

Hidden Healthcare Kickbacks: How Providers and Insurers Cheat Taxes, Raise Costs, and Restrict Trade

Americans Urged to Act — Expose Illegal Billing Practices and Demand Accountability

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The American healthcare system is not only the most expensive in the world, but it is also burdened by a hidden scheme between providers and insurance companies that may constitute massive tax evasion. At the center of this problem is the so-called “negotiated fee” — a misleading term that masks a system of kickbacks. In reality, insurance companies do not set the price of medical care; the provider sets the price, and the patient legally agrees to that price when billed. This arrangement cheats taxpayers, exploits patients, undermines national integrity, and guarantees that healthcare costs will continue to rise.

Cash vs. Accrual Accounting

There are two principal accounting methods:

- **Cash Method**: Income is reported only when money is actually received, and expenses are reported when paid.
- **Accrual Method**: Income is reported when it is earned (for example, when a bill is issued), and expenses are reported when incurred, even if no cash has changed hands. For income tax purposes, the Supreme Court has ruled that the amount listed on the patients' (customers') bills is the amount recognized for income tax purposes.

By law, including for tax and Social Security purposes, providers and insurance companies must use the accrual method. That means the full billed amount should be reported as income when the bill is issued, not just the reduced amount received later.

The Problem

Doctors and hospitals do not give discounts. Every patient is billed the full standard charge, and those bills legally count as income. By law, providers and insurance companies must follow the accrual method of accounting, which requires reporting the full billed amount as income. Instead, many providers and insurance companies report as if they were on the cash method, only counting the reduced payments actually collected or paid.

Insurance companies exacerbate the problem by paying less than the billed amount, labeling the difference as an “adjustment.” This is cancelled debt — also known as forgiven debt. Under the accrual method, forgiven debt is treated as income and must be reported, just like cash. Tax law is clear: for debt to be forgiven, there must first be a valid debt. In this case, the patient’s bill creates the debt, which is then transferred to the insurance company and is supposed to be paid in full. When part of that debt is “adjusted” away, it is forgiven debt that must be reported as income.

Both sides benefit. Providers reduce their tax bills by hiding income, while insurers use the higher billed charges — not the reduced payments — to justify raising customer premiums. This arrangement also

crosses legal lines: U.S. law prohibits providers from paying any person or entity to steer patients to them, and such payments are taxable even if the provider is a not-for-profit corporation.

Because patient bills are sealed under HIPAA and provider-insurer contracts are hidden as “trade secrets,” neither the IRS nor the public can see the gap between what was billed and what was collected. This lack of transparency keeps society and law enforcement unaware, allowing kickbacks to thrive and the scheme to continue undetected, even though each patient is just one among thousands.

How the Kickback Scheme Works

- Insurance companies select providers who agree to the most significant 'write-offs' of patients' bills.
 2. The provider issues a bill at the full legal charge, creating a debt owed by the patient.
 3. The insurer pays less than the full amount, disguising the shortfall as a 'contractual adjustment.'
 4. Both provider and insurer report only the reduced payment to the IRS, not the full legal income.

At the same time, insurers pass through the medical costs they do pay, but use the inflated billed amounts when negotiating premiums. That means patients and employers pay higher premiums, while insurers and providers quietly share the benefit of hidden write-offs.

What Every American Can Do

If your medical bill or Explanation of Benefits (EOB) shows an 'adjustment' or reduced payment, you are holding evidence of a potential tax violation. Remember, you may be just one patient among thousands, and every report helps build the case. Submitting a report is confidential. The IRS will review the documents and decide whether an audit is needed. The more reports they receive, the more likely the industry is to face complete audits.

Here's how you can act:

- ****Contact Your Local IRS Office**** — Ask for a Criminal Investigation Agent and provide copies of your bill or EOB.
- ****Report Tax Evasion via IRS Form 3949-A**** — Available at www.IRS.gov. Mail the completed form and documents to:
Internal Revenue Service
Fresno, CA 93888-0025
- ****File IRS Form 211 (Whistleblower Award Claim)**** — Available at www.IRS.gov -- List both the provider and the insurance company, attach documents, and send to:
Internal Revenue Service
Whistleblower Office – ICE
1973 N. Rulon White Blvd.
M/S 4110
Ogden, UT 84404

Note: Form 211 is signed under penalty of perjury. Submit only what you truthfully believe to be evidence. All documents sent to the IRS are confidential, and your identity is protected; your name will not be disclosed.

Why This Matters

The IRS is the only federal agency with the expertise to investigate this nationwide scheme. If it goes unchecked, billions of dollars in taxable revenue will remain hidden, shifting a heavier tax burden onto ordinary Americans. The illegal kickback system — where providers pay insurance companies to steer patients — is a restriction of trade that eliminates competition and drives up healthcare costs. Exposing and ending this practice is essential to restoring fairness, accountability, and integrity in both our healthcare and tax systems.

Call to the Press and the Public

The press has a duty to bring this issue to light, but lasting change depends on citizens acting. Every American has a role to play in breaking the grip that providers and insurance companies hold over our healthcare system. Start by checking your medical bills and Explanation of Benefits (EOB) forms. If you see “adjustments” or reduced payments, make copies — they may be evidence of abuse. Share this information, report it to the IRS, and speak out so others understand what is happening. Only through public awareness, reporting, and collective action can this scheme be exposed and stopped. This system cannot be fixed without your help.

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