



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

February 28, 2006

OFFICE OF  
CHIEF COUNSEL

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-CONEX-105536-06

Dear :

This letter responds to your letter addressed to Commissioner Mark Everson (and others) dated January 9, 2006, written on behalf of the Society of Professional Benefit Administrators, and your enclosed previous submission under the Industry Issue Resolution (IIR) Program. Both address the information reporting requirements for medical payments under section 6041 of the Internal Revenue Code and regulations. Specifically, you request that the Internal Revenue Service (Service) eliminate the information reporting requirements for medical payments, or alternatively, require reporting only for non-corporate recipients.

You note that there are frequent mismatches between the tax identification numbers (TINs) reported on Forms 1099-MISC, Miscellaneous Income, and the TINs of the medical payees. Reasons for the mismatch include: (1) accounting practices (and some state laws) require that checks be issued in the name of a medical department or specialty center but the TIN of the entire hospital is used for reporting purposes; (2) in the era of frequent mergers and buyouts, many medical entities do not have the correct TIN of predecessor or successor entities; and (3) Form 1099-MISC reports payments on a payor/payee basis but the medical industry tracks payments on a patient or per site basis. In addition, you suggest that the Form 1099-MISC covers only a fraction of the sources of payments to the medical payees.

Section 6041 requires, in part, that all persons engaged in a trade or business and making payment in the course of such trade or business to another person, of salaries, wages, compensation, remuneration, emoluments, or other fixed or determinable gains, profits, and income of \$600 or more in any taxable year must provide a return setting forth the amount of the gains, profits, and income, and the name and address of the recipient of the payment.

Section 1.6041-3(p)(1) of the Income Tax Regulations provides an exception to reporting for payments to a corporation, except payments made after December 31,

1970, to a corporation engaged in providing medical and health care services or engaged in the billing and collecting of payments in respect to the providing of medical and health care services, other than payments to --

(1) A hospital or extended care facility described in section 501(c)(3) which is exempt from taxation under 501(a), or

(2) A hospital or extended care facility owned and operated by the United States, a State, the District of Columbia, a possession of the United States, or a political subdivision, agency or instrumentality of any of the foregoing.

We understand that your IIR recommendation was coordinated among various offices of the Service. Section 4.02 of Rev. Proc. 2003-36, 2003-1 C.B. 859, states that a Service representative will notify a submitter when a decision has been made whether to include an issue on the Guidance Priority List or on a periodic update. While it appears that you may not have received an official written notification from the Service concerning your recommendation, IR-2005-81, 2005 IRB Lexis 286, announces that your project was not selected for the 2005 IIR Program.

The purpose of information reporting is to enable the Service to identify taxpayers that may have taxable income. The current information reporting requirements under section 6041 and the regulations require reporting to medical and health care service corporations and help identify medical payees that may have taxable income. We appreciate your comments and concerns regarding the information reporting requirements for medical payments and will consider them. If you would like to discuss this further, you may call \_\_\_\_\_ at \_\_\_\_\_.

Sincerely,

Donna Welch  
Senior Counsel, Administrative  
Provisions & Judicial Practice  
(Procedure & Administration)

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