



# Audit/Tax Updates

David Stone | Joe Byrne

# Presenters



**David Stone**

Senior Manager  
CPA, MBA, CFE

In addition to conducting financial statement audits, which include audits of employee benefit plans, David advises on internal controls testing, regulatory compliance, and more.



**Joe Byrne**

Senior Manager  
CPA

Joe works with nonprofit clients throughout New England, specializing in areas such as tax-exempt reporting requirements and unrelated business income analysis.



# Agenda

- ▲ **1** SOC Reports
- ▲ **2** A View From the Hill
- ▲ **3** Energy Credits and Incentives – What’s all the buzz about?
- ▲ **4** State Updates



# Learning objectives



As a result of this session, you will learn best practices in reviewing SOC reports and understand emerging trends in federal and state tax matters.



# Section 1

## SOC Reports

# Polling Question #1



# Service Provider Reliance

## Accounting systems

Many accounting systems are now offered as a software as a service (SaaS).

## Medical billing and coding

These service organizations handle the coding of patient treatments and facilitate the billing process.

## Human resources and payroll

These service organizations manage and process employee compensation, benefits, and other HR-related functions.

## Investment management platforms

These service organizations provide software or platforms that allow individual and institutional investors to manage and track their investment portfolios, often integrating real-time market pricing, data analytics, and automation tools.



Although you can outsource operational functions, you cannot outsource responsibility.





A person wearing a white shirt is sitting at a desk, working on a laptop. Their right hand is holding a silver pen, and their left hand is resting on the laptop's trackpad. The background is softly blurred, showing a green plant. A diagonal white line runs from the top right to the bottom left, separating the image into two sections. The text 'What is a SOC report?' is overlaid on the right side of the image.

**What is a SOC report?**

# What is a SOC report?



A service organization controls (SOC) report is a way to verify that an organization is following some specific best practices. These best practices are related to finances, security, processing integrity, privacy, and availability. These best practices are then validated by third-party auditors, with any exceptions identified in the SOC report.

# SOC Report Terminology

## 1 | SOC 1

Reports on controls at a service organization that may be relevant to user entities' internal control over financial reporting.

## 2 | Type 1

A design of controls report. This option evaluates and reports on the design of controls put into operation at a point in time.

## 3 | Type 2

Includes the design and testing of controls to report on the operational effectiveness of controls over a period of time.

## 4 | SOC 2

The purpose is to evaluate an organization's information systems relevant to security, availability, processing integrity, confidentiality, or privacy.



# General Best Practices



## Risk Assessment

Your healthcare organization likely relies on many different service providers. Not all service providers need to be treated equally from a monitoring perspective.



## Consistency

For those service providers in which SOC reports will be reviewed, make sure you have a consistent review process that is followed each time. BerryDunn has a review checklist available on our website to help ensure your review is consistent and captures the salient items.



## Documentation

SOC report reviews should be documented, including the date of the review and who performed it.

A person in a white shirt is sitting at a wooden desk, writing on a document with a pen. A laptop is open to the left, and a coffee cup is on the desk. The scene is brightly lit, and a large white diagonal overlay covers the right side of the image.

**I received a SOC report.  
Now what?**

# Review Best Practices

- ▲ **1 System or Function Covered**  
Make sure the SOC report covers the system or function pertinent to your healthcare organization.
- ▲ **2 Type of Report**  
Is it a SOC 1 or SOC 2? If SOC 1, is it a Type 1 or Type 2?
- ▲ **3 Period Covered in Report**  
What period does the report cover? If being used for a financial statement audit, is a bridge letter needed?
- ▲ **4 Service Auditor**  
Who is the service auditor? Are they reputable, qualified, and independent from the service provider?
- ▲ **5 Opinion**  
Review the service auditor's report. What opinion was provided? Were there any opinion exceptions?
- ▲ **6 Subservice Organizations**  
Does the service provider also rely on service providers?
- ▲ **7 Control Objectives**  
Review the controls pertinent to your healthcare organization. Were there any testing exceptions identified?
- ▲ **8 Complementary User Entity Controls**  
Document how your healthcare organization satisfies these complementary user entity controls.





## **Section 2**

A View From the Hill

# Polling Question #2





# Tax Update

## FY2022 IRS Statistics/Updates

- ▲ 501(r) compliance:
  - FY22: IRS conducted 1,260 ACA-mandated reviews
  - 67 hospitals referred for examination
  - 58 examinations closed in FY22, change rate 60% (relatively low)
- ▲ Unrelated Business Income (UBI)
  - 19 examinations for UBI closed, 89% change rate
- ▲ Sec. 4960 (\$1 million compensation excise tax)
  - 842 compliance checks, 100 referred for examination – none closed yet
- ▲ Workforce/Technology Expansion – IRA funding
- ▲ Hospitals will continue to be a priority!



