Financial Relief for Independent Practices and Medical Billing Companies

With President Trump signing the $2 trillion Coronavirus Aid, Relief and Economic Security (CARES) Act into law on March 27, 2020, it will provide much-needed financial help to independent medical practices and the medical billing companies that serve them. According to the American Medical Association (AMA), 54% of all physicians work in independent practices and many are struggling to keep their doors open and staff employed as a result of the COVID-19 pandemic.

At Kareo, we are concerned about the success of independent medical practices that are facing significant financial hardships due to the canceling of non-COVID-19-related doctor appointments and the required precautionary measures that have been implemented to maintain social distancing safety protocols. To help you better understand the CARES Act and the associated financial programs that are currently available, we have compiled a list of current options to address some of the financial burdens that you are facing.

KEY TAKEAWAYS

- **Loans:** Cover your payroll for 2.5 months with a Small Business Administration loan
- **Tax Relief:** Refundable tax credit for employers equal to 50 percent of qualified wages
- **Payment Advances:** Advance payments can provide cash for Medicare receivables
- **Grants:** HHS will administer the $100 billion fund for expenses and lost revenue

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Small Businesses Administration (SBA) Loans/Grants

The CARES Act expands eligibility for loans under Section 7(a) of the Small Business Act and authorizes the SBA to make $349 billion in Section 7(a) loans during the period between February 15, 2020 through June 30, 2020. The loans will be guaranteed by the government and eligible for forgiveness for amounts spent on payroll costs, utilities, rent and mortgage interest during the 8-week period after the loan origination date. However, such forgiveness amount will be reduced proportionately by any reduction in employee headcount or certain reductions in salary or wages.

Governing Body:

- Small Business Administration

Take Action:

- Chamber of Commerce Small Business Guide and Checklist
- Paycheck Protection Program (PPP)
- Coronavirus (COVID-19): Small Business Guidance & Loan Resources

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Eligibility

Businesses with 500 or fewer employees, or those that meet the size standards established by the SBA for their relevant industry and business, are eligible for these SBA loans. Also, businesses with a NAICS classification that begins with 72 (Accommodation and Food Services) and more than one physical location and employ no more than 500 employees per physical location are also eligible. Borrowers must make a good faith certification: (1) that the uncertainty of current economic conditions makes necessary the loan request to support the ongoing operations of the eligible recipient, (2) to acknowledge that funds will be used to retain workers and maintain payroll or make mortgage payments, lease payments, and utility payments, and (3) that the recipient has not received, and does not have another application pending, for loans under Section 7(a) for the same purpose.

Maximum Loan Amount

The lesser of $10,000,000 or 2.5 times the average total monthly payments for "covered payroll costs" incurred during the 1-year period preceding the date of the loan is the maximum loan amount. "Covered payroll costs" include salary, wages, cash tips, payments for vacation, parent, family, medical or sick leave, allowance for dismissal or separation, payments for group health care benefits, payments of retirement benefits, payments of state or local taxes on employee compensation. This also includes payments of any compensation to, or income of, a sole proprietor or independent contractor that has wages, compensation or similar payments up to an annual rate of $100,000 (as prorated for a covered period).

Exclusions (from including in payroll costs) is an individual employee who earns in excess of an annual salary of $100,0000 (as prorated for the covered period), taxes under chapters 21, 22 or 24 of the Internal Revenue Code, compensation to employees whose principal place of residence is outside the U.S., and qualified sick leave or family leave wages for which a credit is allowed under Section 7001 of the Families First Coronavirus Response Act.

Maturity and Interest Rate

These loans have a maximum maturity of 10 years from the date of the loan and a maximum interest rate of 4%. In addition to the generally allowable uses of Section 7(a) loans, the borrower may use proceeds from the loans for payroll costs; costs related to the continuation of group health care benefits during periods of paid sick, medical or family leave, insurance premiums; employee salaries, commissions or similar compensation; mortgage interest payments; rent; utilities; or interest on any other debt obligations incurred before February 25, 2020.

No Collateral Requirements or Personal Guarantees

Borrowers will not be required to post collateral or have personal guarantees under the loans as they would have under typical Section 7(a) loans. The loans are unsecured. Waiver fees normally charged by the SBA for Section 7(a) loans would be waived but the lending institution extending the loan may charge the Borrower an origination fee. All payments of principal and interest under the loans would be deferred for a period between six months and one year.

