes of section 3403 and 3404 and for purposes of so much subtitle F (except section 7205) as relates to this chapter, payments to any person for property or services which are subject to withholding shall be treated as if such payments were wages paid by an employer to an employee.

(b) Effective Date—The amendment made by this section shall apply to payments made after December 31, 2010.

Unless altered by subsequent legislation, this withholding would have significant cash-flow impact on many for-profit hospices and home health agencies.

L O C A T I O N S

Alabama

Birmingham205.212.5300

Georgia

Atlanta404.575.8900

North Carolina

Asheville828.254.2254

Boone828.262.0997

Burnsville.....828.682.2876

Charlotte704.367.7020

Durham.....919.484.0630

Greensboro336.383.5200

Greenville.....252.321.0505

Hendersonville828.692.9176

High Point.....336.889.5156

Raleigh.....919.876.4546

Salisbury.....704.636.9090

Southern Pines910.692.8555

Sylva828.586.6200

Winston-Salem336.714.8100

South Carolina

Charleston/East Bay Street.....843.722.6443

Charleston/Meeting Street843.937.9710

Greenville.....864.288.5544

Spartanburg864.583.5800

Summerville.....843.937.9710

Tennessee

Memphis.....901.684.2277

Brentwood/Nashville615.312.8272

Texas

Dallas/Fort Worth.....817.276.4100

West Virginia

Fairmont800.543.9811

To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code.



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

www.dixon-hughes.com/healthcare

©2007 Dixon Hughes PLLC

1015.701

HOME HEALTH COST REPORTS STILL MATTER

Nurses' Registry and Home Health Corporation ("Nurses' Registry") has entered into a Corporate Integrity Agreement (CIA) with the Office of Inspector General (OIG) of the United States Department of Health and Human Services (HHS), which appears to indicate cost reports are still important.

As part of the CIA, Nurses' Registry is required to have an "Unallowable Cost Review" conducted, focusing on the inclusion of unallowable costs. According to the HHS Office of Inspector General's Semiannual Report to Congress, the settlement with the OIG resolves allegations that Nurses' Registry submitted claims for unallowable expenses related to advertising, community education, rental expenses and liaison salaries, benefits, and meals. The settlement also settles allegations that Nurses' Registry upcoded claims under the prospective payment system for home health services.

The accuracy of the cost report is important – not just as part of your ongoing corporate compliance efforts, but also to ensure that MedPAC and CMS have the best information available when they look at home health PPS reimbursement.

MEDICARE PAYMENTS FOR HOME HEALTH AND HOSPICE TO INCREASE FOR INFLATIONARY IMPACT

Medicare payment rates for home health and hospice will increase at 3.3 and 3.4%, respectively effective January 1, 2007. A repeal of the 5.1% cut to Medicare payments to physicians, as expected, had threatened the inflationary increase scheduled for home health rates. In previous years, Congress had used the home health increase savings to fund the physician rates.

One of the targets to allow the 3.3% increase to go through was the rural add-on to certain home health agencies. The rural add-on of 5% was cut in the final bill.

What about 2008? MedPAC is already recommending a freeze in home health payment rates in 2008. According to MedPAC, beneficiary access remains good.

More than 1,700 home health agencies have entered the Medicare program since 2002, with the vast majority in Texas and Florida. There were approximately 8,000 Medicare certified home health agencies in 2005 compared to almost 11,000 in 1997 (prior to the devastation caused by the interim payment system).

What about the financial state of the industry? According to MedPAC, home health agency margins are projected at about 16.8% for 2007. That's higher than the MedPAC reported margins of 16.7% in 2006 and 12% in 2005.

These margins represent opportunities for home health agencies, but also represent the overriding consideration by Congress for not increasing rates or stimulating other changes to the PPS reimbursement system.