## What are hospital community benefits?

ospital community benefits are initiatives and activities undertaken by nonprofit hospitals to improve health in the communities they serve.

### The Federal Framework

Although community benefits may be expressions of a nonprofit hospital's charitable mission, they also serve as justification for its tax exemption. Historically, nonprofit hospitals were recognized by the Internal Revenue Service (IRS) as charitable organizations that qualified for tax exemption

because of their provision of charity care to those unable to pay. In

#### What is tax exemption worth?

- There are approximately 2,900 nonprofit hospitals in the United States
- Financial benefits to these hospitals from federal, state, and local tax preferences was estimated (in 2002) to be worth \$12.6 billion annually

1969, the IRS significantly expanded the kinds and scope of activities that could support a hospital's tax-exempt status by establishing community benefit as the legal standard for hospital tax exemption. Although charity care has remained an important element of community benefit, the community benefit standard established that hospitals' charitable tax exemption also may be supported by diverse hospital activities designed to improve the health of the community as a whole. The kinds of hospital activities that qualify as community benefits may continue to expand as the standard evolves.

Currently, federal community benefits can include providing free and discounted care to uninsured and low-income patients, reimbursement "shortfalls" associated with participation in the Medicaid program, activities to promote population health improvement, programs to increase access to care, medical research, training for health professionals, and other activities and contributions that benefit the hospital's community.

The Affordable Care Act (ACA) also established "additional requirements for charitable hospitals" under § 501(r) of the Internal Revenue Code. This requires every tax-exempt hospital to:

- Conduct a community health needs assessment at least every three years and develop an implementation strategy to address the needs identified by the assessment
- Adopt and publicize a written financial assistance policy
- Limit charges, billing, and debt collection practices directed to individuals who qualify for financial assistance

All federally tax-exempt organizations are required to report financial data to the IRS on Schedule H of Form 990. Schedule H standardizes what counts as a community benefit and requires nonprofit hospitals to provide specific information about their policies and practices relating to community health needs assessment, financial assistance, hospital charges, billing and collections, and the other new federal requirements for charitable hospitals.

## What community benefits can be reported on Schedule H?

- Financial assistance at cost
- Unreimbursed cost of participation in Medicaid and other means-tested government programs
- Community health improvement services and community benefit operations
- Health professions education
- Subsidized health services
- Research
- Cash and in-kind contributions for community benefit

### The State and Local Framework

Significant tax exemptions typically are available to nonprofit hospitals on state and local levels as well. These may include exemption from state income tax, property tax, and sales tax. From state to state, approaches to regulating nonprofit hospitals' community benefits differ markedly. State-level community benefit reporting requirements may be voluntary, mandatory, or nonexistent. They may be based in statute, regulation, or other agency action, or may rely on written hospital-agency agreements. States may mandate the type and amount of community benefits that can support tax exemption or may require that community benefits advance state-defined objectives. Conversely, states may allow hospitals flexibility to determine the nature and focus of the benefits they provide, consistent with their communities' needs. In most cases, state and local-level community benefit requirements predate the ACA and have remained unchanged since its enactment.

# Moving forward, state and local decision-makers will need to consider:

- Whether to adjust existing state community benefit policies and reporting requirements to align with federal requirements, or to retain independent state standards
- How to encourage and support efficient, effective nonprofit hospital community benefit activities and investments that are both responsive to community needs and priorities and supportive of state policy objectives
  - How to provide guidance for, encourage, and support broad-based communityfocused decision-making around community benefit priority setting

- How to encourage and support collaboration among public health agencies, community stakeholders, and hospitals to leverage resources and address community health needs in a coordinated, non-duplicative way
- Whether (and if so, how) to adopt strategies that encourage the alignment of hospital community benefit policies and initiatives across a community, state, or region
- Whether to adopt consumer-protective regulations that supplement federal requirements relating to financial assistance, hospital charges, and billing and collection practices
- Whether to adopt state community benefit reporting structures that facilitate nonprofit hospital reporting of community building activities

#### Who are the decision-makers?

- State and local health officers and health department staff
- Hospital regulators
- Legislators
- Revenue collection and budgeting agency staff
- Community leaders

# The Hilltop Institute's Hospital Community Benefit Program

Funded by the Robert Wood Johnson Foundation and the Kresge Foundation, the program is a central resource created specifically for state and local policy- and decision-makers who seek to ensure that tax-exempt hospital community benefit activities are responsive to pressing community health needs. The program publishes issue briefs and newsletters examining important issues and new federal and state developments relevant to community benefit.

www.hilltopinstitute.org/hcbp.cfm