## 501(r) requirements for tax-exempt hospitals: strengthening compliance in preparation for IRS examinations

In 2010, Congress passed the Patient Protection and Affordable Care Act (ACA). The ACA created Section 501(r) of the Internal Revenue Code (IRC), which included new requirements for tax-exempt hospitals and hospital facilities. The final 501(r) regulations are effective for hospitals’ tax years beginning on or after 29 December 2015.

### Requirements
- Community health needs assessments
- Billing and collections policies/practices
- Financial assistance policies
- Emergency medical care policies
- Limitations on charges

### Actions
- Hospital complies with 501(r) provisions
- Properly reports compliance on Form 990

### Benefits
- Preserve and optimize the value of exempt status
- Avoid excise tax

If a hospital facility fails to meet the Section 501(r) requirements, it risks revocation of its tax-exempt status and/or imposition of a noncompliant facility income tax on all of its net income. If a hospital facility fails to properly conduct a community health needs assessment, it may be subject to a $50,000 excise tax.
Ernst & Young LLP’s Section 501(r) risk assessment

Compliance with Section 501(r) requires detailed oversight and documentation. Ernst & Young LLP’s Exempt Organization Tax Services practice can help your organization preserve your tax-exempt status and avoid excise and noncompliant facility income taxes by helping you:

- Understand the regulations and options and strategies for compliance
- Determine your current level of compliance with those regulations
- Detect and correct 501(r) errors and omissions
- Disclose 501(r) errors, omissions, and corrective action on Form 990, Schedule H, as needed
- Monitor and maintain ongoing compliance
- Modify your policies and practices as needed and develop compliance strategies
- Prepare for and respond to IRS examinations

Ernst & Young LLP provides written recommendations for strengthening the organization’s 501(r) compliance, and meets with the organization’s tax leadership to discuss recommendations.

Ernst & Young LLP’s Section 501(r) online risk assessment approach that includes:

The hospital organization completes Ernst & Young LLP’s Section 501(r) online risk assessment questionnaire and provides requested documentation.

Ernst & Young LLP analyzes responses and discusses/meets with the organization’s tax leadership to gain a fuller understanding of its 501(r)-related policies and practices.

Based on responses and review of related documentation, Ernst & Young LLP will assess compliance with 501(r).

Ernst & Young LLP has a consistent, well-developed 501(r) risk assessment approach that includes:

- The hospital organization completes Ernst & Young LLP’s Section 501(r) online risk assessment questionnaire and provides requested documentation.
- Ernst & Young LLP analyzes responses and discusses/meets with the organization’s tax leadership to gain a fuller understanding of its 501(r)-related policies and practices.
- Based on responses and review of related documentation, Ernst & Young LLP will assess compliance with 501(r).

Compliance with IRC Section 501(r) and the final Section 501(r) regulations is now required of all tax-exempt hospitals. Additionally, the ACA has heightened IRS scrutiny of hospitals. The IRS has trained exam agents for compliance reviews and audits of tax-exempt hospitals, and has commenced 501(r) examinations. To avoid tax liability, negative press and reputational risk, assessing your compliance should be a priority. Ernst & Young LLP is very well positioned to provide you with the best assessment and service. We have developed and refined a Section 501(r) risk assessment questionnaire in a convenient online, collaborative format. Our 501(r) risk assessment efforts are spearheaded by two former IRS officials, Stephen Clarke and Justin Lowe, who participated in the development of the 501(r) regulations.