Significant Index No. 4971.00-00

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

200622053

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

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SE:T:EP:RA:T:A2

Re:

Company =

This letter constitutes notice that waivers of the 10 percent excise tax due under section 4971(f)(1) of the Internal Revenue Code ("Code") and the 100 percent tax under section 4971(f)(2) of the Code have been granted with respect to the liquidity shortfall for the Plan for the first quarter of the plan year ending December 31, .

The waivers of the 10 percent tax and the 100 percent tax have been granted in accordance with section 4971(f)(4) of the Code. For any quarter for which a waiver has been granted, the amount of the waiver is equal to 10 percent or 100 percent, as applicable, of the amount of the excess of (1) the liquidity shortfall of the Plan (as determined under section 412(m)(5)(E) of the Code) for the quarter, over (2) the aggregate amount of any contributions paid in the form of liquid assets which served to reduce the liquidity shortfall for the quarter and which were paid to the Plan between the last day of the quarter and the due date of the required installment under section 412(m) for such quarter.

The liquidity shortfall for the Plan arose as a result of the inability of the Company to satisfy the liquidity requirement of section 412(m)(5) of the Code for the quarter ending March 31, .

The Plan is a single employer defined benefit plan with a plan year ending December 31.

The Company is a not-for-profit corporation that provides medical and mental health services to underprivileged and indigent members of the community. The Company is funded largely through federal grants, Medicaid reimbursements, and public donations. The Company maintains the Plan.

In recent years, the Company has been under substantial financial strain due to Medicaid reimbursement issues and the general scarcity of federal grants. Furthermore, the Company underwent a series of management changes in and that resulted in the complete replacement of the senior management leadership team. During this time, the Company also experienced an unusually high turnover rate for many senior level physicians and other long-term employees. As a result of the high turnover rates, an unusually large number of single sum distributions were paid from the Plan in and .

In early , the actuarial firm providing services to the Plan was changed. Due to the process of transition to the new actuarial firm and management changes at the Company, the new actuarial firm was unable to perform a liquidity shortfall analysis until December , when the information available to provide a complete analysis of the Plan's funding status was provided to the actuary. When the analysis was completed, it was discovered that a liquidity shortfall in the amount of had occurred for the quarter ending March 31, .

In a letter dated January 4, , the actuary informed the Company that a liquidity shortfall had occurred for the quarter ending March 31, , and that excise taxes under section 4971(f) of the Code would apply. On January 14, 2005, the actuary and the Company met to discuss the liquidity shortfall. Because of financial constraints, the Company realized that it would not be able to correct the liquidity shortfall right away.

After this meeting, the Company formulated a plan to correct the liquidity shortfall. On January 24, , the Company made a contribution of to the Plan. The Company made additional contributions to the Plan in the amounts of $ , $ and on April 6, , April 14, , and July 14, , respectively. The total of these contributions is , which not only corrected the liquidity shortfall, but met the minimum funding requirement of section 412 of the Code for the Plan for the plan year ending December 31, . However, the liquidity shortfall was not corrected until after March 31, , so the 100% excise tax of section 4971(f)(2) became applicable to the liquidity shortfall.

Based on the information submitted with the request, the liquidity shortfall arose as a result of significant management changes in the Company and the transition to a new actuary servicing the Plan. As soon as the transition issues were sorted out, the new actuary recognized that there was a liquidity shortfall in the Plan and notified the Company. These facts indicate that the liquidity shortfall was due to reasonable cause and not willful neglect.

While the Company was unable to correct the liquidity shortfall right away as a result of financial constraints, the Company did immediately formulate a plan to correct the liquidity shortfall, and made sufficient contributions to the Plan to correct the liquidity shortfall. Hence, the Company took reasonable steps to remedy the liquidity shortfall.

Based on the information above we conclude that the liquidity shortfall experienced by the Plan was due to reasonable cause and not willful neglect and that reasonable steps were taken to remedy such liquidity shortfall.

This ruling is made with the understanding that all the representations made pursuant to this request are accurate. If such representations made pursuant to this request are not accurate, the Company may not rely upon this ruling letter.

This ruling is directed only to the taxpayer that requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited by others as precedent.

We have sent a copy of this letter to the Manager, EP Classification in , to the Manager, EP Compliance Unit in and to your authorized representative pursuant to a power of attorney on file in this office.

If you require further assistance in this matter, please contact

Sincerely yours,

James E. Holland, Jr., Manager
Employee Plans Technical