

Nonprofit Hospital Community Benefit: Frequently Asked Questions



Catholic and other not-for-profit healthcare organizations were established to respond to community needs. As charitable institutions, they provide acute, emergency and often primary medical care, with a long-standing commitment to serving vulnerable and underserved populations. Community benefit is the continuation of Catholic and other nonprofit hospitals' historic tradition and mission to address the health needs of their communities.

- Community benefit is clearly **defined, regulated, and audited**.
- Charity care (financial assistance at cost) is only one part of a broader community health mission.
- Compliance is enforced through federal and state oversight.
- Nonprofit hospitals deliver measurable value that exceeds their tax-exempt status.
- Transparency and accountability underpin community benefit.

Mission-Driven Healthcare & Community Benefit

Why do Catholic and other nonprofit hospitals provide community benefit? Nonprofit hospitals have a mission to care and are committed to their communities. At the heart of community benefit is a commitment to the dignity of every person. Catholic and other nonprofit hospitals are concerned with the health of all people in their communities and consider the whole person, including their physical, emotional, social and spiritual needs. How well and how long a person lives is impacted by social factors, including policies and community structures; therefore, community benefit extends beyond the walls of hospitals and clinics, seeking out all in need and working to address barriers to health and well-being. Those engaged in this work advocate for policies and practices that promote health equity so all may flourish.

When did Catholic hospitals begin to provide community benefit? The origin of community benefit dates to the establishment of Catholic healthcare in the United States. In the 18th and 19th centuries, religious women and men responded to the urgent social and health needs of their communities, especially those experiencing poverty and marginalization. Over the years, they established

hospitals, clinics and social service agencies. Their work was driven by faith and a profound sense of justice. Today, that same call to provide health and hope is being answered in unique and creative ways through community benefit programs.

How do Catholic and other nonprofit hospitals demonstrate their mission? Mission-driven not-for-profit hospitals are cornerstones of their community's health and well-being. They:

- ◆ Put patients and community first, especially vulnerable populations
- ◆ Reinvest surplus funds in the health and wellness of the community, not shareholders
- ◆ Are more likely to provide essential services because of community need even if unprofitable
- ◆ Pay payroll taxes, unrelated business income taxes and other taxes and fees.
- ◆ Comply with all the transparency and quality requirements that other hospitals have from HHS/CMS, and are subject to additional transparency requirements by the IRS
- ◆ Investments in community benefits far exceed the value of federal revenue forgone from their nonprofit tax-exempt status

Nonprofit Hospital Community Benefit & Tax Exemption

What is nonprofit hospital community benefit? Community benefit is a defined set of activities not-for-profit hospitals provide to meet identified community needs and improve the health and well-

being of their communities. In fact, the IRS has identified specific categories of community benefit with detailed definitions and specific accounting guidelines. Community benefit programs and activities

provide treatment and/or promote health and healing in response to an identified community health need. These programs increase access to healthcare and improve community health and well-being.

What qualifies as a reportable community benefit?

To qualify, an activity must:

- Address an identified community health need
- Benefit the community more than the hospital (i.e., not marketing/referral-driven)
- Advance at least one community health objective, such as:
 - Improving access to care
 - Enhancing public health
 - Advancing generalizable health knowledge
 - Reducing government burden to improve health

Is community benefit another way to say charity care? No. Charity care (called “financial assistance at cost” by the IRS) is only **one of the eight** categories of community benefit that hospitals provide and report on the IRS Form 990 Schedule H. All eight categories of community benefit are important to the health and well-being of communities.

How many categories of community benefit are there? The IRS recognizes **eight reportable community benefit categories**:

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

Are nonprofit hospitals exempt from all taxes?

No. Nonprofit hospitals pay taxes, including payroll taxes and unrelated business income taxes. Tax-exemption applies primarily to federal income tax and is contingent on meeting community benefit and other statutory requirements.

What federal requirements apply to nonprofit hospitals to maintain their tax-exempt status?

