

HPSA that is designated as of December 31 of such year, the incentive payment limit determined under paragraph (b) of this section is to be increased by 10 percent.

(d) *Payment adjustment effective in CY 2015 and subsequent years for nonqualifying EPs.* (1) Subject to paragraph (d)(3) of this section, beginning in 2015, for covered professional services furnished by an EP who is not a qualifying EP or a hospital-based EP for the year, the payment amount for such services is equal the product of the applicable percent specified in paragraph (d)(2) of this section and the Medicare physician fee schedule amount for such services.

(2) *Applicable percent.* Applicable percent is as follows:

(i) For 2015, 99 percent if the EP is not subject to the payment adjustment for an EP who is not a successful electronic prescriber under section 1848(a)(5) of the Act, or 98 percent if the EP is subject to the payment adjustment for an EP who is not a successful electronic prescriber under section 1848(a)(5) of the Act.

(ii) For 2016, 98 percent.

(iii) For 2017 and each subsequent year, 97 percent.

(3) *Significant hardship exception.* (i) The Secretary may, on a case-by-case basis, exempt an EP who is not a qualifying EP from the application of the payment adjustment under paragraph (d)(1) of this section if the Secretary determines that compliance with the requirement for being a meaningful EHR user would result in a significant hardship for the EP.

(ii) The Secretary's determination to grant an EP an exemption under paragraph (d)(3)(i) of this section may be renewed on an annual basis, provided that in no case may an EP be granted an exemption under paragraph (d)(3)(i) of this section for more than 5 years.

**§ 495.104 Incentive payments to eligible hospitals.**

(a) *General rule.* A qualifying hospital (as defined in this subpart) must receive the special incentive payment as determined under the formulas described in paragraph (c) of this section for the period specified in paragraph (b) of this section.

(b) *Transition periods.* Subject to paragraph (d) of this section and the payment formula specified in paragraph (c) of this section, qualifying hospitals may receive incentive payments during transition periods which comprise the following fiscal years:

(1) Hospitals whose first payment year is FY 2011 may receive such payments for FYs 2011 through 2014.

(2) Hospitals whose first payment year is FY 2012 may receive such payments for FYs 2012 through 2015.

(3) Hospitals whose first payment year is FY 2013 may receive such payments for FYs 2013 through 2016.

(4) Hospitals whose first payment year is FY 2014 may receive such payments for FY 2014 through 2016.

(5) Hospitals whose first payment year is FY 2015 may receive such payments for FY 2015 through 2016.

(c) *Payment methodology.* (1) The incentive payment for each payment year is calculated as the product of the following:

(i) The initial amount determined under paragraph (c)(3) of this section.

(ii) The Medicare share fraction determined under paragraph (c)(4) of this section.

(iii) The transition factor determined under paragraph (c)(5) of this section.

(2) *Interim and final payments.* CMS uses data on hospital acute care inpatient discharges, Medicare Part A acute care inpatient-bed-days, Medicare Part C acute care inpatient-bed-days, and total acute care inpatient-bed-days, from the latest submitted 12-month hospital cost report as the basis for making preliminary incentive payments. Final payments are determined at the time of settling the first 12-month hospital cost report for the hospital fiscal year that begins on or after the first day of the payment year, and settled on the basis of data from that cost reporting period.

(3) *Initial amount.* The initial amount is equal to one of the following:

(i) For each hospital with 1,149 acute care inpatient discharges or fewer, \$2,000,000.

(ii) For each hospital with at least 1,150 but no more than 23,000 acute care inpatient discharges,  $\$2,000,000 + [\$200 \times (n - 1,149)]$ , where n is the number of discharges for the hospital.

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(iii) For each hospital with more than 23,000 acute care inpatient discharges, \$6,370,200.

(4) *Medicare share fraction*—(i) *General*. (A) CMS determines the Medicare share fraction for an eligible hospital by using the number of Medicare Part A, Medicare Part C, and total acute care inpatient-bed-days using data from the Medicare cost report as specified by CMS.

(B) CMS computes the denominator of the Medicare share fraction using the charity care charges reported on the hospital's Medicare cost report.

(ii) The Medicare share fraction is the ratio of—

(A) A numerator which is the sum of—

(1) The number of inpatient-bed-days which are attributable to individuals with respect to whom payment may be made under Part A, including individuals enrolled in section 1876 Medicare cost plans; and

(2) The number of inpatient-bed-days which are attributable to individuals who are enrolled with a Medicare Advantage organization (as defined in § 422.2 of this chapter).

(B) A denominator which is the product of—

(1) The total number of acute care inpatient-bed-days; and

(2) The total amount of the eligible hospital's charges, not including any charges that are attributable to charity care, divided by the estimated total amount of the hospitals charges.

(5) *Transition factor*. For purposes of the payment formula, the transition factor is as follows:

(i) For hospitals whose first payment year is FY 2011—

- (A) 1 for FY 2011;
- (B)  $\frac{3}{4}$  for FY 2012;
- (C)  $\frac{1}{2}$  for FY 2013; and
- (D)  $\frac{1}{4}$  for FY 2014.

(ii) For hospitals whose first payment year is FY 2012—

- (A) 1 for FY 2012;
- (B)  $\frac{3}{4}$  for FY 2013;
- (C)  $\frac{1}{2}$  for FY 2014; and
- (D)  $\frac{1}{4}$  for FY 2015;

(iii) For hospitals whose first payment year is FY 2013—

- (A) 1 for FY 2013;
- (B)  $\frac{3}{4}$  for FY 2014;
- (C)  $\frac{1}{2}$  for FY 2015; and

(D)  $\frac{1}{4}$  for FY 2016.

(iv) For hospitals whose first payment year is FY 2014—

- (A)  $\frac{3}{4}$  for FY 2014;
- (B)  $\frac{1}{2}$  for FY 2015; and
- (C)  $\frac{1}{4}$  for FY 2016.

(v) For hospitals whose first payment year is FY 2015—

- (A)  $\frac{1}{2}$  for FY 2015; and
- (B)  $\frac{1}{4}$  for FY 2016.

(d) No incentive payment for non-qualifying hospitals. After the first payment year, an eligible hospital will not receive an incentive payment for any payment year during which it is not a qualifying hospital.

§ 495.106 Incentive payments to CAHs.

(a) *Definitions*. In this section, unless otherwise indicated—

*Payment year* means a Federal fiscal year beginning after FY 2010 but before FY 2016.

*Qualifying CAH* means a CAH that would meet the definition of a meaningful EHR user at § 495.4, if it were an eligible hospital.

*Reasonable costs incurred for the purchase of certified EHR technology* for a qualifying CAH means the reasonable acquisition costs incurred for the purchase of depreciable assets as described in part 413 subpart G of this chapter, such as computers and associated hardware and software, necessary to administer certified EHR technology as defined in § 495.4, excluding any depreciation and interest expenses associated with the acquisition.

(b) *General rule*. A qualifying CAH receives an incentive payment for its reasonable costs incurred for the purchase of certified EHR technology, as defined in paragraph (a) of this section, in the manner described in paragraph (c) of this section for a cost reporting period beginning during a payment year as defined in paragraph (a) of this section.

(c) *Payment methodology*. (1) *Payment amount*. A qualifying CAH receives an incentive payment amount equal to the product of its reasonable costs incurred for the purchase of certified EHR technology and the Medicare share percentage.

(2) *Calculation of reasonable costs*. CMS or its Medicare contractor computes a qualifying CAH's reasonable