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THOUGHT LEADERSHIP

LEGAL UPDATES

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Draft Tax Reform Bill Would End Exemption for Qualified 501(c)(3) Bonds

Service

Nonprofit Organizations & Religious Institutions

Professional

JONATHAN W. GIOKAS

ST. LOUIS:

314.480.1713

JONATHAN.GIOKAS@HUSCHBLACKWELL.COM

On November 2, 2017, the House Ways and Means Committee released draft text of H.R. 1, the Tax Cuts and Jobs Act, proposing significant changes to the Internal Revenue Code. Of particular concern to private hospitals, healthcare systems and educational institutions operating as 501(c)(3) entities is the bill's proposed termination of the tax exemption available to "qualified 501(c)(3) bonds," which would substantially increase borrowing costs for these entities.

The 501(c)(3) exemption has traditionally allowed nonprofit hospitals, healthcare systems and educational institutions to access capital markets at tax-exempt rates. The draft legislation would eliminate the tax exemption applicable to all "qualified private activity bonds" (QPABs), which include as a subset qualified 501(c)(3) bonds, effective January 1, 2018. The bill would also prohibit the "advance refunding" of any tax-exempt bonds after January 1, 2018. This mechanism has historically enabled nonprofit borrowers to achieve potential interest savings by refunding bonds that are outside of their optional redemption period.

What This Means to You

Passage of the Tax Cuts and Jobs Act would carry significant consequences for many health systems, hospitals, educational institutions and other 501(c)(3) entities with respect to the cost of capital. If the proposed legislation is enacted in its current form, it would substantially increase borrowing costs for these entities.

While further debate and discussion on the draft legislation are expected, industry groups are encouraging nonprofit borrowers to share their concerns with elected officials and to begin developing capital strategies in the event the legislation is passed as proposed.

Contact Us

For more information on how the proposed legislation may affect your organization, please contact Jonathan W. Giokas or a member of Husch Blackwell's Healthcare, Life Sciences & Education team.