

The IRS and Hospital Community Benefit

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Agenda

- Introduction
- IRS Requirements for Charitable Hospitals
- Senator Grassley and Charitable Hospital Accountability
- Changes in Hospital Community Benefit Accountability
 - Expanded IRS Form 990 Schedule H for Charitable Hospitals
 - PPACA Section 9007 Requirements
 - IRS Proposed Rules on Community Health Needs Assessments
- Roles for Offices of Rural Health
- Conclusion

Important IRS Definitions

- **Nonprofit**
 - Corporate structure without stock or other arrangements that permit inurement of net revenue to individuals. All profits are reinvested in corporate activities and assets are permanently dedicated to corporate mission.
- **Tax Exempt**
 - Corporation exempt from federal corporate income tax and selected other tax levies. May also be exempt from some state and local taxes.
- **Charitable**
 - Corporations operated exclusively and permanently for charitable purposes, including education, religion and relief of the poor, distressed and underprivileged.

Some IRS Tax Exempt Classifications

Section #	Type of Organization
501 (c)(1)	Corporations organized under an act of Congress
501 (c)(2)	Title-holding companies
501 (c)(3)	Religious, charitable, educational, etc.
501 (c)(4)	Social Welfare
501 (c)(5)	Labor, agriculture organization
501 (c)(6)	Business leagues
501 (c)(7)	Social and recreational clubs
501 (c)(8)	Fraternal beneficiary societies
501 (c)(9)	Voluntary employees' beneficiary societies
501 (c)(10)	Domestic fraternal beneficiary societies
501 (c)(11)	Teachers' retirement fund
501 (c)(12)	Benevolent life insurance associations
501 (c)(13)	Cemetery companies
501 (c)(14)	Credit unions
501 (c)(15)	Mutual insurance companies
501 (c)(16)	Corporations to finance crop operation
501 (c)(17)	Supplemental unemployment benefit trusts ...

Benefits of 501 (c) 3 Exemption

- **Corporate Tax Exemption:**
 - Exemption from federal corporate income taxes. Typically both state and local governments will follow federal designation.
- **Other Tax Exemption:**
 - Exemption from property/excise/sales taxes [depending upon state and locality].
- **Tax Deductible Donations:**
 - Donations are tax deductible. This extends to eligibility for private an public grant support.

Basis of Hospital Tax Exemption

- The provision of health services is **not** enough.
- Provision of health services must be linked to other considerations:
 - **Relief of the poor**
 - **Promotion of health**
 - Community-wide.
 - Emergency room.
 - **Education of health professionals**
 - **Research**

The Grassley Initiative – Study, Hearings and Law

- “...there is often ***no discernible difference*** between the operations of taxable and tax-exempt hospitals.”
- “Tax-exempt hospitals don’t have many ***measures of accountability*** for their special status.”
- Sometimes that’s resulted in providing very ***little charitable patient care or other community benefits***, failing to publicize charitable care to patients, charging indigent, uninsured patients more than insured patients, and using very aggressive collection practices.
- ...new provisions are modeled after ***principles and policies that the Catholic Health Association*** has had in place for years.
- Congress, the IRS, and the public will now have additional tools and information to ***ensure that charitable hospitals act charitably.***”

Impact of Initiative

- **IRS Form 990 Schedule H**
- **PPACA Section 9007**
- **Delay in Schedule H, Section V.B implementation**
- **Proposed CHNA rules [comments due Sept 23, 2011]**

Schedule H: Community Benefit

7 Financial Assistance and Certain Other Community Benefits at Cost	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
Financial Assistance and Means-Tested Government Programs						
a Financial Assistance at cost from Worksheets 1 and 2						
b Unreimbursed Medicaid (from Worksheet 3, column a)						
c Unreimbursed costs—other means-tested government programs (from Worksheet 3, column b)						
d Total Financial Assistance and Means-Tested Government Programs						
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)						
f Health professions education (from Worksheet 5)						
g Subsidized health services (from Worksheet 6)						
h Research (from Worksheet 7)						
i Cash and in-kind contributions to community groups (from Worksheet 8)						
j Total Other Benefits						
k Total. Add lines 7d and 7j.						

