

IRS Ruling a Major Snag for Health Reform and ACOs

Details on IRS Private Letter Ruling 201615022



IRS Rules Most ACOs are Not Tax Exempt

- The IRS rejected a request for an ACO's tax exempt status, on the basis that the ACO was not organized exclusively for charitable purposes.
- Historically, ACOs do receive tax-exempt status if they participate exclusively in the Medicare Shared Savings Program (MSSP) or another similar government program.
- This ruling may have major implications for tax exempt status for other commercial ACOs that do not participate in MSSP or work exclusively with Medicare/Medicaid patients

Details on Case

- The IRS rejected a request from an ACO formed by a non-profit health system. The IRS acknowledged that the ACO attempted to address the triple aim laid out by the Obama administration (reduce cost, improving access to and quality of health care, and improving population health and patient experience) but found it insufficient to grant 501(c)(3) status
- The IRS cited that the ACO primarily provided benefits for physicians, half of whom did not work for the sponsoring health systems, and provided a service for members with commercial insurance, and so did not provide a service to the community as a whole

Takeaways

- The ruling does not make it impossible for a commercial or partly-commercial ACO to receive tax-exempt status, but unless the ACO can demonstrate significant benefit to the community the company is unlikely to receive 501(c)(3) status

