



WELCOME

# Tax Strategies and Economic Recovery for Health Care Organizations

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All audio is streamed directly through the console and heard through your computer speakers. There is not a dial-in number.
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# Tax Strategies and Economic Recovery for Health Care Organizations

April 2, 2020

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# Presenters

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## **Chris Bell, CPA**

**Partner, National Practice Leader,  
Medical Groups and Physicians  
Moss Adams, LLP**

Chris has practiced public accounting since 2005. He provides tax, strategic planning, and transaction planning services to health care organizations throughout California. He is a frequent speaker and author on tax reform, the Affordable Care Act, and health care policy. Prior to joining Moss Adams, Chris worked in the health care industry for several years.

## **Rob Grannum, CPA**

**Partner, Regional Industry Group Leader  
Moss Adams, LLP**

Rob has been with Moss Adams since 1998. He works extensively with clients in the health care industry, including hospitals, medical groups and individual physicians, providing strategic tax planning and compliance services. He leads the firm's Pacific NW Health Care Practice and serves on the firm's Health Care Executive Committee. Rob is also a frequent speaker and author on the impacts of tax reform and health care policy.



# Agenda

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- Families First Coronavirus Response Act (FFCRA)
- The Coronavirus Aid, Relief, and Economic Security (CARES) Act
  - Loan Programs
  - Tax Provisions
- Other Planning Opportunities
- Q&A



# The Families First Coronavirus Response Act

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We recommend consulting an attorney specializing in employment law with questions related to employee terminations

# FFCRA Overview

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- Law signed 3/18/2020. Effective 4/1/20-12/31/20
- Follow DOL guidance
- Paid and unpaid leave for Coronavirus-related reasons:
  - Emergency Paid Sick Leave
  - Emergency Family and Medical Leave Act (Expands FMLA)
- Applicable Employers <500 employees
- Reimbursement to employers as tax credits



# CARES Act

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# CARES Act for Health Care - Key Items

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- Grant and loan programs:
  - Public Health and Social Services Emergency Fund
  - Federal Reserve loans
  - Small Business Administration loans
- Tax credits and changes
- Other Considerations





# Public Health and Emergency Services Fund

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- \$130 billion fund for health care
- Administered by a variety of agencies
- Application details still being released

Refer to article ‘COVID-19 Grants and Funding Updates for the Health Care Sector’ by Karl Rebay and Georgia Green <https://mossadams.com/articles/2020/03/current-health-care-funding-sources-covid-19>.



# Medicare Accelerated and Advanced Payments

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## Qualifications:

- (1) Have filed a Medicare claim within 180 days
- (2) Not in bankruptcy
- (3) Not in active medical review or program integrity review, including any TPE or RAC audits.
- (4) Delinquent overpayment, including any you feel are wrong but are accused of owing.



# Medicare Accelerated and Advanced Payments

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- Most part A and part B providers and suppliers may request up to 100% of the Medicare payment amount for a three-month period, and will have 210 days to repay the balance.
- Inpatient acute care hospitals, children's hospitals, and certain cancer hospitals may request 100% of the Medicare payment amount for a six-month period, and will have one year to repay the balance.
- Critical access hospitals may request up to 125% of their Medicare payment amount for a six-month period, and will have one year to repay the balance.



# Medicare Sequestration Temporarily Suspended

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Suspension of the 2% Medicare sequestration from 5/1/2020 through 12/31/2020.



# Federal Reserve Loans for Mid-Sized Businesses

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- \$500 billion fund
- Mid-sized determined based on the number of employees: between 500 and 10,000
- Loans at 2% interest rates
- Six month deferral before payments begin
- A number of conditions and restrictions on borrowers



# Federal Reserve Loan Conditions

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- Loan must be necessary to continue operations as a result of the pandemic
- Employment levels must be at least 90% of their 2/1/2020 level
- Employment levels must be maintained through 9/30/2020
- For U.S. businesses only
- Business is not in bankruptcy
- The business will not outsource or offshore jobs for the duration of the loan plus an additional two years
- Additional rules for employers with union workforces
- Restrictions on dividend repayments, stock-repurchases, and executive compensation



# SBA Loans: Disaster Relief Loans

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For small businesses, which in health care is determined based on the annual revenue and the NAICS (North American Industry Classification System) code:

- Up to \$2 million to help meet financial obligations and operating expenses – loan amount will be based on your actual economic injury and needs
- Interest rate 3.75%
- Term not to exceed 30 years and depends on your ability to repay the loan
- One year deferment of payments, however interest will accrue
- Only available to businesses where SBA determine they are unable to obtain credit elsewhere
- <https://www.sba.gov/page/coronavirus-covid-19-small-business-guidance-loan-resources>



# SBA Loans: Payroll Protection Programs

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- Accessed through a qualified SBA lender (over 1,800 banks authorized)
- Lenders are not requiring application fees, closing costs, collateral or personal guarantees
- Bank is 100% guaranteed by Small Business Administration
- Maximum interest rate of 4% and maximum term is 10 years
- First six months' payments automatically deferred
- Maximum loan amount is lesser of 250% of average monthly payroll or \$10 million
- Cannot be used on costs where a credit was received under Families First Coronavirus Response Act (FFCRA) "No double dipping"
- In general available to businesses employing not more than 500 employees
- Exception for over 500 - Waiver of affiliation rules for any business operating as a franchise that is assigned a franchise identifier code by SBA
- Must certify uncertainty of current economic conditions make the loan necessary to support ongoing operations and fund will be used to retain workers





