

ADMINISTRATIVE BOARD

of the
COUNCIL OF DEANS

* * *

October 30, 1970
Biltmore Hotel
Room 2227

12:30 p.m. - 2:00 p.m.
LUNCH

* * * * *

AGENDA

I. Consideration of Minutes of September 16, 1970 Meeting.....	1
II. Accreditation Problems.....	3
III. AAMC Services in the General Area of Management and Organization.....	5
IV. IRS Ruling on Amounts Paid to Interns and Residents.....	12
V. New Business	
VI. Adjournment	

ASSOCIATION OF AMERICAN MEDICAL COLLEGES

MINUTES

ADMINISTRATIVE BOARD OF THE COUNCIL OF DEANS

September 16, 1970
Dupont Plaza Hotel
Washington, D.C.

Present:

(Board Members)

(Staff)

Dr. Charles C. Sprague, presiding
Dr. Ralph J. Cazort
Dr. Carleton B. Chapman
Dr. Merlin K. DuVal
Dr. Robert H. Felix
Dr. Robert B. Howard
Dr. Sherman M. Mellinkoff
Dr. Robert S. Stone

Mr. Michael Amrine
Mrs. Barbara E. Bucci
Dr. John A.D. Cooper
Mr. John M. Danielson
Mr. Joseph S. Murtaugh
Mr. J. Trevor Thomas

I. Call to Order

The meeting was called to order at 7:45 a.m.

II. Minutes of May 7, 1970 Meeting

The minutes of the meeting of May 7, 1970 were accepted without change.

III. Legislative Activities

The recommendation made at the last meeting of the Administrative Board that the Association develop a list of faculty members and administrators in the academic medical centers who have a personal relationship with members of the Congress has been discussed with the Association's attorney. He advises that such information should not be solicited. The matter will be discussed at the regional meetings.

IV. COD Fall Program

Representatives from Illinois, Indiana, Duke, Northwestern, and Stanford Universities will meet with the Deans to discuss the innovative programs in medical education that have been undertaken by their respective schools.

Also on the program will be Dr. Marc J. Musser, Chief Medical Director, VA, who will discuss problems of interest to the Deans. A new AAMC/VA Liaison Committee may be announced if approved by the Executive Council.

V. Medicare

The Association testified (probably for the final time this year) before the Senate Finance Committee September 15th. A discussion between Dr. Robert A. Chase, Chairman of the AAMC Committee on Medicare, and Senator Wallace F. Bennett regarding the latter's proposed amendment elicited the comment that Senator Bennett did not intend to give the

county medical societies 'exclusive' control over the pre-admission, utilization, and quality control reviews. The Association went on record as opposed to the transfer of these reviews from the organized medical staff to the county medical societies. The testimony also recommended as an alternative for present reimbursement methods, negotiations with academic medical centers and teaching hospitals to establish a method of payment which would be appropriate in the individual teaching setting and yet avoid duplicate payment for services rendered.

VI. NIRMP

The recent NIRMP policy statement on house officers' programs which accept students immediately after receiving their M.D. degree was discussed. New problems have been raised by programs which admit both interns and graduating medical students to specialty training; the program directors are uncertain as to the relative proportions of each group that will have an interest in the programs. Accordingly, the NIRMP Board of Directors has provided two options for participation in the matching program and has extended the deadline to December 1, 1970: 1. deferred decision till Fall with no listing in the 1970-71 Directory but inclusion in the 'supplement'; 2. list of only those positions which the program directors feel will be filled by graduating medical students, with option to increase or decrease number after determining student interest in the Fall, but changes would not be included in the 'supplement'.

VII. New & Developing Schools

There was discussion of items forwarded from the recent "Retreat" of Deans of New & Developing Schools:

1. Two-year medical schools. Dr. DuVal reported that the experience of those developing new schools indicates that the problems of today in bringing in a free-standing or autonomous 2-year school that is not otherwise a part of the system are so formidable that the establishment of such 2-year schools should be discouraged. This item will be placed on the Fall COD agenda for discussion.

ACTION: On motion, seconded and carried, the Administrative Board recommends to the Council of Deans the adoption of a policy which encourages institutions contemplating the development of a medical program to consider the totality of the problem - including the M.D. degree and the entrance into residency programs.

