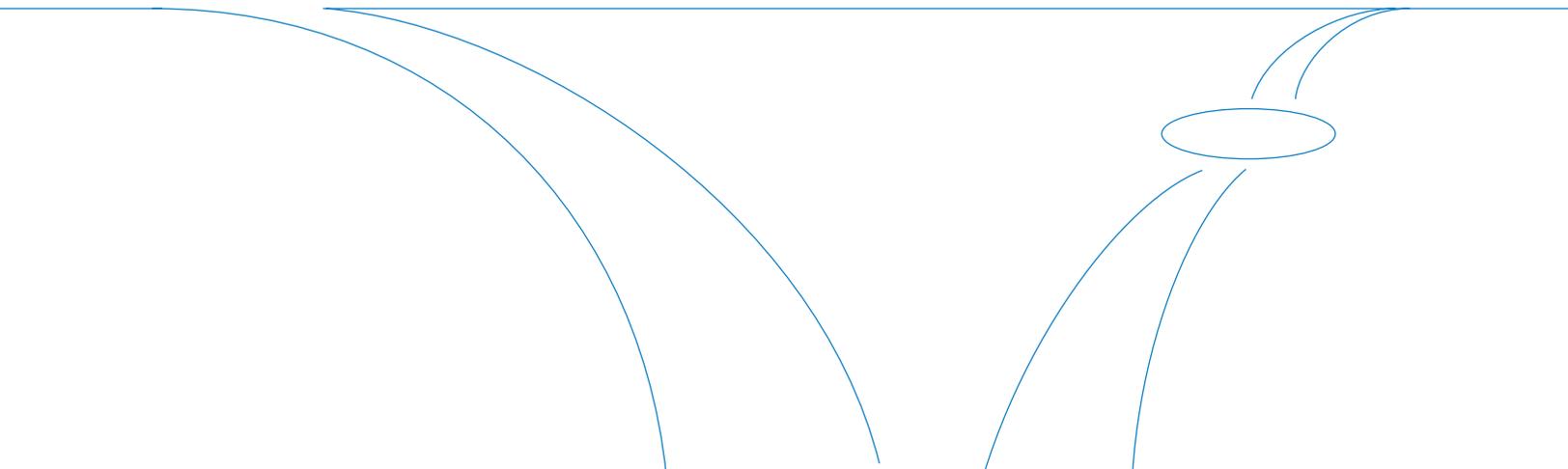




Commonly Asked Questions About Community Benefit

Updated 2023



INTRODUCTION

Catholic and other not-for-profit health care organizations were born out of community need, not for economic opportunity. They not only provide essential health care services to their communities but also serve their communities through community benefit and other programs and activities. They promote community partnerships to address community needs, address social, environmental, and economic well-being of their communities, advocate for just health policies, and are in the vanguard of working for health equity in their communities.

In recent years, the increasing availability of data and resources has led researchers and others to ask new questions about how hospital charity care and community benefits impact their communities. These talking points are meant to help answer some of these questions and provide clarity around community benefit programs, patient financial assistance/charity care and the many other ways the Catholic health ministry continues to evolve to meet the ever-changing needs of the communities it serves.

These talking points and other resources to help the Catholic health ministry strengthen and carry out their community benefit and community health improvement efforts can be found on the CHA website at www.chausa.org/communitybenefit.

Note: The information provided in this document does not constitute legal or tax advice. The information is provided for informational/educational purposes only. Please consult with counsel regarding your organization's particular circumstances.

CATHOLIC HEALTH CARE AND COMMUNITY BENEFIT

1. Why do Catholic and other nonprofit hospitals provide community benefit?

Providing community benefit programs is one important way in which Catholic health care organizations carry out their mission of love and healing. It continues the centuries old tradition of responding to community needs (see <https://www.chausa.org/about/about/our-history>). It also demonstrates that they are fulfilling their charitable purpose as tax-exempt hospitals.

2. How much community benefit do Catholic hospitals provide?

Based on 2019 Form 990 Schedule H data, Catholic hospitals spent approximately \$13.5 billion on community benefit programs in their 2019 tax year.

