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PROPOSAL FOR REFORM OF THE FEDERAL TAX EXEMPTION REQUIREMENTS FOR NONPROFIT HOSPITALS

Position Statement Approved by the Alliance Board of Directors

Background

Over the past two years House Ways and Means Committee Chairman William Thomas has held hearings on nonprofit hospital tax-exemption, questioning whether the \$66 billion federal tax-exemption for hospitals is justified. High on Chairman Thomas' list of concerns is the amount of financial assistance that nonprofit hospitals provide to their low-income uninsured patients, and the need for a clearer, more specific community benefit standard.

Within the past year Senate Finance Committee Chairman Charles Grassley began his own examination of the community benefit and related practices of selected hospitals and hospital systems, and recently has publicly challenged the nonprofit hospital sector to come forward with its own definitions and standards for reform of the federal tax-exemption requirements for nonprofit hospitals.

The Alliance for Advancing Nonprofit Health Care accepts this challenge. The Alliance proposes reforms that address policymakers' criticisms of the vagueness of the current community benefit definition and standard, while preserving the flexibility that the individual nonprofit hospital, whether independent or part of a system, must have to address the specific needs of the community it serves, within its unique financial circumstances.

This proposal is consistent with the overall movement toward greater public accountability and transparency on the part of all sectors of society.

The Alliance's Proposal

The Alliance proposes two major federal tax-exemption reforms for nonprofit hospitals:

1. Require all tax-exempt hospitals to report annually in a uniform manner on the community benefits they provide
 - a. The requirements should include:
 - i. Definitions of categories of community benefit and methods of estimating costs, revenues and results where feasible, adapted from the voluntary guidelines already well developed by the Catholic Health Association and VHA, Inc.
 - ii. Methods for making these reports publicly available, including Form 990 filing and posting on the organization's web site
 - b. The requirements should complement existing state requirements for hospital community benefit reporting
 - c. The requirements should be phased in and tailored to the capabilities of different sized hospitals and systems
2. Require all tax-exempt hospitals to adopt and broadly disseminate clear written policy for providing financial assistance to low-income uninsured and underinsured patients. Hospital policies should embody fair, dignified, compassionate and respectful treatment of patients, while recognizing that each hospital must balance the needs of patients for financial assistance with other community needs and with the hospital's larger responsibility to be able to serve its community over the long run.
 - a. The tax-exempt hospital's policy should include at least the following information:
 - i. The annual income level¹ and other criteria the hospital uses for determining which patients are eligible for financial assistance
 - ii. The amount of the discount, the discounted rate, or the method used to compute the discount or the discounted rate for eligible patients
 - iii. The hospital's policy on outsourcing collections, and on various

iv. legal tools² to be used or not used, under specified circumstances with respect to collection of unpaid bills

The methods by which the hospital computes and reports at least annually the number of patients and dollar amounts associated with financial assistance

- b. The requirements for dissemination of the hospital's policy within the organization and in the community should be adapted from guidance developed by state hospital groups, such as those in California, Illinois, Minnesota, New York, Oregon and Pennsylvania

c. The requirements should be phased in and tailored to the capabilities of different sized hospitals and systems

The Alliance is eager to work with interested Congressional leaders, the IRS and major hospital groups on the details of these proposed reforms and to explore any other reasonable reform measures they may suggest.

About the Alliance

Founded in 2003, the Alliance for Advancing Nonprofit Health Care is a unique blend of nonprofit hospitals, other types of nonprofit health care providers and nonprofit health plans—all dedicated to preserving while improving the performance of the nonprofit health sector.

The Alliance has developed and disseminated guidance to nonprofit health care organizations on their governance practices and to nonprofit health plans on their community benefit practices. The Alliance has also reviewed and endorsed the overall recommendations of the Nonprofit Panel of the Independent Sector on reform of the tax exemption requirements for all charitable organizations.

¹ To be expressed in relation to the federal poverty level using the most current data

² For, example, wage garnishments, liens on a primary residence, or body attachments