

## **Minnesota Department of Revenue**

### **Revenue Notice # 17-11: MinnesotaCare - Fair Market Value of Patient Services Furnished at a Reduced Price or No Charge; Revocation and Replacement of Revenue Notice # 98-21**

#### **Introduction**

This revenue notice explains what amount should be included in the taxable gross revenues of a health care provider, staff model health plan company, hospital, or surgical center ("provider") when the provider furnishes patient services at no charge or at a reduced price.

#### **Department Position**

*Minnesota Statutes* section 295.50, subdivision 3, defines gross revenues subject to the MinnesotaCare tax as "total amounts received in money or otherwise." The word "otherwise" means the fair market value in money of patient services provided when property, other services, or the right to receive other services are given as payment in lieu of money.

#### **Services in exchange for goods or services**

Sometimes a provider will furnish patient services for free or at a reduced price in exchange for another service or as a benefit to the patient. These typically involve free or discounted services provided to:

- employees as part of the employees' compensation package
- patients based on a patient's obligation to provide goods or services in return
- other individuals or groups (e.g., other providers), if these individuals or groups will provide goods or services in return

When a provider furnishes patient services in exchange for goods or services, the fair market value of the patient services provided is subject to tax.

#### ***Services reimbursed by insurance***

When a provider furnishes patient services in return for goods or services, and it is reimbursed through health insurance, the provider is required to pay the tax on the total of: (1) the amount it receives from the insurance company; (2) any copayments, deductibles, or other payments it receives; and (3) any copayments, deductibles, or other payments waived by the provider.

#### ***Services not reimbursed by insurance***

When a provider furnishes patient services in return for goods or services, and it is not reimbursed through health insurance, the provider is required to pay the tax on the lowest available price at which the provider furnishes similar services to other similarly-situated paying patients. The provider may use the lowest price it receives under a plan negotiated at arm's

length (i.e., negotiated with an unrelated party, acting in its own best interests). The plan used for determining the lowest price must be open for enrollment at the time it is referenced and may not be negotiated with a government entity. If the provider receives an amount that is higher than the lowest available price, the taxable amount is the actual amount received.

***Services to employees reimbursed by a self-insured plan***

When a provider furnishes patient services to its employees, and it is reimbursed through the provider's self-insured health plan, the taxable amount for the services is the greater of: (1) the total claims paid from the self-insured plan for the services; or (2) the fair market value of the services, as determined in the same manner as described above for services not reimbursed by insurance. The provider must also include as taxable any payments received, such as deductibles, coinsurance, and copayments, as well as any amounts waived by the provider.

**Services provided when no goods or services are exchanged**

When a provider furnishes patient services at a reduced price, and does not receive goods or service in return (such as furnishing discounted services to low-income patients), the tax is imposed on the amount actually received. If services are provided free of charge, there is no tax due since the provider does not receive any payment or service in return.

This Revenue Notices revokes and replaces Revenue Notice # 98-21.

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Ryan Church, Deputy Commissioner