

relationship to promoting and protecting the health of the community in much the same manner as the organization described in Rev. Rul. 73-313. As with the recruitment incentive package provided by Hospital A, the payment of moving expenses, the reimbursement of professional liability "tail" coverage, and the provision of a reasonable private practice income guarantee as recruitment incentives are reasonably related to causing Physician N to become a member of Hospital B's medical staff and to establish and maintain a full-time private pediatric practice in Hospital B's service area. Thus, the recruitment activity described furthers the charitable purposes served by the hospital and is consistent with the requirements for exemption as an organization described in § 501(c)(3).

Situation 3

In accordance with the standards for exemption set forth in Rev. Rul. 69-545, Hospital C admits and treats Medicaid patients on a non-discriminatory basis. Hospital C has identified a shortage of obstetricians willing to treat Medicaid patients. The payment of Physician O's professional liability insurance premiums in return for Physician O's agreement to treat a reasonable number of Medicaid and charity care patients is reasonably related to the accomplishment of Hospital C's exempt purposes. Because the amount paid by Hospital C is reasonable and any private benefit to Physician O is outweighed by the public purpose served by the agreement, the recruitment activity described is consistent with the requirements for exemption as an organization described in § 501(c)(3).

Situation 4

Hospital D has objective evidence demonstrating a need for diagnostic radiologists to provide coverage for its radiology department so that it can promote the health of the community. The provision of a reasonable private practice income guarantee as a recruitment incentive that is conditioned upon Physician P obtaining medical staff privileges and providing coverage for the radiology department is reasonably related to the accomplishment of the charitable purposes served by the hospital. A significant fact in determining that the community benefit provided by the activity outweighs the private benefit provided to Physician P is the determi-

nation by the Board of Directors of Hospital D that it needs additional diagnostic radiologists to provide adequate coverage and to ensure a high quality of medical care. The recruitment activity described is consistent with the requirements for exemption as an organization described in § 501(c)(3).

Situation 5

Hospital F has engaged in physician recruiting practices resulting in a criminal conviction. As in Rev. Rul. 75-384, the recruiting activities were intentional and criminal, not isolated or inadvertent violations of a regulatory statute. An organization that engages in substantial unlawful activities, including activities involving the use of the organization's property for an objective that is in violation of criminal law, does not qualify as an organization described in § 501(c)(3). Because Hospital F has knowingly and willfully conducted substantial activities that are inconsistent with charitable purposes, it does not comply with the requirements of § 501(c)(3) and § 1.501(c)(3)-1.

HOLDING

The hospitals in Situations 1, 2, 3, and 4 have not violated the requirements for exemption from federal income tax as organizations described in § 501(c)(3) as a result of the physician recruitment incentive agreements they have made because the transactions further charitable purposes, do not result in inurement, do not result in the hospitals serving a private rather than a public purpose, and are assumed to be lawful for purposes of this revenue ruling.

Hospital F in Situation 5 does not qualify as an organization described in § 501(c)(3) because its unlawful physician recruitment activities are inconsistent with charitable purposes.

SCOPE

This ruling addresses only issues under § 501(c)(3) in the described situations. No inference is intended as to any other issue under any other provision of law, including any issue involving worker classification, income tax consequences to the physicians, and application of the Medicare and Medicaid anti-kickback statute, 42 U.S.C. § 1320a-7b(b).

DRAFTING INFORMATION

The principal author of this revenue ruling is Judith E. Kindell of the Exempt Organizations Division. For further information regarding this revenue ruling contact Judith E. Kindell on (202) 622-6494 (not a toll-free call).

Section 807.—Rules for Certain Reserves

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of May 1997. See Rev. Rul. 97-19, on this page.

Section 846.—Discounted Unpaid Losses Defined

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of May 1997. See Rev. Rul. 97-19, on this page.

Section 1274.—Determination of Issue Price in the Case of Certain Debt Instruments Issued for Property

(Also Sections 42, 280G, 382, 412, 467, 468, 482, 483, 642, 807, 846, 1288, 7520, 7872.)

Federal rates; adjusted federal rates; adjusted federal long-term rate, and the long-term exempt rate. For purposes of sections 1274, 1288, 382, and other sections of the Code, tables set forth the rates for May 1997.

Rev. Rul. 97-19

This revenue ruling provides various prescribed rates for federal income tax purposes for May 1997 (the current month.) Table 1 contains the short-term, mid-term, and long-term applicable federal rates (AFR) for the current month for purposes of section 1274(d) of the Internal Revenue Code. Table 2 contains the short-term, mid-term, and long-term adjusted applicable federal rates (adjusted AFR) for the current month for purposes of section 1288(b). Table 3 sets forth the adjusted federal long-term rate and the long-term tax-exempt rate described in section 382(f). Table 4 contains the appropriate percentages for determining the low-income housing credit described in section 42(b)(2) for buildings placed in service during the current month. Finally, Table 5 contains the federal rate for determining the present value of an annuity, an interest for life or for a term of years, or a remainder or a reversionary interest for purposes of section 7520.

REV. RUL. 97-19 TABLE 1
Applicable Federal Rates (AFR) for May 1997
Period for Compounding

	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
<i>Short-Term</i>				
AFR	6.23%	6.14%	6.09%	6.06%
110% AFR	6.86%	6.75%	6.69%	6.66%
120% AFR	7.51%	7.37%	7.30%	7.26%
130% AFR	8.14%	7.98%	7.90%	7.85%
<i>Mid-Term</i>				
AFR	6.85%	6.74%	6.68%	6.65%
110% AFR	7.55%	7.41%	7.34%	7.30%
120% AFR	8.25%	8.09%	8.01%	7.96%
130% AFR	8.95%	8.76%	8.67%	8.60%
150% AFR	10.37%	10.11%	9.99%	9.90%
175% AFR	12.15%	11.80%	11.63%	11.52%
<i>Long-Term</i>				
AFR	7.18%	7.06%	7.00%	6.96%
110% AFR	7.92%	7.77%	7.70%	7.65%
120% AFR	8.65%	8.47%	8.38%	8.32%
130% AFR	9.39%	9.18%	9.08%	9.01%

REV. RUL. 97-19 TABLE 2
Adjusted AFR for May 1997
Period for Compounding

	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
Short-term adjusted AFR	3.97%	3.93%	3.91%	3.90%
Mid-term adjusted AFR	4.84%	4.78%	4.75%	4.73%
Long-term adjusted AFR	5.64%	5.56%	5.52%	5.50%

REV. RUL. 97-19 TABLE 3
Rates Under Section 382 for May 1997

Adjusted federal long-term rate for the current month	5.64%
Long-term tax-exempt rate for ownership changes during the current month (the highest of the adjusted federal long-term rates for the current month and the prior two months.)	5.64%

REV. RUL. 97-19 TABLE 4
Appropriate Percentages Under Section 42(b)(2) for May 1997

Appropriate percentage for the 70% present value low-income housing credit	8.65%
Appropriate percentage for the 30% present value low-income housing credit	3.71%

REV. RUL. 97-19 TABLE 5

Rate Under Section 7520 for May 1997

Applicable federal rate for determining the present value of an annuity, an interest for life or a term of years, or a remainder or reversionary interest

8.2%

Section 1288.—Treatment of Original Issue Discount on Tax-Exempt Obligations

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of May 1997. See Rev. Rul. 97-19, page 11.

Section 7520.—Valuation Tables

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of May 1997. See Rev. Rul. 97-19, page 11.

Section 7872.—Treatment of Loans With Below-Market Interest Rates

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of May 1997. See Rev. Rul. 97-19, page 11.
