



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

The Honorable Charles E. Grassley
United States Senate
Washington, DC 20510

Dear Senator Grassley:

Thank you for your November 19, 2024, letter in which you urge the IRS to strengthen and enforce regulations under section 501(c)(3) and section 501(r) of the Internal Revenue Code (IRC). We share the goal of ensuring that tax-exempt organizations, including tax-exempt hospitals, comply with applicable IRC requirements.

An IRC section 501(c)(3) hospital, among other requirements, must be “promoting the health of a class of persons that is broad enough to benefit the community.” Rev. Rul. 69-545, 1969-2 C.B. 117. The IRC and underlying published guidance do not require an IRC section 501(c)(3) hospital to provide care without charge or below cost, but doing so continues to be a factor indicating that the hospital is operated for the benefit of the community. Additionally, hospitals must meet the requirements under IRC section 501(r) to be described in IRC section 501(c)(3). Final regulations were issued in 2014 that provide further guidance within the scope of the statutory 501(r) requirements.

Our Tax Exempt and Government Entities Division (TE/GE) provides oversight and ensures organizations comply with the requirements for tax-exempt status. We have prioritized resources and actively undertake multiple compliance activities for IRC section 501(c)(3) hospitals. As required under the Patient Protection and Affordable Care Act (ACA), we continue to undertake community benefit activity reviews of the approximately 3,000 tax-exempt hospitals on a rolling three-year basis. TE/GE also develops compliance strategies to address emerging and significant compliance issues and has developed multiple strategies for tax-exempt hospitals. In Fiscal Year (FY) 2022, the IRS continued work on a compliance strategy focused on hospitals that may have income from businesses unrelated to their exempt purpose. In FY 2024, we announced a new compliance strategy under which we will examine hospitals for compliance with requirements under IRC section 501(r) and/or section 501(c)(3). We also have procedures to evaluate the thousands of complaints that we receive annually alleging potential noncompliance by tax-exempt organizations, including tax-exempt hospitals. While we have continually undertaken compliance for tax-exempt hospitals and continue to prioritize resources for this area, we appreciate your recommendations to increase our presence, and will continue to consider opportunities to promote compliance by tax-exempt hospitals.

In your letter, you also recommend that additional guidance be issued related to financial assistance policies, collection practices, and charity care. While the IRS administers the tax law in effect, the Department of the Treasury (Treasury) develops

and implements tax policies. We will share your recommendations with Treasury for consideration under the Priority Guidance Plan (PGP) process. The Treasury and the IRS use the annual PGP to identify and prioritize tax issues that should be addressed through regulations, revenue rulings, revenue procedures, notices, and other published administrative guidance. We also use the PGP to identify any necessary published administrative guidance to implement tax laws. As you noted, under the PGP for 2024-25, Treasury and the IRS plan to issue guidance illustrating the application of the regulations under IRC section 501(r).

I hope this information is helpful. We appreciate your outreach on this important issue. We are sending a similar letter to Senator Elizabeth Warren who joined in signing your November 19, 2024, letter. While we were unable to arrange a meeting by your requested date, we would be happy to discuss further with your staff as necessary. If you have questions, please contact me, or a member of your staff may contact Amy Klonsky, National Director, Legislative Affairs, at 202-317-6985.

Sincerely,

Daniel I. Werfel
Commissioner