It was also felt that the AAMC should interact early with any institution or group considering formation of a 2-year medical school.

2. Construction funds. There was deep concern about the elimination of matching funds for teaching hospitals and the diversion of that capability through the Hill-Burton program. This question has been addressed by the Association in its 'appropriations testimony' and in communiques to the Secretary and to Senator Magnuson.

VIII. Adjournment

The meeting was adjourned at 8:55 a.m.

ACCREDITATION PROBLEMS

The variety of educational arrangements not only proposed, but coming into being, raise difficult questions such as when major programs carried on away from the medical school require examination and accreditation. The initial programs falling into this category, such as those at Florida State - Florida A&M, Indiana and Illinois, are so clearly identified with a parent medical school which is accredited that it seems reasonable to focus attention on the "system" responsible ultimately for granting the M.D. degree rather than attempt to accredit one-or two-year programs. The analogy is made to the acceptance of students on transfer from foreign medical schools, or acceptance of other categories of students with advanced standing. However, as the network of basic science and clinical affiliations adds more and more nodes, it may become more difficult to specify just what constitutes a medical school.

An entirely different set of problems relates to the determination of when the LCME should intervene when matters come to light publicly which could have an influence on the quality of the educational programs. Not uncommonly the Dean may ask for a review by the LCME; just as often, the information comes to light in the public press. By and large the LCME and related staff of the AMA and AAMC have managed to keep abreast of such developments and have informally asked for brief progress reports. The intent is to safeguard the quality of the educational program particularly from the standpoint of the students and to be of assistance to the institutions in maintaining a quality program in the face of major problems. Another subset of problems in the "where and when to intervene" category is the matter of expansion of enrollment. What constitutes expansion of sufficient magnitude to require reexamination of the program to assure continued accreditation? Some schools could double without jeopardy, others are clearly not in this category. To base the criterion for intrusion of the accreditation process into the planning of the school on numbers alone seems a gross oversimplification, but there may not be many alternatives. By and large schools consult with the LCME when planning significant expansions for which Federal funding is sought. But it is not a requirement that they do so.

A still different accreditation question relates to the accreditation of graduate (Ph.D.) programs in freestanding medical schools or those medical schools in which the graduate programs are unrelated to the university system. The LCME accredits programs leading to the M.D. only. The accrediting of Ph.D. programs occurs as part of the institutional accreditation of universities by the appropriate accrediting bodies. The AAMC should consider how to assist the freestanding schools in this matter. At present

there is a Joint Commission on Graduate Accreditation made up of the National Commission on Accreditation, the Council of Graduate Schools, and the Federation of Regional Accrediting Commissions of Higher Education. The Joint Commission has determined that the accreditation of graduate programs in isolated institutions is the responsibility of the Regional Accrediting Commissions. They have made arrangements to accredit institutions which are either freestanding or campuses which are isolated from their parent institutions.

To identify such problems, shed light on their ramifications, and recommend some policies for LCME consideration, a subcommittee of the LCME is to be appointed. Comment on these matters, as well as the identification of additional areas of concern, by the Administrative Board of the COD would be welcomed for initial input to the deliberations of the subcommittee.

October 12, 1970

AAMC SERVICES IN THE GENERAL AREA OF
MANAGEMENT AND ORGANIZATION

There seems to be little question that AAMC should in some way facilitate access to information and expertise which could have a bearing on the solution of problems which generally fall in the category of management for those who seek assistance and advice. A variety of activities might be stimulated ranging from the management seminar series underway now three years, to teams of consultants, to a simple newsletter exchanged among developing schools to share experiences. The diverse segments of our clientele may seek different things: new deans in established schools, new deans in developing schools, etc. The question is to what degree should AAMC organize activities of this type--what is the assessment of the need? And what kinds of activities should be afforded the highest priority.

The recent seminar at Hershey (see program) is one of the principle activities of the past. It has been conducted annually for three years under the direction of staff of the Center for Research and the Utilization of Scientific Knowledge, University of Michigan, working closely with AAMC staff. Subjects such as why plan, how to plan, kinds and purposes of committees, the identification of power foci, etc., were discussed. The participating schools were paired and acted as consultants to each other in studying the process relative to their specific problems. As a result of the Hershey Conference, some schools may continue to work together in this way and some may continue to consult with the Michigan group. The extent of the problems cited, the apparent lack of expertise in approaching solutions, and the desire to seek assistance were all striking.

