

# Coping With the IRS Form 990: Community Benefit Reporting for CAHs

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## Purpose

- Provide an update on the IRS 990, Schedule H community benefit reporting requirements
- Describe the community benefit reporting framework used by the IRS in the Form 990
- Review examples of community benefit activities in each of the categories of the framework
- Discuss strategies that can be used by CAHs to cope with their reporting obligations under Form 990

## IRS Form 990, Schedule H

- Final Form released on 12/20/07. Draft instructions in review following public comment.
- Based on CHA standards.
- Mandatory for tax-exempt hospitals.
- Reporting requirements will be phased in:
  - Tax year 2008: hospitals must complete Part V, providing basic facility information.
  - Tax year 2009: hospitals must complete full form with data on community benefit activities and charity care.

## Six Parts of Schedule H

- I. Charity care and certain other community benefits
- II. Community building activities
- III. Bad debt, Medicare, and collection practices
- IV. Management companies and joint ventures
- V. Facility Information
- VI. Supplemental information

## Revisions to Form 990

- Hospitals must report Medicare shortfalls, bad debt costs, and costs of community building activities
  - None of the above will automatically be counted as community benefits
  - Hospitals must justify why some portion of its Medicare shortfalls (if any) and bad debt should be considered a community benefit
  - The IRS is undecided about community building costs and wants to collect data on to evaluate this area of hospital activity before rendering a decision.

## Community Benefit

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- Programs or activities that provide treatment and/or promote health in response to an identified community need. Key criteria:
  - Generates a low or negative margin;
  - Responds to needs of special populations (e.g., uninsured);
  - Supplies a service/program that would likely be discontinued if based on financial criteria;
  - Responds to public health needs; or
  - Involves education or research that improves overall community health.

## Key Questions

- Does activity address an identified community need?
- Does it support your community-based mission?
- Is it designed to improve health?
- Does it produce a measurable community benefit?
- Does it survive the “laugh” test?
- Does it require subsidization?
- Given limited resources, would this activity be chosen by residents to improve the health of their community?

# Evidence Supporting Community Benefit Determinations

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- Addressing community need:
  - Program was developed (or continues to be provided) in response to documented health status need or problem;
  - Board or management considered community needs as a primary rationale for program;
  - Community stakeholders (rather than only management or medical staff) were involved in program's origins and design; or
  - Measurable improvement in targeted health status need or problem can be demonstrated.

# Evidence Supporting Community Benefit Determinations

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- Improving Access to Health Services:
  - Program is available broadly to the public;
  - If program ceased to exist, community would lose access to needed services;
  - Activity is designed/funded to benefit vulnerable people with demonstrated barriers to obtaining access to care;
  - Program has a number of vulnerable people in the census, or
  - Access barriers are reduced or eliminated.

# Evidence Supporting Community Benefit Determinations

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- Enhancing population health:
  - Program is designed around public health goals and principles to eliminate health disparities or achieve Healthy People 2010 goals;
  - Program yields measurable improvements in health status;
  - If program ceased to exist, community's health status would decline;
  - Public health departments provide comparable services; or
  - Program operate in collaboration with public health partners.

# Evidence Supporting Community Benefit Determinations

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- Advancing knowledge:
  - Program involves research, with benefits available broadly to the public through papers published on research supported by the hospital;
  - Education programs are open to community;
  - Trainees are not required to join hospital staff; or
  - Students advance towards health professions degrees or licenses.

# Evidence Supporting Community Benefit Determinations

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- Demonstrating charitable purposes:
  - Program relieves (or leverages) government financial or programmatic burden;
  - Government provides the same or a similar service (e.g., immunizations);
  - Government provides explicit support for the activity (e.g., National Institute of Health);
  - If program were closed, cost to government (or another tax-exempt organization) would increase;

## Evidence Supporting Community Benefit Determinations (continued)

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- Demonstrating charitable purposes:
  - Program receives philanthropic support;
  - Service is rarely performed by a taxable organization;
  - Primary purpose is not related to public relations or marketing; or
  - Program is highly conducive to collaboration, even with competitors
    - Community needs assessment
    - Programs to address inappropriate emergency room utilization.

## When Programs Should Not Be Counted

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- Objective, “prudent laypersons” would question whether program truly benefits the community
- Program or donation is unrelated to health or hospital’s mission
- Program represents a community benefit provided by another entity or individual
  - Activities conducted by employees on their own time
  - In-kind value of volunteer time

## **When Programs Should Not Be Counted (continued)**

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- Program benefits hospital more than the community
  - Generates referrals principally to the hospital versus community-wide resources
  - Marketing-focused
- Access to the program is restricted to individuals affiliated with the hospital
  - CME program only for your medical staff

## **When Programs Should Not Be Counted (continued)**

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- Activity represents a normal “cost of doing business” or is associated with current standards of care (expected of taxable and tax-exempt entities alike)
  - Employee benefits, e.g., in-service trainings
  - Licensure requirements
  - JCAHO accreditation
  - Minimum-standard translation service

## Community Benefits Arising from Patient Care

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- Charity care
  - Free or discounted services provided to persons who cannot afford to pay and meet criteria for financial assistance.
- Bad debt
  - Uncollectible charges from persons that have failed to pay.
- Government-Sponsored Health Care
  - Unpaid costs of care provided to Medicaid, SCHIP, local or state public or indigent care programs, and Medicare beneficiaries.