3. How does Catholic health care advocate for improved community health and the health of vulnerable people?

The Catholic Health Association (CHA), the national leadership organization for Catholic hospitals, long-term care facilities and other health facilities across the country, advocates for a compassionate and just health care system for everyone from conception to natural death. It has led a campaign to strengthen the Medicaid program, “Medicaid makes it possible,” emphasizing the impact of the Medicaid program on the health and lives of low-income children and adults. Because of the strong relationship between health and housing, CHA has been a vocal advocate for affordable, safe and healthy housing. CHA also advocates for a strong public health system, resources to address social determinants of health and health equity, tobacco restrictions, and improved aging services. <https://www.chausa.org/advocacy/advocacy-overview>

COMMUNITY BENEFIT AND TAX EXEMPTION

1. What are hospital community benefit programs and activities?

Community benefit programs and activities provide treatment or promote health as a response to identified community needs. They continue the historical tradition of hospitals' responding to community need and are part of not-for-profit, tax-exempt hospitals' requirements for tax exemption.

The Internal Revenue Service (IRS) identifies eight categories of community benefit that are reportable on tax-exempt hospitals' IRS Form 990, Schedule H:

- ✦ Financial assistance at cost (also known as charity care),
- ✦ Medicaid shortfall,
- ✦ Costs of other means-tested government programs,
- ✦ Community health improvement services and community benefit operations,
- ✦ Health professions education,
- ✦ Subsidized health services,
- ✦ Research, and
- ✦ Cash and in-kind contributions for community benefit.

2. Isn't community benefit just a different way of saying charity care?

No. Charity care, or financial assistance (the term used by the IRS), is just one of the eight categories (see above) of community benefit that hospitals provide and report on their IRS Form 990 Schedule H.

3. So, if it's not just charity care, what else must a hospital do to meet its community benefit requirements?

The Affordable Care Act (ACA) and subsequent IRS guidance require hospitals to conduct and make public a Community Health Needs Assessment (CHNA), develop an implementation strategy for that CHNA at least once every three years, and impose requirements related to financial assistance, billing and collection policies and practices, emergency medical care, and limitations on charges. In addition, the IRS community benefit standard requires tax-exempt health care organizations to promote the health of their communities by, for instance, having a medical staff, emergency room, governing board drawn from the community, and/or by using surplus funds to improve patient quality care, expand facilities and advance medical training, education and research. Not-for-profit, tax-exempt hospitals must provide an annual update of their community benefit programs and expenses on IRS Form 990 Schedule H.

In addition, a tax-exempt health care organization must not generate private inurement with insiders or prohibited private benefit with outsiders, and must not engage in substantial unrelated trade or business activity (such as through joint ventures with taxable entities), any political campaign activity, or substantial lobbying.

4. How do tax-exempt hospitals comply with community benefit requirements?

To comply with certain Affordable Care Act (ACA) requirements and the [IRS community benefit standard](#), non-profit, tax-exempt hospitals must conduct and report on a number of different charitable and community needs efforts and other information related to their tax exemption in order to maintain their status as tax-exempt entities under federal law. Today, as part of these requirements, hospitals provide an annual update on their community benefit programs and expenses through their publicly available [IRS Form 990 Schedule H](#) filings.

5. Do for-profit hospitals provide community benefits?

Yes and no. While many for-profit hospitals do provide important community benefits, the federal tax law requirements to conduct a CHNA and to conduct and publicly report community benefit programs and expenses are only required of not-for-profit, tax-exempt hospitals.

6. How can the public know what community benefit a hospital is providing?

Most hospitals have a section on their website that includes community benefit information. Tax-exempt hospitals must post their CHNAs and financial assistance policies online. If it is not posted on a hospital's website, the public can find the hospital's IRS Form 990 Schedule H by going to the [IRS Tax Exempt Organization Search \(irs.gov\)](#) website and/or the websites of organizations that post Forms 990 online, such as [Guidestar](#).

7. Are there state community benefit requirements, as well as federal?

Some states have property or other tax exemption standards that apply to hospitals. Currently, about 30 states have requirements assessing community need or for providing and/or reporting community benefit.

