



Perspectives on Medical Practice Management

Volume 8, Issue 2

Summer 2010

Can We Help?

Our firm provides a broad range of services to medical practitioners, including:

- Accounting & Financial Management
- Tax Services
- Internal Accounting Controls
- Personal Financial & Estate Planning
- Practice Valuations
- Finance Consulting

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Expanding by Buying Another Practice: What You Should Know

For some time, you have thought about expanding your practice. However, you haven't taken things much further because the right opportunity hasn't appeared. Now, a nearby practice has been put on the market and it looks like it would fit in perfectly with your plans for expansion. Before you make an offer, though, you need to proceed with care.

Consider the Big Picture

Review the financial projections for the practice you plan on buying. Revisit your assumptions about patient numbers. Determine how long it will be before the practice begins paying for itself. Look into potential staffing issues.

Clarify What You Are Buying

Before considering what may be an appropriate purchase price, other important aspects of the sale – structure, payment terms, tax allocation, collateral, and post-sale employment of the seller – must be discussed. Be sure that such items as accounts receivable, deposits on equipment, and property leases are discussed as part of the negotiations. Determining exactly what's included in the sale will minimize potentially costly future disputes.

Benchmark the Asking Price

Work with a professional broker to determine whether the asking price is in line with recent sales of similar-sized medical practices in your region. You have more room to negotiate on the asking price if you have recent sales data for comparison purposes.

Determine the Type of Sale

Will it be an asset sale or stock sale? If it's a stock sale, you generally will not get a tax deduction for any of the purchase price since stock is not a depreciable asset. The seller, however, is happy to pay tax at capital gains rates. An asset sale is much more advantageous for the buyer from a tax perspective. Assets can be depreciated. Depending on the tax allocation of the purchase price among the assets acquired, you may be able to dramatically re-

duce the after-tax cost of your purchase by taking all the available write-offs from depreciating the assets included in the sale. In addition, an asset sale excludes the practice's liabilities.

Select the Method of Financing

Some lenders are more aggressive in seeking out business, so you should be willing to work with out-of-state and out-of-region lenders to get the best terms.

Have the seller finance part of the sale because it creates an incentive for him or her to cooperate on any of the many issues that may arise after the sale is completed. Just be aware that the seller may expect a security interest in the practice, including its future receivables.

Use an Escrow

The typical sales agreement contains numerous assurances, known as "seller representations and warranties," promises from the seller that all statements about debts, assets, and tax liabilities are true. However, if the sale is for cash, it may be wise to negotiate to hold back part of the purchase payments in an escrow fund to protect your interest in case any representations turn out to be untrue.

Be Aware of Pre-sale Practice Expenses

All of the practice's bills should be paid off before the transfer occurs, if practical. Adjustments can be made at the time the sale is closed.

Use a Covenant Not to Compete

If retirement is not the motivation for the sale, it is generally advisable to negotiate a covenant not to compete. The covenant should be reasonable as to the duration of the covenant and any geographic restrictions.

We Can Help

If you are planning the purchase of another medical practice, we strongly recommend that you talk to us first. We can help you review the financials and help protect your interests throughout the process.

Financial Incentives for Practices That Are Meaningful EHR Users

To increase the use of electronic health records (EHRs), the federal government is offering significant financial incentives to physicians whose practices show “meaningful use” of EHRs. Widespread adoption of EHRs, it is argued, would reduce costs, streamline reporting, and reduce medical errors. These incentives are designed to blunt the effect of the costs involved for medical practices that implement EHR technology.

Physicians are entitled to receive incentive payments -- beginning in January 2011 -- once they demonstrate the requisite meaningful use of EHRs. The incentive payment is equal to 75% of Medicare-allowable charges for covered services furnished in a given year. The maximum incentive payments are:

- o Year One: \$15,000
- o Year Two: \$12,000
- o Year Three: \$8,000
- o Year Four: \$4,000
- o Year Five: \$2,000

Physicians who start early and hit the threshold for meaningful use in 2011 or 2012 can receive an \$18,000 first-year incentive payment. This applies only to Medicare, since there are other incentives for practitioners who practice in rural areas and/or who have a certain threshold of Medicaid patients.

However, there are also penalties for those who are not meaningful users of EHRs.

- o The Medicare fee schedule amount for professional services would be reduced by 1% in 2015, 2% in 2016, 3% in 2017, and by between 3% and 5% in subsequent years.

- o For 2018 and thereafter, if it is determined that less than 75% of physicians are meaningful EHR users, then the reductions will be increased by one percentage point each year, but by not more than 5% overall.

What Is “Meaningful Use?”

The Centers for Medicare and Medicaid Services (CMS) issued a proposed outline for EHR meaningful use criteria at the end of 2009. The proposed outline is only the first stage of a planned three-part series of criteria.