Loan Forgiveness

Borrowers will be eligible for forgiveness of the loans in the amount equal to the sum of payroll costs, mortgage interest payments, rent and utilities incurred during the 8-week period following the origination date of the loan. However, the amount of forgiveness will be reduced (i) proportionately by any reduction in employee headcount in the covered period with respect to either (1) the period between February 15, 2019 and June 30, 2019, or (2) the period between January 1, 2020 and February 29, 2020 (or other period for seasonal businesses), (ii) by the amount of reduction in salary or wages beyond 25% of any employee who did not receive, during any 2019 pay period, wages or salary at an annualized rate of pay of more than $100,000. The amount is measured on the employee's most recent full quarter before the covered period.

All or a significant portion of this loan can be FORGIVEN based on the percentage of people you employ during the pandemic compared to the same period in 2019.

If you use this loan to keep paying your employees, paying your rent, utilities, etc, and you maintain your workforce, you can get all or most of the loan FORGIVEN. If you decrease the number of people you employ, this will affect how much of your loan could be forgiven. If your loan is forgiven, it will be deemed "canceled" and will NOT be included in the gross income of the business by the IRS.

As part of the qualifying process, you will need to certify that:

- You need the money due to the uncertainty caused by the COVID-19 pandemic,
- The loan funds will be used for legitimate business purposes, and
- The loan will not duplicate assistance already received via another program.

Should you apply for one of the healthcare provider grants mentioned above, this would likely affect your ability to participate in this SBA program or limit the amount of money you can borrow under this program to avoid "duplicate" payments.

More details on this to follow. You can also visit the Small Business Administration website – www.sba.gov – for more information.

Exemption in Loan Forgiveness

There is one exemption that would contribute to a reduction in loan forgiveness - if employees who were terminated or had pay reductions from February 15, 2020 through 30 days after the enactment of the CARES Act (signed on March 27) are rehired or given wages or salary increases by June 30, 2020. The SBA is required to issue guidance and regulations implementing these loan forgiveness provisions no later than 30 days after the enactment of the CARES Act (other rules implementing the SBA provisions are to be adopted within 15 days after implementation). Borrowers would not recognize any income for federal tax purposes on the portion of the loans that are forgiven.

Qualified Lenders and Application Process

The loans should be available from existing SBA-certified lenders (e.g., JP Morgan and Wells Fargo), and others that may be added. Our advisors noted there is discussion around whether existing SBICs may be approved to make these loans but it is TBD for now. For the application process, the SBA has a “beta” platform where businesses could apply directly, with the SBA planning to go live in mid April 2020. Alternatively, borrowers can apply to traditional 7(a) banks and other institutions that are authorized by the SBA.

For a more detailed explanation of the CARES Act, you can review it on the American Medical Association website here.

Payroll Tax Provisions

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), enacted on March 27, 2020, is designed to encourage eligible employers to **keep employees on their payroll**, despite experiencing economic hardship related to COVID-19, with an employee retention tax credit (Employee Retention Credit).

The Families First Coronavirus Relief Act (FFCRA) requires certain employers to pay sick or family leave wages to employees who are unable to work or telework due to certain circumstances related to COVID-19. Employers are entitled to a refundable tax credit for the required leave paid, up to specified limits. The same wages cannot be counted for both credits.

Governing Body:

- IRS

Take Action:

- Employee Retention Credit under the CARES Act

What is the Employee Retention Credit?

The Employee Retention Credit is a fully refundable tax credit for employers equal to 50 percent of qualified wages (including allocable qualified health plan expenses) that eligible employers pay their employees. This credit applies to qualified wages paid after March 12, 2020, and before January 1, 2021. With respect to each employee, the maximum amount of qualified wages taken into account for all calendar quarters is $10,000, so that the maximum credit for an Eligible Employer for qualified wages paid to any employee is $5,000.

Who is an Eligible Employer?

Eligible employers for the purposes of the Employee Retention Credit is any employer who carries on a trade or business during calendar year 2020, including a tax-exempt organization, which either:

- Fully or partially suspends operation during any calendar quarter in 2020 due to orders from an appropriate governmental authority limiting commerce, travel, or group meetings (commercial, social, religious, or other purposes) due to COVID-19; or

- Experiences a significant decline in gross receipts during the calendar quarter.