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## **Community Benefit: Programs and Activities**

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- **Community Benefit Services categories:**
  - Community Health Improvement Services
  - Health Professions Education
  - Subsidized Health Services
  - Research
  - Financial and In-Kind Contributions
  - Community-Building Activities
  - Community Benefit Operations

## Community Health Improvement Services

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- Community health education
  - Lectures, presentations, support groups, self-programs that are open to the public
- Community-based clinical services
  - Screenings, one-time or occasionally held clinics, health fairs, free clinics, mobile units
- Health care support services; and
  - Enrollment assistance in public programs, information and referral, transportation for vulnerable patient to/from community resources

## Health Professions Education

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- Physicians/medical students, nurses/nursing students; other health professions
  - Internships and residencies
  - Job shadowing and mentoring projects
  - Scholarships/funding for professional education (for community residents not only hospital staff)
- In-service programs available to all professionals in the community (not just hospital staff)

## Subsidized Health Services

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- Services provided to the community that are not expected to be self sustaining
  - Emergency and trauma care services
  - Hospital outpatient services
  - Women's and children's services
  - Renal dialysis services
  - Subsidized continuing care
  - Behavioral health services
  - Outpatient palliative care



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## Research

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- Clinical research; and
  - Unreimbursed/unfunded costs of studies on therapeutic protocol
- Community health research.
  - Studies on health issues for vulnerable populations
  - Research studies on innovative health care delivery models

## **Financial and In-Kind Contributions**

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- Cash donations; grants; in-kind donations; and cost of fund-raising for community programs
  - Contributions and/or matching funds to not-for-profit organizations
  - Event sponsorship (less cost of benefits received)
  - Meeting space for not-for-profit organizations and groups
  - Services of hospital grant writer to assist local health agencies

## Community-Building Activities

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- Physical and environmental improvements
  - Community vegetable gardens or walking trails
- Support system and workforce enhancement
  - Recruitment of providers for medically underserved areas
- Leadership development for community members
  - Advocacy training for community members
- Coalition building
  - Disaster preparedness committees
- Community health improvement advocacy
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# Community Benefit Operations

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- Senior staff to manage community benefit program
- Other dedicated staff
- Community health needs/health assets assessments
- Program evaluation
- Administrative resources
- Other resources and expenses

## Examples

- Count
  - Immunizations for low income children, health professions education, education programs on managing diabetes, donation to community clinic, health screening program located in low income area
- Don't Count
  - Flue shots for employees, employee in-service education, marking material for hospital diabetes program, donation to symphony, health screening program at upscale mall

## Examples

- Count
  - Outreach to help seniors remain in their homes; outpatient and outreach palliative care, donated supplies that have “inventory value”, cost of staff working in a free clinic while on hospital payroll
- Don't Count
  - Routine discharge planning, inpatient pain program, fully depreciated equipment or supplies, value of staff time when they volunteer (or employed part-time) in a free clinic (not on hospital time), long term care facility that loses money due to low census

## Examples

- Count
  - Subsidized health services that would represent a true loss of access if not available, taxi vouchers for low-income persons, scholarships for community members
- Don't Count
  - Programs that are “loss leaders”, have few lower-income patients, and for which alternative services are available; Van service between wealthier senior-living centers and only the hospital (rather than community wide programs); scholarships for staff members

## Examples

- **Count**
  - Immunizations for low income children, health professions education, education programs on managing diabetes, donation to community clinic, health screening program located in low income area
- **Don't Count**
  - Flue shots for employees, employee in-service education, marking material for hospital diabetes program, donation to symphony, health screening program at upscale mall



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## Capturing Community Benefit

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- Community benefits are typically reported in terms of the dollar value of the costs of developing and offering these services and programs.
- This cost focus tells only part of the story - data is needed on the outputs and outcomes of community benefit activities to tell the full story.

## Preparing for Schedule H

- Form a committee to strategically address the reporting demands of Schedule H
- Study the CHA community benefit accounting framework
- Review current programs and activities to ensure that they meet IRS standards as community benefits
- Collect data throughout the year, rather than at year end



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## Preparing for Schedule H

- Think strategically about community benefit activities
- Collect outcome and impact data
- Consider the use of IT to facilitate data collection
- Sharpen charity care policies
- Use tax year 2008 as a dry run



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## **Summary: What Does Count**

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- Programs or activities that respond to a demonstrated health/related community needs and meet community benefit objectives:
  - Improve Access to Health Services
  - Enhance Population Health
  - Advance Knowledge
  - Demonstrate Charitable Purpose



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## **Summary: What Doesn't Count**

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- Programs or activities that:
  - A “prudent layperson” would question
  - Don't involve hospital resources
  - Benefit the organization more than the community
  - Are not accessible by (available to) the public
  - Represent a normal “cost of doing business”
  - Are associated with the current standard of care