



## Notice Regarding Slides 40-42

On February 4, 2019, the Department published a notice providing additional instruction related to the October 1, 2018 repeal of HICAA and the computation of “paid claims” based on that repeal. That notice generally advised taxpayers that, in order for a claim to be a “paid claim” for purposes of completing the final HICAA return, both the actual payment and the date of service for that claim must have occurred prior to October 1, 2018.

However, as demonstrated in the slides entitled “Overlapping HICAA Claims” (slides 40-42), that guidance is contrary to the instruction provided by the Department at the training seminar. Slides 40 – 42 remain as originally presented; however, taxpayers should disregard their contents. Taxpayers should compute “paid claims” in accordance with the February 4, 2019 notice.

A copy of the notice is available here:

[https://www.michigan.gov/documents/treasury/HICAA\\_Notice\\_645179\\_7.pdf](https://www.michigan.gov/documents/treasury/HICAA_Notice_645179_7.pdf)

# IPA Tax Base and Determination Process

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# IPA Tax Base: Member Months

For each insurance provider, the tax base is “**the number of member months reported on its annual financial statement filed with DIFS or MDHHS, whichever is applicable, for the previous calendar year**” *IPA Section 7(1)*



# IPA Tax Base: Member Months

- MDHHS will be the source of member months for specialty prepaid health plans (PIHPs)
- DIFS will be the source of member months for all other insurance providers and coverages
  - **Exception for the initial assessment:** MDHHS provided the member months for the MI Health Link program. DIFS will be working with the MI Health Link providers to ensure applicable member months are reported through the FIS0322 for future assessments.



# IPA Tax Base: Member Months

Member months are defined as follows:

**“Member months” means the total number of individuals for whom the insurance provider has recognized revenue for 1 month. If revenue is recognized for only part of a month for an individual, a prorated partial member month may be counted. *Section 3(j)***



# IPA Tax Base: Member Months

## Coverages **excluded** from the tax base (*Section 3(j)*):

- Short-term medical
- 1-time limited duration
- Non comprehensive medical
- Specified disease
- Limited benefit
- Accident only
- Accidental death and dismemberment
- Disability income
- Long term care
- Medicare supplement
- Stand-alone dental
- Dental
- Medicare, Medicare Advantage, Medicare part D
- Vision, Prescription
- Other individual write-in coverage
- Federal employee health benefit
- Tricare
- Other group write-in coverage
- Credit
- Stop loss, Excess loss
- Administrative services only, Administrative services contracts



# DIFS Process and Timeline for Determining Member Months

For member months reported to DIFS, DIFS will rely on member months reported annually in Michigan Health Insurance Enrollment, Premiums, and Losses system (also known as “FIS0322”)

- Required for all companies licensed to write health insurance in Michigan
- Submitted electronically to DIFS  
<https://www.michigan.gov/difs/0,5269,7-303-74800-390361--,00.html>
- Instructions for submissions are included in DIFS Financial Statement Instruction Booklet and Forms published annually on DIFS website  
[https://www.michigan.gov/difs/0,5269,7-303-13044\\_13199\\_13201\\_14675---,00.html](https://www.michigan.gov/difs/0,5269,7-303-13044_13199_13201_14675---,00.html)



# DIFS Process and Timeline for Determining Member Months

Insurance providers must submit accurate data to the FIS0322 system to ensure proper assessments. DIFS will review the reported data for reasonableness and consistency with data reported elsewhere to DIFS. However inaccurate submissions may lead to inaccurate assessments and subsequent adjustments.





# DIFS Process and Timeline for Determining Member Months

**March 1 - March 31:** Submission window for insurance providers to report FIS0322 data to DIFS for previous calendar year.

**April 1 – April 30:** DIFS reviews of FIS0322 data for reasonableness and consistency with statutory annual statement data. Companies will make any necessary corrections in the FIS0322 system.

**May 1:** DIFS makes available to MDHHS member months for each insurance provider for calculation of the upcoming annual assessments.

