

BNA Daily Report
September 13, 2006

Hospitals
Sen. Grassley Questions Tax-Exempt Status
Of Nonprofit Hospitals, May Seek Legislation

Senate Finance Committee Chairman Charles E. Grassley (R-Iowa) Sept. 12 issued a stinging rebuke to the nation's nonprofit hospitals, saying that in some cases they may do less than for-profit institutions in providing charity care and community outreach, calling into question whether nonprofits "deserve the billions of dollars in tax breaks they receive from federal, state, and local governments."

A day prior to a Finance Committee hearing on the tax status of nonprofit hospitals, Grassley released answers to 45 questions from 10 major nonprofits about their care to the poor and services offered their communities. The questions were sent to hospitals in May 2005.

The answers indicate "that non-profit doesn't necessarily mean pro-poor patient," Grassley said in a press release. "Non-profit hospitals may provide less care to the poor than their for-profit counterparts. They may charge poor, uninsured patients more for the same services they charge insured patients. They sometimes give their executives gold-plated compensation packages and generous perks such as country club memberships."

While Grassley has praised standards established by the Catholic Health Association of the United States (CHA) to measure a hospital's community benefit, he added: "I'm concerned that the best practices of non-profit hospitals are not common practices for all."

Public 'Wants Measurable Benefits.'

"Non-profit hospitals receive billions in tax breaks at the federal, state and local level," Grassley said. "The public has a right to expect significant, measurable benefits in return."

Grassley and House Ways and Means Committee Chairman William M. Thomas (R-Calif.) have been examining the tax status of nonprofit organizations, including hospitals, for several years.

Interest by lawmakers has been spurred by reports that some tax-exempt hospitals or health systems overcharge their uninsured patients and use aggressive debt-collection tactics.

The American Hospital Association Sept. 12 disputed Grassley's charges, saying nonprofit hospitals "provide good value in promoting the health and well-being of their communities."

The financial stakes in the investigation are high. Thomas was told by Comptroller General David M. Walker at a May 2005 hearing that the tax exemption is worth more than \$50 billion a year to nonprofits, including hospitals.

Thomas at the 2005 hearing said the tax-exempt status of the nation's nonprofit hospitals should be reviewed, because it is becoming harder to differentiate between the activities of this sector and for-profit institutions.

IRS Form Changes

Rob Friz, a partner at PricewaterhouseCoopers in New York City and an expert in the tax status of nonprofit hospitals, told BNA Sept. 12 that Congress is unlikely to rescind hospitals' tax-exempt status.

The outcome of the investigations by Grassley and Thomas in the short term is likely to be the incorporation of uniform Internal Revenue Service reporting standards for charity care on IRS Form 990 and further refinement of what constitutes charity care, Friz said.

"Before they would go to that extreme, we would likely see some additional guidance" on reporting charity care and what constitutes such care, Friz said of efforts by Congress to cancel tax-exempt status for nonprofit hospitals.

Incorporating uniform reporting standards into IRS Form 990 could benefit hospitals because it would help them "get their story out" about what they are doing to earn tax-exempt status, Friz said.

Community Benefit Standard

Under IRS regulations, the community benefit standard requires hospitals to prove they are operating for the benefit of local residents and not merely serving private interests to obtain or retain their tax-exempt status.

However, Grassley said the lack of reporting standards produced "enormous differences" in answers to his questions about what nonprofits do to maintain their tax-exempt status.

"The different yardsticks used makes weighing and considering the charity care and community benefit of different non-profit hospitals less like comparing apples to oranges as comparing apples to farm tractors," Grassley said.

Grassley also said there appears to be little difference between nonprofit and for-profit hospitals in the area of executive compensation. "Some non-profit hospital executives enjoy the best hotels and great meals, all subsidized by the tax payer," he said.

"I'm afraid that if non-profit hospital boards are focusing so little attention on what they're paying executives, they're giving even less attention to how the hospitals are helping the community and the poor," he added.

Uncompensated Care

AHA, which represents for-profit and nonprofit hospitals, said Sept. 12 that the 10 health care systems examined by Grassley "provided more than half a billion dollars in uncompensated care to patients in 2004. The hospitals' charity care and financial assistance programs provided free care for the poorest patients and discounts for uninsured patients ranging up to 500 percent of the federal poverty level," AHA said.

"The hospitals listed other widely diverse community benefit programs and activities to respond to the needs of their particular communities including health screenings, child immunization, nurse triage, poison control, blood drives, prenatal programs, clinical research and health professional training," AHA said. "No other part of the health care sector comes close to that record of service to communities. The programs cited by these hospitals represent only a portion of the value that these hospitals return to their communities."

AHA said copies of responses to Grassley or detailed community benefit reports are posted on the Web sites of the 10 systems: Advocate Health Care Network and Advocate Health and Hospitals Corp., Banner Health, The Cleveland Clinic, Fairview Health Systems, New York Presbyterian Hospital System, North Mississippi Health Services, Phoebe Putney Health Systems, Resurrection Medical Center and Resurrection Health Care, Sutter Health, and William Beaumont Hospital.

For-Profit Hospitals' Answers

Grassley Sept. 12 also released letters from the Federation of American Hospitals from July 20 and Aug. 31, in which the association provided answers to the same questions asked of the nonprofits. FAH represents for-profit hospitals.

Grassley said FAH's answers "were very eye-opening. It highlights several for-profit hospitals that are providing as much if not more charity care than some non-profit hospitals." FAH in the Aug. 31 letter to Grassley provided several examples of charity care policies from its members and reported that the average member acute care hospital provided \$21.1 million in uncompensated care in 2005, a 37 percent increase from 2004.

FAH members also engage in many community outreach and education activities and make donations for "worthwhile causes in their communities," FAH said. One member contributed \$15.4 million to such causes in 2005, it added. Association members also have related foundations that make "significant grant awards annually," the letter said.

FAH said its members paid \$1.03 billion in income taxes, \$408 million in property taxes, and \$544 million in sales taxes in 2005. They also paid \$200 million on other taxes and \$1.3 billion in employment taxes, it added.

Definition of Charity Care

In his May 2005 letter, Grassley asked hospitals how they define charity care, and sought a list of the 10 largest categories of charity care expenditures incurred over the last five years. He also sought information about hospital ventures with for-profit providers, such as physicians, to conduct health care activities related to their charity care mission and whether physician compensation agreements may compromise the delivery of charity care.

Grassley also sought a breakdown of hospital charity care expenditures throughout various care settings, such as emergency rooms and maternity care, and whether hospitals have engaged in fund-raising to provide care to low-income or uninsured patients.

The committee chairman also asked hospitals to provide information on how many lawsuits have been filed against uninsured patients in the last six years and to outline discounts given to all patients, including the uninsured. He also sought details of travel in the last three years by the top five salaried employees.

Grassley's release is available at <http://finance.senate.gov/press/Gpress/2005/prg091206.pdf>. The answers to the 45 questions are available at <http://finance.senate.gov/press/Gpress/2005/prg091206summary.pdf>. The July 20 letter from FAH is available at <http://finance.senate.gov/press/Gpress/2005/prg091206fah2.pdf>. The Aug. 31 FAH letter is available at <http://finance.senate.gov/press/Gpress/2005/prg091206fah.pdf>. A background report by the Joint Committee on Taxation on the tax-exempt status of nonprofit hospitals is available at <http://www.house.gov/jct/x-40-06.pdf>. End of article graphic