In addition to IRS Section [501\(c\)\(3\)](#) requirements, nonprofit hospitals must comply with:

- Annual IRS Form 990 [Schedule H](#) filing ([instructions](#))
- **Community Benefit Standard** ([Rev. Rul. 69-545](#)), which requires tax-exempt hospitals to promote the health of their communities as a whole, and prohibits tax-exempt hospitals from being operated primarily for the benefit of private persons (e.g. shareholders, board members)
- **Affordable Care Act** ([IRC §501\(r\)](#)), including:
 - Community Health Needs Assessment (CHNA) and implementation strategy every 3 years
 - Published financial assistance and emergency care policies
 - Limits on charges
 - Billing and collections restrictions

Note: These requirements do not apply to for-profit hospitals and healthcare.

Resources: ([Congressional Research Services, CHA-CB requirements, CHA-CB categories](#)), [Community Benefit – Why the IRS Community Benefit Standard for Tax-Exempt Hospitals Has Endured](#) | Health Progress, Spring 2026

Resource: [Community Benefit – Nonprofit Hospital Community Benefit: What Counts and Why It Matters](#) | Health Progress, Summer 2025

Compliance

Who ensures not-for-profit hospitals comply with community benefit and tax-exemption requirements? The IRS ensures compliance. The ACA, [Section 9007\(c\)](#), requires the IRS to **review each hospital’s community benefit activity at least once every three years**. Accordingly, the IRS reviews about one-third of all tax-exempt hospitals annually.

What happens if tax-exempt hospitals do not comply with the requirements? Noncompliance can

result in:

- **\$50,000 excise tax**, per year, per hospital facility, for failing to meet the community health needs assessment (CHNA) requirements
- Potential taxation of net income
- Potential **loss of federal tax-exemption**.

Does the IRS report findings to Congress? The ACA, Section 9007(e)(1), requires the IRS to submit an annual report to Congress on private,

tax-exempt, taxable and government-owned hospitals. The report includes information submitted by hospitals from Form 990 Schedule H and the Medicare Cost Report. Unfortunately, Congress last released this report to the public in 2020.

Do states impose additional community benefit requirements? Additional requirements vary widely by state. Many states require tax-exempt hospitals to submit additional community benefit reports, community health needs assessment (CHNA) requirements, provisions of community benefit, financial assistance and billing and collections laws.

Are nonprofit hospitals required to spend a minimum amount on financial assistance and other community benefit activities? No federal minimum spending requirement exists. Some states impose minimums, **but federally, community benefit is guided by community need**, not a fixed

dollar threshold.

Current federal requirements allow nonprofit hospitals to respond to local needs, rather than forcing a one size fits all approach that would leave many priorities unmet. Each community is shaped by its own unique needs, issues, and available resources. A minimum-spending mandate could limit nonprofit hospitals' ability to address those unique needs and discourage prevention and upstream investments that improve long-term community health.

How are nonprofit hospitals held accountable for addressing community health needs? Form 990 Schedule H requires nonprofit hospitals to annually report the cost of their community benefit programs and activities. Not-for-profit hospitals must also describe how they conducted their most recent CHNA and how they addressed the identified significant health needs or why they did not address a specific significant health need.

Financial Assistance and Charity Care

What is Financial Assistance? Financial assistance is the free and discounted health services provided to persons who cannot afford to pay all or portions of their medical bills and who meet the criteria specified in the hospital's financial assistance policy. Financial assistance is sometimes called charity care. **Federal law requires nonprofit hospitals to adopt and widely publish a financial assistance policy.**

Is uncompensated care the same as financial assistance? No. "Uncompensated Care" is defined as the sum of financial assistance/charity care and bad debt. It is reported on the Centers for Medicare & Medicaid Services' (CMS) Medicare Cost Report, Worksheet S-10. Uncompensated care includes the

cost of financial assistance for uninsured patients, as well as 100% of the co-payments and deductibles of insured patients, also known as revenues, that were forgiven pursuant to financial assistance policies. As a result, revenue losses are included in the calculation of uncompensated care.

In contrast, all financial assistance amounts reported on IRS Form 990 Schedule H (for both uninsured and insured patients) are converted to cost. Also, bad debt is not included as a community benefit in reported financial assistance amounts. Bad debt is reported in Schedule H, Part III. On Schedule H, hospitals are instructed not to include any bad debt expenses in reported community benefits.

