

Minnesota revenue notice number #01-09

MinnesotaCare Tax - Business Transactions in Minnesota

This revenue notice deals with the MinnesotaCare tax implications for patient services that are performed partially in Minnesota, or services performed by a provider who does not physically examine the patient in Minnesota. This notice does not apply to the gross premium tax. Under Minnesota Statutes section 295.51, subdivision 1, a hospital, surgical center, or health care provider ("provider") is subject to the MinnesotaCare tax if it transacts business in Minnesota. The provider is subject to tax on gross revenues received for patient services performed in the state regardless of the patient's domicile or location. This generally means that the service is subject to tax if the provider is compensated for a service that is performed while the provider is in Minnesota. Receipts for services performed outside of Minnesota are not subject to tax.

When patient services are performed partially in Minnesota and partially out-of-state, the following rules apply:

- If the services performed in Minnesota and the services performed out-of-state are performed by providers who are part of the same legal entity, only the portion of the receipts allocated to the services performed in Minnesota is taxable. Taxpayers may use any reasonable method to correctly and fairly apportion services performed both in Minnesota and out-of-state. These methods may include miles traveled in Minnesota, services recorded or billed for as in-state services or amount budgeted for in-state services.
- If the Minnesota provider and the out-of-state provider are separate legal entities, and the Minnesota provider bills the patient or a third party payer for the total service, including the portion of the service performed by the out-of-state provider, the total receipts are subject to tax since the presumption is that the service is performed for the Minnesota provider. Payment made by the Minnesota provider to the out-of-state provider is not deductible from gross receipts for purposes of the MinnesotaCare Tax. If the billing for the out-of-state services is separate and the Minnesota provider bills only for the portion of the service that is performed in Minnesota, only that portion is subject to tax.
- If the Minnesota provider and the out-of-state provider are separate legal entities, and the out-of-state provider bills the patient or a third party payer for the total service, including the portion of the service performed in Minnesota, the Minnesota provider is subject to tax on the receipts received for the services performed in Minnesota.

Examples

1. A North Dakota company sends its trucks into Minnesota, equipped with nuclear imaging cameras. The images are taken in a Minnesota hospital and sent to North Dakota for interpretation. The company bills the patient for taking the images and for interpreting them.

The payments received for taking the images are subject to tax since the services were performed in Minnesota; the payments received for interpreting the images are not subject to tax since the services were performed outside Minnesota by a provider who is part of the same legal entity as the entity performing the services in Minnesota. If the services are not separately billed, the provider may use any reasonable method to calculate the services performed in Minnesota such as apportioning services billed as in-state services.

2. A Minnesota provider administers a lab test and sends the test to a lab in California for interpretation. The California lab and the Minnesota provider are separate legal entities. The California lab sends the results to the Minnesota provider. The provider reports the results of the test to the patient and bills the patient for the total service.

The payment received by the provider is subject to tax, including the portion representing the services performed by the California lab, since the tax is imposed on gross revenues received by the Minnesota health care provider with no allowance for expenses for services performed by the out-of-state provider.

3. A California provider administers a lab test and sends the test to a Minnesota lab for interpretation. The California provider and the Minnesota provider are separate legal entities. The Minnesota lab sends the results to the California provider. The provider reports the results of the test to the patient and bills the patient for the total service.

The Minnesota lab is liable for the tax on the payment received from the California provider since the lab is receiving payments for services performed in Minnesota.

4. A Minnesota patient sends a home lab test to an Illinois lab for interpretation. The lab bills the patient directly for its services.

The payment received by the Illinois lab is not subject to tax since the service was performed out of Minnesota.

5. A Minnesota clinic and a Wisconsin lab are part of the same legal entity. The patient is seen by a provider at the Minnesota clinic. The lab samples are sent to the lab in Wisconsin and results are conveyed to the provider who reports the results to the patient.

Only the portion of the receipts allocated to the services performed in Minnesota is taxable. The payment allocated to services performed out-of-state is not taxable.

6. A clinic purchases legend drugs to use at its Minnesota and Wisconsin clinics. The drugs are delivered by a wholesale drug distributor into Minnesota.

The wholesaler pays the wholesale drug tax on the total amount received for the drugs delivered in Minnesota. The provider may deduct the cost of the drugs used as part of the service performed in Minnesota. The provider may not deduct the cost of the drugs provided as part of the service in Wisconsin since these drugs are not subject to the health care provider tax.

7. An ambulance transfers a Wisconsin patient to a Minnesota hospital.

The tax is imposed on the portion of the service performed in Minnesota. The provider may use any reasonable method to calculate the services performed in Minnesota such as apportioning the total miles traveled.

8. Minnesota radiologist examines a x-ray that has been digitally transferred from a Wisconsin clinic. The two providers are separate legal entities. The radiologist interprets the x-ray and sends his opinion to the Wisconsin provider. The Wisconsin provider bills the patient for the total service and pays the radiologist for his services.

The payment received by the Minnesota radiologist is subject to tax because the x-ray interpretation was performed in Minnesota.

Dated: 6 November, 2001

Jennifer Engh
Assistant Commissioner for Tax Policy