American Hospital Association

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October 10, 2007

Dear Representative:

On behalf of the American Hospital Association (AHA) and our nearly 5,000 member hospitals, health systems and other health care organizations, and our 37,000 individual members, we are writing to ask you to join Representatives Stephanie Tubbs Jones (D-OH), Jon Porter (R-NV) and others in the House as they urge the Internal Revenue Service (IRS) to improve the new IRS reporting form (Schedule H) on hospital community benefits.

The AHA worked with the IRS as it considered revisions to the forms tax-exempt hospitals must file annually in support of their exempt status. We advocated the enhancement of transparency, the promotion of compliance, and the minimization of filing burdens. However, when Schedule H was proposed, we expressed our strong concern that the IRS had not included among reportable community benefit either the full value of costs borne by hospitals for treating Medicare patients, for whom they are not fully reimbursed, or payments due, but unpaid, for treatment of other patients (known as bad debt). Hospitals absorb both these costs as part of their mission to provide care for all in their communities, and the AHA supports reporting these two mainstays of community benefit on Schedule H.

Some in Washington have argued that a more narrow definition of community benefit is appropriate. Instead, Representatives Tubbs Jones and Porter, and the other House members who are signing the letter to the IRS, wisely call on the IRS to improve the form so it reflects the full value of the benefits hospitals provide to their communities.

I have attached a fact sheet of the AHA's views on the community benefit standard and a list of reasons that support Medicare underpayments and patient bad debt costs being reportable as community benefits.

Please sign the attached Tubbs Jones/Porter letter and join them in urging the IRS to include these hospitals costs as reportable community benefits. Staff contact information is included in the letter.

Sincerely,

Rick Pollack
Executive Vice President

American Hospital Association

AHA FACT SHEET ON COMMUNITY BENEFIT

Support for the "community benefit" standard

- The AHA supports the "community benefit" standard that has been in place since 1969 because it permits hospitals to tailor their programs and services to the unique needs of their own communities. Among the examples of community benefit are immunization programs, health fairs in schools, Meals on Wheels programs and seniors centers offering book clubs, arts and crafts classes and computer training classes.

Support for reporting community benefit

- In May 2006 the Board of Trustees unanimously passed a resolution calling for standardized and public reporting of community benefit. The AHA policy development process on reporting involved hundreds of hospital leaders who agreed to report the costs of subsidized services (e.g., burn units, emergency departments), charity care, bad debt and the unpaid costs of government-sponsored health care, including Medicaid, Medicare and public and/or indigent care programs.

Why should Medicare underpayments be reported as community benefit?

- Serving Medicare and Medicaid patients is a condition for tax exemption; therefore both should count as community benefit.

- Medicare, like Medicaid, serves a large number of low-income patients:

    - 40% of Medicare beneficiaries have incomes at or below 200% of the federal poverty level and at least 46.5% of Medicare spending is for their care.

  - 30% of Medicare spending is for "dual eligibles," low-income Medicare beneficiaries for whom Medicaid assumes some responsibility for their cost-sharing.

- Medicare, like Medicaid, does not pay the full cost of care for the majority of patients, resulting in underpayments which hospitals must absorb.

  - Currently, Medicare pays 92¢ for every dollar hospitals spend caring for Medicare patients

  - MedPAC's March report to Congress cautioned that Medicare margins for hospital services are estimated to reach a 10-year low in 2007 at *negative* 5.4 percent.

- A majority of the states that have mandatory community benefit or community benefit-like reporting requirements ask hospitals to report Medicare underpayments (including CA, ID, IL, NV, NH, NC, PA, TX and UT).

Why should bad debt be reported as community benefit?

- The great majority of bad debt is attributable to low-income patients who -- for many reasons -- decline to complete the forms required to establish eligibility for hospitals' charity care and/or financial assistance programs.

- A recent CBO report confirmed those findings, noting that while there was little research on the topic, the two studies they found showed that "*the great majority of bad debt was attributable to patients with incomes below 200% of the federal poverty level*."

  - The report concluded that if the studies they found were generalizable nationwide *'[t]hose findings support the validity of the use of uncompensated care [charity care plus bad debt] as a measure of community benefit.…*" Anecdotal evidence from hospitals throughout the nation suggests that those findings would be consistent with most hospitals' experience.

October 1, 2007

Dear Colleague,

I urge you to join us in sending this letter to the Internal Revenue Service asking the Service to carefully reconsider its newly proposed reporting requirements for tax-exempt hospitals. The new requirements would impose substantial burdens on these health care providers, and the IRS should instead adopt a streamlined approach that reflects the full measure of community benefit these valuable organizations provide in their communities.

For additional information or to sign this letter, please contact Darrell Doss (Tubbs Jones) at 202-225-7032 or Alanna Porter (Porter) at 202-225-3252.

Sincerely,

\s\ Stephanie Tubbs Jones
Member of Congress

\s\ Jon Porter
Member of Congress

October, 2007

The Honorable Steven T. Miller
Commissioner, Tax Exempt and Government Entities Division
Internal Revenue Service
750 Pennsylvania Avenue, NW
Washington, DC 20006

RE: IRS Proposed Form 990 and Schedule H

Dear Mr. Miller,

The Internal Revenue Service (IRS) recently released a substantially changed Form 990, which included 15 new reporting schedules, for tax-exempt organizations, including hospitals. We are extremely concerned that the new form and schedules will place a disproportionate burden on these hospitals, which already are overburdened with the many challenges of providing care in their communities. We urge the IRS to review, closely and carefully, the new Form 990 and schedules, particularly the schedule applicable to hospitals alone (Schedule H). The IRS should reconsider its request for such an expansive volume of information, particularly information that does not truly reflect the tax-exempt hospital's mission and obligation to its community.

The tax exempt hospital community fully supports the reporting of standard community benefit measures. However, the new form does not include two significant measures of community benefit: patient bad debt, and Medicare underpayments. The new form has questions that appear unrelated to the real services that tax exempt hospitals provide. These include 24-hour emergency department coverage, programs and activities that improve people's health and are tailored to their particular communities' needs, and appropriate levels of financial assistance for needy patients, among others.

We strongly urge the Service to work diligently with the hospital community to streamline all of these forms and to delay the obligation to file these forms and schedules, particularly Schedule H, until tax-year 2010. For hospitals, schedule H should focus on community benefit and eliminate reporting on peripheral issues that create extensive and unnecessary reporting burdens without increasing tax compliance.

We already ask a great deal of our nation's hospitals. They are always open, taking care of everyone who comes through the emergency department doors in addition to reaching out with programs designed to make their communities healthier. We should not take them away from this important work by requiring

them to spend valuable time and resources filling out IRS forms that bear little relationship to the health care and other benefits they provide to their communities.

Sincerely,

\s\ Stephanie Tubbs Jones
Member of Congress

\s\ Jon Porter
Member of Congress