
IRS: Proposed Revenue Procedure Addresses Requirements for Tax-Exempt Hospitals.

The IRS has issued a proposed revenue procedure (Notice 2014-3) that provides correction and disclosure procedures under which some failures by charitable hospital organizations to meet the requirements of section 501(r) will be excused.

Under section 501(r), a section 501(r)(2) hospital organization will not be treated as an exempt organization described in section 501(c)(3) unless it meets the requirements described in section 501(r)(3) through 501(r)(6). Proposed regs (REG-130266-11) published in June 2012 addressed the requirements of section 501(r)(4), (r)(5), and (r)(6). Proposed regs (REG-106499-12) published in April 2013 addressed the consequences for failing to meet any of the section 501(r) requirements.

To provide an incentive for hospital organizations to take steps not only to avoid failures but to remedy and disclose them when they occur, the 2013 proposed regs specify that a hospital organization's failure to meet one or more of the requirements described in section 501(r) and proposed reg. section 1.501(r)-3 through 1.501(r)-6 that is neither willful nor egregious will be excused if the hospital organization corrects the failure and makes disclosure in accordance with the rules set forth in additional guidance to be issued by Treasury and the IRS.

If adopted, Notice 2014-3 will provide that guidance. A hospital organization will be able to rely on the revenue procedure to correct and disclose any failure to meet a requirement of section 501(r) that is not willful or egregious, provided that the hospital organization has begun correcting the failure in accordance with the terms of the guidance and that it has disclosed the failure before the hospital organization is first contacted by the IRS concerning an examination of the organization. If the annual return for the tax year in which the failure is discovered is not yet due (with extensions), the hospital organization need only to have begun correcting the failure in accordance with the revenue procedure before the hospital organization is first contacted by the IRS concerning an examination.

Under the proposed revenue procedure, a failure that is willful includes a failure due to gross negligence, reckless disregard, or willful neglect. A hospital organization's correction and disclosure of a failure does not create a presumption that the failure was not willful or egregious. However, the fact that correction and disclosure in accordance with the revenue procedure were made will be considered a factor and may indicate that an error or omission may not have been willful or egregious.

http://www.irs.gov/pub/irs-drop/n-14-03.pdf

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