

NEWS

Association for Healthcare Philanthropy

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Contact: Kathy Renzetti (703) 532-6243, (571) 216-0146
or kathy@ahp.org

313 Park Avenue Falls Church, VA 22046
www.ahp.org

Changes in Nonprofit Tax Status Threaten Hospitals' Ability to 'Do Good,' AHP Warns

WASHINGTON, D.C., (April 12, 2010) – At the very time that the Obama Administration's reform package is expanding Americans' access to health care, new fiscal barriers created by revenue-starved state and local governments are reducing the ability of nonprofit hospitals to provide needed services, the Association for Healthcare Philanthropy (www.ahp.org) said today.

Claiming that nonprofit health care organizations and hospitals do not provide enough community benefit, some lawmakers have stripped hospitals of their rightful entitlement to tax exempt status. Others have attempted to extract funds from nonprofits by eliminating specific tax exemptions and instituting new fees and taxes. These actions ignore the challenges America's health care nonprofits face and the good they do in their communities.

"Nonprofit hospitals and health care organizations are having their tax exempt status questioned and eliminated by state and local governments seeking any source of additional funds no matter who is hurt in the long run," said AHP President and CEO William C. McGinly, Ph.D., CAE.

"Moves to revoke charity status of nonprofit health care organizations are shortsighted and would likely result in cutbacks in critical health care services that cities and states rely upon nonprofits to provide," said AHP Chair Greg Pope, FAHP, CFRE, vice president of philanthropy for Saint Thomas Health Services Foundation of Nashville, Tenn.

"Nonprofit hospitals give their communities improved access to medical care, preventative services and high quality therapies. They have historically played and continue to play a key role in the financing and delivery of health care in the United States, because they are bound by their missions to 'do good' for the benefit of the communities they serve," Pope said.

McGinly said 60 percent of all community hospitals operate as nonprofits and 23 percent of community hospitals are state and local government owned. They provide services that for-profits will not and cannot, because the profit potential is inadequate. As opposed to a for-profit counterpart whose performance is measured by profitability and return on equity to shareholders, a nonprofit health care organization reinvests earnings for the benefit of its community. Studies document that nonprofit health care organizations deliver significantly more community benefit than their for-profit counterparts.

The rationale behind taking away the tax exemptions of nonprofit health care organizations and hospitals derives from lawmakers' unclear understanding of community benefit.

"Unfortunately, many Americans and their political leaders are uneducated about the definition of community benefit and equate it to charity or indigent care alone," McGinly said.

According to the Alliance for Advancing Nonprofit Health Care, community benefits provided by nonprofit health care organizations go far beyond charity care and include:

- Charging no fee or a discounted fee to uninsured, under-insured, low-income or medically indigent patients.
- Providing unprofitable health care services such as trauma care, burn care and outreach to primary care and preventive services.
- Supporting and participating in community-wide health planning efforts.
- Providing and supporting medical education and research.
- Conducting community development projects to improve housing, jobs, the physical environment, child or adolescent education, etc.
- Making donations to other nonprofit organizations in the community.

"Noted academic and policy experts agree that charity care is far too narrow a definition of community benefit, and that the grounds for tax-exemptions earned by nonprofit health organizations range far beyond care for the indigent," Pope added.

The most recent *Report on Giving* by the Association for Healthcare Philanthropy indicates that the range of activities supported by charitable giving is far broader than narrowly-defined charity care. Of the \$8.6 billion raised by health care organizations' development offices and philanthropic foundations in FY 2008, just over six percent of these funds were used to support charitable care, whereas 25 percent supported construction and renovation; another 20 percent was expended on new equipment purchases, and 16 percent on general hospital operations. Other community benefit programs were funded by 12 percent of the FY 2008 total; research and teaching by five percent.

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AHP, established in 1967, is a not-for-profit organization whose 4,700 members manage philanthropic programs in 2,200 of North America's 3,400 not-for-profit health care providers.