

## **Federal Healthcare Reform Not For Profit Status & Philanthropy**

### **Not-for-Profit Issue**

Since 1969, the Internal Revenue Service (IRS) has applied a “community benefit” standard for determining whether a not-for-profit hospital is meeting its charitable, not-for-profit mission. That standard has been appropriately flexible to allow hospitals to respond to the needs of their unique communities.

In January 2010, in an unprecedented national effort, the IRS will begin collecting information from not-for-profit hospitals on the benefits they provide to their communities and the policies and programs they employ to do so in a single document called “IRS Form 990, Schedule H.” That form will give policymakers more complete information on which to make important decisions about whether the requirements for tax-exempt status need to be updated.

### **Not-for-Profit Current Status**

Some policymakers are considering modifications to the tax-exempt status requirements of nonprofit hospitals. A detailed proposal was provided in the Senate Finance Committee report in May and is still in the latest proposal. One of the components of the proposal is to do periodic community needs assessments.

### **Not-for-Profit SJHS Position**

The System is supportive of the newly adopted IRS form 990, Schedule H and believes the data collected beginning next year will provide a strong basis for assessing whether or not a Not for Profit hospital is legitimately worthy of its tax exempt status. Proposals to change the community benefit standard and replace it with requirements to provide minimum (but undefined) annual levels of charitable patient care, or imposing an “excise tax” on tax-exempt hospitals that do not meet their yet-to-be-determined standard, are inappropriate and premature.

### **Philanthropy Issue**

Charitable giving is and will remain vital to the hospitals and systems to which it flows. According to the American Hospital Association (AHA) November 2008 Report on the Economic Crisis, the capital crunch is making it difficult and expensive for hospitals to finance facility and technology needs. The Association of Healthcare Philanthropy Report on Giving indicates that more than 45 percent of charitable giving was put to use to upgrade infrastructure, including often long-overdue construction and renovation projects and equipment purchases. An additional 25 percent supported important functions such as community benefit programs, charitable care, research and teaching, and hospice, long-term and nursing care. About 14 percent went to general operations.

In these challenging economic times, charities and nonprofits already are finding it difficult to fulfill their altruistic missions because of reduced donations and resources. Yet, in times of economic trouble, it is charities and nonprofits that do much to augment the work of the federal, state and local government in meeting the needs of the American public through their vital programs and services. In fact, charities currently are being asked to provide even greater levels of assistance.

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## ***Philanthropy Current Status***

The Obama Administration's original proposal would limit itemized deductions to 28 percent. The new proposal limits itemized deductions to 33 percent or 35 percent for taxpayers whose income tax brackets would increase to 36 percent or 39.6 percent in 2011. The Tax Policy Center estimates that the modified version would raise \$68 billion over ten years for health care reform.

## ***Philanthropy SJHS Position***

The System believes community philanthropy is a vital component to not for profit healthcare's ability to meet the growing needs of keeping communities healthy and adequately served. In these difficult economic times, we should not be changing policy or laws with the end result of disincentivising charitable giving. We therefore, strongly oppose any provision that would impose new limits on charitable deductions.