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Move over, earnings and cash on hand. Revenue per admission is the financial metric that's making a splash lately. And the strategies hospital chains are enacting to boost that metric—hiking prices and attracting sicker patients—appear to be paying off.

First-quarter results from the country's largest investor-owned chains—Tenet Healthcare Corp., HCA Healthcare, Community…. 

Questions or comments? Email Clay Owsley at clayton.owsley@nortonhealthcare.org  
Don’t forget to follow us on Twitter @KYHFMA and LinkedIn- Kentucky Chapter HFMA
Greetings Kentucky HFMA members! It is an honor to be elected and able to serve as the President for the 2018-2019 Chapter year. Before we touch about the upcoming year, I would like to thank all of our recent past presidents and board members that have helped pave the way for me within the chapter. All of you have provided invaluable guidance and leadership to the chapter as well as volunteered countless hours of your time. I hope to continue in your all’s footsteps through the year ahead.

The chapter leadership recently attended the HFMA Leadership Training Conference (LTC) that allows the leadership from all chapters in the nation to come together to plan for the upcoming year. The chapter also held our own Mini-LTC in Louisville to help build upon some of the goals that came out of LTC. As with healthcare, our organization is continually adapting to change and we have a number of changes coming down the pike within the chapter. I am excited about the goals we have set forth for the upcoming year and look forward to providing excellent quality education to all of our members.

National HFMA’s Annual Conference in Las Vegas is right around the corner on June 24-27. This event normally draws over 4,000 HFMA members throughout the nation and the agenda looks great again this year! The Kentucky chapter will be holding our Annual Summer Institute at the UL Shelby Campus in Louisville on Thursday, July 19, 2018. We have a great agenda planned with topics including; OIG Work Plan Update, Denial Management, Blockchain in Healthcare and the Current Opioid Crisis. I encourage you all to register for both of these great events and hope to see you there.

As chapter leaders, it is our goal to provide our members with current quality education to enhance healthcare within the state of Kentucky. If there is something you feel can be improved upon or adjusted within our chapter, please reach out to me. With that being said, we are always looking for new volunteers within the chapter and have an abundance of volunteer roles that require a very small time commitment. Please contact myself or any of the other chapter leaders if you or someone else within your organization would like to get involved.

Cheers!

Nick Ficklin, CPA, FHFMA

FY 2018-2019 KYHFMA President
Past HFMA Events

LTC in New Orleans!

“ANI” is now “Annual Conference”

Board induction ceremony during the Spring Institute:
### Upcoming HFMA Events

<table>
<thead>
<tr>
<th>Meeting</th>
<th>Dates</th>
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<tr>
<td>Annual Conference</td>
<td>June 24-27th</td>
<td>Las Vegas, NV</td>
</tr>
<tr>
<td>Summer Institute</td>
<td>July 19th</td>
<td>Louisville, KY</td>
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<td>Fall Institute</td>
<td>October 25th</td>
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<tr>
<td>Spring Institute</td>
<td>February 27-28th</td>
<td>Louisville, KY</td>
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For more information about our upcoming meetings please [visit our website](#).
On December 22, 2017, President Donald Trump signed the Tax Cuts and Jobs Act (TCJA) into law. The TCJA represents one of the most significant revisions to the Internal Revenue Code (IRC) in more than 30 years. Many provisions took effect January 1, 2018, and the TCJA will affect virtually all U.S. taxpayers. Tax-exempt health care providers are no exception.

In this article, we'll spotlight what we believe are the top five tax reform provisions that will affect a significant number of tax-exempt health care providers. You’ll find a brief overview of each provision and see a consistent theme that additional guidance is needed in several areas. The American Institute of CPAs recently formally requested immediate guidance on 39 different TCJA provisions to allow taxpayers to appropriately comply with 2017 tax obligations and make informed business and tax planning decisions for the future. In future BKD insights, we’ll dive deeper into each of the provisions, highlight ongoing developments and discuss planning opportunities.

1. **Separate Tracking of Unrelated Trade or Business Activities**

Under IRC Section 512, unrelated business taxable income (UBTI) will be computed separately with respect to each trade or business activity for organizations with more than one unrelated trade or business. Therefore, losses from one unrelated activity won’t be allowed to offset profits from another. This is a revenue-raising provision with an estimated budget effect of $3.5 billion over the next 10 years.