A group of new deans of developing schools indicated they were anxious to learn what other developing schools were doing and to be alerted to the kinds of things they should anticipate and know about including the accreditation process, sources of private and Federal funding, etc.

A quite different type of activity is the simulation modeling being done by the Toronto group. Several schools are considering adaptations or modifications of this technique. NIH has the programs up on their computer and has asked AAMC participation in an advisory group for the project.

There is great interest on the part of the Federal Government in the financial status of all schools and particularly in the causes of severe stress. The opinion is widely held at the Federal level that medical schools are poorly managed. These considerations will undoubtedly have an influence on the terms and conditions applied to institutional support in the forthcoming renewal of the HPEA.

These questions might then be posed:

1. What kinds of problems concern medical school administrators about which they do or should seek help?
2. What kind of help is needed--both format and content?
3. What groups should have priority?
4. What kinds of problems should have priority?

October 12, 1970



ASSOCIATION OF AMERICAN MEDICAL COLLEGES

SUITE 200, ONE DUPONT CIRCLE, N.W., WASHINGTON, D.C. 20036

TENTATIVE SCHEDULE

Dean's Management Seminar
"Management or Organizational Change"
September 24-27, 1970
Hotel Hershey
Hershey, Pennsylvania

Thursday, September 24

9:00 a.m.

5:00 p.m.

First Session Orientation -
Handling misunderstanding and inter-
personnel conflicts; Group problem
solving; Increasing the effectiveness
of your school team with interdepart-
mental and intergroup problems.
University of Michigan Faculty
PLAZA 5

Friday, September 25

8:45 a.m.

Plans for the Seminar
Cheves McC. Smythe, M.D.
MOSAIC ROOM

9:15 a.m.

Planning for Organization Change
H. Lawrence Wilsey
MOSAIC ROOM

10:30 a.m.

COFFEE
MOSAIC ROOM

10:45 a.m.

Discussion Groups (School Teams)
MOSAIC ROOM
PLAZA 1, 2, 3, 4, 5

- Suggested Topics
- What We Hope To Get Out of the Seminar
 - Planning for Change

Friday, September 25
Continued

11:45 a.m.

Reconvene - Plenary Session
Identification of General Principals
and Further Questions

- H. Lawrence Wilsey
- Floyd Mann, Ph.D.

MOSAIC ROOM

12:30 p.m.

LUNCH
MAIN DINING ROOM

2:00 p.m.

"Control and Change: Power Foci
in Medical Centers"
Russell A. Nelson, M.D.
MOSAIC ROOM

3:00 p.m.

Discussion Groups - To Be Arranged
According to Institutional Roles
PLAZA 1, 2, 3, 4, 5

3:45 p.m.

Reconvene - Plenary Session
Identification of General Principals
and Further Questions

- Russell A. Nelson, M.D.
- Stanley Seashore, Ph.D.

7:00 p.m.

COCKTAILS
PATIO LOUNGE

8:00 p.m.

DINNER
MAIN DINING ROOM

9:00 p.m.

Resource Persons - Available for Continued
Informal Discussions

Saturday, September 26

8:30 a.m.

Theory Input - The Nature of Power
Force Field Analysis (one of the
following will be discussed)
Styles of Leadership
Power Analysis
Stanley Seashore, Ph.D.
MOSAIC ROOM

Saturday, September 26
Continued

9:15 a.m.

Motivation for Change
John R. Hogness, M.D.
MOSAIC ROOM

10:30 a.m.

COFFEE
MOSAIC ROOM

10:45 a.m.

Discussion Groups - Arranged According
to Institutional Roles
Relevance of Motivation to My Role
PLAZA 1, 2, 3, 4, 5

11:45 a.m.

Reconvene - Plenary Session
Identification of General Principals
and Further Questions

● John R. Hogness, M.D.

● Floyd Mann, Ph.D.

12:30 p.m.

LUNCH
MAIN DINING ROOM

2:00 p.m.

