

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Alquist Analyst: Kristina E. North Bill Number: SB 526
Related Bills: See Legislative History Telephone: 845-6978 Amended Date: April 11 & 14, 2005
Attorney: Patrick Kusiak Sponsor: CA Advocates For Nursing Home Reform

SUBJECT: Long-Term Health Care Facility Audits/Referral of Fraudulently Reported Labor Costs To FTB For Investigation

SUMMARY

This bill would refer certain fraudulently reported labor costs to the Franchise Tax Board (FTB).

This analysis addresses only those provisions of the bill affecting FTB.

SUMMARY OF AMENDMENTS

The April 11, and April 14, 2005, amendments make changes to health care facilities, including long-term health care facilities, and other technical changes that would not impact FTB.

This is the department's first analysis of this bill.

PURPOSE OF THE BILL

According to the sponsor, the purpose of this bill is to reduce falsely inflated costs reported for skilled nursing facility reimbursement.

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative beginning on or after January 1, 2006.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Federal law established a jointly funded cooperative venture between federal and state governments to assist states in providing adequate medical and health-related services to eligible needy persons known as Medicaid.

Current state law requires the Department of Health Services (DHS) to administer a broad range of public and clinical health programs that provide health care services, including California's Medicaid program known as "Medi-Cal." A component of administering the Medi-Cal program is to ensure the fiscal integrity of the various program aspects, such as the reimbursement for services by skilled nursing facilities. Approximately 1,400 skilled nursing facilities exist in California.

Board Position:

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Department Director

Date

Will Bush for Gerald H. Goldberg 5/5/05

The DHS reimbursement methodology includes certain costs, such as labor costs, including salaries, wages, and benefits. Labor costs generally comprise the majority of reimbursement costs.

The California Employment Development Department administers payroll taxes and maintains employment records for more than 17 million California workers.

FTB administers state personal income taxes and corporation taxes for the State of California. Over 14 million personal income tax returns and 3.5 million business entity returns are received and processed by the department each year.

Current state law allows FTB to investigate allegations of income tax fraud based on information provided by outside sources.

THIS BILL

This bill would require DHS to refer fraudulently reported labor costs to FTB and the IRS for investigation.

IMPLEMENTATION CONSIDERATIONS

Since EDD collects payroll taxes and maintains employment records, the author may wish to consider requiring DHS to refer fraudulently reported labor costs to EDD in addition to FTB.

Approximately 1,400 skilled nursing facilities could be audited by DHS for accuracy of reported costs under this bill. Of the audited facilities, it is anticipated that a small number would be found to contain fraudulently reported labor costs, which DHS would be required to refer to FTB for investigation. Therefore, implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

AB 1629 (Frommer - Stats. 2004, Ch. 875) enacted the Medi-Cal Long-Term Care Reimbursement Act, which requires DHS to develop and implement a cost-based reimbursement rate methodology.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws. Research of the laws of these states does not indicate a similar referral requirement to the respective states' revenue departments or the IRS as proposed by this bill.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

This bill would not significantly impact the state's income tax revenue or the department's current programs or practices.

LEGISLATIVE STAFF CONTACT

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