**May 15:** Deadline for DIFS/MDHHS to make available to Treasury final member months. (*Section 7(2)*)





[www.michigan.gov/DIFS](http://www.michigan.gov/DIFS)

877-999-6442



@MIDIFS



MIDIFS



# Insurance Provider Assessment

Actuarial Division Methodology

# Medicaid Health Plans



- Pursuant to MCL 550.1757(1)(a)-(c)
  1. Tier 1 Rate - Medicaid contracted health plans as defined in Section 106 of the social welfare act, 1939 PA 280, MCL 400.106. In other words, Medicaid HMO's and ICO's.
    - i. The number of member months and the dollar amount necessary per member month (PMPM) to achieve a result of between 1.00 and 1.02 on the statistical test imposed by CMS.
    - ii. MDHHS has some flexibility in setting rates if the stated rate falls within the range noted above for the CMS statistical test. However; flexibility in setting rates is limited by the member month structure for the applicable fiscal year. In other words, MDHHS has no flexibility in determining member months per Medicaid Health Plan or PIHP.
    - iii. MDHHS can also adjust the upper member month boundary of Tier 1 rates to assist in meeting the CMS statistical test. Member months outside Tier 1 boundaries are fixed at \$1.20 PMPM.
  2. Tier 3 Rate - This includes specialty prepaid health plans designated by MDHHS as a regional entity pursuant to section 204b of the mental health code, 1974 PA 258, MCL 258, MCL 330.1204b or 330.1232b. In other words, PIHP's.
    - i. Each remaining member month is fixed at \$1.20 PMPM.

# Non-Medicaid Health Plans



- Pursuant to MCL 550.1757(1)(b)
  1. Tier 2 Rate – An insurer authorized under the insurance code of 1956, 1956 PA 218, MCL 500.100 to 500.8302. This does not include a plan authorized under the social welfare act, 1939 PA 280, MCL 400.1 to 400.119b, or a person administering a self funded plan. In other words, non-Medicaid HMO's and PPO's.
    - i. Non-Medicaid health plans member months are fixed at \$2.40 PMPM.



# Insurance Provider Assessment Act (IPAA)

# IPA Assessment Notices

- Notices mailed January 14<sup>th</sup>
- Initial assessment prorated to include 2 installments
- Initial assessment payments due Jan 30<sup>th</sup> & April 30<sup>th</sup>, 2019
- 2017 information used from Department of Insurance & Financial Services regulatory filings to calculate 2018 assessments
- Notices will go out annually ongoing, next notice will be in June, 2019
- Only 1 notice to go out annually - will include equal quarterly payment amounts and due dates

# IPA Payment System

- Created a website & online e-payment system specifically for IPA
- Remittances must be made via the State of MI IPA payment system. Paper checks will not be accepted.
- Access through [www.michigan.gov/Treasury](http://www.michigan.gov/Treasury); select Taxes, Business Taxes, then 'Miscellaneous Taxes and Fees', then the IPA site.
- 1<sup>st</sup> Initial assessment payment due Jan 30<sup>th</sup>, 2019
- Per the Revenue Act, late payments will be assessed penalty and interest



# Making IPA Payments

- ▶ Access is authenticated from the FEIN
- ▶ A separate login ID and password is NOT needed!
- ▶ You will need: FEIN, Bank routing and account number each time a payment is made
- ▶ The system will present the quarterly assessment amount due and due date
- ▶ Debit Blocking or Debit Filters- Contact your bank to authorize Company ID 9044030366 to debit your account
- ▶ An email confirmation will be sent to the email entered during the payment process
- ▶ Partial payments cannot be accepted by the system, only the full amount presented

# Questions?

- ▶ Contact us at 517-636-0515 from 8am to 5pm M-F
- ▶ A live person will answer the phone!
- ▶ Or, Email us questions at [treas\\_misctaxesfees@michigan.gov](mailto:treas_misctaxesfees@michigan.gov)
- ▶ This contact information is also documented within the IPA payment system and on our website

