

This Revenue Notice was revoked and replaced by publication of Revenue Notice # 17-11 on December 18, 2017.

DEPARTMENT OF REVENUE

Revenue Notice # 98-21: MinnesotaCare - Fair Market Value of Patient Services

This revenue notice modifies *Revenue Notice # 93-05* with regard to the portion titled ‘Gross Revenues Subject to Tax.’ It 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 charge to patients who pay for the service (or part of it) by performing a service. These typically involve services to employees as part of the employees’ compensation package or services to other patients at a discount based on the patient’s obligation to provide goods or services in return.

Minnesota Statutes, § 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 services or property, or the right to receive services, given in lieu of money.

When a provider furnishes patient services to its employees at a reduced price or free of charge, the taxable amount is the lowest price at which the provider furnishes similar patient services to other similarly-situated paying patients. This means that the provider may use the lowest price it charges 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 still be open for enrollment.

When a provider furnishes patient services to its employees and it is reimbursed through health insurance it purchased for the employees from a health plan company, the provider is required to pay the tax on the total of: (1) the amount it receives from the health plan company; (2) any copayments or deductibles it receives from the employee; and (3) any copayment or deductible waived by the provider as part of the employees’ compensation package.

When a provider furnishes patient services to other individuals or groups (e.g., other providers) at a reduced price or free of charge, the services are measured by their fair market value if these individuals or groups will provide goods or services in return (i.e., the lowest price at which the provider furnishes similar patient services to other similarly-situated paying patients).

Frequently asked questions on the subject:

- Can a provider use the fees paid by Medicare or Medical Assistance as the lowest price paid by a patient for purposes of measuring the fair market value of services provided free or at a reduced charge?

No. A provider may not use Medicare or Medical Assistance fees because the provider has not negotiated for the fees at arm's length.

- Can a provider use the fees paid to it by other providers under professional discount agreements for purposes of measuring the fair market value of the services provided?

No. When the other providers provide goods or services in return, the provider may not use these discounted fees, since these fees do not represent the total amount paid for the services provided.

- Are free chest X-rays provided annually to employees subject to tax?

Yes. The taxable amount is the lowest price at which the provider furnishes similar services to other similarly-situated paying patients under a contract negotiated at arm's length.

- Are patient services provided at a reduced price to employees and their family members subject to tax?

Yes. The taxable amount is the lowest price at which the provider furnishes similar services to other similarly-situated paying patients under a contract negotiated at arm's length.

- Are patient services furnished to other providers at a professional discount or free of charge subject to tax when the other providers provide goods or services in return?

Yes. The taxable amount is the lowest price at which the provider furnishes similar services to other similarly-situated paying patients under a contract negotiated at arm's length.

- Are mandated vaccinations and tests provided to employees free of charge subject to tax?

Yes. Mandated vaccinations (e.g., hepatitis shots required by federal law), tests (e.g., tuberculosis testing mandated by state law), and other free vaccinations (e.g., flu shots) are subject to tax. The taxable amount is the lowest price at which the provider furnishes similar service to other similarly-situated paying patients under a contract negotiated at arm's length.

- Are sick care programs that are furnished by a provider to its employees subject to tax?

Yes. Under Minnesota Rules, part 9503.0085, sick care programs are required to have a registered nurse on staff. If the services are provided at a reduced price, the tax is imposed on the lowest price at which the provider furnishes similar services

to other similarly-situated paying patients. If the provider furnished the sick care program only for its employees, the provider should use the lowest price at which other providers furnish similar services to other similarly-situated paying patients.

- Are services given by a self-employed provider to family members or friends subject to tax?

No. As long as these family members or friends do not provide goods or services in return, they are not subject to tax.

- Are pre-employment physicals subject to tax?

No. Pre-employment physicals are not subject to tax since the provider does not receive any payment or service in return.

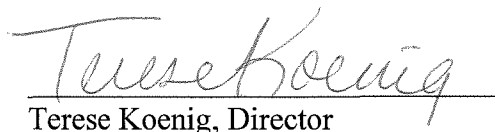
- What is the taxable amount when a physician furnishes services at a reduced price to low-income patients?

The tax is imposed on the amount actually received. If the services are provided free of charge, there is no tax due since the provider does not receive any payment or service in return.

- What is the taxable amount when the service is provided at a discount because the patient makes a cash payment?

The taxable amount is the amount actually received.

Dated: 9 November 1998



Terese Koenig, Director
Appeals, Legal Services and Criminal Investigation
Division