# Tax Update

Community Benefit Standard (CBS) – increased scrutiny expected

- ▲ CBS = test the IRS uses to determine whether or not a hospital is organized for charitable purposes.
- ▲ Members of Congress concerned that value of tax exemption outweighs the community benefit tax-exempt hospitals offer
  - House Oversight Subcommittee hearing 4/26/23
  - 8/7/23 letters from Sens. Elizabeth Warren, Raphael Warnock, Bill Cassidy, and Chuck Grassley urging Treasury Inspector General for Tax Administration (TIGTA) for increased IRS oversight



# Tax Update

Community Benefit Standard (CBS) – increased scrutiny expected

- ▲ Concerns:
  - Spending less on charity care than value of tax exemption
  - Denying treatment for patients with unpaid bills
  - Filing liens on patient homes in poor/rural areas
  - Charging full price for services that patients should receive for free or at reduced cost
- ▲ Letters asked for IRS and TIGTA to produce information within 60 days
- ▲ Scrutiny underscores the need for internal review:
  - Community-benefit related policies and procedures
  - Routine monitoring of 501(r) compliance
  - Consider analyzing community benefit provided compared to other hospitals





## ▲ Section 3

Energy Credits and Incentives  
– What's all the buzz about?



# Energy Efficiency Incentives

- ▲ Renew America's Nonprofits:
  - <https://www.energy.gov/articles/biden-harris-administration-announces-45-million-improve-energy-efficiency-nonprofit>
  - Grants up to \$200,000 for installation of energy efficient materials in buildings owned and operated by a 501(c)(3)
- ▲ Conservation activity direct funding
- ▲ Extended Section 179D Deduction
  - Energy efficient commercial buildings deduction
  - Tax years beginning after 12/31/22

# Energy Tax Credits

Direct payment option

1

**Clean Vehicle  
Credits**

30C, 45W

2

**Investment Tax  
Credits**

48, 48C, 48E

3

**Production Tax  
Credits**

45, 45Q,U,V, X-Z



# Energy Tax Credits – Watch Dates

Direct payment option – tax years beginning after 12/31/22

**1**

**Clean Vehicle Credits**  
1/1/23 – 12/31/32

**2**

**Investment Tax Credits**  
Begin by 12/31/24

**3**

**Production Tax Credits**  
After 12/31/22



# Direct Pay Option

IRS released proposed rules ([REG-101607-23](#)) on 6/21/23

- ▲ Allows eligible tax-exempt entities to make an election for certain credits to get payments in lieu of a credit.
- ▲ Only certain credits are eligible (see previous slide)
- ▲ [FAQs](#) also issued on same day with more details
- ▲ Proposed rules for tax years beginning after 12/31/22
- ▲ Direct-Pay Election must be made with originally filed Form 990-T
- ▲ There are “pre-filing requirements”—must register with IRS—to open in Fall 2023
- ▲ Must obtain a registration number for each eligible property along with other required information
- ▲ Timing of potential refund could take awhile, especially if you extend!
- ▲ We have folks in the firm that specialize in this area – please contact us!







# Section 4

## State Updates

# State Updates

- ▲ Several states switching to online “portals” for various filings:
  - MA PC – mandatory online filing as of 9/1/23
  - NH Annual Report – online filing encouraged, but paper filing still okay
  - ME – new Tax Portal being rolled out in phases, to be used for tax remittances (i.e., income, payroll)
    - ME Hospitals also required to submit 990 and 1120 (for-profit corporation) returns to ME DHHS Licensing and Certification (includes related organization returns)!
  - Tax practitioner software currently does not support online portal filings
- ▲ Vermont Law Change (No. 119 – effective no later than 7/1/24... now!)
  - AGB calc must use “look-back method”
  - Specific FAP eligibility guidelines
  - FAP to be reviewed/approved at least once every 3 years



# Questions?

**David Stone**

Senior Manager | CPA, MBA, CFE  
[dstone@berrydunn.com](mailto:dstone@berrydunn.com)  
207.842.8050

**Joe Byrne**

Senior Tax Manager | CPA  
[jbyrne@berrydunn.com](mailto:jbyrne@berrydunn.com)  
207.541.2385