

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

OFFICE OF THE CHIEF COUNSEL

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The Honorable Bill Nelson
United States Senator
225 East Robinson Street, Suite 410
Orlando, FL 32801

Attention:

Dear Senator Nelson:

I am responding to your inquiry dated January 9, 2018, on behalf of your constituent, . He asked several questions concerning healthcare costs, payment and billing as this relates to income taxes, including:

- How does the IRS treat amounts listed on a patient's medical bill for federal income tax purposes?
- Does a medical care provider include the amount billed in gross income?
- Is there cancellation of indebtedness income if a patient's obligation to pay medical care expenses is satisfied by a payment of a lesser amount than the amount billed for the medical services?

In general, if a taxpayer has a debt that is canceled or forgiven, the taxpayer must include the canceled amount in gross income. For there to be cancellation of indebtedness income, however, a valid debt must exist.

Typically, individuals with health insurance have a choice of seeking medical care from an in-network provider or an out-of-network provider. An in-network, or preferred, provider is a provider that has contracted with the individual's health insurance company to accept a negotiated rate for a particular medical service. This negotiated rate is generally less than the rate the individual would be charged by an out-of-network provider for the same service.

For example, assume a patient seeks medical care from a medical care provider who is an in-network provider under the patient's health insurance plan. The bill the provider

sends to the patient shows an “amount billed” of \$170 and an “amount allowed” of \$100. Through negotiations with the patient’s health insurance company, the \$100 is the amount the medical care provider has agreed to accept for providing the particular medical service to the patient and others with the same health insurance. If \$100 is paid for the patient’s medical service, whether by the insurance company, the patient, or a portion by each, there is no remaining debt owed to the medical care provider. Rather, \$100, not \$170, represents the amount the medical care provider must include in gross income, and the amount that the patient or the insurance company is obligated to pay, for the medical service. Therefore, when an individual receives a bill for medical services that includes an “amount billed” and a lesser “amount allowed,” neither the individual nor the insurance company has cancellation of indebtedness income if the amount allowed is paid to the provider for the medical service.

I hope this information is helpful. If you need further assistance, please call
or me at .

Sincerely,

Michael J. Montemurro
Branch Chief
Office of Associate Chief Counsel
(Income Tax and Accounting)