8. How must hospitals conduct community health needs assessments (CHNAs)?

The ACA requires hospitals to conduct a CHNA at least once every three years. The CHNA must:

- ✦ Define the community served by the hospital,
- ✦ Identify and prioritize significant health care needs of that community, taking into account input from at least one public health agency and persons who represent the community, including members of medically underserved, low-income, and minority populations,
- ✦ Evaluate the impact of actions taken since the hospital's last CHNA to meet the significant health needs identified in that CHNA, and
- ✦ Describe the CHNA process and findings in a CHNA report that is approved by the hospital's authorized body and made widely available to the public over the Internet.

9. What is an Implementation Strategy?

In conjunction with its CHNA, a hospital must also develop an implementation strategy, which must also be approved by the hospital's authorized body. It is a written document that describes

- ✦ How the hospital plans to meet significant health needs identified in its most recent CHNA,

- ✦ The actions the hospital intends to take to address those needs,
 - ✦ The anticipated impact of these actions,
 - ✦ Programs and resources planned to address the needs,
 - ✦ Any planned collaboration with other entities, and
- ✦ Any significant needs in the CHNA that the hospital does not plan to address and indicate why (e.g., a need is being addressed by other organizations).

A hospital's most recent implementation strategy must either be attached to its Form 990 Schedule H or posted on its website.

FINANCIAL ASSISTANCE AND CHARITY CARE

1. Is uncompensated care the same as charity care?

No. Uncompensated care, as reported on the CMS Medicare Cost Report, Worksheet S-10 (see section on data sources), is comprised of financial assistance/charity care plus bad debt. Bad debt is not reported as financial assistance or community benefit on IRS Form 990 Schedule H.

2. Are hospitals required to spend a certain amount annually on financial assistance/charity care or community benefit?

Some states require minimum community benefit spending, but there is no spending requirement under federal tax law.

3. Why shouldn't hospitals be required to provide a minimum level of financial assistance/charity care or community benefit?

Communities vary greatly in their size and the economic well-being of their local populations. Community need must drive financial assistance/charity care and other community benefit decisions. For example, hospitals serving a large population of low-income patients or uninsured people will be addressing very different needs than a hospital serving a relatively healthy and/or wealthier community.

Also, a minimum level of spending standard could encourage providers to prioritize reactive health interventions to meet a spending minimum, instead of proactive activities needed to address prevention and the social determinants of health. Delivering health interventions which prevent people from becoming sick can have a much larger impact on community health, while at the same time reducing overall health costs. Creating minimum spending standards could harm the prioritization of many of these activities.

SCHEDULE H FOR HOSPITALS AND REPORTING COMMUNITY BENEFITS

1. How do hospitals meet their community benefit reporting requirement?

Each year, tax-exempt hospital organizations must report their community benefit expense data and other information related to tax exemption on the [IRS Form 990 Schedule H](#). The IRS provides [instructions](#) for completing this form.

2. What information is reported on IRS Form 990 Schedule H?

The Form 990 Schedule H asks hospitals to report their total and net expenses for:

- ✦ Unreimbursed costs of financial assistance (providing free or discounted services to patients who cannot afford to pay for all or a portion of those services, and thus qualify for assistance under the hospital's financial assistance policy).
- ✦ Amount spent on unreimbursed costs as a result of participation in means-tested government programs for low-income persons, such as Medicaid.
- ✦ Community health improvement services. These are activities or programs designed to address identified community health needs that do not generate inpatient or outpatient revenue, and are not more beneficial to the organization than to the community. They include community health education, such as diabetes awareness; community-based clinical services, such as vaccine clinics; health care support, such as transportation for low-income persons; and social and environment activities that improve community health, such as participation in a food policy coalition.
- ✦ Health professions education necessary for state licensure or board certification, including time spent training medical and nursing students.
- ✦ Subsidized health services. A subsidized health service meets an identified community need, is operated by the hospital at a loss during a given tax year, and would not be available or adequately available in the community if not provided by the hospital. These often include mental health and substance abuse services.
- ✦ Cash or in-kind contributions to other community groups restricted in writing for community benefit (as defined in Form 990, Schedule H instructions), such as donating funds to other community organizations or nonprofits specifically restricted for community health improvement services.
- ✦ Community building activities that are related to improving health, such as investments in housing, economic development, environmental improvement programs, community support, community training, coalition building work, community health improvement, advocacy and workforce development programs—some of which may be reportable as community health

improvement services in Schedule H, Part I rather than community building activities in Schedule H, Part II.