Group Discussion - By School Teams
Conflict and Power Interfaces In
the Medical Center
Suggested Subjects for Discussion:
● Dean and Department Chairman
● Dean and Hospital Administration
● Faculty and Students
● Medical School and Hospital
● Medical Center and University
● Medical Center and Community
● Hospital Administration and Faculty
Resource Persons will Join Discussion Groups
MOSAIC ROOM
PLAZA 1, 2, 3, 4, 5

7:00 p.m.

COCKTAILS & DINNER
GARDEN TERRACE

9:00 p.m.

Resource Persons - Available for Continued
Informal Discussions

TENTATIVE SCHEDULE - Continued

Sunday, September 27

9:00 a.m.

Discussion of Topical Issues
Generated by Seminar
H. Lawrence Wilsey
John R. Hogness, M.D.
Russell A. Nelson, M.D.
University of Michigan Faculty
MOSAIC ROOM

10:15 a.m.

COFFEE

10:45 a.m.

Summation, Critique and Evaluation

12:00 noon

LUNCH
MAIN DINING ROOM

WIVES PROGRAM

The wives are invited to attend all of the Plenary Sessions and, of course, the social activities attendant to the seminar.

Additionally, we have planned the following activities which we believe will be more specifically directly related to some of their interests and possible concerns:

Friday, September 25

10:45 a.m.	Identification of Problems of
11:45 a.m.	Importance to Wives of Medical Center Administrators
2:00 p.m.	Discussion of Problems Identified
3:00 p.m.	in Morning Session

Saturday, September 26

10:45 a.m.	Presentations and Discussion
11:45 a.m.	"Impressions of a Major Consultant on the Importance of Wives Whose Husbands are Involved in Management or Administration" H. Lawrence Wilsey
2:00 p.m.	Discussion Groups Paralleling
4:00 p.m.	Those of Their Husbands "Conflict and Power Interfaces in the Medical Center"

IRS RULING ON AMOUNTS PAID TO INTERNS AND RESIDENTS

Internal Revenue Bulletin No. 1968-41 dated October 7, 1968 (copy attached) contained information regarding the IRS ruling that amounts paid to interns and resident physicians by a hospital operated in conjunction with a state medical school are compensation for services and are not excludable from gross income as scholarships or fellowship grants (Ruling No. 68-520).

Senator Warren G. Magnuson introduced a bill (S. 3073) on October 27, 1969 which would amend section 117 of the Internal Revenue Code to exclude from gross income up to \$300 per month of scholarships and fellowship grants for which the performances of services is required. The amendment was described as being offered in the hope of correcting a misunderstanding that has existed since the original enactment of section 117 in 1954. Senator Magnuson stated in his remarks on the floor that he believes Congress intended a relatively broad interpretation of "scholarships" and "fellowship grants" as used in section 117 to encourage a well-educated citizenry by excluding from ordinary income amounts which were within the meaning of these words. Instead, he said, the IRS has given the words a narrow interpretation and hence many graduate students who are required to perform teaching, research, or other services as a condition for receiving financial assistance from educational institutions are being subject to extreme financial hardship. The proposed amendment creates a presumption that minimal amounts are to be excluded from gross income as within the meaning of the terms "scholarship" or "fellowship grant" despite the fact that recipients are required to perform certain services. A copy of the bill is attached.

Senator Magnuson's legislative assistant stated that the bill had been introduced at the request of Bazel & Bazel & Gates, a law firm in Washington representing students who are being checked out for back taxes. He also said that some constituents have objected to students who are financing their own education by employment not being included. He advised that there will be no committee action on the bill, although Senator Magnuson may consider reintroducing it in the next Congress.

A similar bill (H.R. 16101) was introduced in the House by Representative Lloyd Meeds. The House Ways and Means Committee has scheduled no action on Representative Meeds bill.

A source at the IRS informs us that a new ruling can be expected in the near future, but could give no additional information.

The April 1, 1970 issue of the Journal of the American Hospital Administration carried in its column "Law in Brief" an article by Arthur H. Bernstein, legal consultant, setting forth several cases on this subject. He cautioned that the material did not constitute legal advice, however. An excerpt from the article is attached.

Internal Revenue

No.
1968-41

9

OCTOBER 7, 1968

BULLETIN

HIGHLIGHTS OF THIS ISSUE

These synopses are intended only as aids to the reader in identifying the subject matter covered. They may not be relied upon as authoritative interpretations.

