

Contributions to the Capitol Needs of Other Entities



Questions frequently arise regarding whether contributions made by tax-exempt hospital organizations to help other entities (e.g., community health centers or free clinics) with their capital needs are reportable as community benefit. Such contributions can be in the form of cash grants that are used by the other entities for new buildings or equipment, or in the form of capital assets, such as land or buildings donated by hospitals to others.

Contributions of this nature may be counted as community benefit under certain circumstances, as follows:

- Any cash contributions for capital needs are restricted in writing to a community benefit purpose. For example, if a hospital contributes \$500,000 to a community clinic that will be used for a new building, the clinic is required to use the new building in a manner that enhances access to care for uninsured or Medicaid patients, offers subsidized health services, facilitates health professional education or other purposes that are defined as a community benefit.
- The hospital is able to document its intent that in-kind contributions (e.g., donating a building or land) also are to be used by the recipient entity for a community benefit purpose.
- The accounting for the cash or asset contributions yields an expense borne by the hospital organization that is reported in Part XI of the core Form 990 (Statement of Functional Expenses). For example, if the hospital donates a building with a remaining “book value” of \$500,000, the loss associated with donating this asset is reported in Part XI of the core Form 990.
- Any asset (land, buildings) contributions are valued for community benefit purposes based on the accounting value placed on the asset when donated. For example, the value of a donated building is based on its “book value” (original cost minus accumulated depreciation) rather than a fair market value or appraisal estimate.
- The hospital organization does not retain a financial interest in the contributed assets but instead has provided them out of a sense of “disinterested generosity.” Said another way, these cash or in-kind contributions may not be reported if they represent loans or advances or, as stated in Schedule H instructions, are “contributions” to the capital of another organization that are reportable in Part X of the core Form 990.” Part X of the core Form 990 is the organization’s balance sheet. Thus, contributions that result in a balance reported as an asset or investment on the organization’s balance sheet are not reportable as contributions for community benefit on Schedule H.

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Some organizations are finding it straightforward to lease buildings to other entities rather than to donate them outright. Leases can incorporate terms that help ensure the lessee provides community benefit in the leased space. Instead of providing leases with nominal (e.g., \$1 per year) lease payments — a structure that requires estimating and reporting as community benefit the expense borne by the hospital in maintaining the property — some organizations are providing leases based on fair market value and then are making a separate community benefit grant to the lessee organization.

FOR EXAMPLE, a hospital leases a building to a free clinic for \$100,000 per year. It then makes an annual community benefit grant to the clinic of \$100,000 (or more) that is restricted to a community benefit purpose. On a net basis, the free clinic is able to occupy the building in a budget-neutral fashion. The hospital is able to report the \$100,000 community benefit grant on Schedule H as a cash contribution — rather than valuing the arrangement solely as an in-kind transaction.

Contributions may be made outside of the community, for example, in response to global poverty or a natural disaster. However, contributions outside the community should not constitute a substantial proportion of the organization's community benefit. Also, be aware that many taxing authorities do not consider funds used outside of the community as community benefit. Additionally, to be reported on Schedule H, the contributions must be restricted to a community benefit purpose.

About The Catholic Health Association of the United States (CHA)

For over 35 years, CHA has been the leading source of information and tools for planning and reporting hospital community benefit. In 2008, CHA's accounting system for reporting community benefit was used in the development of the IRS Form 990 Schedule H.

CHA represents more than 650 hospitals and 1,600 long-term care and other health facilities in all fifty states. Our hospitals were established to address health needs in their communities and that tradition continues today. Catholic hospitals are a critical source of care and services in their communities. This includes community-based services that address significant health and health-related needs reported as community benefit.

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.