

Strategy for the Trump administration to expand the role of tax-exempt hospitals

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A new report recommends that the Trump Administration take action to revise existing Internal Revenue Service (IRS) policies governing community benefit spending by tax-exempt hospitals in order to encourage greater hospital involvement in activities that can improve health on a community-wide basis. Research increasingly shows the outsized importance of healthy communities to population health. Affordable and safe housing, safe and welcoming neighborhoods, access to nutritious food, strong child development programs, and quality education together can lead to better health outcomes. Hospitals themselves have recognized the health impact of these broader social, economic and environmental conditions as well as the value of their involvement in activities aimed at improving social conditions.

Building on longstanding policies regarding tax exempt hospitals and community benefit spending, the report shows the Trump Administration can encourage greater [hospital](#) involvement in community-wide health by adopting a more flexible regulatory standard on what constitutes a community benefit.

Produced by researchers at the George Washington University's Milken Institute School of Public Health (Milken Institute SPH), the report identifies a series of steps that the IRS can take, working in collaboration with public health experts drawn from across government and private institutions and organizations, to modify existing community benefit policies to encourage greater [population health](#) activities. Such a change would be wholly consistent with hospitals' own community health needs

assessments (CHNAs), which focus on high priority community health needs that extend beyond clinical health care.

Nonprofit hospitals qualify for a tax exemption under the U.S. tax code as long as they provide a public benefit, known as a community benefit. In 1969 the IRS used its broad authority to establish a "community benefit" standard that permits hospitals to undertake activities that improve the health of communities as a whole, not just residents who are patients.

Hospitals today still devote the vast majority of community benefit spending to patient services, including charity care. Yet, increasingly hospitals are looking outside their walls to provide activities that improve health more generally, such as improvements to housing and the environment, economic development, child development, and efforts to reduce food insecurity. These efforts to move beyond the four walls of the hospital also align with hospitals' increasing focus on achieving greater health care quality and efficiency that can promote overall patient health while reducing costs.

However, existing IRS policies create uncertainty for hospitals regarding the conditions under which many types of expenditures that can improve overall community health will count as a community benefit activity. This uncertainty may, in turn, make institutions potentially more reluctant to engage in community-wide health improvement efforts. The public interest in the adoption of a more inclusive community benefit policy is high. In 2011, U.S. taxpayers invested nearly \$25 billion nationwide to support tax-exempt hospitals, and across all states, hospital community benefit spending is considerable.

"The public has an enormous stake in policies that broaden and clarify the scope of permissible community benefit activities," says Sara Rosenbaum, JD, the Harold and Jane Hirsh Professor of Health Law and

Policy at Milken Institute SPH and the lead author of the new report. "This interest can be measured in the tens of billions of taxpayer dollars that support tax-exempt hospitals." At a time when the future of affordable insurance is uncertain, hospitals will continue to invest the great majority of their community benefit obligations in financial assistance for those in need. But with relatively minor adjustments, the IRS can considerably strengthen hospitals' potential role as community health improvement actors, Rosenbaum said.

Rosenbaum and her co-authors assessed the current status of community benefit policy in the United States and analyzed the most up-to-date hospital CHNAs, which under existing law non-profit hospitals must conduct every three years. The researchers found that 72 percent of hospitals identified obesity, 68 percent identified mental health and 62 percent identified diabetes as the top health challenges of their communities.

The report, which was funded by The Kresge Foundation and the Robert Wood Johnson Foundation, suggests that hospitals could be encouraged to take steps to actively address these top health problems in their communities. To that end, the authors outline three policy opportunities that would help align U.S. tax policy with the growing focus on community-wide health improvement.

First, the IRS could issue guidance to hospitals stating that activities now designated as community building efforts but that promote population health on a community-wide basis will be treated as community benefit spending.

Such activities may include partnering with farmers markets to address obesity, or providing support to community organizations that develop safe and affordable housing. Existing IRS policy leaves hospitals uncertain about the range of "community building" efforts that go

beyond their walls and that qualify as community health improvement spending.

Second, the IRS could bring greater transparency to community benefit reporting by creating a link between community health priorities documented through the community health needs assessment process and their community-benefit spending allocations.

IRS policy could require hospitals to report on the percentage of their community benefit spending that is linked to community-wide health needs identified through the CHNA process. For example, if a CHNA identifies childhood asthma as a major [community health](#) problem, a hospital could help support programs whose purpose is to reduce asthma triggers in homes and schools.

Third, working with experts drawn across the federal government the IRS could issue tax guidance on effective community-wide health improvement activities.

The IRS could receive guidance and support from a federal interagency group that includes experts not only in health, but in areas such as nutrition, education, the environment, transportation, the work force, and housing.

The policy opportunities outlined in this report would not require new legislation, says Maureen Byrnes, one of the study's co-authors and a Lead Research Scientist at Milken Institute SPH. Instead, the IRS could use its broad authority to define community benefit to encourage hospitals to grow as leaders in the area of population health. Such a reform would require no additional appropriations and could be a major win for public [health](#), Byrnes adds.

The report, "Improving Community Health through Hospital Community

Benefit Spending: Charting a Path to Reform," was authored by Rosenbaum, Byrnes, Sara Rothenberg and Rachel Gunsalus—all from Milken Institute School of Public Health Department of Health Policy and Management at the George Washington University.

A blog by Rosenbaum and colleagues on the same topic appears today in the journal *Health Affairs*.

Provided by George Washington University

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