

Environmental Health Community Benefits



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Tax Exemption for Hospitals

- Neither Code nor Regulations explicitly provide for exemption of hospitals
- Original IRS interpretation of charitable: relief of the poor
- Rev. Rul. 56-185 – exemption for hospitals that accepted patients without ability to pay to the extent of their financial ability

Revenue Ruling 69-545

- Recognized as charitable purpose under general law of charity
- Beneficial to community even though not all directly benefit – provided class is not so small that there is no benefit to the community
- Hospital must benefit class broad enough to benefit community and be operated for public rather than private interests to be exempt

Revenue Ruling 69-545

- Community Board
- Open medical staff
- Emergency room open to all regardless of ability to pay
- Hospital otherwise admits patients able to pay, either themselves or through insurance, Medicare or Medicaid
- Excess funds applied to facilities, patient care, medical training, education & research

Community Benefit Standard

- Rev. Rul. 69-545 modified, but did not revoke, Rev. Rul. 56-185 – charity care can still be used to show community benefit
- Rev. Rul. 83-157 modified Rev. Rul. 69-545 to illustrate situations where no emergency room required
- Research and innovation, medical education, care for low-income patients, community services and quality of care

Community Benefit Standard

- Community benefit standard allows flexibility in determining charitable status
- Changes in industry made specific factors in Rev. Rul. 69-545 less relevant
- Anecdotal evidence only of community benefit activities

Schedule H

- Form 990, Schedule H, Hospitals, was designed and implemented, beginning with 2008 tax years, to facilitate information reporting by organizations that operate one or more facilities that are licensed, registered, or similarly recognized by a state as a hospital.

Uniform Reporting

- Schedule H was designed to provide uniformity regarding the types and amounts of programs and expenditures reported as community benefit by nonprofit hospitals.
- Does so by providing clear standards regarding the types of programs and expenditures the filing organization is to report as community benefit in Part I, how to measure community benefit expenditures (by cost rather than by charges), and the treatment of two of the most significant areas of disparity reported in the study (bad debt and Medicare shortfalls).

Expanded Reporting

- Schedule H also provides organizations the opportunity to explain what amounts of bad debt expense, Medicare shortfalls, and community building activities it believes should be treated as community benefit.
- Part VI of the schedule requires the organization to provide certain information regarding non-quantifiable aspects of community benefit, and allows the organization to supplement the required information with other information it considers relevant to explaining how it benefits the communities it serves through the promotion of health.

Part I, Charity Care and Certain Other Community Benefits at Cost

- Requires reporting of charity care policies, the availability of community benefit reports, and the cost of charity care and other community benefit programs

Part I, Charity Care and Certain Other Community Benefits at Cost

A “charity care policy” is a policy describing how the organization will provide “charity care,” which means free or discounted health services provided to persons who meet the organization’s criteria for financial assistance and are thereby deemed unable to pay for all or a portion of the services.

“Charity care” does not include

- bad debt or uncollectible charges that the hospital recorded as revenue but wrote off due to failure to pay by patients,
- the difference between the cost of care provided under Medicaid or other means-tested government programs or under Medicare and the revenue derived there from, or
- contractual adjustments with any third party payors (insurers).

Part I, Charity Care and Certain Other Community Benefits at Cost

- Eight separate categories of community benefit are reportable in Part I:
 - charity care at cost,
 - unreimbursed Medicaid,
 - unreimbursed other means-tested government programs,
 - community health improvement services and community benefit operations,
 - health professions education and training,
 - subsidized health services,
 - research, and
 - cash and in kind contributions to community groups

Part II, Community Building Activities

- Provides for reporting of the cost of various kinds of community building activities, including
 - physical improvements and housing,
 - economic development,
 - community support,
 - environmental improvements,
 - community health improvement advocacy,
 - coalition building,
 - workforce development, and
 - leadership development and training for community members.

Part III, Bad Debt, Medicare, & Collection Practices

- Requires reporting of bad debt expense and Medicare shortfalls at cost, and other information relating to such items
- Medicare shortfall reporting in Part III is limited to expenses reportable on Medicare cost reports, although other revenue and expense information for other Medicare programs is to be reported in Part VI
- Also requests certain information regarding the organization's debt collection practices

Part IV, Management Companies and Joint Ventures

- Requires information regarding certain joint ventures and management companies in which the organization's officers, directors, trustees, key employees, and physicians have an aggregate ownership percentage exceeding 10% of such entity

Part V, Facility Information

- The organization must separately list each facility that is licensed, registered, or similarly recognized by a state as a health care facility (hospital or otherwise)
- The organization must provide a narrative description of other facilities for which items are otherwise reported on the Schedule H

Part VI, Supplemental Information

- Requires information pertinent to determining how the organization is serving its communities, including community needs assessments, education of patients about eligibility for charity care and government assistance programs, relationships with others in an affiliated system
- Requires descriptions that supplement responses to the other parts of the schedule

For More Information

IRS Charities & Nonprofits Website: www.irs.gov/eo

Subscribe to EO Update:

eo-update-subscribe@lists.qai.irs.gov

Form 990, Schedule H:

<http://core.publish.no.irs.gov/forms/public/pdf/50192y09.pdf>

Instructions for Form 990, Schedule H:

<http://core.publish.no.irs.gov/instrs/pdf/51526y09.pdf>