

Comparing the Value of the Nonprofit Hospitals' Tax Exemption to Their Community Benefits

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Abstract: The tax-exempt status of nonprofit hospitals has received increased attention from policymakers interested in examining the services these hospitals should provide instead of paying taxes. We use 2012 data for nonprofit hospitals from the IRS-990 form, CMS Hospital Cost Reports, and American Hospital Association's Annual Survey to quantify the community benefits nonprofits provide and the tax exemptions they receive. We then compare these community benefits to their foregone taxes. For comparison purposes, we contrast total community benefits provided by nonprofits to what for-profit hospitals provide. The nonprofit hospital community benefits average 7.6% of total hospital expenses and the incremental community benefit after taking into account the benefits provided by for-profit hospitals average 5.7% of total expenses. The total value of the tax exemption averages 5.9% of total expenses. There is considerable variation in these amounts across hospitals, and 62% of nonprofit hospitals having incremental community benefits that exceed their foregone taxes. Taking a more restrictive view of community benefits by focusing on only the incremental charity care provided by nonprofits, which equals 1.7% of total expenses, only 20% of nonprofit hospitals have incremental charity care exceeding their foregone taxes.

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