

IRS Form 990 Scrutinizes Charity Care Programs

By Bruce Nelson, Vice President of Sales & Marketing, SearchAmerica and
Jordan Levitt, Vice President of Strategic Relationships, SearchAmerica

On December 20, 2007, the Internal Revenue Service (IRS) unveiled its updated Form 990 for tax-exempt organizations, with a new schedule designed specifically for hospitals (Schedule H). While the IRS is phasing in Schedule H for the 2008 tax year, only Part V required to obtain identifying information. However, the entire schedule will be mandatory in the 2009 tax year.

In short, hospitals must use the 2008 tax year to ready themselves by assessing their charity processes and related reporting in order to meet the upcoming IRS requirement for 2009.

Closer Charity Monitoring is Imminent

The evolution of the Form 990 began in 2006 when the IRS sent "compliance check questionnaires" to more than 550 tax-exempt hospitals, seeking detailed information about their operations and billing practices and the compensation of top hospital executives. While only auditing 5% of nonprofit hospitals in the past 10 years, the IRS is clearly looking for new ways to monitor the non-profit healthcare industry with more scrutiny.

The timing of the new schedule is not surprising. Hospitals have come under more and more scrutiny by the IRS and the Senate Finance Committee to justify their tax-exempt status by demonstrating how they benefit their community. Many legislatures and government officials are lobbying for tighter standards for hospitals to keep their tax-exempt status. These senators do not want to recognize the community benefits such as health fairs, cancer screenings, and medical research, as replacements for charity care.

The IRS does not outline how it will use the information collected in the 990, but IRS Exempt Organizations Director Lois G. Lerner was quoted in a December news conference as saying, "We want to look at what the hospitals are doing. We think having broader information will better inform us on any decisions we would like to make in the future."

Meet the 5% or Be Scrutinized?

Senate Finance Committee Chairman Max Baucus, D-Mont and Sen. Charles Grassley, R-Iowa, have both expressed concern over the overcharging of uninsured patients, the allocation of too few resources to charity care, and overstatements of the amount of free care provided.

Senator Baucus' opinion on this topic is well known. He believes that hospitals should allocate at least 5 percent of their annual revenues or expenses to free care for those unable to pay.



The revised Form 990 asks new questions about a non-profit hospitals' charity care program. While no legislation exists today to back the 5% rate proposed by Baucus, the new 990 will clearly identify hospitals that need to increase their charity care enrollment.

Readying Your Charity Program

Form 990 is forcing hospitals to reassess their charity care programs, if they haven't already. The evaluation should be two-fold, examining the process itself and the measurement of a successful program.

1. *Process: Is the correct charity care process in place? Is it non-discriminatory and defensible?*

Non-discriminatory. A charity program cannot discriminate by age, race, sex or any other personal characteristic. Unfortunately, peo-

ple are human and biases do exist, even under the best of circumstances. Hospitals need to demonstrate that their process identifies every patient who would qualify for charity care under their specific guidelines. Only by automating the screening process using technology, *without human intervention and natural subjectivity*, can the process be truly objective.

Defensible. The process of identifying a qualified charity patient must be defensible. Screening must be performed on every patient who could potentially qualify for a charity discount based on the hospital's specific guidelines at the point of registration using a third-party or neutral service. The independent service's audit trail validates that the screenings took place and that the patient was directed to the appropriate financial arrangement based on the data provided.

2. *Measurement: Is the hospital near the recommend 5%? Should some bad debt be reclassified?*

Too often bad debt accounts should have been enrolled in the charity care program from the beginning. In Part III of the Form 990, bad debt can be included but smart hospitals realize there is more benefit to reclassifying them to charity.

When re-classified, many hospitals determine that they are providing more charity care than first reported. Correcting this error could improve a hospital's standing with their community and the IRS.

For more information on IRS Form 990 or automating the process, contact Bruce Nelson, VP of Sales and Marketing at SearchAmerica, at bruce.nelson@searchamerica.com or call him at 262-255-2578.