

California Senate to Debate Tax-Exempt Status of Nonprofit Hospitals

In August 2012, the California Senate formed a committee to consider whether nonprofit hospitals should continue to receive tax-exempt status.¹ About half of California's roughly 500 hospitals are tax-exempt, which is on par with the national statistics. The California Senate committee was created after an audit report showed that many nonprofit hospitals operate very much like their for-profit counterparts and that there is no set requirement for the amount of charity care that nonprofit hospitals must provide. Additionally, the audit showed that 15 nonprofit hospitals failed to file required community benefit plans to list the amount of charity care provided. The senate committee also intends to investigate concerns about excessive executive salaries, large monetary reserves, and aggressive collection practices.

The nonprofit hospitals respond by noting that they provide millions of dollars a year in coverage for uninsured and underinsured patients and that the burden of taking away their tax-exempt status would be devastating. However, some of the charity care that hospitals are claiming is the result of low government reimbursement rates in programs like Medicare and Medicaid.

Interestingly, about two and a half years ago the Illinois Supreme Court concluded that nonprofit hospitals in their state could not count government shortfalls as charity care. The Illinois opinion calls for minimum charity care requirements that nonprofit hospitals must observe to maintain their tax-exempt status. While the opinion does not apply to California, it offers an example that some members of the community seek to follow.

Here in Oregon, PeaceHealth, Lane County's leading provider of medical care, is a nonprofit organization. However, unlike many California nonprofit hospitals, PeaceHealth is not exempt from local property taxes; the provider pays over a million dollars a year in property taxes. In its 2010 community benefits report, PeaceHealth claimed to have provided nearly \$74 million in community benefits, of which 39 percent was in charity care at cost. While there are different benefits and requirements for state and federal tax-exempt status, and while PeaceHealth's website indicated that they were a nonprofit, it did not specify what this means for them at a state level. What is clear is that nonprofit health organizations play a large role in providing services to the community, and the community should be aware of the benefits these organizations both receive and provide.

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¹ Chad Terhune, *Nonprofit hospitals face state hearing on tax-exempt status*, LA Times, August 14, 2012.