# General Audit Overview



**Michigan Department of Treasury  
Tax Compliance Bureau  
Audit Division**



# General Audit Overview

- ❑ **Audits are conducted to verify a taxpayer has accrued and paid all applicable fees, taxes, assessments and other money designated by law.**
- ❑ **Statutory authority allowing the Michigan Department of Treasury to conduct an audit is provided in Section 205.3(a) of the Revenue Act, P.A. 122 of 1941.**

# General Audit Overview (cont.)

## □ **Rights During an Audit:**

- **Ask that audit take place at a reasonable time & location.**
- **Represent oneself, have someone with authorization accompany or have a third party present (Form 151 POA).**
- **Receive copies of audit work papers showing how changes were determined.**

# General Audit Overview (cont.)

- **The assigned auditor will:**
  - **Conduct a fair and impartial examination of the records.**
  - **Answer any questions that may arise during the course of the audit.**
  - **Explain the audit findings and the alternatives available if there is disagreement with the findings.**
  - **Honor your right to confidentiality.**



# Examination of Records

- **The auditor must examine certain records, including but not limited to:**
  - **Member Months report(s).**
  - **Source documents used to prepare Member Months report(s).**
  - **Electronic records (if necessary).**
  - **Copies of Annual Statements.**

## Examination of Records (cont.)

- ❑ **The Revenue Act requires that all records requested by the auditor that are necessary to perform the audit be furnished.**
- ❑ **Treasury Auditors employ methods that use electronic or computer-readable data files. This method is accurate and generally reduces audit time.**





# Audit Methods

- **Detail audit – the auditor may examine all business records for an audit period.**
- **Sample audit – the auditor may use sampling methods.**

# Statute of Limitations

- ❑ **Four years for the IPA administered by Treasury.**
- ❑ **IPA is subject to audit based upon the Statute of Limitations and normally covers the most recent four year period.**
- ❑ **For audits commenced after 9/30/2014, the final assessment issued under MCL 205.21(2)(f) must be issued within 9 months of the date that the department provided the taxpayer with a written preliminary audit determination (PAD).**

## Statute of Limitations (cont.)

- ❑ **The Statute of Limitations can be extended only when a waiver is signed by both parties.**
- ❑ **The Department has nine months to issue a final assessment from the date the PAD is issued unless a RFR is submitted and accepted.**
- ❑ **IPA liabilities may be assessed for any period if a payment was not received.**



## Statute of Limitations (cont.)

- ❑ **IPA is still subject to audit based on statute of limitations.**
- ❑ **An audit normally covers the most recent four-year period.**
- ❑ **IPA liabilities may be assessed for any period if a payment was not received.**

# Notification of Audit Determination

- ❑ **Determined Audit Adjustment letter (DAA). Issued by the auditor.**
- ❑ **Preliminary Audit Determination letter (PAD). Issued by the Team Mgr.**
- ❑ **Once the PAD is issued, a Request for Reconsideration (Form 5244) may be filed – The request must be received prior to issuance of the FAD and, if applicable, the Bill for Taxes Due - Intent to Assess (Form 168).**

# Notification of Audit Determination (cont.)

- ❑ **Final Audit Determination letter (FAD)– issued when audit results have been processed by the department.**
- ❑ **Notice of Intent to Assess (Notice) - issued if deficiency was determined and not paid by the taxpayer at the time the audit was processed.**

# Notification of Audit Determination (cont.)

- **Bill for Taxes Due (Final Assessment) is issued approximately 60 days after the Notice unless:**
  - **Amount is paid in full.**
  - **An informal conference has been requested.**
  - **Treasury has received information to correct the amount due.**

**Note: Payments may be made any time during the billing process. Payment arrangements may be requested from the Collections Division.**

# Penalty and Interest

- ❑ **Interest and/or penalty will apply as long as there is a balance due.**
- ❑ **Penalty on an assessment may be waived if reasonable cause for failure to pay on time is demonstrated.**  
**(RAB 2005-3)**





# The Appeals Process

- **Informal Conference – request in writing within 60 days of the date on the Notice.**
- **IPA is not eligible for the Alternative Dispute Resolution process.**

