

# Schedule H Revisited After Health Care Reform

HEALTH CARE | DECEMBER 30, 2011



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## What is Schedule H?

- Schedule H is a part of IRS Form 990, which was first implemented in 2009 tax year and is only applicable to tax-exempt hospitals.
- Schedule H defines a "hospital" as any organization licensed or certified as a hospital.
- Part I of schedule H involves community benefit reporting, including charity care, means-tested government programs, research, training and education, and other activities.
- Part II of Schedule H involves community building activities, including physical improvements, economic development, community support, and other activities.
- Part III requests summary Medicare and other billing revenue information by patient category, and an explanation of how the organization calculated bad debt.
  - The hospital must report aggregate bad debt expense, at cost, provide an estimate of how much is attributable to persons who qualify for financial assistance under its charity care policy, and provide a rationale for what portion of bad debt it believes should constitute community benefit.
  - The hospital must report whether it has adopted Healthcare Financial Management Association Statement No. 15 (regarding reporting of charity care and bad debt), and provide the text of the footnote to its financial statements that describes bad debt expense.
  - The hospital must report aggregate Medicare reimbursements (including disproportionate share and indirect medical education, but not graduate medical education), and the aggregate cost to deliver care reimbursed by Medicare. The hospital will be able to describe what portion of Medicare shortfalls should constitute community benefit
  - The hospital must provide specifics of its debt collection policy.
- Part IV requires information about management companies and joint venture in which the hospital or its executives and physicians held an aggregate ten percent interest or greater, including the name of the entity, the primary activity of the entity, and the respective ownership percentages of the organization, its executives, and its physicians.
- Part V requires a list of facilities (including non-hospital health care facilities) by name, address, type of service provided, and activities and programs conducted at each.
- Part VI requires narrative information about the hospital's assessment of community health needs, its education efforts to inform patients of eligibility for assistance under federal, state or local government programs or under the hospital's financial assistance policy, community information and other information relating to promotion of community health. It provides an opportunity to detail how the hospital and related facilities further its exempt purpose, such as an open medical staff, use of surplus funds, or a community board.

## Patient Protection and Affordable Care Act & Additional Tax Reporting Requirements for Tax-Exempt Hospitals

- PPACA imposes more requirements on tax-exempt hospitals. Most changes are already in effect.
- Community Health Needs Assessment – for tax years beginning after March 23, 2012 and every 3 years thereafter, each tax-exempt hospital must conduct a community health needs assessment. Input must be obtained from a broad range of interests and include individuals with public health expertise.
  - Each year, the tax-exempt hospital will be required to describe how it is addressing the community health needs found in the assessment and identify known needs that it is not addressing. For the latter, it will also be required to explain why the unmet needs are not being met.
  - Failure to comply will result in a \$50,000 excise tax.
- Financial Assistance Policy – must have a written policy in place that sets forth (i) eligibility requirements; (ii) basis for

calculating charges to patients; (iii) method for applying for financial assistance; (iv) if no other policy addresses collections, collection practices including collection action and use of credit agencies; and (v) measures used to ensure this policy is widely publicized in the community.

- Limitation on Charges – for all emergency and medically necessary care, patients eligible for free or discounted care can only be charged the amount generally billed to individuals who have insurance coverage for the care.
- Billings and Collections – cannot engage in “extraordinary efforts” until the hospital has made reasonable efforts to determine the patient is not eligible for free or discounted care. The Treasury Secretary will likely issue regulations as to what comprises reasonable efforts.
- In addition, tax-exempt hospitals will be required to attach audited financial statements to their tax returns.
- The Treasury Secretary will be required to make an annual charity care report to certain U.S. House and Senate Committees, including the Senate Finance Committee. The report will address (i) levels of charity care provided; (ii) bad debt expenses; (iii) unreimbursed costs for services with respect to government programs; and (iv) cost incurred for community benefit. This report is supposed to include tax-exempt hospitals, taxable and government hospitals, though only tax-exempt hospitals must report these items to the IRS.

### **Next Steps – What should tax-exempt hospitals do now?**

- Review and update their policies regarding Charity Care, Billings and Collections, Charges for Services to patients eligible for financial assistance, and Community Health Needs Assessments to comply with new requirements.
- Continue planning for Community Health Needs Assessment. First ones will be due for tax years beginning after March 23, 2012.
- Review new IRS Form 990 Schedule H and Instructions.
- Look for further guidance from the IRS and their tax advisors.

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