

Free and Discounted Patient Services

MinnesotaCare Tax Fact Sheet 5

MinnesotaCare tax applies to free or discounted services provided to individuals, such as employees and their families, other professionals, or patients.

Providers Subject to MinnesotaCare Taxes

Providers who offer patient services in Minnesota must pay MinnesotaCare tax. A provider means any of the following:

- A self-employed health care provider who is regulated or required to be regulated by the state of Minnesota
- An employer of a health care provider, such as a clinic, hospital, or surgical center
- A person who is eligible for reimbursement under the Medical Assistance Program
- A person who sells or repairs hearing aids or prescription eyewear
- A staff model health plan company
- A licensed ambulance service

Taxable Items

These items are subject to MinnesotaCare tax.

Gross Revenue

Gross revenue you receive for providing patient services is subject to MinnesotaCare tax. Gross revenue includes the total amounts you receive, in money or other compensation, for providing services.

Other compensation means the fair market value in money of patient services provided when property, other services, or certain rights are given as payment instead of money.

Common examples of items given instead of money include:

- Other health care services
- Non-health care services
- Goods, intangible items, or property
- The right to receive, use, access, or avoid goods, services, property, etc.

When you receive any of the above in return for providing free or discounted patient services, the fair market value (in money) of the patient services provided is subject to tax.

Receiving Goods or Services as Payment

If you receive goods or services (not money) in exchange for providing free or discounted patient services, the fair market value of the services you provide is taxable.

Common examples include:

- Providing free or discounted services to employees and their families as part of an employee's compensation package
- Providing free or discounted services to other professionals through professional discount agreements
- Bartering or trading patient services for goods or services

You must calculate the taxable fair market value (in money) of the services you provide. The taxable value in these cases depends on whether the patient service is reimbursed through insurance.

Receiving Money as Payment

If you are paid money and do not receive goods or services in exchange for the discounted services, the actual amount you receive is taxable. If you provided the services free of charge, there is no tax due.

Here are examples:

You provide free services to patients for charity. You are not paid by another entity and do not receive compensation from the patients. There is no tax due on the services.

You provide an eye exam to a patient. The patient only pays for part of the service and does not provide any other goods or services in return. Tax is due on the amount you actually receive from the patient.

Insurance Reimbursements

Insurance reimbursements can affect how MinnesotaCare tax is applied.

Services Reimbursed by Insurance

If the services are reimbursed through insurance, the total of all the following amounts is taxable:

- The amount received from insurance
- Any deductibles, coinsurance, copayments, or other payments received
- Any amounts you waive, such as deductibles, coinsurance, copayments, etc.

For example, you are a physician who provides a service to an employee and then bills the employee's insurance. You receive an insurance payment of \$100 for the service. As part of the employee's compensation package, you waive the employee's \$30 copayment. The taxable amount of the discounted service is the full \$130.

Services Not Reimbursed by Insurance

If the services are not reimbursed through insurance, the greater of the following amounts is taxable:

- The actual amount received for the service
- The lowest price you would receive for providing similar services, including deductibles, coinsurance, copayments, or other payments associated with the service

Determine Lowest Price for Providing Similar Services

To determine the lowest price you would receive for providing similar services, use the lowest price you would receive under a contract you have with an insurance company or health plan. The plan must be all of these:

- Open for enrollment in the year the service was provided
- A non-government plan
- Negotiated with an unrelated party acting in its own best interests

Note: Generally, if you contract with an insurance company or a health plan, the lowest price is the amount allowed for a service. If you do not contract with an insurance company or health plan, the lowest price is the amount you would charge as a standard rate or fee for a similar service.

Examples

Here are examples of services not reimbursed through insurance and how the tax is applied:

You provide free vaccinations each year to your employees and their family members. You are not reimbursed by insurance for providing the free services. The taxable amount for each vaccination is the lowest price you would receive for providing similar services.

You provide discounted neck adjustments to an accountant. In return, the accountant prepares your business tax returns for free. The taxable amount for each discounted adjustment is the greater of the amount received from the accountant for the service or the lowest price you would receive for providing a similar service.

You provide free and discounted dental services to your employees as part of their compensation package. You do not contract or negotiate with any insurance companies or health plans. The taxable amount for each free or discounted service is the lowest price you would charge as a standard rate or fee for providing a similar service.

Services to Employees Reimbursed by a Self-Insured Plan

A self-insured health plan (or self-funded plan) is a plan in which an employer assumes the financial risk for providing health insurance to its employees. Self-insured providers will typically set up a fund (with employer and employee contributions) to pay claims. They may also hire a third-party administrator to manage the plan.

If you provide health care to your employees through a self-insured health plan, the taxable amount for services provided to your employees and others covered under the plan is the greater of:

- The total claims paid by the self-insured plan for services you provided
- The lowest price you would receive for providing similar services to non-employees

You must also include as taxable:

- Any deductibles, coinsurance, copayments, or other payments received
- Any amounts you waive, such as deductibles, coinsurance, copayments, etc.

For example, you provide a self-insured health care plan for your employees as part of their compensation package. Your employee receives a service at the clinic and pays a \$25 copay. The claim for the service is \$200 and is paid through the self-insured plan. You do not waive any amount. The taxable amount is \$225.

Determine Lowest Price for Providing Similar Services

To determine the lowest price you would receive for providing similar services, use the lowest price you would receive under a contract you have with an insurance company or health plan for non-employee patients. The plan must be all of these:

- Open for enrollment in the year the service was provided
- Be a non-government plan
- Negotiated with an unrelated party acting in its own best interests

Summary of Taxable Items

We put together a summary of what is taxable for quick reference.

Taxable Items

Use this table to determine the taxable amount of free or discounted services you provide for patients who are not your employees.

Did you receive goods or services in return?	Were you reimbursed by insurance?	MinnesotaCare tax is due on the:
Yes	Yes	Total of: <ul style="list-style-type: none">• Insurance reimbursements• Deductibles, copayments, or coinsurance• Other payments you collect or waive
Yes	No	Greater of: <ul style="list-style-type: none">• Actual amount you receive• Lowest price you would receive for providing similar services
No	Yes	Actual amount you received, including the insurance reimbursement
No	No	Actual amount you received

Self-Insured Plans for Employees

MinnesotaCare tax is due on the greater of:

- The total claims paid by the self-insured plan for services you provided to employees
- Lowest price you would receive for providing similar services to non-employee patients through insurance contracts you negotiated

Also include:

- Deductibles, copayments, or coinsurance
- Any other payments you either collect or waive

Questions?

If you have questions about MinnesotaCare tax, contact us by emailing MinnesotaCare.tax@state.mn.us or calling 651-282-5533.