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Non-Profit Hospitals, Tax-Exemption and Community Benefits

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As Georgia grapples with how to improve health care access for those without insurance, policymakers are revisiting the costs and benefits of hospital tax-exemption. Many consider care for the uninsured (uncompensated care) to be central to a non-profit hospital's community value.

Hospitals provide a wide array of community benefits, including charity care.

Yet non-profits may provide other important benefits to communities that are more difficult to measure, such as medical education, research, and community programs. Emergency services, high-level trauma care, and burn units are also examples of essential but unprofitable services that may be classified as community benefits.

How do Georgia's non-profit and for-profit hospitals compare on community benefits?

In Georgia, non-profit hospitals' share of uncompensated care does not differ significantly from otherwise similar for-profit hospitals, according to the Congressional Budget Office (CBO)[1]. Before adjusting for hospital characteristics, uncompensated care costs were 6 percent of total operating expenses for non-profits and 5.2 percent for for-profit hospitals[2].

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The U.S. Government Accountability Office (GAO) and the CBO studied uncompensated care and other community benefits in five states: California, Florida, Georgia, Indiana and Texas. Uncompensated care shares varied widely, and the non-profit and for-profit ranges overlapped. This means that some non-profit hospitals provided substantially less uncompensated care than some for-profits. An Internal Revenue Service (IRS) survey found that 99 percent of non-profit hospitals in the U.S. reported providing uncompensated care, devoting a median 3.9 percent of their total revenue. However, the survey also revealed wide variation in the amounts of uncompensated care provided.[3] This finding echoes the GAO's, which concluded that "a small number of non-profit hospitals accounted for substantially more of the uncompensated care burden than did others receiving the same tax preference."

Looking at community benefits other than uncompensated care, the GAO found no clear distinctions between non-profit and for-profit hospitals.

Increased scrutiny on value of hospital tax-exemption versus community benefits

Hospital tax-exemptions were worth an estimated $12.6 billion nationwide in 2002, roughly half from federal exemption. Local property tax exemptions were the single largest component (25 percent). In exchange for tax preferences, non-profit hospitals provide a wide array of community benefits, including charity care, but these benefits are difficult to define, quantify, and standardize.

The question of whether community benefits justify tax preferences was the focus of hearings before the House Ways and Means Committee in 2005[4] and the Senate Finance Committee in 2006[5]. The IRS conducted a detailed survey of more than 500 non-profit hospitals on the types and amounts of their community benefit expenditures[3]. Last year, the National Health Policy Forum concluded that, "economic considerations have led hospitals to minimize their uncompensated care burden at a time when the need for charity care appears to be growing[6]."

An emerging policy goal is to increase transparency and consistency in hospital reporting of community benefits. Starting in 2009, the IRS will require that non-profit hospital systems quantify the amount of charity care and other

community benefits that they provide[7].However, some consumer advocacy groups argue the IRS should do more to hold non-profit hospitals accountable on both reporting and provision of community benefits[8].

Non-profit health care providers recognize the need for clear and uniform communication on community benefits but are confronted with multiple guidelines and standards, including those from the IRS, American Hospital Association, Centers for Medicare & Medicaid Services, Catholic Health Association, VHA, Inc. and the Healthcare Financial Management Association. Across the guidelines, there is consensus on defining charity care and the unreimbursed cost of Medicaid as community benefits, but dissent on counting bad debt and the unreimbursed cost of Medicare. There is agreement on including the following activities as community benefits: cash and in-kind contributions, community benefit operations, community health improvement services, health professions education, medical research and subsidized health services. Standards diverge on whether to count community-building activities, such as economic development and housing programs.[9]

Differences in uncompensated care shares between non-profit and for-profit hospitals are larger in states with stricter regulations.

Building on their prior analysis of community benefit provision, the GAO recently reviewed relevant standards, practices, and laws in four states: California, Indiana, Massachusetts, and Texas.[9] The GAO concluded that differences in community benefit definitions result in substantial variation in the amount of community beneift that hospitals report.

Do state laws affect provision of community benefits?

