



October 17, 2008

Make hospitals earn tax-exempt status

The Register's Editorial

From Medicare to Medicaid, health care costs taxpayers a fortune. That includes hospitals. According to a new report from the Government Accountability Office, the investigative arm of Congress, nonprofit hospitals received tax benefits of \$12.6 billion at the federal, state and local levels in 2002.

But are they earning those tax benefits?

That's a question Iowa Sen. Charles Grassley has spent years trying to answer. He's raised questions about whether the hospitals - some of which pay huge CEO salaries, buy property after property and hound the poor to pay bills - should enjoy preferential "nonprofit" tax status. He conducted a study that found nonprofits routinely deny uninsured patients charitable care or overcharge for that care.

The latest installment in his investigation is the new GAO report. It confirmed what Grassley already knew: There are essentially no federal standards that define the "community benefit" hospitals must provide to earn their nonprofit status. Hospitals are allowed "broad latitude to determine the services and activities that constitute community benefit," according to the GAO.

In other words, nonprofit hospitals in most of the country - including Iowa - don't have to provide even one bit of charity care to enjoy tax advantages. They don't have to measure the "benefit" they're providing to the community.

That should outrage taxpayers, who pay \$12.6 billion more per year to make up for a loss of revenue because hospitals are exempt from property, income and sales tax.

Congress must ensure the public is getting its money's worth.

Grassley plans to introduce legislation to define national standards for nonprofit hospitals that enjoy tax-exempt status. Lawmakers also should consider defining how much charity care hospitals must provide to actually earn their tax privileges.

The recent GAO report follows another study that found nonprofit hospitals provide only slightly more charity care than their for-profit counterparts. A small number provide much more care than others receiving the same tax benefits.

These reports - along with news story after news story of nonprofit hospitals spending millions on new construction, paying high salaries and relocating facilities to wealthy, suburban neighborhoods - raise questions about whether some hospitals deserve preferential tax treatment.

In a statement responding to the report, Grassley said, "As long as there's such uncertainty and inconsistency in the definition of community benefit, it'll be impossible to gauge whether the public is getting a fair return for the billions of tax dollars that tax-exempt hospitals don't pay."

That's right. Grassley should continue his investigation into this multibillion-dollar issue and pursue legislation to ensure hospitals are actually earning the nonprofit status taxpayers subsidize.

Additional Facts

Some states set requirements

According to the GAO, 15 states have community-benefit requirements to ensure hospitals are earning nonprofit status. Some states have penalties for hospitals that fail to comply with requirements.

Alabama, for example, requires charity care to constitute at least 15 percent of a hospital's business for the hospital to be exempt from property tax.

Ideally, the U.S. Congress should set nationwide standards for what constitutes community benefit, and how much should be required to earn tax privileges. Meanwhile, Iowa should consider imposing its own requirements, as some states have done.

Sorting out the terms:

The terms "nonprofit" and "tax-exempt" are not synonymous. Nonprofit status is determined by state law. Tax-exempt status is governed by federal law. All tax-exempt organizations are nonprofit, but not all nonprofits are tax-exempt.
