

Billing Background in the Healthcare Industry

Deviations From Legal Requirements of Billing Activity Causing High Medical Costs

Fort Myers, Florida Jul 14, 2025 ([Issuewire.com](https://www.issuewire.com)) - Billing Background in the Healthcare Industry

Industry Context and Justification for Reduced Insurance Payments:

In the current healthcare industry practice, providers routinely accept reduced payment amounts from insurance companies under the justification that insurers deliver a steady volume of patients. This constant flow helps providers reduce per-patient costs, improve operational efficiency, and stabilize cash flow. From the insurance companies' perspective, they claim to negotiate with lower-charging providers, enabling them to control costs and pass savings along to their members in the form of reduced premiums or lower out-of-pocket expenses. While this arrangement is portrayed as mutually beneficial, it often results in non-transparent billing practices and pricing disparities that disproportionately affect uninsured and out-of-network patients. This summary outlines how such practices, though justified as cost-saving, conflict with established tax, contract, and antitrust laws.

LEGAL AND TAX IMPLICATIONS OF BILLING PRACTICES IN THE HEALTHCARE INDUSTRY

- **EXECUTIVE SUMMARY**

Summary: This section introduces the central claim that healthcare providers and insurance companies may be violating tax and antitrust laws through billing practices that involve creating patient debts, discounting them via contractual adjustments, and failing to report this as cancelled debt income. The IRS recognizes the importance of these transactions under accrual accounting rules and stresses legal boundaries for income recognition, reporting, and third-party payer obligations.

- **DEBT CREATION AND INCOME RECOGNITION UNDER THE ACCRUAL METHOD**

Summary: This section explains that once a healthcare provider bills a patient for services rendered, a debt is legally created under the accrual method of accounting. The full billed amount becomes income to the provider.

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- **Statutory Authority:** IRC §451(a): "Items of gross income shall be included in the gross income for the taxable year in which received by the taxpayer, unless under the method of accounting used in computing taxable income, such amounts are to be properly accounted for as of a different period."

- **All Events Test (Treas. Reg. §1.451-1(a)):** Income is includible when (1) all events have occurred to fix the right to receive it and (2) the amount can be determined with reasonable accuracy.
- **Case Law:**
 - *Spring City Foundry Co. v. Commissioner*, 292 U.S. 182 (1934): Held that for accrual-method taxpayers, income is recognized when earned, not when received. The billed amount creates the income.
 - *Commissioner v. Hansen*, 360 U.S. 446 (1959): Confirmed that under the accrual method, billing establishes income rights.
 - *TAM 200619020*: Reiterated that an accrual-basis healthcare provider must use legally enforceable contract terms at the time of service to adjust billed amounts, and anything else must be considered income.

III. THIRD-PARTY PAYERS AND CANCELLATION OF DEBT INCOME *Summary:* Discusses how insurance companies, as third-party payers, may not modify or forgive the legal debt owed by patients to providers, and any uncollected balance may constitute cancellation of debt (COD) income.

- **Statutes and Rules:**
 - IRC §61: Gross income includes income from discharge of indebtedness.
 - IRC §108: Cancelled debts are taxable unless specifically excluded.
 - IRC §6050P: Requires reporting of cancelled debt over \$600 on Form 1099-C.
- **Cases:**
 - *United States v. Centennial Savings Bank*, 499 U.S. 573 (1991): COD income is taxable unless excluded.
 - *Miami Coal Co. v. Fox*, 203 Ind. 99 (1931): Bills and receivables partake of the nature of promissory notes.
- **Parol Evidence Rule:**
 - UCC §2-202: A written bill or invoice supersedes prior oral or written negotiations. The insurer cannot alter the price set in the bill.
 - *Masterson v. Sine*, 68 Cal. 2d 222 (1968): Confirms enforceability of written terms over prior understandings.
- **COURTS' USE OF PATIENT CONTRACTS AND BILLS** *Summary:* Courts frequently accept patient-provider contracts and billing records as legally enforceable documents for claim adjudication.
- Between 20 and 30 medical claims cases annually use patient bills and contracts as the basis for enforcing or rejecting claims.
- Example Cases:
 - *Ortiz v. State Farm*, 560 F.3d 124 (3d Cir. 2009): Upheld a billing dispute based on the provider's written contract and bill.
 - *Eberle v. Nationwide Mutual Insurance Co.*, 159 F.Supp.3d 886 (E.D. Mich. 2016): Accepted the billed amount as the contractual debt.
- **Supreme Court Statement:**
 - *Spring City Foundry*, again, affirms that billed revenue is recognized as income.
- **COURT MANDATES THAT INSURANCE PAY THE FULL BILLED AMOUNT.** *Summary:* Addresses cases where courts have required insurers to pay the full amount billed by providers.
- *Connecticut General Life Ins. Co. v. Humble Surgical Hospital*, 878 F.3d 478 (5th Cir. 2017): Insurance company ordered to pay the full billed amount because it did not comply with ERISA plan terms.

