



Highlights of [GAO-05-743T](#), a testimony before the Committee on Ways and Means, House of Representatives

Why GAO Did This Study

Before 1969, IRS required hospitals to provide charity care to qualify for tax-exempt status. Since then, however, IRS has not specifically required such care, as long as the hospital provides benefits to the community in other ways. Seeking a better understanding of the benefits provided by nonprofit hospitals, this Committee requested that GAO examine whether nonprofit hospitals provide levels of uncompensated care and other community benefits that are different from other hospitals. This statement focuses on, by ownership group, hospitals' (1) provision of uncompensated care, which consists of charity care and bad debt, and (2) reporting of other community benefits. The hospital ownership groups were (nonfederal) government, nonprofit, and for-profit.

To compare the three hospital ownership groups, GAO obtained 2003 data from five geographically diverse states with substantial representation of the three ownership groups in each state. GAO analyzed cost data from two perspectives—each hospital group's percentage of (1) total uncompensated care costs in a state and (2) patient operating expenses devoted to uncompensated care.

www.gao.gov/cgi-bin/getrpt?GAO-05-743T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact A. Bruce Steinwald at (202) 512-7101.

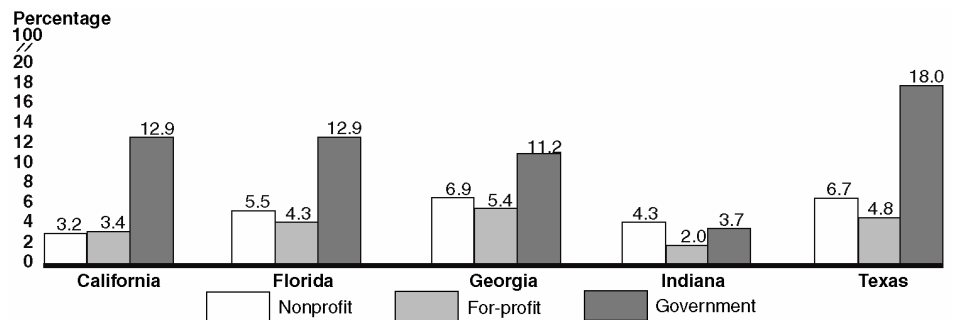
NONPROFIT, FOR-PROFIT, AND GOVERNMENT HOSPITALS

Uncompensated Care and Other Community Benefits

What GAO Found

Government hospitals generally devoted substantially larger shares of their patient operating expenses to uncompensated care than did nonprofit and for-profit hospitals. The nonprofit groups' share was higher than that of the for-profit groups in four of the five states, but the difference was small relative to the difference found when making comparisons with the government hospital group. Further, within each group, the burden of uncompensated care costs was not evenly distributed among hospitals but instead was concentrated in a small number of hospitals. This meant that a small number of nonprofit hospitals accounted for substantially more of the uncompensated care burden than did others receiving the same tax preference.

Figure: Average Percent of Patient Operating Expenses Devoted to Uncompensated Care, by Hospital Ownership Type, 2003



Source: GAO Analysis of state and CMS Data.

Hospitals in the five states—nonprofit, for-profit, and government hospitals—reported providing a variety of services and activities, which the hospitals themselves defined as community benefits. Community benefits include such services as the provision of health education and screening services to specific vulnerable populations within a community, as well as activities that benefit the greater public good, such as education for medical professionals and medical research. GAO was unable to assess the value of these benefits or make systematic comparisons between hospitals or across states.

These observations illustrate a larger point—namely, that current tax policy lacks specific criteria with respect to tax exemptions for charitable entities and detail on how that tax exemption is conferred. If these criteria are articulated in accordance with desired goals, standards could be established that would allow nonprofit hospitals to be held accountable for providing services and benefits to the public commensurate with their favored tax status.