

# Value of nonprofit hospital tax exemption nearly doubled over nine years, reaching \$24.6 billion in 2011

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The value of the tax exemption provided to non-profit private hospitals in return for 'charity care and community benefit' nearly doubled over a nine-year period, climbing from an estimated \$12.6 billion in 2002 to \$24.6 billion dollars by 2011, according to a study funded by the Robert Wood Johnson Foundation and led by researchers at Milken Institute School of Public Health (Milken Institute SPH) at the George Washington University.

This growth in the value of the tax exemption underscores taxpayer interest in how hospitals allocate their community benefit expenditures in the neighborhoods they serve, particularly expenditures aimed at improving the health of people who live nearby. According to the study, which was published online today in the journal *Health Affairs*, hospitals spent only a small fraction of their total 'charity care and community benefit' on efforts aimed at improving the health of the communities they serve.

At a time when hospitals are realizing significant gains from [health insurance](#) reform—especially in Medicaid expansion states—the new study's findings shine a light on the size of the public stake in hospital community benefit spending and the importance of the 'seat at the table' that taxpayers now have as a result of the Affordable Care Act.

'Under the Affordable Care Act (ACA), hospitals are required to engage

in community-wide health needs assessments,' says lead author Sara Rosenbaum, JD, the Harold and Jane Hirsh professor of health law and policy at Milken Institute SPH. 'These findings indicate the importance of these [community health](#) planning reforms given the size of taxpayer support for hospitals and the considerable amount of community benefit spending by hospitals, which today predominantly goes for activities other than community health improvement.'

The study was conducted by Rosenbaum, David Kindig, emeritus professor in the Department of Population Health Sciences at the University of Wisconsin-Madison, Jie Bao, director of data analytics practice at Avalere Health, Maureen Byrnes, lead research scientist at Milken Institute SPH and Colin O'Laughlin, senior associate of data analytics practice at Avalere Health. It is the first study to update the tax benefits that flow to nonprofit hospitals since an analysis in 2002, which was conducted by the Joint Committee on Taxation.

To calculate the magnitude of the tax break in 2011, Rosenbaum and her colleagues employed the methods used by the Congressional Joint Committee on Taxation and found the size of the tax break had grown from \$12.6 billion in 2002 to \$24.6 billion just nine years later.

To find out what the public received in exchange for this 'substantial' tax break, Rosenbaum and her colleagues examined data regarding the activities that hospitals report to the Internal Revenue Service (IRS) when seeking tax-exempt status. According to the IRS, private tax-exempt hospitals reported spending a total of \$62 billion in 2011 on 'charity care and community benefits,' a very broad category that encompasses financial assistance to indigent patients (24 percent of community benefit spending), amounts that hospitals allocate to their operations to offset what they report as Medicaid 'shortfalls,' (32 percent of all community benefit spending), and other activities such as health professions training, research, subsidies for services such as shock

trauma units, and activities aimed at improving community health.

Community health improvement activities might include partnering with city planners to develop safe places for residents to get daily exercise. Hospitals might also help support the development of grocery stores or farm markets in neighborhoods that lack access to fresh, healthy foods.

The IRS data shows that in 2011 the vast majority of the \$62 billion—more than \$57 billion—was spent on activities other than community health improvement. While \$15 billion of this \$57 billion went toward charity care, hospitals put only about \$4 billion—less than 8 percent of the \$62 billion they spent in total—toward improving community health. This allocation to community health improvement translates into less than 1 percent of total hospital spending in 2011.

These spending patterns may change now that the ACA has both expanded health insurance coverage while placing greater emphasis on community health improvement by requiring that tax-exempt hospitals conduct a community health needs assessment once every three years, with broad public input and informed by public health experts. The purpose of this 'community health needs assessment (CHNA)' requirement is not only to identify health problems in communities served by hospitals but to develop and implement evidence-based plans to address these health problems. For example, if a needs assessment identifies children's mental health services as a priority, a hospital might partner with the local schools to help them bring in [mental health services](#) or counselors on site, Rosenbaum says.

The ACA doesn't directly require hospitals to spend more on community health improvement but instead makes the process of nonprofit hospital spending more transparent and accountable, a reform justified by the large and increasing taxpayer investment such hospitals receive, she adds.

The health reform law put a priority on improving the health of the surrounding community but it also changed the hospital marketplace by reducing the number of Americans who lack health insurance.

According to the U.S. Department of Health and Human Services an estimated 16.4 million people have gained coverage under the ACA. Such gains in insurance coverage mean hospitals presumably have more patients able to pay the bill and less call for providing charity care, Rosenbaum says.

Public health authorities hope that shift will push hospitals to invest more in projects that will improve the health of an entire community. The increased interest in community health has just started to gain momentum but more could be done to support this early movement, including providing the public with better information about individual hospitals, the authors say.

To this end, Rosenbaum and a team at Milken Institute SPH have worked with the Robert Wood Johnson Foundation to develop a website that communities, the broader public, policymakers and others will be able to use to determine how much a given hospital spends on community [health](#) improvement versus charity care or other areas. Once the tool is ready, communities will be able to log on to the site, plug in their local [hospital](#)'s name and find out how well they compare to others nearby or similar hospitals all over the country.

**More information:** The study, 'The value of the nonprofit hospital tax exemption was \$24.6 billion in 2011,' was published online June 17 and will appear in the July 7 print issue of *Health Affairs*.

Provided by George Washington University

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