# CARES Act - Federal Tax Provisions

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# Employee Retention Credit

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- Employment tax credit equal to 50% of wages up to \$10,000 of wages per employee
- Eligible for employers where:
  - Business is fully or partially suspended during calendar quarter due to orders from an appropriate government authority, or
  - A business experiencing a significant decline in gross receipts, less than 50% in prior year same quarter
  - Ends in quarter where gross receipts are greater than 80% of gross receipts in prior year same quarter
- Qualified Wages are:
  - For employer with over 100 employees: wages for employees that are NOT working
  - For employer with 100 employees or less: wages for all employees
  - Does not include wages included in the Families First Coronavirus Response Act or if using the payroll protection program.
  - Affiliated or controlled group may apply to the 100 employees test



# Delay in Payment of Employer Payroll Taxes

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- Deferral of employer portion of Social Security taxes beginning March 27, 2020 through December 31, 2020
- 50% of the deferral due December 31, 2021
- Remaining 50% due December 31, 2022
- Employer not eligible if have debt forgiveness under the Payroll Protection Program



# Important Tax Changes in the CARES Act

## 163(J) INTEREST LIMITATION CHANGES FOR 2019 AND 2020

- 30% threshold changed to 50% of adjusted taxable income for 2019 and 2020 tax years
- Special rules for partnerships: Partnerships remain subject to the 30% limitation. Partners that are allocated excess business interest expense for tax years beginning in 2019 are able to deduct 50% of the excess interest in 2020, and the remaining 50% is subject to the normal rules.
- All taxpayers may elect to use 2019 adjusted taxable income to compute their interest limitation on their 2020 tax return.
- Before filing your 2019 tax return, understand the additional benefit of the change. This could increase a dealership's ability to take bonus depreciation.



# Important Tax Changes in the CARES Act

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## QUALIFIED IMPROVEMENT PROPERTY TECHNICAL CORRECTION

- Error in drafting the Tax Cuts and Jobs Act made qualified improvement property (QIP) not eligible for bonus depreciation.
- Technical correction makes QIP 15-year property, eligible for bonus depreciation.
- QIP is any improvement made by the taxpayer to the interior portion of nonresidential real property after the building was first placed in service, excluding improvements to enlarge the building, any elevator or escalator, or the internal structural framework of the building.
- The fix is retroactive back to 2018 - Review your depreciation schedules for opportunities to maximize deductions now.



# Important Tax Changes in the CARES Act

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## NET OPERATING LOSS AND EXCESS BUSINESS LOSS CHANGES

- Net operating losses originated in 2018, 2019, and 2020 can be carried back for 5 years.
- Removes 80% of taxable income limitation to allow net operating losses to fully offset other taxable income until 2021.
- Postpones the excess business loss rules for individual tax years to 2021. Change is retroactive to 2018, which provides the opportunity to amend 2018 if business losses were limited.



# Important Tax Changes in the CARES Act

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## RECOVERY REBATE

- One-time refundable tax credit for individuals.
- \$1,200 for single taxpayers, \$2,400 for joint taxpayers, and \$500 for each qualifying child
- Phase-out beginning at \$75,000 AGI for single taxpayers, \$150,000 for joint taxpayers. Fully phased out at \$99,000 and \$198,000 respectively.



# Important Tax Changes in the CARES Act

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## RETIREMENT PLAN CHANGES

- Waiver of 10% penalty on COVID-19 related early distributions from IRAs, 401(k)s, and certain other retirement plans. Applicable for distributions up to \$100,000 taken during 2020.
- Eligible distributions may be repaid within three years, and any income from the distribution can be recognized over-three years.
- Waiver of required minimum distribution rules for 2020





# Other Planning Considerations

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# Other Considerations - Tax

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- Lower valuation points
- Business restructuring
- Gifting against life-time exemption at lower valuation point
- Roth conversions
- Harvesting capital losses



# Other Considerations - Business

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- Maximizing employee utilization during partial closures
- Limited days of operation with fuller schedules
- Preparing offices for peak demand on deferred consultations and procedures
- What aspects of the current environment will inform how the businesses run in the future?
- Utilization of retired physicians, telemedicine, cross training employees, IT platforms and tools



# Questions?

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**Chris Bell, CPA**  
**(916) 503-8164**  
**Chris.Bell@mossadams.com**

**Rob Grannum, CPA**  
**(425) 303-3003**  
**Robert.Grannum@mossadams.com**

## **ADDITIONAL RESOURCES:**

**Moss Adams COVID-19 Resources: <https://mossadams.com/covid-19-implications>**

- Relief Initiatives
- Economic Updates
- Business Disruption
- Financial Viability

**Moss Adams Health Care Spotlight <https://mossadams.com/covid-19-implications#healthcare>**



# Resources

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