In addition, hospitals report on whether they have a financial assistance policy, the eligibility criteria for their financial assistance programs, the hospital's collection practices for unpaid medical debt, and how they are addressing community health needs identified in their most recent CHNA report.

Finally, IRS Form 990 Schedule H also requires the reporting of "bad debt" (amounts uncollected from patients whom the hospital has not determined qualify for financial assistance) and shortfalls associated with Medicare payments, but does not count bad debt or Medicare shortfalls as community benefit.

3. What community service expenses are not reported as community benefit on the Form 990 Schedule H?

The IRS Form 990 Schedule H does not collect information about activities funded by the organization's parent or affiliate (rather than by the hospital itself), or activities provided at a loss that do not meet the Form 990 Schedule H definition of "community benefit," such as low-interest loans to community organizations or payments in lieu of taxes to local governments. It also does not include some activities that address social determinants of health through community partnerships and strategies to improve economic and social conditions, such as local hiring, purchasing, and capital investments in underserved communities.

4. Why do some hospitals report their community benefit on IRS Form 990 Schedule H in combination with other hospitals?

Organizations must have a federal tax number known as an Employer Identification Number, or EIN. A health care organization must report information from all of its hospitals and other operations within its EIN on a single Form 990. In some hospital organizations there is only one hospital, whereas others have dozens or more hospitals within a single EIN. However, Part V of the Form 990 Schedule H must be completed for each individual hospital within the hospital's EIN. Part V is the section in which hospitals report compliance with the ACA requirements, such as requirements for CHNAs and financial assistance.

5. Can hospitals report any community service activity as a community health improvement service on Form 990 Schedule H?

No. To be reported as a community health improvement service, an activity must address an identified community health need, not benefit the organization more than the community (for example, activities designed primarily for marketing or to generate referrals) and must meet a community benefit objective such as improving access to health care services, enhancing public health, promoting medical knowledge, or reducing a government burden.

6. How is a community health need identified?

For an activity to be reported as a community health improvement service, IRS Form 990 Schedule H instructions say the activity must address a community health need and that the need may be determined through a CHNA, a request from a public or community nonprofit organizations, or a partnership with a government or unrelated tax-exempt organization

7. How do hospitals determine the cost of community benefit to report on Form 990 Schedule H?

The IRS Form 990 Schedule H instructions require hospital organizations to report their cost (not what would have been charged) of providing care for free or at a discount to those who cannot afford care (financial assistance) and other community benefits. Some hospitals have cost accounting systems that they can use to reasonably determine this cost. Others use a cost-to-charge ratio to calculate costs. The IRS Form 990 Schedule H instructions permit either approach and provide a worksheet for determining a cost-to-charge ratio.

- ✦ Contributions to community organizations restricted for COVID-19-related community benefit activities.

In reporting COVID expenses on IRS Form 990 Schedule H, hospital organizations must report gross expenses, and would need to subtract the amounts of any COVID-19-related government payments specifically restricted for community benefit activity, including Federal Emergency Management Agency (FEMA) funding and other grants specifically restricted to cover COVID expenses that fit the Schedule H definition of “community benefit.”

8. How are COVID-19 related activities reported on Form 990 Schedule H?

Hospitals can report the cost of the following COVID-19 related activities:

- ✦ Free and discounted care of COVID-19 patients who meet the hospital’s financial assistance policy eligibility criteria,
- ✦ Caring for COVID-19 Medicaid patients,
- ✦ Community education, testing, and/or vaccinations,
- ✦ Responding to social needs that emerged during the pandemic that affect community health, such as housing and food insecurity, and mental health issues,
- ✦ Disaster readiness and response beyond government requirements,
- ✦ Any programs that had to be subsidized (where payments did not cover costs) such as emergency departments and ICUs to meet COVID-19-related community health needs, and

COMPLIANCE

1. How are hospitals held accountable for addressing community health needs?

In addition to reporting their spending on community benefit programs annually on the IRS Form 990 Schedule H, hospitals must also describe in the Form how they conducted their most recent CHNA, how they are addressing the significant health needs identified in their most recent CHNA report, and why they are not addressing other specific health needs (if any) identified in that CHNA report.