Additional clarity around the definition of an “activity” will be helpful for this particular provision. It seems fairly clear that a hospital with UBTI from a lab and a pharmacy would constitute activities that must be separately tracked. However, the decision becomes less clear when an organization has multiple similar activities. For instance, if the hospital operates a lab that generates UBTI and also owns an interest in a joint venture that operates a lab in a separate location and generates UBTI, will the IRS consider this one lab activity or multiple activities?

In response to this provision, some tax-exempt health care organizations may consider forming wholly owned C corporations to hold unrelated trades or businesses. Careful planning and important nontax considerations must be evaluated prior to restructuring. Watch for future insights on this topic as additional guidance becomes available.

2. **UBTI Increased by the Amount of Certain Fringe Benefits**

Under this provision, UBTI includes any expenses paid or incurred by a tax-exempt organization for qualified transportation fringe benefits, a parking facility used in connection with qualified parking or any on-premises athletic facility, provided such amounts aren’t deductible under IRC §274.

This is one of the most overlooked TCJA provisions, as it could affect nearly all tax-exempt health care organizations that provide parking to employees. Many organizations could be required to file Form 990-T, Exempt Organization Business Income Tax Return, for the first time. In addition, with the separate tracking of unrelated activities and the net operating loss (NOL) changes discussed below, organizations may not have losses available to offset this income.

Questions remain about whether UBTI is increased by employee salary reduction elections made through a §125 cafeteria plan. If an employer owns a parking garage but doesn’t charge patients or employees for parking, does this create UBTI for the employee parking? If so, how is the amount determined? If a tax-exempt organization includes an otherwise excludable transportation fringe in an employee’s gross income, will it avoid UBTI treatment?
If so, how is the amount determined? If a tax-exempt organization includes an otherwise excludable transportation fringe in an employee’s gross income, will it avoid UBTI treatment? These are all questions we’ll be monitoring and discussing in more detail in future insights as additional guidance becomes available.

This is another revenue-raising provision, but its estimated budget effect wasn’t separately stated from a related provision, which disallows for-profit organizations’ deduction for the fringe benefits listed above. The total estimated budget effect for the loss of the for-profit deduction and increase in UBTI is $17.7 billion over the next 10 years.

3. Excise Tax on Excess Tax-Exempt Organization Executive Compensation

Under IRC §4960, an excise tax will be imposed on excess tax-exempt organization executive compensation, effective for tax years beginning after December 31, 2017. The excise tax will be 21 percent of the remuneration paid by an applicable tax-exempt organization—and all related organizations—to any covered employee in excess of $1 million plus any excess parachute payment paid by the organization to any covered employee. Covered employees include the organization’s five highest-compensated employees for the taxable year and any employee who was a covered employee of the organization for any preceding taxable year beginning after December 31, 2016. For tax-exempt health care providers, the term remuneration doesn’t include any remuneration paid to a licensed medical professional for the performance of medical services by the professional.

While the excise tax on compensation exceeding $1 million should be relatively straightforward to monitor, the excess parachute payment may be less clear. This provision applies without regard to the $1 million threshold when a parachute payment exceeds three times the average annualized compensation to the employee for the five taxable years ending before the date of separation. There are other nuances to this provision that we’ll explore further in future insights. If your organization is entering into a separation agreement with a highly compensated employee, this is a provision you should study further to understand its potential implication.

Organizations also should consider the effect of this excise tax on nonqualified deferred compensation arrangements. The excise tax can apply to the value of this remuneration when the deferred amounts are no longer subject to a substantial risk of forfeiture. Covered employees normally under the excise tax threshold may be pushed over in years with significant amounts vesting. Careful planning may be necessary to manage this new tax.

You might have noticed a trend of revenue-raising provisions directed at tax-exempt organizations, and this is no exception. The estimated budget effect of this provision over the next 10 years is $1.8 billion.

4. Modification of NOL Deduction

This provision limits the NOL deduction to 80 percent of taxable income for losses arising in taxable years beginning after December 31, 2017. It also repeals the two-year carryback of NOLs and 20-year carryforward and instead allows indefinite carryovers.

For organizations that report NOLs on Form 990-T, tracking NOLs will become more complicated, as losses incurred prior to December 31, 2017, will be tracked separately from losses incurred after that date. The requirement to separately report unrelated trade or business activities also will complicate the application of NOLs.

