



Highlights of [GAO-08-618](#), a report to the Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

Under the Medicare program, the Centers for Medicare & Medicaid Services (CMS) and its contractors paid over \$400 billion in Medicare benefits in calendar year 2006.

GAO was asked to determine if Medicare providers have unpaid federal taxes and, if so, to (1) determine the magnitude of such debts, (2) identify examples of Medicare providers that have engaged in abusive or potentially criminal activities, and (3) determine whether CMS prevents delinquent taxpayers from enrolling in Medicare or levies payments to pay taxes.

To determine amount of unpaid taxes owed by Medicare providers, GAO compared claim payment data from CMS and tax debt data from the Internal Revenue Service (IRS). In addition, GAO reviewed policies, procedures, and regulations related to Medicare. GAO also performed additional investigative activities.

What GAO Recommends

GAO recommends that CMS consider issuing guidance to require Medicare contractors to screen prospective Medicare providers for unpaid taxes, including obtaining consent from these providers to disclose federal tax debts. GAO also recommends that CMS incorporate all Medicare payments into the continuous levy program as expeditiously as possible. CMS stated that it has taken some actions and is planning other actions to address GAO's two recommendations.

To view the full product, including the scope and methodology, click on [GAO-08-618](#). For more information, contact Gregory Kutz at (202) 512-6722 or kutzg@gao.gov.

MEDICARE

Thousands of Medicare Providers Abuse the Federal Tax System

What GAO Found

Our analysis of data provided by CMS and IRS indicates that over 27,000 health care providers (i.e., about 6 percent of all such providers) paid under Medicare during calendar year 2006 had payroll and other agreed-to federal tax debts totaling over \$2 billion. The \$2 billion in unpaid tax debts only includes those debts reported on a tax return or assessed by IRS through its enforcement programs. This \$2 billion figure is understated because some of these Medicare providers owed taxes under separate tax identification numbers (TIN) from the TINs that received the Medicare payments or they did not file their tax returns.

We selected 25 Medicare providers with significant tax debt for more in-depth investigation of the extent and nature of any abusive or potentially criminal activity. Our investigation found abusive and potentially criminal activity, including failure to remit to IRS payroll taxes withheld from their employees. Rather than fulfill their role as "trustees" of this money and forward it to IRS as required by law, these Medicare providers diverted the money for other purposes. Willful failure to remit payroll taxes is a felony under U.S. law. Furthermore, individuals associated with some of these providers at the same time used payroll taxes withheld from employees for personal gain. Some of these individuals accumulated substantial wealth and assets, including million-dollar houses and luxury vehicles, while failing to pay their federal taxes. In addition, some providers received Medicare payments even though they had quality-of-care issues, such as losing track of a patient in their care who has not been found.

Examples of Abusive and Criminal Activity

Type of business	Unpaid tax debt	CMS payments	Description of Medicare health care provider activity
Hospital	\$15 million	\$21 million	Owners were found liable for submitting false claims to Medicare from another medical business.
Nursing home	\$7 million	\$15 million	IRS records indicate that the owner purchased luxury cars and other personal items with money funneled through a charitable foundation.
Nursing home	\$4 million	\$4 million	Owner constructed multimillion-dollar home while business was not paying its taxes.

Source: GAO analysis of IRS, CMS, public, and other records.

CMS has not developed a policy to require contractors (1) to obtain consent for IRS disclosure of federal tax debts and (2) to screen providers for unpaid taxes. Further complicating this issue, absent consent by the taxpayer, which CMS does not require, federal law generally prohibits the disclosure of taxpayer data to CMS or its contractors.

IRS can continuously levy up to 15 percent of each payment made to a federal payee—for example, a Medicare hospital—until that tax debt is paid. However, CMS has not incorporated most of its Medicare payments into the continuous levy program. As a result, for calendar year 2006, the government lost opportunities to potentially collect over \$140 million in unpaid taxes.