Note: Governmental employers are not considered eligible employers for the Employee Retention Credit. Also, self-employed individuals are not eligible for this credit for their self-employment services or earnings.

Learn More: Employee Retention Credit under the CARES Act

Medicare Advanced Payments

Governing Body: Centers for Medicare & Medicaid Services, CMS

Fact Sheet: Expansion of the Accelerated and Advance Payment Program

Take Action: Complete and submit a request form

To increase cash flow to providers of services and suppliers impacted by the 2019 Novel Coronavirus (COVID-19) pandemic, the Centers for Medicare & Medicaid Services (CMS) has expanded their current Accelerated and Advance Payment Program to a broader group of Medicare Part A providers and Part B suppliers. The expansion of this program is only for the duration of the public health emergency. Details on the eligibility and the request process are outlined in the Expansion of the Accelerated and Advance Payment Program fact sheet.

Eligibility: To qualify for advance/accelerated payments, the provider/supplier must:

1. Have billed Medicare for claims within 180 days immediately prior to the date of signature on the provider's/supplier's request form,
2. Not be in bankruptcy,
3. Not be under active medical review or program integrity investigation, and
4. Not have any outstanding delinquent Medicare overpayments.

Repayment: CMS has extended the repayment of these accelerated/advance payments to begin 120 days after the date of issuance of the payment. The repayment timeline is broken out by provider type below:

- Inpatient acute care hospitals, children's hospitals, certain cancer hospitals, and Critical Access Hospitals (CAH) have up to one year from the date the accelerated payment was made to repay the balance.
- All other Part A providers and Part B suppliers will have 210 days from the date of the accelerated or advance payment was made to repay the balance.

Review the [Expansion of the Accelerated and Advance Payment Program] fact sheet to get started.

Healthcare Provider "lost revenue / increased cost" Grants

According to the [Healthcare Business Management Association] (HBMA):

The CARES Act includes $100 billion for the Public Health and Social Services Emergency Fund for eligible healthcare providers for healthcare-related expenses or lost revenues associated with COVID-19. Providers eligible for this fund include public entities, Medicare or Medicaid enrolled suppliers and providers, for-profit entities and nonprofit entities in the United States that provide diagnoses, testing or care for individuals with possible or actual cases of COVID-19. The law authorizes the Secretary of Health and Human Services to review applications and make determinations about who will receive funds and for what purpose on a rolling basis. The law states that providers must submit to the Secretary applications that include statements justifying the need for the funds. While providers across the country are anxious to obtain funds to assist them through the crisis, the US Department of Health and Human Services (HHS) will need to set out criteria it will use to allocate the funds.

The CARES Act also provides supplemental awards and grants to support healthcare providers. The bill provides $1.32 billion in supplemental funding to community health centers (CHCs), and reauthorizes Health Resources and Services Administration (HRSA) grant programs that promote the use of telehealth technology and strengthen rural healthcare.

The CARES Act establishes a $100 Billion Grant Fund exclusively for healthcare providers who are enrolled in the Medicare and Medicaid program. The purpose of this fund is to provide grants to practices that have experienced a reduction in revenue or an unexpected increase in costs due to the COVID-19 pandemic. The money will be available during the period of the national emergency.

Many healthcare providers have reported that they have seen a significant drop in revenue because of a drop in patient volume. Patients are concerned about coming into the office – even for routine visits. Similarly, many "elective" non-essential surgeries have been canceled leaving surgeons and anesthesiologists without income. These are not just Medicare patients, but Medicaid and commercially insured patients as well. Consequently, cash flow for many healthcare providers is a serious problem.

The Healthcare Provider Lost Revenue Grant program is intended to provide medical practices with an infusion of money that will help replace the money lost due to reduced patient volume because of the COVID-19 pandemic.

The Department of Health and Human Services (HHS) is currently working on a formula to determine how to calculate a provider's lost revenue. This is lost revenue whether it is reduced volume for Medicare, Medicaid, or commercially insured patients.

It may take a week to 10 days for CMS to have all of the necessary applications in place to get the money flowing but these grants could be critically important for healthcare providers that are experiencing a revenue decline due to COVID-19.

Kareo has also put together a list of COVID-19 resources on our website to assist you during the COVID-19 crisis. Kareo will also continue to post future blogs that address the current COVID-19 crisis.