Community Health Impact

How are community needs identified? Community needs are identified through:

- The hospital's CHNA
- Requests from public agencies or community nonprofits
- Partnerships with government or tax-exempt organizations

What is a Community Health Needs Assessment (CHNA)? A CHNA is a point-in-time assessment of the health and well-being of a defined community. It requires a systematic process involving the community to ascertain and analyze community health needs and assets to identify priority community

health needs. This process results in a written report adopted by the hospital's governing body and is used to develop an implementation strategy.

How must hospitals conduct community health needs assessments (CHNAs)? The ACA requires nonprofit hospitals to conduct a CHNA at least once every three years. IRC 501(r) specifies to conduct a CHNA, a hospital facility must complete the following steps:

1. Define the community it serves.
2. Assess the health needs of that community.
3. In assessing the community's health needs, solicit and take into account input received

from persons who represent the broad interests of that community, including those with special knowledge of or expertise in public health.

4. Document the CHNA in a written report that is adopted for the hospital facility by an authorized body of the hospital facility.
5. Make the CHNA report widely available to the public.

What is an Implementation Strategy? An implementation strategy, also known as a community health improvement plan, is the action plan that documents what the hospital intends to do to address the significant priority health needs identified in the CHNA. Every nonprofit hospital, in conjunction with conducting its CHNA, must also develop a written implementation strategy that:

- Is adopted by the hospital's authorized body
- Describes how the hospital plans to address the health needs identified in the CHNA, including resources it intends to use, planned collaborations and the anticipated outcomes
- Describes any prioritized needs identified in the CHNA that are not being addressed and the reasons for not addressing them

How do nonprofit hospitals impact the health of their communities? Tax-exempt hospitals are vital to ensuring the health of their communities. They impact the health and well-being of their communities through their:

1. Primary purpose of providing healthcare services,
2. Community benefit activities (as reported on the Internal Revenue Service (IRS) Form 990 Schedule H), and
3. Additional investments above and beyond reported activities.

Additionally, as one of the largest employers in their communities, nonprofit hospitals contribute to the financial stability and economic development of the communities and regions they serve. They support local businesses and strengthen social and economic networks.

Do for-profit hospitals provide community benefits? Some do, but **for-profit hospitals are not subject to ACA 501(r) and Community Benefit Standard (RR 69-545) requirements.** They also do not have the same reporting or community obligation framework as tax-exempt hospitals.

For-profit hospitals return wealth to shareholders and investors and prioritize the profitability of services.

Do not-for-profit hospitals do their fair share? **Yes.** Nonprofit hospitals' investments in community health and well-being far exceed the amount of taxes forgone by federal, state and local governments. In fact, U.S. nonprofit hospitals invested over 2.5 times the amount they would have paid in taxes.

In 2022, U.S. nonprofit hospitals provided \$108.5 billion in IRS-defined community benefit activities (IRS Form 990 Schedule H, Part I). They also provided \$40.4 billion in community building activities, unpaid costs of Medicaid and bad debt attributable to financial assistance. The combined is a community investment of \$140.9 billion.

In 2022, the amount of forgone taxes was \$54.4 billion, \$13.2 billion in federal taxes and \$41.1 billion in state and local taxes.

Resource: [Estimates of the value of federal tax exemptions and community benefits provided by U.S. nonprofit hospitals, 2022](#) | American Hospital Association, November 2025

Schedule H Reporting and Reporting Community Benefit

How do hospitals meet their federal 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 that form.

How are community benefit expenses accounted for? Expenses are reported in terms of cost and in compliance with IRS Form 990 Schedule H

instructions. Community benefit expenses are the actual expenses borne by the hospital, not charges, market value or opportunity costs.

What information is reported on IRS Form 990 Schedule H? Schedule H asks hospitals to report total and net expenses incurred during the tax year for the eight types of community benefits. In addition, hospitals report on their compliance with the community benefit standard ([RR 69-545](#)) and Revenue Ruling 501(r), including 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, including links to the CHNA and Implementation Strategy. The IRS Form 990 Schedule H also requires the reporting of "bad debt" and the amount of the unpaid cost of caring for Medicare patients. Note: Bad debt or Medicare shortfalls do not qualify as community benefit.