The Stage One criteria cover 25 meaningful use objectives and are listed under modules referred to as Health Outcomes Policy Priorities. The priorities are:

- o Improving quality and patient safety -- This includes the maintenance of an active medication list and the use of ePrescribing.
- o Engaging patients and their families in their health care -- This includes providing patients with copies of their health information.
- o Improving care coordination -- This includes the exchange of key clinical information among authorized entities.
- o Improving population and public health -- This includes having the ability to provide data to immunization registries.
- o Ensuring adequate privacy and security protections for personal health information.

This is a work in progress. It’s quite possible that these meaningful use criteria will change over time.

These incentives are designed to blunt the effect of the costs involved for medical practices that implement EHR technology.



The general information in this publication is not intended to be nor should it be treated as tax, legal, or accounting advice.

Additional issues could exist that would affect the tax treatment of a specific transaction and, therefore, taxpayers should seek advice from an independent tax advisor based on their particular circumstances before acting on any information presented.

This information is not intended to be nor can it be used by any taxpayer for the purpose of avoiding tax penalties.

Safe Harbor for 401(k) Plan Deposits

The pension law prohibits an employer from using retirement plan assets for the employer's own benefit. The penalties for violating these rules are substantial. However, plan sponsors and their advisors have long argued that the regulations governing the timely deposit of retirement plan participant contributions and loan repayments are so confusing that plan sponsors could inadvertently run afoul of the regulations governing employer use of plan assets.

The good news is that the U.S. Department of Labor listened to the concerns of employers and has recently issued final "safe harbor" deposit deadline regulations for small plans. The new safe harbor rules apply to plans with fewer than 100 participants at the beginning of the plan year.

What the Final Regulations Say

The final regulations state that participant contributions and

loan repayments will be treated as being made in a timely manner if they are deposited with the plan no later than the 7th business day following the date they are received by the employer. In the case of an amount withheld from wages, it's the 7th business day following the date the amount would have been payable to the participant in cash. To be deposited, amounts need only be placed in an account of the plan. Allocation among the participants on that date is not necessary.

The safe harbor rules are not the only way employers can meet their obligation to deposit participant contributions in a timely manner. Employers can satisfy the general rule that requires employers to transfer participant contributions into retirement plans by the earliest date on which these contributions can reasonably be segregated from the employer's general assets. However, since determining the "earliest date" is not always a simple matter, small plan sponsors that can take advantage of the seven-day safe harbor may prefer to do so.

Don't Let Inaccurate Coding Shortchange Your Practice

Inaccurate, careless, or overly cautious coding costs medical practices potentially thousands of dollars a year in lost or delayed revenues. Fortunately, there are steps you can take to ensure your practice obtains the revenue it is entitled to receive.

Review How You Code

Most practice management software will allow you to generate coding productivity and utilization reports. What you find from this analysis should help you benchmark your coding practices against state and national norms and tighten your coding practices. Be aware that not every practice has exactly the same patient base, and these differences may account for variations in coding. That's why you shouldn't automatically assume that your practice is not accurately coding if your results show that you are coding at higher levels than the majority of other practices.

Keep Accurate Records

Making notes during each patient visit will help you bill more accurately. Taking the time to be clear will avoid headaches down the road.

Stay On Top of Changes

Attending coding refresher courses can help keep you and your staff current with coding practices and any changes that have occurred.

Perform Coding Reviews

Your practice should consider hiring an outside consultant every year or so to review your medical and billing records. The consultant may identify problems and help you put procedures in place that will prevent those problems from reoccurring. A coding review might include:

- o A review of your practice's forms
- o An examination of billing, data gathering, and other procedures
- o A comparison of billing codes with the actual services that were provided
- o A review of your practice's training in coding procedures

Accurate coding helps maximize practice revenues -- a goal well worth pursuing in any environment.

Attending coding refresher courses can help keep you and your staff current with coding practices and any changes that have occurred.



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Medical Briefs

Large Nursing Shortage Projected

The current nursing shortage is projected to become worse, according to an article in a recent issue of Health Affairs. The authors project that the U.S. health-care system will have a deficit of 260,000 registered nurses by 2025. They cite the rapidly aging work force as a primary contributor to the projected shortage.

What Medical School Costs

According to the American Association of Medical Colleges, average annual tuition and fees at private U.S. medical schools was \$41,225 for residents and \$42,519 for nonresident students for the 2008-2009 school year. State schools cost an average of \$23,581 per year for state residents and \$43,587 for nonresidents.

2010 Plan Limits

Most of the tax law limits applicable to retirement plan contributions will remain unchanged in 2010. For example, elective deferrals to 401(k) and 403(b) plans can total as much as \$16,500. The limit for employees age 50 or older making catch-up contributions stands at \$22,000. And the maximum IRA contribution is \$5,000 (\$6,000 for individuals age 50 and older).

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