Section 9007: Criteria for Tax Exemption

- SEC. 9007. **ADDITIONAL REQUIREMENTS FOR CHARITABLE HOSPITALS.**
- (a) **REQUIREMENTS TO QUALIFY AS SECTION 501(C)(3) CHARITABLE HOSPITAL ORGANIZATION.—**
- “(r) **ADDITIONAL REQUIREMENTS FOR CERTAIN HOSPITALS.—**
- “(1) **IN GENERAL.—**A hospital organization to which this subsection applies **shall not be treated as described in subsection (c)(3) unless** the organization—
- “(A) meets the **community health needs assessment** requirements described in paragraph (3),
- “(B) meets the **financial assistance policy requirements** described in paragraph (4),
- “(C) meets the **requirements on charges** described in paragraph (5), and
- “(D) meets the **billing and collection requirement** described in paragraph (6).

Section 9007: CHNA Requirements

- “(3) **COMMUNITY HEALTH NEEDS ASSESSMENTS.—**
- “(A) **IN GENERAL.—**An organization meets the requirements of this paragraph with respect to any taxable year only if the organization—
- “(i) **has conducted a community health needs assessment** which meets the requirements of subparagraph (B) in such taxable year or in either of the 2 taxable years immediately preceding such taxable year, and
- “(ii) **has adopted an implementation strategy** to meet the community health needs identified through such assessment.
- “(B) **COMMUNITY HEALTH NEEDS ASSESSMENT.—**A community health needs assessment meets the requirements of this paragraph if such community health needs assessment—
- “(i) **takes into account input** from persons who represent the broad interests of the community served by the hospital facility, including those with special knowledge of or expertise in public health, and
- “(ii) **is made widely available** to the public.

Proposed Rules: Parts of a CHNA

- **Community Description**
- **Identification of Health Needs**
- **Priorities for Intervention**
- **Implementation Plan**
- **Description of Assessment/Prioritization Process**
- **Description of Consultation/Input Process**
- **Description of Collaborations with Other Partners**

Proposed Definition of Community

- Metropolitan Statistical Area (**MSA**)
- Micropolitan Statistical Area (**MISA**)
- **County** where facility is located for rural areas not in an MSA or MISA

CHNA: Who is to be consulted

- **Public Health Experts:** Persons with public health knowledge and expertise
- **Governmental Health Data Sources:** Federal, tribal, regional, State, or local health or other departments or agencies, with current data or other information relevant to the health needs of the community
- **Special Population Representatives:** Leaders/representatives of low-income, underserved, minority and chronic disease populations in the community.
- **Other**

Reporting Requirements/Penalties

- **Annual reporting** of assessment and intervention efforts as a component of **Form 990 (Schedule H)**.
- Reporting to begin in for **first taxable year beginning after March 31, 2012**.
- Failure to report will lead to a **\$50,000 excise tax penalty per hospital facility**.

Community Benefit: Roles for ORHs

- Arrange **training/technical assistance** on community benefit responsibilities.
- Provide **data** for county level CHNAs.
- **Consult** with rural hospitals as **knowledgeable party** specified in proposed rules.
- **Post hospital CHNA documents on ORH website** to assist in dissemination requirements.

References

- Form 990 Schedule H
 - <http://tinyurl.com/ScheduleH>
- Form 990 Schedule H Instructions
 - <http://tinyurl.com/ScheduleHInstructions>
- PPACA Section 9007
 - <http://tinyurl.com/Section9007>
- IRS Proposed Rules for Community Health Needs Assessments – Notice 2011-52
 - <http://tinyurl.com/2011-52>
- Association for Community Health Improvement – Community Benefit Resources
 - <http://tinyurl.com/ACHI-Resources>

For Further Information

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