

# Charitable care provided by hospitals doesn't measure up to their tax exemptions

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The amount of charity care provided by government and nonprofit hospitals falls short of the obligation implied by their favorable tax treatment, according to a new study published in the April issue of *Health Affairs* by researchers at Johns Hopkins University's Carey Business School and Bloomberg School of Public Health.

Using Medicare data from 2018, the study compares [charity](#) care at 1,024 [government](#), 2,709 nonprofit, and 930 for-profit hospitals. Cumulatively, nonprofit hospitals were found to spend \$2.3 on charity care out of every \$100 in total expenses incurred, less than government (\$4.1) or for-profit (\$3.8) hospitals.

A further breakdown of the data revealed that about 54% of government hospitals, 36% of nonprofit hospitals, and 43% of for-profit hospitals provided less than \$1 of charity care per \$100 of expense.

Charity care is measured as the cost of the services for eligible patients offset by any partial payments.

As the paper notes, government hospitals are subsidized by [tax revenues](#) and exempted from paying most taxes. Thus they have "the explicit obligation to provide the care needed by financially disadvantaged patients as charity care." Non-profit hospitals, to qualify for their tax-exempt status, must provide charity care and other community benefits. For-profit hospitals are under no such obligation, but they take [tax deductions](#) for expenses related to charity care they provide.

"Besides putting charity care in dollar amounts for the three ownership types, we found a great deal of variation in the provision of charity care within each ownership type," said lead author Ge Bai, an associate professor at the Johns Hopkins Carey Business School and an expert on health care finances. "A large number of government and nonprofit hospitals provided little charity care. That seemed badly out of sync with the favorable tax treatments that these hospitals enjoy. Government and nonprofit hospitals should not have their cake and eat it, too."

The issue appears not to be a high priority of the Internal Revenue Service. As Bai points out, "The IRS doesn't specify any requirements for charity care or community benefits offered by a nonprofit [hospital](#). On top of that, the IRS faces significant challenges in overseeing these activities or using them to determine tax-exempt eligibility. When charity care is a matter of little consequence, hospitals are not motivated to provide more."

The study recommends a ranking system for hospitals in all three ownership types to increase charity care.

"As a special form of the transparency approach, [ranking] has the potential to overcome the shortcomings of bright-line rules and promote competition among hospitals to provide more charity care," the researchers write.

They also recommend a revision of the tax code. Congress, they say, could consider changing the tax-exemption rules for nonprofit hospitals, to bring the facilities' provision of charity care more into line with their tax status.

**More information:** Ge Bai et al. Analysis Suggests Government And Nonprofit Hospitals' Charity Care Is Not Aligned With Their Favorable Tax Treatment, *Health Affairs* (2021). [DOI: 10.1377/hlthaff.2020.01627](https://doi.org/10.1377/hlthaff.2020.01627)

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