- *North Cypress Medical Center v. Cigna*, 781 F.3d 182 (5th Cir. 2015): Affirmed patient billing as the basis for enforcement.
- **PRICE DISCRIMINATION AND UNIFORM PRICING REQUIREMENTS** *Summary*: Examines how charging different patients different amounts for the same service violates price discrimination statutes and public policy.
- **Statute**: 15 U.S.C. §13 (Robinson-Patman Act): Unlawful to charge different prices to different customers for the same product or service where it lessens competition.
- **Case**:
 - *FTC v. Morton Salt Co.*, 334 U.S. 37 (1948): Established price discrimination as illegal under federal law.
- **UCC Definition of "Price"**:
 - 15 U.S.C. §13(a): Price is the amount paid or collected, not just listed.

VII. ANTI-KICKBACK RULES AND STEERING VIOLATIONS *Summary*: Focuses on the illegality of payments made by providers or insurers to steer patients, amounting to kickbacks or restraint of trade.

- **Statutes**:
 - Anti-Kickback Statute: 42 U.S.C. §1320a-7b: Criminalizes remuneration for referrals of services payable under federal healthcare programs.
 - IRC §162(c): Expenses related to illegal payments (e.g., for referrals) are non-deductible.
- **Cases**:
 - *United States v. Greber*, 760 F.2d 68 (3d Cir. 1985): Held that even partial intent to induce referrals violates the Anti-Kickback Statute.
 - *Hanlester Network v. Shalala*, 51 F.3d 1390 (9th Cir. 1995): Clarified that intent is enough to violate anti-kickback laws.
- **Restraint of Trade Law**:
 - Sherman Act, 15 U.S.C. §1: Prohibits agreements that unreasonably restrain trade.
 - *National Society of Professional Engineers v. United States*, 435 U.S. 679 (1978): Agreements to restrict referrals or pricing violate antitrust laws.

- **FLORIDA STATE LAW SUPPORTING FEDERAL TAX AND CONTRACT PRINCIPLES**
Summary: This section highlights how Florida state statutes support the federal legal structure regarding billing practices, price transparency, debt creation, and contract enforcement in healthcare.

- Florida Statutes Chapter 501, Part II – Florida Deceptive and Unfair Trade Practices Act (FDUTPA):

Prohibits unfair methods of competition, unconscionable acts, or deceptive practices in trade or commerce. Applying different prices to similarly situated patients without a clear justification may violate FDUTPA.

- Florida Statutes §817.234 – False and Fraudulent Insurance Claims:

This statute makes it a felony to submit false or misleading information to an insurer knowingly. Failure to disclose contractual write-offs or manipulating billed amounts in collusion with insurers could trigger liability under this statute.

- Florida Statutes §627.6131 – Payment of claims:

Requires prompt and fair payment of healthcare claims. Insurers are obligated to settle valid

claims based on the terms disclosed in the insured's coverage and cannot override the patient's bill without direct authority.

- Case Law:

- Mercy Hosp., Inc. v. Aetna Cas. & Sur. Co., 543 So. 2d 889 (Fla. 3d DCA 1989): Recognized the enforceability of hospital bills and patient assignments of benefits.
- Boca Raton Community. Hosp., Inc. v. Tenet Health Care Corp., 582 So. 2d 733 (Fla. 4th DCA 1991): Emphasized that providers must adhere to transparent billing practices.

Public Policy Support:

The Florida Agency for Health Care Administration (AHCA) mandates that hospitals publish charge transparency data. While it does not directly set billing amounts, the requirement reinforces that prices should not vary unfairly among patients for the same services.

Legal Principle Reinforced:

The patient's bill and contract are legally binding. An insurance company's prior agreement with the provider cannot override the debt owed by the patient or the provider's legal right to collect. All three – the patient, the provider, and the insurer – are independent entities. This aligns with both federal and Florida case law affirming the supremacy of patient-provider billing agreements.

VIII. CONCLUSION *Summary:* Billing practices where full debt is created, then reduced through post-service third-party agreements, violate tax laws, accounting rules, consumer protection laws, and antitrust principles. Healthcare providers and insurers must recognize the full billed amount as income, file tax forms accordingly, and cease engaging in steering practices.

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