



IRS: More flexibility, forgiveness on community assessment

One of the ACA's new requirements for charitable hospitals is the completion of a community health needs assessment (CHNA) every three years. At the risk of potentially losing their tax exemption, the provision requires charitable hospitals to study the health of their communities, make their findings public, and develop a plan to address them.

Administrators of the nation's 3,000 charitable hospitals have raised questions about implementing the provision. Would tiny mistakes trigger the loss of tax-exempt status? What about larger mistakes? When would the IRS strip a hospital's tax exemption?

The final regulations, issued in December 2014, provide clarifications that should ease some of the industry's concerns. By clarifying what would trigger the loss of tax-exempt status, the final rules indicate that non-profit hospitals have a considerable degree of flexibility in their adherence to the requirement.

The IRS assures hospitals that it does not intend to revoke tax-exempt status on a technicality. Minor omissions and mistakes in a community assessment report can be addressed without penalty and will be excused. More significant failures will be excused if they are disclosed and corrected promptly. The IRS will only consider revocation of tax-exempt status in cases of wilful or egregious failures to meet the law's requirements.

In response to comments, the final regulations clarify the definition of "community" and address questions regarding required public input, joint collaboration, and the differences between the CHNA report and implementation strategy. Hospitals face a \$50,000 annual tax penalty for each facility that fails to complete its CHNA. The deadline by which an implementation strategy must be adopted was extended to 4.5 months after the end of the year in which the CHNA was conducted.

Five tips for conducting a community assessment

1) Recruit hospital and community leaders. A successful community assessment requires input from public health officials and community leaders, including those from medically underserved areas.

2) Crowd source. One medical center used telephone surveys, man-on-the-street interviews, and talks with advocacy groups to help gauge the community's health and the types of services it may need. The information, which forms the crux of the needs assessment, was then presented to hospital executives.

3) Determine what resources will be needed to implement the plan. The IRS may only require an assessment plan, but community groups will want more, such as new initiatives that target identified gaps. At the outset, hospital administrators should budget for time, money, and employee resources during a three-year period.

4) Tailor new initiatives to the hospital's strengths. If a hospital has a strong neonatal program, for example, it could take the lead in areas that have a large number of risky births or high infant mortality rates. Another hospital may specialize in cardiac care, and thus lead efforts to reduce heart disease or high blood pressure.

5) Match the assessment's findings to hospital strategy. The needs assessment is a public document. For hospitals, it's better to demonstrate that they are working toward the goals outlined in the assessment rather than be perceived as doing little to fix identified problems.

At a glance

- The community assessment is one of four new requirements laid out in IRS Code 501(r) needed to keep or win tax-exempt status.
- Final regulations apply to taxable years beginning after December 29, 2015.
- The final regulations clarify that "minor, inadvertent" mistakes will not result in a loss of tax exemption if corrected.
- The IRS said it would show leniency for more significant failures that are not wilful or egregious.
- Hospitals will have more leeway to collaborate when developing and adopting joint reports.

Contacts

Ben Isgur (Director)
benjamin.isgur@us.pwc.com
(214) 754-5091

Trine Tsouderos (Director)
trine.k.tsouderos@us.pwc.com
(312) 241-3824

Bobby Clark (Pharma/Life Sciences)
robert.j.clark@us.pwc.com
(202) 312-7947

Matthew DoBias (Provider)
matthew.r.dobias@us.pwc.com
(202) 312-7946

Laura McLaughlin (Payer)
laura.mclaughlin@us.pwc.com
(202) 312-7966