

Briefing on Definition of "Community Benefit"  
Nonprofit Reporting of Community Benefits Study  
Prepared for the Revenue and Transportation Interim Committee  
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This briefing on whether there is a standard definition of "community benefit" is for the study of the nonprofit reporting of community benefits.

Background<sup>1</sup>

Property tax exemptions for property used for charitable, religious, and educational purposes have existed since the 19th century and vary considerably from one state to the next. Concepts related to property tax exemption in the Internal Revenue Code (IRC) are derived from state policies because the state exemptions pre-date the IRC.

Income tax exemptions, on the other hand, generally piggyback on the federal income tax exemption provided in section 513 of the IRC. This means states vary less in which entities are exempt from the corporate income tax than in which entities are exempt from the property tax.

"Community Benefit" Associated with Hospitals

The term "community benefit" is associated with hospitals. The Hospital Compliance Project was a 2006 project of the Internal Revenue Service (IRS) to study how nonprofit hospitals report community benefits. The study concluded that there was considerable variation in how hospitals met the community benefit requirement and reported community benefits.<sup>2</sup> The study resulted in the creation of Form 990, [Schedule H](#), which standardized the reporting of community benefits beginning with tax year 2008.<sup>3</sup>

With the Schedule H reporting requirement, the IRS has identified activities it considers to be community benefits, such as provision of financial assistance and unreimbursed Medicaid and other means-tested programs, community health activities including health profession education and subsidized health services, and community building activities such as physical improvements and housing, economic development, community support, environmental improvements, leadership development, and workforce development. Hospitals are also required to report on Schedule H expenses that are not considered community benefits, including bad debt and Medicare losses.<sup>4</sup>

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<sup>1</sup>For detailed information on income and property tax exemptions in Montana and other states, see: Megan Moore, "[Background Report on Income and Property Tax Exemptions](#)," September 2011.

<sup>2</sup>Internal Revenue Service, "[Hospital Compliance Project Interim Report: Executive Summary](#)," p. 1.

<sup>3</sup>Internal Revenue Service, "[IRS Exempt Organizations Hospital Compliance Project: Final Report](#)," p. 147

<sup>4</sup>S. Rosenbaum, M. Byrnes, A. M. Rieke, "[Hospital Tax-Exempt Policy: A Comparison of Schedule H and State Community Benefit Reporting Systems](#)," January 2013, p. 2.

A state-level analysis of community benefit reporting by hospitals considered the question of whether state reporting requirements are consistent with Schedule H reporting requirements. The authors examined laws in 24 states identified as requiring community benefit reporting. The results indicated:

- eight states had reporting forms accessible online but the forms differed from Schedule H in both the definitions used and the categories for reporting community benefits; and
- terminology and definitions varied considerably from state to state. States also may not use the term "community benefit." Some states use the term "indigent care" and others "charitable use of property."<sup>5</sup>

The states that require reporting of "community benefits" generally include charity care and losses related to means-tested programs such as Medicaid and the children's health insurance program, donations of money or property, education, and research. The two areas in which the state definitions seem to vary the most are:

- whether unreimbursed Medicare expenses are considered community benefits. California and Oregon specifically include unreimbursed Medicare expenses while Minnesota excludes them. Illinois, Indiana, and Texas (which have almost identical definitions) include unreimbursed costs associated with "government-sponsored indigent health care," which seems to include Medicare, though the government programs are not specifically listed. Other states do not mention unreimbursed costs associated with means-tested programs in the statutory definition of "community benefit."
- inclusion of community health improvement and community building expenses. The states that do require reporting in these categories generally do not include the detail required in Schedule H: six states require such reporting without detailed descriptions and four states require reporting of community building in categories similar to Schedule H. Thirteen states do not require reporting of community health improvement activities.<sup>6</sup>

#### "Community Benefit" Uncommon Outside of Hospital Context

Research revealed few references to "community benefit" considerations for income or property tax exemptions outside of the context of hospitals and health care facilities.

The California Board of Equalization does make reference to a "community benefit test" but this is an informal term. According to its website, "the community benefit test is met if all of the facts and circumstances demonstrate that the charitable activities performed by the nonprofit organization confer some 'meaningful,' 'important,' or 'significant' benefit to persons within the geographical boundaries of the State of California."<sup>7</sup>

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<sup>5</sup>S. Rosenbaum, M. Byrnes, A. M. Rieke, "[Hospital Tax-Exempt Policy: A Comparison of Schedule H and State Community Benefit Reporting Systems](#)," January 2013, p. 2-3.

<sup>6</sup>S. Rosenbaum, M. Byrnes, A. M. Rieke, "[Hospital Tax-Exempt Policy: A Comparison of Schedule H and State Community Benefit Reporting Systems](#)," January 2013, p. 3-5

<sup>7</sup>California State Board of Equalization, "[Community Benefit Test for the Welfare Exemption](#)," accessed Sept. 14, 2015.