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MEMORANDUM

To: Reporters and Editors
Re: GAO report on non-profit hospitals
Da: Tuesday, Oct. 14, 2008

Sen. Chuck Grassley, ranking member of the Committee on Finance, made the following comment on the report released today from the Government Accountability Office, “Nonprofit Hospitals/Variation in Standards and Guidance Limits Comparison of How Hospitals Meet Community Benefit Requirements” (GAO-08-880). Grassley requested the report as part of his long-time work on tax-exempt policy, including tax-exempt hospital policy. The report is available at <http://www.gao.gov/new.items/d08880.pdf>.

“This report makes clear that tax-exempt hospitals are free to define community benefit as they see fit. While the definition is vague, hospitals are left to fill the void. Ten different hospitals will give 10 different answers. Sometimes the definition of community benefit includes bad debt and care that’s not reimbursed by Medicare, yet the shortfalls created by private insurance aren’t included in the same tally. IRS audits of non-profit hospitals from 2001 to 2006 did not examine community benefit. This indicates to me that the standard is weak, and that the IRS needs a bright line test to be able to determine whether hospitals are meeting the standard necessary to maintain their tax exemption. States have stepped in to try to define community benefit for their own purposes, which means a lot of variation from state to state.

“There’s no question about the need for fair tax policy and the need for charity care. This is especially true with how difficult it can be for the uninsured and working poor to get needed health care services. 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. While the new IRS Form 990 will help, Congress may need to fill in the blanks since hospitals still get to choose how they calculate their costs. Just like tax-exempt colleges and universities, tax-exempt hospitals need to be accountable for rising costs and the benefits of their special tax status.”