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Sarah Hall Ingram, Commissioner, Tax Exempt and Government Entities Division
Victor Song, Chief, Criminal Investigation
Internal Revenue Service
Room 5203
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Washington, DC 20044

Dear Commissioner Ingram and Chief Song:

I am writing to call your attention to an article by the investigative journalism organization California Watch regarding apparent tax evasion involving several private foundations controlled by a controversial Southern California businessman, Dr. Prem Reddy. In the piece, a number of tax experts state that the hospital chain owner may have attempted to avoid a substantial tax bill through questionable handling of a donation.

I am concerned that the potential transgressions described may only represent the tip of the iceberg. Dr. Reddy's interests are substantial, as he not only controls two non-profit hospitals through the Prime Healthcare Services Foundation, but as founder and Chairman of Prime Healthcare, runs twelve additional for-profit hospitals under the same umbrella.

California Watch reports the financial transactions in question involve the Dr. Prem Reddy Family Foundation (RFF), of which Reddy is also Chairman. According to tax experts in the article, Reddy's foundation "may have avoided hundreds of thousands of dollars in federal taxes through a questionable charitable gift." Another expert suggested that the IRS and state attorney general's office should launch an investigation to determine whether these transactions were structured specifically to avoid taxes.

In December, 2008, RFF donated \$1.05 million to another charity, the American Telugu Association. Telugu had financial problems at that time, which led to many of its directors leaving to form a new organization. Dr. Reddy was one, and he asked Telugu to refund his gift, which it did in April, 2009, minus a small handling fee.

However, according to public records, this refund went to a different charity, the Prime Healthcare Services Foundation (PHSF), which runs the company's non-profit hospitals. On its 2009 tax return, PHSF reported Tegulu's repayment as a donation, not a refund, which creates tax issues, according to tax experts quoted by California Watch.

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By federal law, such foundations are required to donate, at minimum, 5% of their assets to sanctioned charities, or pay a hefty 30% tax on that amount. Tax experts who reviewed RFF's filings for California Watch stated the organization did not appear to have met either threshold.

In its 2008 tax return, RFF assigned its \$1.05 million donation to Tegulu toward meeting this obligation. However, when this refunded amount is backed out, RFF fell \$217,000 short of meeting its required donation level. No corresponding payment is listed in its tax returns.

Additionally, one tax expert cited by California Watch said the transaction might also be subject to a separate IRS tax covering donations between private foundations. If so, that tax liability could run an additional \$210,000.

Prime Healthcare is well-known for buying financially-strapped hospitals and turning them around through aggressive business practices. As a result of publicity from Prime's Medicare billing irregularities, the hospital chain has been plagued by allegations of Medicare fraud over the past year.

A recent report by California Watch details additional questionable practices by the chain, including allegations that Prime hospitals are admitting patients unnecessarily, impeding access to their own physicians, and have potentially overbilled Medicare to the tune of \$202 million in the process.

It is my understanding that the Inspector General of Health and Human Services is aware of the Medicare issues. However, I am concerned about tax-related malfeasance at Dr. Reddy's rapidly-growing, tax-exempt non-profits, which may extend beyond the serious issues raised by California Watch.

I believe the aggressive practices at Reddy's hospitals strain the public's faith in the integrity of Southern California hospitals. We should not permit a corresponding breach of trust to damage good name of reputable foundations and charities as well. I urge you to take all appropriate steps to investigate both this issue and the non-profit organizations involved.

I appreciate your attention to this matter.

Sincerely,



BOB FILNER
Member of Congress

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