



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

SMALL BUSINESS/SELF-EMPLOYED DIVISION

January 28, 2014

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MEMORANDUM FOR DIRECTORS, FIELD COLLECTION AREA OPERATIONS

FROM: Dretha Barham /s/ *Dretha Barham*  
Director, Collection Policy

SUBJECT: Reissuance of Interim Guidance Memorandum for Medicaid  
Payments Paid to Providers

The purpose of this memorandum is to reissue the interim guidance memorandum dated February 19, 2013, with control number SBSE-05-0213-016, entitled *Medicaid Payments Paid to Providers*. This interim guidance memorandum provides guidance to address the one time notice of levy to state Medicaid agencies under IRC 331(a). Medicaid payments paid to providers/suppliers are not subject to continuous levy under IRC 6331(h) or the Federal Payment Levy Program (FPLP). These payments are administered and paid out by state government agencies for Centers for Medicare & Medicaid Services (CMS). These guidelines are effective immediately and will be incorporated into Internal Revenue Manual (IRM) section 5.11.6.6, *Levy on Other Government Payments*.

Medicaid Payments Paid to Providers

(1) The Medicaid Act, under Title XIX of the Social Security Act, is a federal-state cost-sharing program that provides medical assistance to families and individuals with insufficient income and resources. Within the bounds of federal statutory and regulatory requirements, the state enters into agreements with providers of services and establishes a level of reimbursement to be paid to providers. Upon approval of its plan, a state becomes entitled to reimbursement by the federal government for a portion of its payment to hospitals and other providers of medical assistance to Medicaid recipients. This federal contribution to a state's Medicaid expenses is termed "federal financial participation."

Note: Those receiving Medicaid assistance are called beneficiaries.

(2) Each state operates and administers its Medicaid program in accordance with Centers for Medicare & Medicaid Services (CMS) approved state Medicaid plan. Each state:

- Establishes its own eligibility standards.
- Determines the type, amount, duration and scope of services.
- Sets the rate of payment for services.
- Administers enrollment of providers.

(3) Providers must first enroll in the Medicaid program to receive payment for services or goods provided to beneficiaries. Federal law does not prohibit providers with unpaid federal taxes from enrolling in or receiving payments from Medicaid.

(4) States have traditionally provided Medicaid benefits using a fee-for-service system. The providers submit their claims to the state for payment and the state is responsible for claim processing and payment. Under fee-for-service arrangements, states pay providers directly for services.

(5) Recently, many states have implemented a managed care delivery system for Medicaid benefits. In a managed care delivery system, beneficiaries get most or all of their Medicaid services from an organization under contract with the state. When considering a Medicaid provider levy, determine if the provider is paid directly by the state (fee-for-service) or through a managed care program. The levy should be served on either the state or the appropriate managed care program, not both.

When states implement a managed care program, they can use any one of the following types of entities:

- **Managed Care Organizations (MCOs)** – Similar to Health Maintenance Organizations (HMOs), these companies agree to provide most Medicaid benefits to people in exchange for a monthly payment from the state.
- **Limited Benefit Plans** – These companies may look like HMOs, but only provide one or two Medicaid benefits (e.g., mental health or dental services).
- **Primary Care Case Managers** – These individual providers (or groups of providers) agree to act as an individual's primary care provider, and receive a small monthly payment for helping to coordinate referrals and other medical services.

(6) A Levy on Medicaid payments paid to providers is subject to IRM 1.2.44.4(5), *Delegation Order 5-3 (Rev. 1)*. Use Form 668-A(ICS) or 668-A(c)(DO) to levy payments owed to Medicaid providers. Medicaid disbursements by the federal government to the states do not qualify as "federal payments" for purpose of continuous levy. Medicaid payments paid to providers/suppliers are not subject to continuous levy under IRC§ 6331(h) or the FPLP. These payments are administered and paid out by state government agencies for CMS.

Internal Revenue Manual (IRM) 5.11.6, *Notice of Levy in Special Cases*, will be updated to incorporate these guidelines.

If you have any questions, please contact me, or a member of your staff may contact James Maslanka, Senior Program Analyst. Territory personnel should direct any questions, through their management staff, to the appropriate Area contact.

cc: Director, Field Collection  
Director, Campus Compliance Services (SB)  
Directors, Filing and Payment Compliance (W&I/SB)  
Director, ECS  
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