

THE BOND BUYER

Not-for-profit benefits top charity care levels for hospitals: report

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Whether the not-for-profit hospital sector earns its exemptions from taxes and the related ability to issue tax-exempt debt takes center stage in a new Kaiser Family Foundation analysis.

The foundation's report values the benefits of tax-exempt status for hospitals at nearly \$12 billion more than the amount of discounted and free care they provided in 2020.

The American Hospital Association pushed back, laying out billions more in community benefits — \$110 billion in 2019 — that it says show hospitals more than earned the tax perks, some of which Kaiser acknowledged up front were not included in the analysis.

[The Kaiser Foundation report](#) put the value of the tax-exempt benefits at nearly \$28 billion, while free and discounted care totaled about \$16 billion.



A nurses station at Saint Claire Regional Medical Center in Morehead, Kentucky, during the late 2021 COVID-19 surge. A new report questions the value of tax exemptions for not-for-profit hospitals. **Bloomberg News**

The 2020 benefit tally is up from about \$20 billion in 2011. The largest single-year increase was \$4 billion in 2020 which overlapped with the start of the COVID-19 pandemic.

The Kaiser foundation makes clear that while charity care is just one of the factors used to assess whether the not-for-profit hospital sector warrants that status, it often draws more political and public attention.

The Internal Revenue Service defines community benefits to also include unreimbursed Medicaid expenses, unreimbursed health professions education, and subsidized health services that are not means-tested, among other activities.

"The rising value of tax-exemption means that federal, state, and local governments have been forgoing increasing amounts of revenue over time to provide tax benefits to nonprofit hospitals, crowding out other uses of those funds," the Kaiser report said. "This has raised questions about whether nonprofit facilities provide sufficient benefit to their communities to justify this tax benefit."

Federal regulations require that nonprofit hospitals provide some level of charity care and other community benefits but policing those benefits has been questioned. [Some states](#) also impose their own requirements for local tax perks.

A 2020 Government Accountability Office [report](#) raised questions about whether the government has adequately enforced this requirement.

Some critics charge that not-for-profit hospitals operate like corporations and say the federal definition of "community benefits" provides too much room for interpretation.

The subject has seen renewed interest amid reports of aggressive efforts to collect medical bills from patients that in some cases are likely eligible for financial assistance.

"In light of these concerns, several policy ideas have been floated to better align the level of community benefits provided by nonprofit hospitals with the value of their tax exemption," Kaiser notes.

At stake for hospitals is the potential for further regulatory mandates.

Various proposals include requiring hospitals to provide charity care to patients below a specified income mark, the setting of a minimum charity care percentage, and replacing tax-exempt benefits with subsidies tied to the value of community benefits.

"While they may expand the provision of certain community benefits, hospitals would incur new costs as a result, which could in turn have implications for what services they offer, how much they charge commercially insured patients, and how much they invest in the quality of care," Kaiser said.

Kaiser came up with its estimate based on hospital cost reports, IRS filings, and AHA survey data.

The federal tax-exempt benefits totaled \$14.5 billion with \$10.4 billion in savings from lack of a corporate income taxes paid while higher donations that can be deducted from an individual's income taxes amount to \$2.5 billion, and \$1.6 billion comes from lower interest costs through the use of the tax-exempt bond market.

"Our estimates of changes in charitable contributions and interest rates on bonds only account for federal tax rates for simplicity and may therefore understate the total value of tax exemption because they do not account for the effects on state taxes," the report notes.

Most states offer an income tax exemption on interest paid on in-state municipal bonds.

The total estimated value of state and local tax-exempt status was \$13.2 billion, including exemptions from sales taxes savings hospitals valued at \$5.7 billion, local property taxes savings of \$4.4 billion, and state corporate income taxes of \$3.1 billion.

The American Hospital Association questioned the report's focus solely on tax benefits and said it believes some of its data to be flawed.

"It's a mystery why any analysis would focus on just the benefit of financial assistance and seemingly ignore everything else hospitals do for their communities. Didn't we learn once again during the pandemic that hospitals are the first ones to step up to serve their patients and communities?" AHA President Rick Pollack said [in a blog post](#).

Pollack took Kaiser to task for failing to consider that some hospitals make payments in lieu of taxes and he called the calculation on higher charitable donations "fuzzy math."

The AHA last June released a report that put a \$110 billion price tag on the value of community benefits provided by hospitals in 2019. Ernst & Young LLP assisted in compiling the report.

The \$110 billion price tag represented 13.9% of total expenses.

"And that's only for the benefits the IRS does count, not the many other programs, services, and activities, such as most medical research and the full cost of subsidies to keep burn and neonatal units open, that it doesn't. Roughly half of these total benefits are for financial assistance and the funds needed to make up for underpayments endemic in the government's health insurance program for the needy," Pollack wrote.