# The Appeals Process (cont.)

- **The Michigan Tax Tribunal - within 60 days of the issuance of a final assessment, decision, or order of the department and requires payment of the undisputed amount.**
- **The Court of Claims – within 90 days of the issuance of a final assessment, decision, or order of the department. Uncontested portions shall be paid as a prerequisite to appeal.**

# Non-Payment of Tax Balance

- **Treasury may take collection action to secure payment, including:**
  - **Liens on real and personal property.**
  - **Wage levy.**
  - **Financial institution levy.**
  - **Offsets.**
  - **Other - including freezing assets and restricting property transfer.**



# Contact Information

- **For questions about liabilities that have been assessed contact:**

**Collections Division**  
**517-636-5265**

# Treasury links on Michigan.gov

- **Audit Information:**

[https://www.michigan.gov/taxes/0,4676,7-238-74531\\_43524---,00.html](https://www.michigan.gov/taxes/0,4676,7-238-74531_43524---,00.html)

- **Taxpayer Rights During an Audit:**

[https://www.michigan.gov/documents/treasury/2315\\_285135\\_7.pdf](https://www.michigan.gov/documents/treasury/2315_285135_7.pdf)

- **Request for Reconsideration (Form 5244):**

[https://www.michigan.gov/documents/taxes/5244\\_02-15\\_483475\\_7.pdf](https://www.michigan.gov/documents/taxes/5244_02-15_483475_7.pdf)

- **Audit Standards for Field Audits:**

[https://www.michigan.gov/taxes/0,4676,7-238-74531\\_43524---,00.html](https://www.michigan.gov/taxes/0,4676,7-238-74531_43524---,00.html)

# Transitioning from HICAA to the IPA

Michigan Department of Treasury

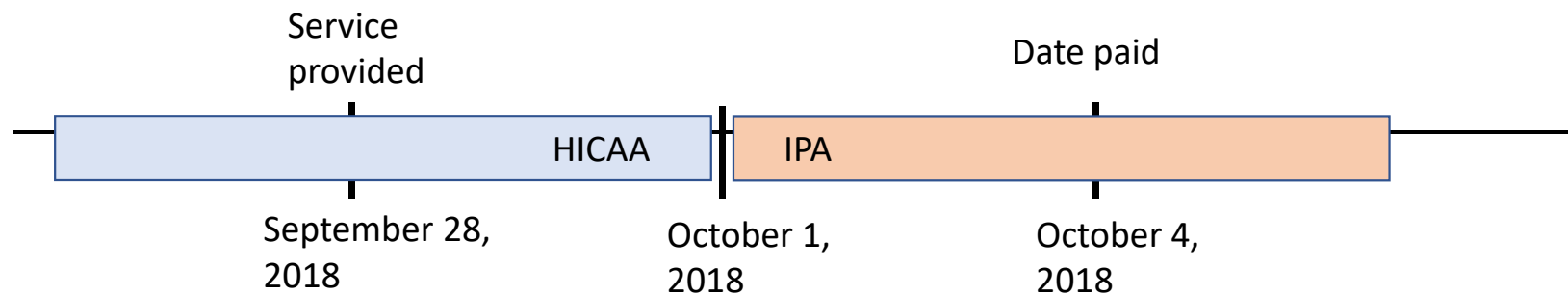
Bureau of Tax Policy

# Final HICAA Returns

- Final quarterly HICAA return was due October 30, 2019
- Final annual HICAA return: February 28, 2019
  - Include only “paid claims” related to dates of service for the first 3 quarters of 2018 (January 1, 2018 – September 30, 2018).

