

Publications

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Federal Court Finds False Claims Act Penalty Unconstitutionally Excessive

On February 26, 2025, the U.S. District Court for the Northern District of Texas issued a significant False Claims Act (FCA) ruling in *United States of America ex rel. Cheryl Taylor v. Healthcare Associates of Texas, LLC*, finding that the application of the FCA's mandatory per-claim penalty violated the Eighth Amendment. The Court upheld the jury verdict finding the defendants liable under the FCA, but substantially reduced the \$448 million in penalties imposed, citing the Eighth Amendment's Excessive Fines Clause.

The relator-whistleblower alleged that the defendants employed fraudulent Medicare billing practices in violation of Medicare billing rules. After a two-week trial, the jury found that Healthcare Associates of Texas (HCAT) submitted 21,844 false or fraudulent claims and collected \$2,753,641.86 in overpayments.

In assessing potential damages under the FCA, the overpayment amount—roughly \$2.75 million in this case—is merely the starting point. The statute allows private whistleblowers or the Government to seek up to three times that amount and to impose penalties between \$13,946 and \$27,894 for every single false claim. As a practical matter, the Department of Justice often settles FCA cases by applying a multiplier between 1.25 and 2 times the amount of actual damages, while seeking per-claim penalties is far less common.

Relator sought treble damages as well as the maximum statutory penalties. Although the amount of the overpayment was less than \$2.75 million, the jury imposed per-claim penalties and awarded Relator \$448,817,000—more than 100 times the amount the Government actually reimbursed Defendants for the allegedly fraudulent claims.

HCAT argued that such an award would violate the Excessive Fines Clause, which prohibits “grossly disproportional” fines relative to the offense. The Court agreed, noting that the ratio of statutory to actual damages was over 100 to 1 and that the conduct at issue was based on rules violations as opposed to more egregious conduct like billing for fictitious services. Thus, based on constitutional concerns under the Excessive Fines Clause, the Court reduced the statutory damages to three times the actual damages,

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setting total liability at \$16,521,851.16.

While the FCA mandates per-claim penalties, which often result in extraordinary damage calculations, courts increasingly ask whether they are constitutional and may reduce excessive fines when they result in disproportionate liability. Given these concerns, those facing disproportionately large FCA penalties may consider raising Eighth Amendment arguments early in the litigation, particularly when statutory fines vastly exceed actual damages.

This ruling highlights critical considerations for health care providers and their legal counsel navigating FCA enforcement actions. Polsinelli's Government Investigations attorneys have extensive experience with FCA investigations and are prepared to assist with compliance or any potential FCA enforcement action.