Do not-for-profit hospitals provide benefits that are not reported on Schedule H? Yes.

Many community investments—such as workforce development, anchor institution strategies, local purchasing and impact investing—improve community

health but do not meet the IRS reporting criteria and therefore are not included on Schedule H.

Why do some Form 990 Schedule H reports include more than one hospital? Organizations must have a federal tax number known as an Employer Identification Number (EIN). A healthcare organization must report information from all hospitals and other operations within its EIN on a single Form 990. Some organizations have only one hospital, while others may have more hospitals and other entities within a single EIN. Part V of the Form 990 Schedule H must be completed for each individual hospital within the EIN. Part V includes reporting on compliance with the ACA, IRC 501(r) and the community benefit standard.

Different Data Sources and Reports on Community Benefit

What is the difference between the Schedule H and the Medicare Worksheet S 10?

- **IRS Form 990 Schedule H:**
 - o Reports the actual expense incurred by hospitals to provide community benefits, including financial assistance at cost
 - o Is filed only by tax-exempt, private, nonprofit hospitals
 - o Captures eight types of community benefits, not just charity care and Medicaid shortfalls
 - o Is part of IRS Form 990, which includes other schedules also used by the IRS to assess tax-exemption compliance
 - o Is filed with the IRS and also increasingly with states
- **Medicare Cost Report Worksheet S 10:**
 - o Reports unreimbursed and uncompensated care (Medicaid, charity care/financial assistance, and bad debt), with some of the amounts valued based on revenue losses rather than the actual cost of care
 - o Is used to calculate Medicare DSH and Medicare bad debt reimbursement amounts
 - o Is filed by all types of hospitals, including private nonprofit, for-profit, and governmental facilities
 - o Values charity care/financial assistance differently than Schedule H and typically shows significantly higher charity care costs
 - o Is filed with CMS

Do the Schedule H and the Medicare Cost Report provide the same information? No. They are required by different federal agencies, are not interchangeable, serve different purposes, and calculate unreimbursed charity care, bad debt, and Medicaid amounts differently.

Schedule H has been filed since 2009 and requires reporting the total and net cost of community benefit and community building activities, bad debts, Medicare revenues and costs, and how the hospital organization has satisfied a range of tax-exemption requirements (e.g., how it has assessed community health needs and whether financial assistance policies comply with federal rules).

In comparison, hospitals have filed the Medicare Cost Report annually since the creation of the Medicare program in 1966. This report's primary purpose is to determine and document the basis for Medicare reimbursement. Because Medicare Disproportionate Share reimbursement depends in part on the amount of unreimbursed and uncompensated care costs hospitals have incurred, these reports include information on charity care costs, bad debts, and Medicaid shortfalls.

While these amounts also are reported on Schedule H, Medicare Cost Reports determine them differently. For example, charity care "costs" for insured patients are reported based on forgone revenues (e.g., 100% of co-payments and deductibles written off to charity care) rather than actual cost (e.g., those same co-

payments and deductibles converted to cost using a cost-to-charge ratio). So even though the Medicare Cost Report describes charity care amounts for insured patients as “cost,” the amounts actually represent revenue losses.

Why do some studies and reports show differing community benefit numbers and percentages?

There are a number of data sets that researchers, other organizations or members of the media can use to tell a story about community benefit. However, they often only focus on one or a couple of aspects of community benefit, leading to a narrow or incomplete picture of the full scope of community benefit activities. The best way to understand the full picture of a not-for-profit hospital’s impact is to look at its community needs assessment and see its IRS Form 990 Schedule H report on community programs.

What sources can provide a view into the impact of not-for-profit hospitals? There is only one definition of community benefit: it is the Internal Revenue Service (IRS) definition. 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. Many nonprofit hospitals publish annual reports that share their impact.

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A Mission to Care ✦ A Commitment to the Community

From their beginning and continuing today, Catholic and other nonprofit healthcare organizations are responding to the unique needs of their communities, working to improve health and well-being for all. They do this through their primary charitable purpose of providing healthcare, community benefit, and other activities and investments in health.

Learn more at: chausa.org/communitybenefit