2. How is hospital compliance with these requirements monitored?

The IRS is required by the ACA to review each hospital's community benefit activity at least once every three years. Accordingly, the IRS reviews about a third of all tax-exempt hospitals' community benefit, CHNAs, and financial assistance policies every year.

3. What are the penalties for noncompliance?

Noncompliance can result in the loss of federal tax exemption. Failure to meet a CHNA requirement can result in a \$50,000 excise tax for each year of noncompliance. The IRS also has the option of imposing tax on all net income of a hospital that is out of compliance with the CHNA or other ACA requirements in a given year, though it rarely if ever does so.

4. What has been the experience of IRS oversight?

About a third of all hospitals reviewed by the IRS have been referred for examinations or compliance checks, with over 100 of those exams resulting in imposition of a \$50,000 excise tax for CHNA failures and many other hospitals receiving IRS letter requesting changes to their financial assistance policies.

DIFFERENT DATA SOURCES AND REPORTS ON COMMUNITY BENEFIT

1. Why do some studies and reports give differing community benefit numbers and percentages?

There are different ways analysts look at and report community benefit data. They view the results from different angles, based on the assumptions and methodology used. The best way to assess the value a hospital organization provides its community is not to look (or just look) at the amount or percentage of dollars spent on community benefit, but to look at how the hospital is actually impacting the health of its community; for instance, reading the hospital's community health needs assessment (CHNA) report (on its website) and its implementation strategy (on its website or in its IRS Form 990) which describe how the hospital is addressing the significant health needs identified in its CHNA report.

2. What are the sources of data used?

There are a number of data sets that researchers or members of the media could be using in order to try to tell a story about charity care/financial assistance and community benefit in a particular community. This includes data available through the organization's financial disclosure statements, Worksheet S-10 Medicare cost reports, IRS Form 990 Schedule H and local community benefit reporting. While these reports may provide different snapshots of a hospital's impact in a community, the S-10 and IRS Form 990 Schedule H are two of the most

widely used datasets for researchers and media members analyzing hospital uncompensated care or charity care/financial assistance data.

3. What is the difference between Medicare Cost Report Worksheet S-10 and IRS Form 990 Schedule H?

The worksheet S-10 is a report on uncompensated care (financial assistance/charity care and bad debt) data which CMS uses in calculating a hospital's Medicare disproportionate share hospital payment. IRS Form 990 Schedule H is a form submitted by tax-exempt hospital in order to report their community benefit expenses and other information related to tax-exemption. In addition to financial assistance/charity care expense, it also includes a hospital's spending on community benefit programs that go beyond "charity care" or uncompensated care, including community health improvement services and subsidized health services, and provides a more complete picture of non-profit, tax-exempt hospitals' charitable activities and contributions in their communities.



A Mission to Care: A Commitment to Community

From the very beginning, civic leaders and congregations of religious women and men courageously responded to the needs of the communities they were called to serve.

Today, that same call to provide health and hope is being answered in unique and creative ways through community benefit programs.

AS COMMUNITY BENEFIT LEADERS:

We are concerned with the dignity of persons.

We are committed to improving health care access for all persons at every stage of life regardless of race, culture or economic status and to eliminating disparities in treatment and outcome.

We are concerned about the common good.

We design community benefit programs to improve health through prevention, health promotion, education and research.

We have special concern for vulnerable persons.

We put a priority on programs that address the most vulnerable in our communities and ensure that all programs reach out to persons most in need.

We are concerned about stewardship of resources.

We use resources where they are most needed and most likely to be effective.

We are called to justice.

We advocate health care for all and work to improve social conditions that lead to improved health and well-being.

We care for the whole person.

We engage partners in our communities so that together we improve health and quality of life through better jobs, housing and the natural environment.

For more information about community benefit and Catholic health care, go to www.chausa.org/communitybenefit



Washington Office

1625 Eye Street NW, Suite 550
Washington, DC 20006
(202) 296-3993

St. Louis Office

4455 Woodson Road
St. Louis, MO 63134
(314) 427-2500

chausa.org