This provision is one of the most significant revenue generators in the TCJA. It has widespread applicability with an estimated budget effect of $201.1 billion over the next 10 years. Tax-exempt health care providers will be a small part of this overall budget effect.

5. Reduction in the Corporate Tax Rate

This provision replaces the graduated corporate rate structure with a flat 21 percent corporate rate, effective for taxable years beginning after December 31, 2017. Special blended rate rules apply to the 2017 tax return for fiscal year corporations with years ending in 2018.
For organizations that typically reported UBTI of more than $335,000, this change represents a 13 percent rate reduction (14 percent if more than $18.3 million). For organizations reporting a lesser amount of UBTI, the change could actually represent a rate increase. For example, organizations with $50,000 of UBTI previously would have paid tax at a 15 percent rate, so they will see a 6 percent rate increase.

This provision represents the single largest cut under the TCJA with an estimated revenue loss of $1.3 trillion over the next 10 years. Tax-exempt health care providers represent a small part of this estimated effect.

While we attempted to identify the five tax reform provisions most relevant to tax-exempt health care providers, there may be other provisions important to your organization. Other tax reform topics you may be interested in include, but are not limited to:

- Effect of individual, estate and business tax changes on charitable giving
- Repeal of the exclusion from gross income for interest on advance refunding bonds
- Effect of net interest expense limitations on UBTI calculations
- Effect of pass-through deduction on charitable trusts holding UBTI investments
- Effect of other corporate tax changes on UBTI

If you have questions about tax reform, please contact Brian or your trusted BKD advisor. Also, stay tuned for future insights and be sure to visit BKD’s Tax Reform Resource Center.

Link to published article: Top Five Tax Reform Provisions Affecting Tax-Exempt Health Care Providers
Volunteer Spotlight
- Getting to know your KY Chapter leaders

Carl Herde

**Current chapter role:** Board Member

**Current employer and title:** Kentucky Hospital Association  VP/Finance

**Family:**
- Spouse: Carleen (married 38 years in October)
- Daughter: Amanda Herde Reasor (Andy Reasor)
- Daughter: Megan Herde Crane (Evan Crane) and 6 month-old granddaughter Eileen
- Daughter: Kelley Herde Kerger (Jake Kerger)

When you were young what did you want to be when you grew up:
- Physician

**Favorite college team**
- 1a) UK
- 1b) UL

**What music is on your phone**
- Motown, Rock n Roll, Country, Pop

**Favorite song**
- Forever and Ever, Amen (Randy Travis)

**Favorite movie**
- A Few Good Men

**TV shows**
- Survivor, Scorpion

**Hobbies**
- Golf, tennis, music

**Most prized possession**
- Family portrait

**Something that most people don’t know about you:**
- I play in “The Remedy”, a rock n’ roll band (playing Motown along with country and other varieties of songs) who support charitable organizations free of charge.

**Pet peeve**
- Intolerant and impatient people

**How do you relax**
- Gathered with family

**Guilty pleasure**
- Dessert….preferably chocolate

**Dream job**
- The one I have now
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40 Years
David Ward

35 Years
Cathy Kid
John Burgett
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30 Years
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25 Years
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Krista Matlock

10 Years
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Lori Ritchey-Baldwin
Kelly Schackelford
Deborah Lampl
Christopher Bastin
Jon Kemper
Jonathan Galliers
Robert Crockett
Carla Merryweather
Corey Coe
Kevin Merrill
Michael Brickey
Happy Anniversary!

(cont.)

1 Year

Clayton Raymer
Adrienne Cherrie
Aaron Haas
Randa Deaton
Sarah Brady
Heather Gilbert
Nicholas Becht
Erika Gotlieb
Andrea Condon
Haley Manford
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ablackwell@bkd.com

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Amy Karp
Phone: 502-718-7776
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Elaine Fraim
Phone: 606-783-7651
elaine.fraim@st-claire.org

SUBMIT ARTICLES:
Bob Poston
Phone: 502-419-2321
bob@healthsourceconsultants.com

CERTIFICATION:
Cindy Sharp
Phone: 502-213-8796
Cindy.sharp@passporthealthplan.com

VOLUNTEER:
Trae Christian
Phone: 502-523-0636
tchristian@frost-arnett.com
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