Research regarding the effects of state laws on uncompensated care provision is limited and results are mixed. The CBO's analysis found that differences between non-profit and for-profit hospitals were largest in states with the strictest community benefit laws, but a very recent analysis of regulations in 17 states found just the opposite: the gap between non-profit and for-profit hospitals actually narrowed with strict community benefit requirements[10]. In addition, there is evidence that other regulations, such as Certificate of Need laws, have important effects on the provision of uncompensated care - and that such regulations affect non-profit and for-profit hospitals differently. State laws can influence uncompensated care provision, but additional research is needed to determine which regulations most effectively maximize access to care for the uninsured.

State laws on community benefits vary widely[11]

Eighteen states, including Georgia, have enacted community benefits legislation. Nine states, including Georgia, require provision of charity care; an equal number recognize other community benefits. Twelve states, not including Georgia, recommend or require a plan based on community needs; and five explicitly require a community health needs assessment. Five states (Alabama, Mississippi, Pennsylvania, Texas, and West Virginia) require non-profit hospitals to meet quantitative standards for the amounts of community benefit they provide. Four states (Illinois, Indiana, Maryland, and Texas) have significant penalties for non-compliance.[9] As part of a Certificate of Need application, Georgia requires hospitals to provide three percent of their Adjusted Gross Revenue in indigent/charity care or be fined an equivalent amount. This provision applies to both for-profit and non-profit hositals.

Conclusion

While non-profit and for-profit hospitals in Georgia provide similar levels of uncompensated care, the actual value of community benefits remains unmeasured and unreported. A first step for understanding whether non-profit hospitals provide community benefits consistent with the level of their exemption may be to develop a standard for defining and measuring community benefit.

[1]Congressional Budget Office (December 2006). Nonprofit Hospitals and the Provision of Community Benefit. Available at: http://www.cbo.gov/ftpdocs/76xx/doc7695/12-06-Nonprofit.pdf

[2]United States Government Accountability Office (May 2005). Non-Profir, For-Profit, and Government Hospitals: Uncompensated Care and Other Community Benefits. Available at: http://www.gao.gov/new.items/d05743t.pdf

[3]Internal Revenue Service (July 2007). Hospital Compliance Project Interim Report (Summary of Reported Data). Available at: http://www.irs.gov/pub/irs-tege/eo_interim_hospital_report_072007.pdf

[4]House Ways and Means (May 2005). Full Committee Hearing on the Tax-Exempt Hospital Sector. Archive available at: http://waysandmeans.house.gov/hearings.asp?formmode=detail&hearing=415

[5]Senate Finance Committee (September 2006). Taking the Pulse of Charitable Care and Community Benefits at Nonprofit Hospitals. Archive available at: http://www.senate.gov/~finance/sitepages/hearing091306.htm

[6]Salinsky, Eileen (April 2007). What Have You Done for Me Lately? Assessing Hospital Community Benefit http://www.nhpf.org/pdfs_ib/IB821_HospitalCommBenefit_04-19-07.pdf

[7]Internal Revenue Service (December 2007). Form 990 Redesign for Tax Year 2008 (Filed in 2009). Available at: http://www.irs.gov/charities/article/0,,id=176613,00.html

[8] Community Catalyst, Inc. (September 2007). Consumer Groups Urge IRS to Improve Community Accountability for Nonprofit Hospitals. Available at: http://www.communitycatalyst.org/press_room?id=0034

[9]United States Government Accountability Office (September 2008). Nonprofit Hospitals: Variation in Standards and Guidance Limits Comparison of How Hospitals Meet Community Benefit Requirements. Available at http://www.gao.gov/new.items/d08880.pdf

[10] Zhang, Lei (2008). Uncompensated Care Provision and the Economic Behavior of Hospitals: The Influence of the Regulatory Environment. Dissertation. Georgia State University.

[11]Community Catalyst, Inc. (November 2007). Health Care Community Benefits: A Compendium of State Laws. Available at: http://communitycatalyst.org/doc_store/publications/community_benefits_compendium_2007.pdf