

Improving Accountability for Tax-exempt Status

Issue

America's hospitals provide compassion, care and curing 24 hours a day, seven days a week. But not-for-profit community hospitals do more than care for the injured and infirm; they promote and protect the health and well-being of the entire community through responsive programs and services. Not-for-profit hospitals are distinguished by certain charitable obligations that have evolved over time to keep pace with the needs of the American people.

Over the past several years, policymakers and the public have raised concerns about hospitals' tax-exempt status and the lack of uniformity with regard to charity care and financial assistance. A number of congressional hearings have focused on what not-for-profit hospitals do to meet their charitable obligations and whether the current rules are sufficient. In addition, the governance and executive compensation practices of charitable organizations, including tax-exempt hospitals, have been scrutinized.

Until the Internal Revenue Services' (IRS) recent efforts to update the reporting forms for tax-exempt organizations and create a reporting form unique to hospitals, there was no uniform approach or format for tax-exempt hospitals to follow in reporting the "community benefit" they provide, and no requirement for hospitals to make such reports public. In several states, hospitals are required to report their community benefits to an agency that typically – but not always – makes the community benefit information available to the public. With the December 2007 release of the IRS' final revised Form 990 and a new Schedule H for hospitals, tax-exempt hospitals now will have a uniform approach and format for reporting the community benefit provided to their communities and making it available to their communities. Beginning in tax year 2008, with a phase-in over two years, tax-exempt hospitals that file a Form 990 will be required to file a newly created schedule for hospitals (Schedule H) as an attachment to their core Form 990.

AHA View

The AHA Board of Trustees has adopted policy statements calling for greater accountability and transparency of hospitals. In a May 2006 statement that augments its 2003 Principles and Guidelines on Patient Billing and Collections, the Board called on all hospitals to increase financial assistance for uninsured patients of limited means and to ensure fair debt-collection practices. For not-for-profit hospitals, the Board recommended the public reporting of community benefit activities and increased financial accountability.

Encourage Public Reporting. To foster an environment of transparency and trust, the AHA has urged hospitals to voluntarily, publicly and proactively report to their communities on the full value of benefits they provide. Specifically, the AHA Board called for standardized public reporting of community benefit on a



cost basis as an attachment to the IRS Form 990. IRS' finalized new Schedule H for hospitals represents an important step in the hospital field's ongoing efforts to increase transparency by providing a standard reporting format for many of the benefits that hospitals provide to the communities they serve.

The AHA vigorously advocated with IRS for a reporting form that would provide a comprehensive picture of the value of services hospitals provide to and for their communities. The final Schedule H reflects many of the improvements recommended by the AHA and the hospital community. For example, the IRS added a new section for reporting Medicare underpayment and patient bad debt and the costs of those activities that benefit the community. This inclusion, along with additional space for hospitals to calculate and describe the full value of their programs and activities, should promote greater transparency and community accountability. The AHA championed these positions, as well as successfully urged restoration of reporting community building activities (e.g., economic development, community support and workforce development).

Equally important, the IRS eliminated the billing and collections chart from an earlier draft. Hospitals had complained that the chart was burdensome, confusing and unrelated to the benefit hospitals provide to their communities.

The IRS also is phasing-in use of Schedule H over a two-year period. The IRS did not, however, release with the revised Schedule H either the instructions or worksheets that hospitals need to complete it. The AHA continues to work with the IRS on these instructions and worksheets and will monitor hospitals' progress in preparing for use of Schedule H once these are issued. If the IRS' delay impedes hospitals' data collection efforts, we will advocate for more time.

Retain the Community Benefit Standard. Since 1969, not-for-profit hospitals have been able to fulfill their charitable obligations through an appropriate mix of charity care, financial assistance to low-income patients, subsidized health care, research, health professions education and other community-building activities that are tailored to the needs of the communities they serve. The IRS' community benefit standard continues to work well for not-for-profit hospitals and, more importantly, the communities they serve. The standard permits hospitals to satisfy their community benefit obligations by providing the right mix of programs and services to their communities. While Schedule H does not technically alter the existing community benefit standard, the near absence of questions relating to the factors that comprise the standard raises significant questions about the schedule. Those include how a court would view the schedule's relevance in the event of a dispute over a hospital's tax-exempt status, and whether the IRS will use the data collected as a basis to propose formal changes to the community benefit standard.



