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PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
Committee on Homeland Security and Governmental Affairs

Carl Levin, Chairman

Norm Coleman, Ranking Minority Member

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**COLEMAN, LEVIN DISCLOSE \$2 BILLION IN
UNPAID TAXES BY MEDICARE SERVICE PROVIDERS**

*Probe finds more than 27,000 Medicare service providers owe
more than \$2 billion in unpaid taxes*

Washington, D.C.—Today, Senator Norm Coleman (R-MN), Ranking Member of the Permanent Subcommittee on Investigations, joined with Subcommittee Chairman Carl Levin (D-MI), to release a Government Accountability Office (GAO) report on unpaid tax debt owed by health care service providers who receive federal funds through the Medicare program. GAO found that more than 27,000 Medicare service providers, including physicians, hospitals, nursing homes, and hospices, which collectively received \$50 billion from Medicare in 2006, owe more than \$2 billion in unpaid taxes. Since this analysis covers only a portion of Medicare service providers, GAO concludes its estimate “substantially understates” the magnitude of the problem. GAO further estimates that the federal government lost opportunities to collect \$140 million in unpaid federal taxes from Medicare service providers in just 2006 alone.

“Medicare is a health care program that is designed to serve our nation’s seniors, yet this investigation reveals that at all levels – from hospitals to nursing homes to doctors – some health care providers are subverting the tax system to line their pockets – to the tune of \$2 billion,” said Coleman. “What’s worse, many Medicare providers are diverting their employees’ payroll taxes to buy multi-million dollar estates, yachts, and luxury cars. Simply put, living the good life shouldn’t come at the expense of the American taxpayers.”

“Folks who make their living off taxpayer dollars have a special obligation to pay their taxes,” said Levin, “but a small number of doctors and companies participating in Medicare are accepting taxpayer dollars as compensation for their services at the same time they are failing to pay their tax bills. A partial review by GAO last year estimated these doctors and companies collectively owed more than \$1 billion in unpaid taxes. A new, more extensive GAO review puts the figure at upwards of \$2 billion in unpaid taxes. These tax deadbeats are guilty of shortchanging the government and forcing honest American citizens to shoulder the taxes they are shirking.”

The GAO report released today differs from a GAO report released in March 2007, also requested by the Subcommittee, which found that 21,000 Medicare Part B service providers owed more than \$1.3 billion in unpaid taxes. The 2007 report examined only a portion of the

Medicare service providers participating in the Part B program, and covered only nine months of 2005. In contrast, the 2008 report includes all Medicare service providers and covers the entire year of 2006.

As part of its inquiry, GAO identified a number of egregious cases in which hospitals, physicians, and other service providers were involved in abusive, and potentially criminal, tax misconduct. For example:

- A nursing home received \$1 million in 2006 Medicare payments, while owing \$11 million in unpaid taxes. A regulator has cited the company for failure to maintain compliance with licensure rules and serious deficiencies related to the health and safety of its residents. The deficiencies were sufficiently serious that further admissions to the nursing home were banned. The owner has an unrelated business, a boat, timeshares, and hundreds of thousands of dollars in decorative items at his personal residence.
- A hospital received \$21 million in 2006 Medicare payments, while owing \$15 million in unpaid taxes consisting primarily of payroll taxes. The company's owner has a personal residence valued at more than \$6 million. The company's owner was found liable for submitting false claims to Medicare for another medical business.
- A durable medical equipment company received \$400,000 in Medicare payments, while owing \$400,000 in unpaid taxes. The company paid to remodel an officer's personal residence and used employee retirement contributions to pay for it. The company also had hundreds of thousands of dollars in suspicious bank activities.

Following the March 2007 report and a hearing on the issues, Coleman and Levin introduced the Medicare Provider Accountability Act (S. 1307) to levy payments to Medicare service providers that owe federal taxes. The bill would require the federal government to levy Medicare payments under Parts A and B, which together represent more than \$300 billion in payments each year, through the Federal Payment Levy Program. This program identifies taxpayers that are scheduled to receive payments from the federal government, while they simultaneously owe outstanding, undisputed tax debts. Federal tax levies generally withhold 15 percent of each federal payment and apply the withheld funds to reduce the taxpayer's unpaid tax obligation. The Coleman-Levin bill would require Medicare to use levies on at least 50% of Parts A and B payments within one year, and the remaining 50% by the end of the following year. The House recently passed a similar bill. Medicare Parts C and D program are already subject to tax levies.

“Our investigation examined the entire breadth and scope of the Medicare program. And the key to recouping these tax dollars rests with the Federal Payment Levy Program,” Coleman

added. “By withholding 15 percent of the Medicare payments allotted to tax-cheating providers, we can begin to recover the billions of dollars in unpaid taxes. In fact, it is estimated that, if Medicare payments to those providers had been levied since 2000, the government could have recovered hundreds of millions of dollars. GAO estimated that levies could have recovered up to \$140 million in 2006 alone. A test program showed that \$1 million in back taxes from Medicare payments would have been recovered in just one day. That’s why Senator Levin and I have introduced common-sense legislation, which would require all Medicare payments be subject to the levy program within the next two years.”

“After we disclosed the scope of the problem, Medicare agreed to rewire its payment systems so that the federal tax levy program can step in and take a portion of the payments made to deadbeat doctors and companies to pay off their outstanding tax debt,” said Levin. “Our bill helps ensure that Medicare gets the job done. Ensuring that everyone pays their taxes protects honest taxpayers from having to shoulder the tax burden alone and protects honest companies from having to compete with folks who lower their costs by stiffing Uncle Sam.”

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