



Accounting Guide for Private Medical Practices

Managing your healthcare organization's financials can be challenging in the industry's complex and changing landscape. It's crucial to be well-informed when analyzing income and expenses, reconciling your Practice Management System (PMS), and staying compliant in tax filings. By implementing best practices and seeking professional guidance, your medical practice can ensure the integrity and efficiency of its financial processes. This guide will help you get started.

INCOME + EXPENSE TRACKING

A critical component of good accounting is tracking income and expenses and allocating them into the correct categories and presenting them on the financials in [Medical Group Management Association \(MGMA\) format](#). This enables your organization to draw insights on revenue, expense reduction, and overhead.

Income Tracking

A medical practice should categorize income as it is received. Accurate classification enables practices to gain valuable perspectives and insights into income sources. In your accounting or billing software, you can indicate income by the following revenue generation sources.



PROVIDER



LOCATION



SERVICE

Expense Tracking

Expenses also need to be allocated to appropriate categories in your accounting software and presented on the financials. Some examples of these categories include:

- **Expenses shared equally:** Fixed overhead costs, such as facility costs and administrative staff salaries, are typically shared equally among partners or providers.
- **Expenses split based upon agreed method:** Variable overhead costs, including medical supplies, office supplies, accounting services, nursing staff salaries, and other items not shared equally, require careful allocation.
- **Direct expenses:** Direct expenses are costs directly attributable to specific practitioners like a provider's base compensation, expenses related to continuing education, malpractice insurance, benefits, and professional dues.



RECONCILE YOUR PRACTICE MANAGEMENT SYSTEM

The healthcare industry relies heavily on automating critical processes such as billing and payments. It's important to remember that the processed information needs to be reconciled to bank account activity and accounting software, and tracked for accuracy. Given the increasing costs and diminishing margins, it is crucial to prioritize maximizing the practice's received dollars, especially when they are rightfully owed.

Reconciliation involves comparing the information from a Practice Management System (PM System) to the payments received or paid to the bank account and to the revenue recorded in your accounting software. You want to ensure the activity in each matches to catch any errors or unauthorized changes. Pay attention to the following:

- ▶ BILLING RECONCILIATION
- ▶ BAD DEBTS
- ▶ PARTIAL PAYMENTS
- ▶ PATIENT BALANCES

When reconciling your bank accounts to your practice management system, here are five items to address to make sure you are taking all relevant items into account:



1. Cross-check and verify all payments received.
2. Calculate daily billing totals from the practice management system.
3. Reconcile any rejected claims.
4. Cleared payments only.
5. Track all reimbursements.

SALES + USE TAX

Medical and dental practices mainly provide medical services, so, understandably, sales tax may not be top of mind. What about products purchased with the intent to sell to customers? Compliance with current legislation for your respective state is vital, as mistakes can result in hefty fines and penalties. Here are common scenarios for Nebraska where sales and use tax comes into play.

- Sales of over-the-counter medications, hygiene products, vitamins/supplements, toothbrushes, at-home teeth whitening kits, etc., are taxable in Nebraska. You must collect sales tax from your patients when you sell these types of products.
- Sales tax must be collected on fees for providing medical records unless an exemption applies.
- Use tax is due when taxable goods or services are purchased, and the vendor did not charge your entity sales tax and should have. Generally, this occurs when items are purchased from out-of-state vendors online or through catalogs.
- Medical and dental equipment, tools, supplies, furniture, computers, office supplies, lab equipment, etc., are all subject to tax.
- Practices can purchase products for resale to customers tax-free.



TAX IMPLICATIONS ON FRINGE BENEFITS

Providing a competitive and well-rounded benefits package for physicians and other providers can go a long way toward fostering employee engagement and aiding retention. However, you need to know what benefits are considered fringe benefits and which are taxable and non-taxable.

What are fringe benefits?

