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Recent Announcements Targeting Charitable Activities Signify Focus On Charitable Hospitals

Two recent announcements, one concerning a study on hospital charity care and another announcing a new initiative by the Michigan Attorney General, demonstrate the ongoing scrutiny of charitable activities of non-profit hospitals.

Charity Care Study

In its March 21, 2011 issue, *Modern Healthcare* published the results of its study on the levels of charity care provided by a number of hospitals as reported on the new comprehensive IRS Form 990 and its Schedule H. It notes a "widely uneven distribution" in the amount of charity care provided by the hospitals reviewed. The *Modern Healthcare* study analyzed 156 Form 990s and related Schedule H forms from 20 large health systems for the 2009 tax year, and found that the average percentage of hospital expenditures allocated to charity care was 2.5%. This figure excludes the hospitals' bad debt from their total expenditures despite the fact that many hospitals believe a portion of their bad debts would have qualified for charity care.

The *Modern Healthcare* study indicates that of the 113 hospitals reviewed that reported a profit, 58.4% provided less than the 2.5% charity care average, and only 13.3% of such hospitals either met or exceeded 5% of total hospital expenditures. However, the study also reported that 13 unprofitable hospitals (or 8.3% of the total number of hospitals surveyed) either met or exceeded the 2.5% charity care average. While other underlying factors may contribute to the uneven distribution of charity care, *Modern Healthcare* reports that the data indicates that some tax-exempt hospitals provide "significantly more" charity care than other tax-exempt hospitals.

The *Modern Healthcare* study demonstrates that tax-exempt hospitals should be mindful of the additional Form 990 data analysis that will likely continue pursuant to available Schedule H information. Furthermore, the 2010 Affordable Care Act's requirement that tax-exempt hospitals adopt and publicize financial assistance policies emphasizes the significance of providing and reporting charity care. Tax-exempt hospitals that provide minimal levels of charity care to patients in their surrounding communities risk increased scrutiny of their charitable activities.

Michigan Attorney General's New Charity Database

On April 6, 2011, Michigan Attorney General Bill Schuette announced the launch of *AGCharitySearch*, an online service that provides information on charities registered in the State of Michigan. *AGCharitySearch* is designed to provide data on charitable organizations to the general public via the web. The database provides detailed reports on charitable institutions, which includes their charitable purposes, financial data and tax-exempt status. The *AGCharitySearch* is intended to provide greater transparency into the activities of charitable organizations.

For questions concerning hospital charity care or any other requirements applicable to non-profit organizations, please contact any member of the Honigman Health Care Department.