



July 26, 2010

BY ELECTRONIC MAIL & HAND DELIVERY

Douglas H. Shulman
Commissioner of Internal Revenue
Attn: CC:PA:LPD:PR (Notice 2010-39)
Room 5203
Internal Revenue Service
Courier's Desk
1111 Constitution Avenue, N.W.
Washington, DC 20224

***RE: Additional Comments Regarding Reporting By Tax-Exempt Hospitals on
Schedule H of IRS Form 990***

Dear Commissioner Shulman:

On behalf of the American Hospital Association's (AHA) more than 5,000 member hospitals, health systems and other health care organizations, and its 40,000 individual members; the Association of American Medical Colleges' (AAMC) nearly 400 major teaching hospital and health system members; the Healthcare Financial Management Association's (HFMA) more than 35,000 member health care financial executives; and the VHA's 1,400 member hospitals and 23,000 non-acute health care organization members, we are submitting these comments regarding reporting by hospitals on Schedule H of IRS Form 990.

SCHEDULE H CONSOLIDATED HOSPITAL SYSTEM REPORTING

While the Internal Revenue Service (Service) is considering guidance on the new Internal Revenue Code (Code) § 501(r) requirements, we urge the Service to improve Schedule H to allow hospital systems the option of reporting on a consolidated basis, rather in the current disjointed manner. As you are aware, Schedule H currently only permits a filing organization that is a member of a hospital system to report information from related corporations in narrative form as part of the Supplemental Information in Part VI., Line 7. Our view is that the optimal way to get reliable data for the nearly 60 percent of tax-exempt hospitals that are a part of a hospital system is to allow the filing organization to submit a Schedule H on a consolidated hospital system basis. The consolidated Schedule H would include a listing of all Employer Identification Numbers (EIN) included in the hospital system. The term "hospital system" refers to affiliated hospitals and other entities, exemptions for which are covered under more than one EIN.

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We have shown through extensive research (see Urban Institute study attached) that the current Schedule H reporting method, which requires reporting based on EINs, undervalues system contributions to the communities they serve. For example, cross-subsidies among organizations within a system will not necessarily be captured on Schedule H, resulting in a distorted picture of community benefit spending.

As you are aware, the *Patient Protection and Affordable Care Act of 2010* (ACA) provides that a hospital organization that operates more than one hospital facility must meet the four new Code § 501(r) requirements separately with respect to each facility. It is our view that requiring compliance with such new requirements on a hospital facility basis is consistent with permitting the filing of a Schedule H on a consolidated basis. In fact, the ACA explicitly states that consolidated audited financial statements must be attached to the Form 990, if an organization is included in a consolidated financial statement with other organizations. *See* Code § 6033(b)(15)(B). A similarly consolidated Schedule H would allow more accurate reporting of the community benefit activities undertaken by the system *and* its constituent hospitals. In our view, hospital organizations already will have the opportunity to report detailed narrative and financial information on the Core Form 990; therefore, a consolidated Schedule H would allow all of the aspects of community benefit to be reported.

In conclusion, we believe hospital systems should be able to report on community benefit activities and the new Code § 501(r) exemption requirements for all the hospitals in the system. Schedule H can be revised to reflect the new exemption requirements, but current reporting limitations (by EIN) do not accurately reflect a hospital system's community benefit activities, and are not congruent with the future direction of health care delivery as reflected in the ACA.

Thank you for your attention to this important issue.

Sincerely,

Melinda Reid Hatton
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AHA

Richard L. Clarke, DHA, FHFMA
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Joanne Conroy, MD
Chief Health Care Officer
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Edward N. Goodman
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Attachment: Bradford H. Gray and Ashley Palmer, *Does It All Add Up?, Trustee*, March 2010