INCOME TAX:

Amounts paid to interns and resident physicians by a hospital operated in conjunction with a State medical school are compensation for services and are not excludable from gross income as scholarship or fellowship grants. **Rev. Rul. 68-520, page 8.**

Amounts paid to interns and resident physicians by a hospital operated in conjunction with a State medical school are compensation for services and are not excludable from gross income as scholarships or fellowship grants.

SECTION 117.—SCHOLARSHIPS AND FELLOWSHIP GRANTS

26 CFR 1.117-4: Items not considered as scholarships or fellowship grants. **Rev. Rul. 68-520**

Advice has been requested whether, under the circumstances set forth below, amounts paid to interns and resident physicians by a hospital operated in conjunction with a school of medicine at a state university are excludable from gross income as scholarships or fellowship grants under section 117 of the Internal Revenue Code of 1954.

A state university operates a hospital having an average daily patient population of more than 1,000 patients. The hospital's outpatient department and emergency rooms treat an additional 500 patients each day. In some cases, special referrals are received from admitting physicians where the case appears to have unusual educational value. The hospital has a medical staff of 350 physicians and an intern and resident staff (house staff) of approximately 300.

The interns and residents are assigned patient care responsibilities commensurate with their training and experience. A specific number of beds are assigned to each intern and resident, depending on the

nature of the service involved. For example, an intern or resident in the eye service may be assigned as many as 30 patients. The overall ratio of interns and residents to patients is approximately one to four.

Section 117(a)(1) of the Code relating to scholarships and fellowship grants, provides that subject to certain conditions and limitations provided by section 117(b), amounts received by individuals as scholarship and fellowship grants are excludable from gross income.

Section 1.117-3(c) of the Income Tax Regulations defines the term "fellowship grant" to mean an amount paid or allowed to, or for the benefit of an individual to aid him in the pursuit of study or research.

Section 1.117-4(c) of the regulations provides, in part, that amounts paid or allowed to, or on behalf of an individual to enable him to pursue studies or research are considered to be amounts received as a scholarship or fellowship grant, if the primary purpose of the studies or research is to further the education and training of the recipient in his individual capacity and the amount provided by the grantor for such purpose does not represent compensation or payment for services.

In the instant case, even though some patients are referred on the basis of their educational value, the primary function of the hospital is to provide general medical services to its patients. The intern and resident staff is furthering that objective. Each is responsible for a fixed number of patients. Each intern and resident is therefore performing services within the meaning of section 1.117-4(c) of the regulations.

Accordingly, amounts paid to the interns and resident physicians by the hospital in the instant case are compensation for services and not excludable from gross income as scholarships or fellowship grants under section 117 of the Code. See Revenue Ruling 65-117, C.B. 1965-1, 67, holding that amounts paid to licensed resident physicians under a State hospital psychiatric trainee program are not excludable from their gross incomes under section 117(a) of the Code.

S. 3073

IN THE SENATE OF THE UNITED STATES

OCTOBER 27, 1969

Mr. MAGNUSON introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend section 117 of the Internal Revenue Code of 1954 to exclude from gross income up to \$300 per month of scholarships and fellowship grants for which the performance of services is required.

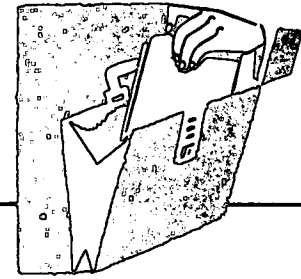
1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 That (a) section 117 (b) (1) of the Internal Revenue Code
4 of 1954 (relating to limitations on exclusion of scholarships
5 and fellowship grants) is amended by inserting "in excess of
6 \$300 per month" after "that portion of any amount received"
7 in the first sentence.

8 (b) The amendment made by subsection (a) shall
9 apply to taxable years beginning after December 31, 1965.

II

LAW IN BRIEF



ARTHUR H. BERNSTEIN

Income tax time

With the approach of April 15, hospital and medical personnel, like most Americans each year, show a deep concern for identifying possible tax deductions and exemptions.

Those in high tax brackets, such as many practicing physicians, have an understandable interest in reducing their taxable income. Even relatively low paid interns and residents have an incentive to reduce their tax burden. In each instance it is possible for the nonprofit hospital to play a sympathetic role even though it is exempt from income tax obligations.