NON-TAXABLE FRINGE BENEFITS Non-taxable fringe benefits may not need to be included in the employee's compensation (if paid for by employer or proper documents are maintained.)	TAXABLE FRINGE BENEFITS Taxable fringe benefits must be reported on the employee's W-2 and are subject to withholding.
<ol style="list-style-type: none"> 1. Health Insurance (if part of Section 125/Cafeteria plan) 2. Accident/Disability Insurance 3. Health Savings Accounts (HSA) 4. Dependent Care Assistance 5. Group Term Life Insurance Coverage (limits apply based on the policy value) 6. De Minimis Fringe Benefits (low-cost benefits like low-value birthday gifts, event tickets, coffee, and soft drinks) 	<ol style="list-style-type: none"> 1. Mileage/Automobiles (if not substantiated) 2. Student Loan Repayments 3. Education Reimbursements > \$5,250 4. Moving Expenses 5. Employee Gifts & Awards 6. Reimbursements 7. Travel bonuses

**A 2% shareholder someone who directly or indirectly owns more than 2% of the corporation's stock with more than 2% of the voting power.*

FILING FORM 1099s

One crucial aspect of tax reporting is filing Forms 1099, which reports various payments made to individuals or businesses during the year.

What is Form 1099?

Form 1099 is an information return used to report payments made to non-employees or independent contractors. It helps the Internal Revenue Service (IRS) track income that may not be subject to traditional payroll withholding. By filing Forms 1099, businesses provide recipients and the IRS with essential information about these payments.



Examples of Instances That Require 1099s

NON-EMPLOYEE COMPENSATION	Medical practices should issue Form 1099-NEC (Non-Employee Compensation) for payments totaling \$600 or more to unincorporated entities or independent contractors or, such as consultants or freelance healthcare professionals.
RENT PAYMENTS	If your medical practice pays \$600 or more in rent during the year, excluding real estate agents, you must file a Form 1099-MISC for the recipient.
MEDICAL + LEGAL SERVICES	Payments exceeding \$600 for medical or legal services rendered, even if made to an incorporated entity, require a Form 1099-MISC.
INTEREST + DIVIDENDS	Payments of \$10 or more in interest, dividends, or similar distributions made to unincorporated entities necessitate filing a Form 1099-INT or 1099-DIV, respectively.
BACKUP WITHHOLDING	When federal and/or state income tax is withheld from a payment under the backup withholding rules, regardless of the payment amount, you must report it on the appropriate Form 1099.

New IRS Filing Regulation

The IRS issued a new regulation mandating electronic filing for entities that file more than 10 information returns in a calendar year. This long-anticipated reduction in the e-filing threshold, previously set at 250 forms, was authorized as part of the Taxpayer First Act of 2019. The e-file threshold of 10 is effective for returns required to be filed on or after January 1st, 2024; therefore, it will apply to 2023 forms due in January 2024. To determine whether you must file information returns electronically, companies must add the number of information returns (see the list below), and the number of Forms W-2 required to file in a calendar year. You must file all electronically if there are at least 10 returns.

The following information return forms must be added together for this purpose: the Form 1099 series, Forms W-2, W-2AS, W-2GU, W-2VI, and Form 499R-2/W-2PR (collectively Forms W-2), Form 1042-S, the Form 1094 series, Form 1095-B, Form 1095-C, Form 1097-BTC, Form 1098, Form 1098-C, Form 1098-E, Form 1098-Q, Form 1098-T, Form 3921, Form 3922, the Form 5498 series, Form 8027, and Form W-2G.



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Best Practices

Medical practices should consider the following best practices to ensure accurate and efficient filing of Forms 1099:

- **Gather Vendor Information:** Request completed Form W-9s from vendors before making payments.
- **Monitor Payment Thresholds:** Identify vendors who have received \$600 or more and are required to receive a Form 1099.
- **Stay Updated with Regulations:** Keep current on tax regulations, as they may change annually.
- **Timely Filing and Distribution:** Aim to file and distribute 1099 forms by the respective deadlines.
 - ▲ **Form 1099-NEC** due to the recipient and IRS by January 31st.
 - ▲ **Forms 1099-MISC, 1099-INT, and 1099-DIV** are due to recipients by January 31st, but IRS deadline is typically February 28th or March 31st (if filed electronically).
- **Seek Professional Guidance:** As tax regulations can be complex, consider engaging the services of a trusted public accounting firm experienced in medical practices.



In conclusion, medical practices need to form a foundation of sound accounting practices. By prioritizing accurate tracking, proper reconciliation, and proactive compliance, medical practices can maintain financial integrity, maximize revenue, and mitigate risks associated with incorrect reporting or non-compliance. Seeking the guidance of experienced professionals can provide further assurance and support in navigating the complexities of financial management in the healthcare industry. For questions, please contact us at info@lutz.us.

VISIT WWW.LUTZ.US/HEALTHCARE TO LEARN MORE ABOUT OUR HEALTHCARE SERVICES.

QUESTIONS? INFO@LUTZ.US OR 402.496.8800