

## FEDERAL COURT SLASHES \$448 MILLION FALSE CLAIMS ACT PENALTY, CITING EIGHTH AMENDMENT

In *United States of America ex rel. Cheryl Taylor v. Healthcare Associates of Texas, LLC*, the U.S. District Court for the Northern District of Texas (the "Court") upheld a jury verdict finding Healthcare Associates of Texas, LLC ("HCAT") liable under the False Claims Act ("FCA"). However, in a significant ruling for health care providers facing FCA scrutiny, the Court substantially reduced the provider's penalties after finding the FCA's statutory civil penalty unconstitutionally excessive under the Eighth Amendment.

### BACKGROUND

Following a whistleblower lawsuit alleging fraudulent Medicare billing, a jury found that HCAT submitted 21,844 false claims, causing \$2,753,641.86 in actual damages. Under the FCA, the statutory penalty for each false claim ranged from \$5,500 to \$27,894, leading to a proposed civil penalty of \$448,817,000—over 100 times the actual damages awarded.

### THE COURT'S ANALYSIS UNDER THE EXCESSIVE FINES CLAUSE

The Court determined that the FCA's mandatory per-claim penalty, when applied in this case, violated the Eighth Amendment's Excessive Fines Clause, which prohibits "grossly disproportional" fines relative to the offense. In evaluating proportionality, the Court considered:

- **The nature of the violation:** The case involved improper Medicare billing but did not include fictitious claims for services never rendered.
- **The magnitude of harm:** While the government was harmed, the actual damages were quantifiable at \$2.75 million, making a \$448 million penalty excessively punitive.
- **The ratio of penalty to damages:** The proposed penalty was over 100 times the actual damages, significantly higher than penalties upheld in prior FCA cases, where courts found ratios of 3:1, rather than 8:1, more appropriate.

Concluding that the statutory penalty was unconstitutional as applied, the Court reduced the civil penalty to three times the actual damages, setting total liability at \$16,521,851.16. This ruling highlights critical considerations for health care providers and their attorneys navigating FCA enforcement actions.

### PRACTICAL TAKEAWAYS

- **The Eighth Amendment limits FCA penalties:** While the FCA mandates per-claim penalties, courts may reduce excessive fines when they result in disproportionate liability.
- **Excessive fines challenges may succeed:** Defendants facing outsized FCA penalties should consider raising Eighth Amendment arguments, particularly when statutory fines vastly exceed actual damages.
- **Government fraud enforcement remains aggressive:** Despite this ruling, health care providers should continue prioritizing compliance with Medicare and Medicaid billing regulations.

If you have questions or would like more information about this topic, please contact:

- **David Honig** at (317) 977-1447 or [dhonig@hallrender.com](mailto:dhonig@hallrender.com);
- **Kathryn Daggett** at (317) 977-1415 or [kdaggett@hallrender.com](mailto:kdaggett@hallrender.com);
- **Kennedy Bunch** at (317) 977-1420 or [kbunch@hallrender.com](mailto:kbunch@hallrender.com); or
- Your primary Hall Render contact.

*Hall Render blog posts and articles are intended for informational purposes only. For ethical reasons, Hall Render attorneys cannot—outside of an attorney-client relationship—answer specific questions that would be legal advice.*