Under the Federal Internal Revenue Code the tax on certain income is either reduced or waived if the income can be defined as a fellowship grant. This is a sum paid to an individual to aid him in the pursuit of study or research, primarily for the purpose of that study and not as compensation for services he may render to the granting institution. Problems arise when there is a *quid pro quo* and the recipient of the grant partially furnishes useful services in exchange for the educational experience and the stipend. In recent litigation interns and residents have done poorly in attempting to convince the courts and the Internal Revenue Service that their compensation is an exempt educational grant rather than taxable wages.

PSYCHIATRIC RESIDENT'S STIPEND

A resident in psychiatry at a state mental hospital submitted his dispute with the IRS to a federal jury. The issue was whether his fellowship grant primarily was made for the purpose of furthering his education and training or as compensation for the useful services he performed for the hospital. The jury was instructed to consider a number of factors in reaching a determination of the question: the purposes of the resident in accepting the residency; the objectives of the hospital in accepting the resident; a comparison of the services performed by the resident with those of other hospital personnel not receiving grants; the comparative benefits received by the hospital for services rendered and by the resident in the form of education and training; the nature of supervision and direction of the resident as contrasted with exercise of independent discretion; and comparison of the resident's compensation and fringe benefits with those of other employees performing similar work. The

Arthur H. Bernstein is legal consultant for *Hospitals, J.A.H.A.*; he previously was staff attorney. This material is not legal advice and should not be used to resolve legal problems. For legal advice, a hospital should consult its attorney.

jury decided that the resident's payments properly were classified as compensation for services and, therefore, were fully taxable as ordinary income and not subject to the favorable tax treatment of fellowship grants. *Taylor vs. U.S.*, 68-2 USTC ¶9488 (D.C., Ark, June 10, 1968).

Another resident contested the tax collector in the Tax Court. He had fulfilled a residency in a tax-supported county hospital whose major function was the care of the indigent patients of the county. The Tax Court considered the relativity of the resident's services to the hospital and the hospital's provision of education and experience for the resident. It concluded that the primary purpose of the relationship was the provision of services by the physician for the benefit of the hospital in furnishing care for patients. Whatever benefits the resident obtained through instruction in the hospital were incidental to the services rendered by him to the hospital. So this resident also failed to obtain any exclusion of his stipend for tax purposes. *Arnaud vs. Commissioner*, TC Memo 1968-290, TCM 1541 (Dec. 19, 1968).

FEDERAL GRANT TAXABLE

Even a carefully arranged residency in a federal hospital provides no protection against the revenue agent. This lesson was learned by a physician who was a candidate for an additional degree in physical medicine and who was a resident in a Veterans Administration hospital. In order to earn the degree, it was necessary for him to obtain three years of clinical experience, spend certain time in a classroom, and prepare a thesis resulting from a research project. The physician fulfilled the clinical requirements by entering into a contract with a VA hospital that had a close working relationship with the degree-granting university. He performed certain services at the hospital during the three-year period as a "career resident." These included admitting, examining, and prescribing for patients; directing technicians; and conducting classes. When it came time to pay income taxes, the physician insisted that his compensation from the hospital was a completely tax-free fellowship because the work he did there was in fulfillment of the degree requirements. Under Internal Revenue Service Regulations, if certain experience is a prerequisite to a degree and is required of all candidates, resulting compensation may be considered to be exempt from income taxes. However, the exemption did not apply in this case because the government classified the payments as salary. In fact, it contended that the physician took the job merely to earn living expenses for his family while pursuing the degree.

It pointed out the fact that the physician received the same fringe benefits as did other employees in the hospital who enjoyed no tax exemption. The government won when the Federal District Court jury found that the payment was made primarily for the benefit of the hospital rather than to offer financial assistance to the physician to further his studies. *Quast vs. US.*, 293 F. Supp. 56 (D.C., Minn., 1968).

