



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, DC 20224  
May 31, 2001

OFFICE OF  
CHIEF COUNSEL

Number: **200130038**  
Release Date: 7/27/2001  
UILC: 6041.07-00  
6050P.00-00

CC:IT&A:2:GHBradley  
SPR-105564-00

MEMORANDUM FOR DISTRICT COUNSEL  
VIRGINIA - WEST VIRGINIA DISTRICT

FROM: Heather C. Maloy  
Associate Chief Counsel  
(Income Tax & Accounting)

SUBJECT: Significant Service Center Advice - Reconsideration of Physician  
Recruitment Agreements

Your memorandum dated June 11, 1999, asked how a hospital reports income when it cancels a portion of the student loan debt of a physician for each year the physician works at the hospital under a medical education loan program.<sup>1</sup>

In our response dated October 15, 1999, [200003008] we stated that the hospital must report the income on Form W-2 if the physician is an employee of the hospital. We also stated that if the physician is not an employee of the hospital, the hospital may be required under § 6050P of the Internal Revenue Code to report the income on Form 1099-C.

After further consideration, we wish to modify our previous response.

Under § 61(a)(12), the discharge of indebtedness in whole or in part may result in the realization of income. Section 1.61-12(a) of the Income Tax Regulations states that if an individual performs services for a creditor, who in consideration thereof cancels the debt, the debtor realizes income in the amount of the debt as compensation for services. Section 6041 and the regulations thereunder provide rules for reporting fixed or determinable gains, profits, and income of \$600 or more in a taxable year. In general, the form to use in reporting fixed or determinable gains, profits, and income of \$600 or more is Form 1099-MISC for a non-employee. If the person is an employee, all wages are reported on Form W-2.

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<sup>1</sup>You did not raise § 108, presumably determining it to be inapplicable because, *inter alia*, the debt was discharged in return for services rendered.

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As we stated in our previous response, § 6050P requires an information return whenever an applicable entity cancels an indebtedness of \$600 or more of any person during any calendar year. An “applicable entity” is defined in § 6050P(c)(1) as an executive, judicial, or legislative agency, and an applicable financial entity. The form prescribed by § 1.6050P-1(a)(1) for reporting under § 6050P is Form 1099-C. Section 6050P requires reporting of discharged indebtedness without regard to whether the discharge results in gross income to the debtor. Section 1.6050P-1(a)(3).

Section 1.6041-1(a)(1)(ii) states that the reporting requirement of § 6041 will not apply to any transaction that is subject to the reporting requirement of § 6050P. In general, most hospitals would not be included in the definition of an applicable entity. However, even if an entity was an applicable entity within the meaning of § 6050P, a discharge of indebtedness in consideration for services rendered by the debtor would be compensation for services and reportable under § 6041, not under § 6050P. Thus, the income is subject to reporting to an employee on Form W-2 or on Form 1099-MISC to a non-employee.

This memorandum is for your information and is advisory only. It is not intended to be conclusive as to the tax consequences for any specific taxpayer. If we may be of additional assistance, please contact CC:ITA:2 at 202-622-4920.