



IMPROVING TAX-EXEMPT HOSPITAL ACCOUNTABILITY to Address Community Needs

Most non-profit hospitals are exempt from approximately \$28 billion in federal, state, and local taxes. To qualify for this tax break, hospitals are required to invest in their local communities through charity care, financial assistance, and other “community benefits,” to make care more accessible and affordable for people. While there are federal rules that require transparency and reporting in exchange for non-profit status, they don’t mandate minimum investment thresholds or require spending on any specific categories.

As a result, hospitals often receive more in tax benefits than what they spent on the needs of their communities, leading to a significant difference, or “fair share deficit,” between what hospitals save and what they invest. In the absence of stronger rules on what qualifies as meaningful community investment, hospitals tend to spend heavily on initiatives that benefit their bottom line but do little to address community health needs. Often, these investments, such as backfilling Medicaid provider payment rates to address the “Medicaid shortfall,” do not directly benefit patients and may actually exacerbate existing health challenges like addressing health disparities.

A SOLUTION: IMPROVING TAX-EXEMPT HOSPITAL ACCOUNTABILITY

In the absence of robust federal standards, states can take action to promote policies that ensure hospitals are paying their fair share through investments in their community. States can build on existing requirements to ensure hospitals remain accountable and responsive to their communities by prioritizing patients’ access and affordability needs.

BENEFITS OF IMPROVING TAX-EXEMPT HOSPITAL ACCOUNTABILITY

Requiring hospitals to better invest in their communities in ways that match and meet their needs is a smart policy solution states should consider. Doing so brings their investments more in line with the total value of their tax exemptions and provides more support for community health and wellness initiatives, existing public health organizations, and efforts to address the underlying social drivers of health, such as affordable housing and food insecurity. In addition, regular reporting requirements and more transparency provide both people and policymakers valuable insight into what investments are happening, what is working, where gaps may be, and how to address that with future policymaking.



Hospital spending on community benefit

The Internal Revenue Service (IRS) requires non-profit hospitals to report community benefit spending across eight broad categories, including financial assistance or charity care, Medicaid payments, community health improvement services, and workforce education. Non-profit hospitals continue to prioritize investments that serve their bottom line, directing nearly half of all community benefit spending to Medicaid shortfall. By contrast, these hospitals spend, on average, only 7.5% on initiatives to directly address demonstrated community health needs.



STATE APPROACHES TO IMPROVING TAX-EXEMPT HOSPITAL ACCOUNTABILITY

States have a variety of policy options available when considering how non-profit hospitals can prioritize the needs of their communities in ways that take into account each state's unique health care landscape by:

- **Strengthening Community Health Needs Assessments:** Federal statutes and regulations, while useful, limit the effectiveness of Community Health Needs Assessments (CHNAs), which are required to be completed by hospitals every three years to identify the health needs of their communities. States can strengthen CHNAs by requiring hospitals to conduct them more frequently, incorporate more robust and inclusive stakeholder engagement, and guarantee that hospital spending reflects community needs identified in the CHNA. States can also require hospitals to evaluate their efforts and report information not captured by federal rules, including the resources they are dedicating to their efforts, details about their outcomes, and how their efforts serve to reduce health disparities.
- **Expanding community benefit requirements:** Few guardrails exist on which categories and how much hospitals are required to spend on community benefit. States can adopt more targeted definitions of community benefit so hospitals are investing in their communities' demonstrated needs rather than in areas that disproportionately benefit hospitals, such as Medicaid payment rates or staff training. States can also establish minimum community investment thresholds for hospitals that more closely track the value of their tax exclusion and require certain thresholds of investments based on needs identified in their CHNAs, such as in improving public health infrastructure or expanding behavioral health access.
- **Ensuring hospital compliance:** States can grant state agencies the authority to review and verify hospitals' compliance with requirements they establish. Non-compliant hospitals can be penalized financially or have their state tax-exempt status revoked.

STATE SUCCESSES

States across the country have passed unique, tailored solutions to increase many types of hospital community investment, including community benefit and financial assistance policies:

— **Connecticut** passed a bill defining community benefit broadly to include initiatives to promote preventive care, improve health equity, and reduce disparities. The law also requires hospitals to submit annual state-specific CHNAs along with implementation and status reports.

— **Illinois** passed legislation requiring non-profit hospitals to spend what they'd otherwise pay in property taxes on community benefit and includes a list of qualified community benefit services.

— **Indiana** passed a law establishing reference-based pricing in the state, with hospitals losing their tax exemption if they are not in compliance once the law takes effect in 2029.



See [here](#) for a full list of states with similar policies

MOVING FORWARD

While non-profit hospitals provide critical care to their patients, too many non-profit hospitals take advantage of their tax-exempt status without fully investing in their communities. Recent actions by states to require hospitals to recommit themselves to this work only stands to benefit patients and their families. At the same time, a patchwork of state laws means that action is needed on the federal level to address the non-profit federal tax break and ensure that states without state-level protections benefit from these protections.

