IRS Issues Private Letter Ruling Benefitting Investor-Owned Hospitals and Other Companies that Manage Professional Practices

The Internal Revenue Service (IRS) issued a private letter ruling in December



2014(PLR 201451009) that has gotten the attention of professional management companies and investor-owned hospitals that have managerial interests in captive professional corporations (PCs). The IRS ruled that captive PCs may be members of an affiliated group which includes the management company or investor-owned hospital which manages the practice. These management relationships are becoming increasingly frequent as hospitals acquire more and more physician practices, particularly in states which have strong prohibition against the corporate practice of medicine. **Significance of the PLR** The Ruling is potentially very significant for management companies and hospitals. Physician practices often run significant losses which become "trapped" in the practice entity because the practice is not a member of the management company's affiliated group and therefore may not consolidate its returns with the other members of the group. As a result, losses at the practice level are not available to offset income at the management company or parent level. The Ruling will now allow the practice results to be consolidated with the results of the management company/parent, thereby making the losses available to offset income of the management company or parent hospital. **The Ruling is Limited to its Facts** The structure presented to the IRS involved a parent corporation which owned a management company. The management company entered into agreements with physician practices pursuant to which the management company provided management and related services and also indirectly controlled the ownership of the stock of the physician practice. While the management company could not own the practice directly due to restrictions on the corporate practice of medicine, it could and did enter into various agreements with the physician stockholder pursuant to which the company could require the physician stockholder to transfer ownership of the stock he/she owned to a person or entity identified by the management company. This control was one of a number of facts which were referenced in the Ruling as being significant to the IRS. **Can Others Rely on the PLR?** Although a PLR does not create precedent and is binding only on the IRS and the taxpayer who presented the question, we believe it is reasonable to believe that the IRS would rule the same way if faced with the same facts. If you have questions about Private Letter Rulings including this one regarding Captive Professional Corporations, please contact the Kansas and Missouri Health Care Attorneys at Seigfreid Bingham for assistance. Image: Thinkstock/LattaPictures *This article is very general in nature and does not constitute legal advice. Readers with legal questions should consult with an attorney prior to making any legal decisions.