TEACHING HOSPITAL PAY TAXED

When interns and residents serve in a hospital that is part of a state university and medical school complex, is this relationship likely to assist in finding that stipends are fellowship grants? The IRS does not think so and has published a ruling to this effect. It discusses a large hospital serving 1000 inpatients and 500 outpatients each day and providing unusually good educational experience for its 350 interns and residents. Each intern and resident was assigned to patient care responsibilities that averaged four patients per staff member. Nevertheless, the ruling viewed the purpose of the hospital as the main determinant of the tax issue. Because the institution has as its primary purpose the provision of medical care to its patients, assigning interns and residents to a fixed number of patients simply accomplishes the hospital's intent. In this case, the interns and residents were performing services for the benefit of the hospital. In the view of the IRS, a tax-exempt scholarship or fellowship grant can be recognized only when the primary purpose of the study to be financed is to further the education and training of the recipient and, further, when the payment does not represent compensation for services. Here the grants are tainted because the hospital received considerable value for its stipends and the interns and residents are exposed to full income taxation. Rev. Rul. 68-520, C.B. 1968-2, 58.

A similar fate befell resident trainees in psychiatry at a state hospital when they litigated a claim in a federal court. The jury, applying the standards dictated by the judge, made specific findings. It reported that the state's objective was to acquire physicians to work at the hospital and treat its patients. It really was not motivated by the opportunity to afford the physicians further experience and education. The jury further found that the payments to the physicians were compensation for services rendered under the direction and supervision of the hospital's administrator and his staff. *Lingl vs. Charles*, 68-1 USTC ¶9153 (D.C., Ohio, Dec. 11, 1967).

HOSPITAL IS NO SCHOOL

Although only the first \$300 per month of an intern's or a resident's hospital stipend could be tax-free if recognized as a fellowship grant, the savings are not inconsiderable, specially now that intern's and resident's payments frequently are in excess of the salaries of other hospital personnel. For the hospital, tax exempt status for any part of a staff member's compensation would be the equivalent of a raise without cost to the institution. Consequently, the hospital's interest in these cases is evident. Even the parents of the interns and residents have a tax involvement. If they have been helping to finance their

child's medical studies, they generally lose the dependency exemption when the child ceases to be enrolled in an educational institution. Federal tax laws permit parents to claim adult children as exemptions if half the child's support is furnished by the parents and the child is a full-time student. Unfortunately for the parents of interns and residents, their offspring generally are not enrolled in a conventional educational institution. This is true even though the teaching hospital they serve may have a director of medical education, a classroom, library facilities, and medical staff members who devote considerable time to teaching. The IRS has ruled that, to be classified as an educational institution, the organization must have a regular faculty, curriculum, and organized body of students in attendance where the educational activities are performed. The Congressional intent in permitting parents to claim the dependency of students was to recognize the kind of education carried on in institutions primarily engaged in education. A teaching hospital is not an educational institution, according to the IRS, because its primary purpose is to provide medical care for the sick and injured. It is possible, however, for a part of the hospital to be established as an educational institution and qualify as such. A school of nursing would be an example. Rev. Rul. 68-604, C. B. 1968-2, 63.

GIFTS IN KIND DEDUCTIBLE

A physician who was a collector of medical journals decided to contribute them to a charitable hospital. This is perfectly proper and gives rise to a charitable deduction for the donor. The problem was evaluation of the gift. Is the appropriate value what a dealer would pay for the books? No, it is what a willing buyer would pay on the open market. Of course, determining the fair market value of an item that rarely is sold is no mean task. In this case, the taxpayer-physician claimed that the books were worth \$1510. The government's expert placed the value at \$415. The Tax Court accepted the latter figure and the Federal Court of Appeals did not reverse the decision. The same physician also claimed a deduction for raffle tickets that he purchased with the intent of providing funds for charity. Inasmuch as he had some chance of winning one of various prizes, what he bought had value. He could not show what little chance he had of winning and, therefore, he could not demonstrate that he paid far more than the raffle ticket was worth and should be allowed to deduct the difference. While he was unable to deduct the expenditure for raffle tickets, the taxpayer would have been fully taxed on any winnings. Clearly, raffle tickets bring no tax favors. *Goldman vs. Commission on Internal Revenue*, 388 F. 2d. 476 (C.A. 6, 1967).

Another physician owned a building and a lot that he was willing to transfer to a nonprofit hospital. A professional appraisal was made and the value of the property was set at \$131,000. The doctor decided to sell the property to the hospital for \$97,000 and consider the difference to be a gift to the hospital for which he would want to take a charitable deduction on his income tax. Unluckily for the physician,

(Please turn to page 179)