

Health Issues Brief

Tax Exemption: The Not-for-Profit Difference

Background

Approximately 60% of hospitals in the U.S., including AdventHealth, are Not-For-Profit (NFP). These hospitals provide high levels of charity care, invest in their communities and offer services often not found in the for-profit sector. The difference between NFP and for-profit hospitals is that NFPs' earnings are reinvested in the community through the provision of health care services and technologies. By contrast, for-profit hospitals generate profits that return dividends to shareholders.

Investments in community benefit are growing among NFPs. Compared with 2012, teaching hospitals in 2015—most of which are NFP hospitals—spent \$3.1 billion (20.14%) more on community benefit despite spending \$804 million (16.17%) less on charity care. The decline in charity care is attributed to some states expanding Medicaid coverage.¹ As more people became insured, hospitals were compensated for their services, reducing the need for charity care. Hospitals were then able to invest those resources back into the community.

Requirements of NFP Hospitals

Community Health Needs Assessments (CHNAs)

The Affordable Care Act (ACA) requires NFP hospitals to conduct a Community Health Needs Assessment (CHNA) every three years as a condition of their tax-exempt status. Through the CHNA process, hospitals work with community members to identify the top needs in the community. The needs identified in the CHNA are targeted in the development of a Community Health Plan: a road map to tackle each of the needs identified to help drive community health improvement. Community

Key Highlights:

- NFP hospitals are often the largest employers in their communities.
- NFP hospitals offer low-margin and no-margin services that for-profit hospitals do not provide. These services include organ transplants, neonatal intensive care, burn units and other specialized care.
- Although the charity care provided by NFPs has declined in some states, this is mainly due to Medicaid expansion. In Medicaid-expansion states, NFP hospitals have used the resources to increase community benefit services.
- Most teaching hospitals in the United States are NFP hospitals.

¹ Alberti, P., Sutton, K., Baker, M. [Changes in Teaching Hospitals' Community Benefit Spending After Implementation of the Affordable Care Act](#) (2018).

benefits come in the form of care navigation programs, food pantries and investments to help community partners expand social support services.

Payments

NFP hospitals often serve as a safety net for their communities, providing essential services to vulnerable populations, including Medicare and Medicaid beneficiaries. Reimbursement rates for these health insurance programs are set by the government and do *not* cover the total cost of patient treatment.

Charity Care and Financial Assistance

Hospitals count the care provided to the uninsured as “charity care.” NFP hospitals are required by the Internal Revenue Service (IRS) to have charity care and financial assistance policies in place. The ACA prohibits NFPs from charging patients eligible for financial assistance more than the “amounts generally billed” to insured patients. They are also prohibited from using “gross charges” for patients eligible for financial assistance.

The Value of NFP Hospitals

Economic Impact



- NFP hospitals are often the largest employers in their communities.
- Hospitals support *one out of every nine jobs* nationwide.
- The AdventHealth system employs 80,000+ team members across the U.S.

Medical Education and Research



- Most teaching hospitals in the United States are NFP.
- Hospitals that train residents incur significant costs beyond those customarily associated with providing patient care.

Low-Margin Services



- NFP hospitals offer low-margin and no-margin services that for-profit hospitals do not provide. These services include organ transplants, neonatal intensive care, burn units and other specialized care.