# Overlapping HICAA Claims

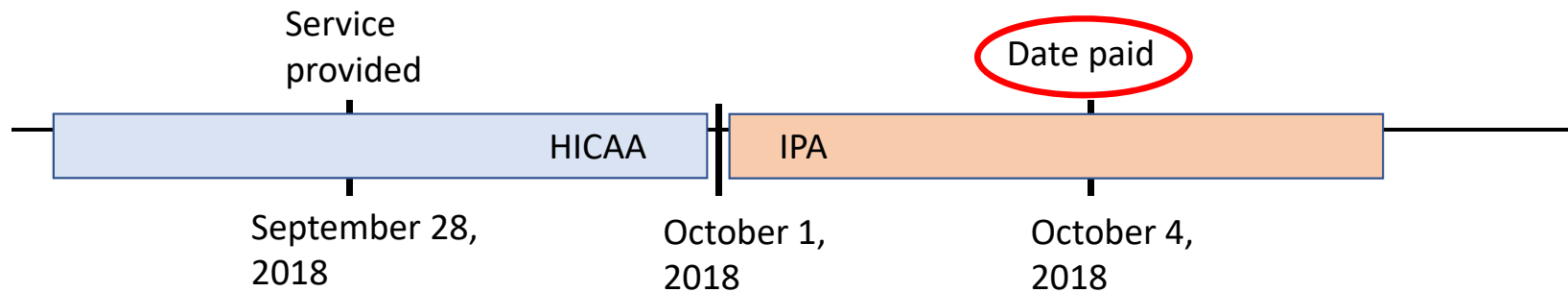
- Issue: When transitioning from HICAA to the IPAA, how should claims be reported that are not paid until after the effective date of the IPA?





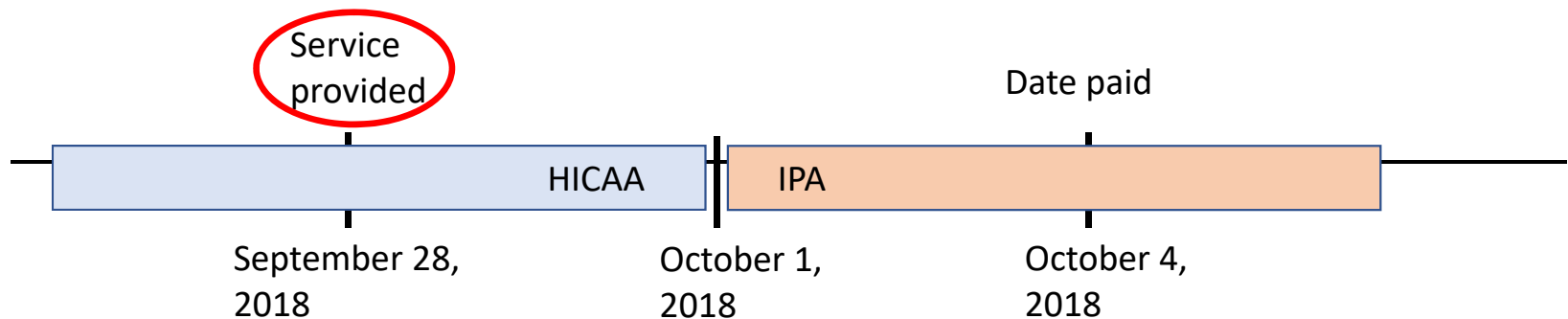
# Overlapping HICAA Claims

- MCL 550.1732(s) - “Paid claims” means “*actual payments*, net of recoveries, made to a health and medical services provider or reimbursed to an individual by a carrier, third party administrator, or excess loss or stop loss carrier.”



# Overlapping HICAA Claims

- MCL 550.1733(1) - For all paid claims, the 1.0% HICAA tax is levied based on “dates of service” beginning on or after January 1, 2017, and ending on October 1, 2018.



- HICAA tax is therefore owed on the above “paid claim” because its date of service occurred prior to the effective date of the IPA.

# Appeals Process

- Must appeal at the time of the annual assessment
- Annual assessment may be appealed directly to:
  - Informal Conference – request in writing within 60 days
  - The Michigan Tax Tribunal - within 60 days and requires payment of the undisputed amount
  - The Court of Claims – within 90 days and requires payment of the undisputed amount.

# Questions

- If you have questions following the seminar, please submit those questions via email to the following address:

[Treas\\_Tax\\_Policy@michigan.gov](mailto:Treas_Tax_Policy@michigan.gov)