The AHA will work with Congress and the IRS to ensure that the current community benefit standard is retained because it provides hospitals with the flexibility to best tailor their programs to effectively target the needs and unique conditions of their local community.

Increase Financial Accountability. The AHA Board also recommends that not-for-profit hospitals increase financial accountability using the IRS Form 990. Recommended steps include having the CEO, chief financial officer or highest ranking officer sign off on the Form 990, and disclosing on the Form whether the hospital has a travel policy and/or a conflict-of-interest policy. In addition, loans to board members or executives should be prohibited. The revised Form 990 now includes questions about the existence of a conflict-of-interest policy and availability to the public. We were pleased that a 2006 Government Accountability Office survey on executive compensation practices at not-for-profit hospitals found widespread adoption of best practices, such as appointment of an executive compensation committee with primary responsibility for approving salary and bonuses, conflict-of-interest policies that extend to all members of the executive compensation committee and consultants, and reliance on market data to make compensation decisions. Meanwhile, the IRS continues an in-depth review of executive compensation practices across the nonprofit sector. In the first of several anticipated reports, the IRS found general compliance with the law when examining whether individual compensation amounts were reasonable; however, the agency did note significant errors and omissions in completing the Form 990. The AHA will continue to monitor and engage with the IRS as needed on its general tax-exempt organization compliance activities that affect hospitals.



Dollars alone can never communicate the complete story of how communities benefit from the programs and services that not-for-profit hospitals provide. The AHA's Community Connections initiative helps our members effectively inform policy-

makers and the public of the full value hospitals provide. Today, hospitals of all kinds – urban and rural, large and small – are making their communities healthier in ways that are as diverse as the needs of each community.

The following programs exemplify the tremendous good being done every day by America's not-for-profit hospitals. They illustrate where and how hospitals are meeting their communities' many needs and why they merit broad public support.

Harborview Medical Center – Bringing health care services to where the need is the greatest and breaking down barriers in access to care are the driving forces. Harborview helped develop integrated employment and housing programs for adults with psychiatric disabilities. The supported housing program includes 206 units in public and private housing sites throughout Seattle reserved for Harborview patients. The hospital's satellite clinics in downtown Seattle offer physical and mental health services to the homeless and uninsured. Care also is provided at homeless shelters and temporary respite units. Further, a nurse case manager works with the emergency department (ED) to link patients with chronic conditions to primary care providers and improve disease control between the ED visit and the first clinical visit.

*Harborview Medical Center, Seattle WA
Foster G. McGaw Prize Winner

Healthy Youth Development Initiative – Hospitals have a long history of making investments to revitalize communities, but UMass Memorial Medical Center pursued a variation on the redevelopment theme. Through its Healthy Youth Development Initiative, the hospital backed the most disadvantaged, at-risk young people in Worcester, MA, creating a physical space and

employment and leadership programs. The Worcester Youth Center offers a variety of activities and services, including on-site mental health and medical and dental care through UMass Memorial. Despite being in the highest risk group to drop out of high school, 99 percent of Youth Center participants have stayed in school. And through its Building Brighter Futures program, the hospital helped create more than 600 summer jobs for teens.

*UMass Memorial Medical Center, Worcester, MA
NOVA Award Winner

Patee Market Youth Dental Clinic - A collaborative project between Heartland Health and St. Joseph (MO) School District addressing the serious lack of dental services for children enrolled in the district's schools. A pediatric dental clinic at Heartland Regional Medical Center provides dental work and oral surgery for patients in need of extensive care. The clinic serves approximately 26 percent of the region's eligible children. Schools have experienced a reduction in visits to school nurses for mouth pain and improved attendance among clinic patients. Partners include the school district, health department, United Way, University of Missouri-Kansas City School of Dentistry and local dental providers.

*Heartland Health, St. Joseph, MO
NOVA Award Winner

Project Access – Is a community collaboration that has created a large referral network, which offers access to medical care, particularly specialty care, for low-income people in Hamilton County, TN, who do not have insurance. Providers in community clinics and primary care programs, as well as partner social service agencies, can refer patients for enrollment into Project Access. Patients enrolled in the program receive donated physician care, hospital care and medication assistance.

Memorial Health Care System, Erlanger Hospital System, Parkridge Medical Center and Siskin Hospital for Physical Rehabilitation, Chattanooga, TN