

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 623
 Finance

(Senator Benson, *et al.*)

Hospitals - Community Benefit Report - Disclosure of Tax Exemptions

This bill requires a hospital to include an itemization of the value of all tax exemptions received by the hospital in the hospital’s annual community benefit report.

Fiscal Summary

State Effect: Special fund expenditures increase by as much as \$75,000 in FY 2018 for the Health Services Cost Review Commission (HSCRC) to develop definitions, standards, and instructions for the reporting of tax exemptions. Expenditures in future years may increase minimally to revise reporting standards. Revenues are not affected.

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenues	\$0	\$0	\$0	\$0	\$0
SF Expenditure	75,000	-	-	-	-
Net Effect	(\$75,000)	(-)	(-)	(-)	(-)

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: Each nonprofit hospital must submit an annual community benefit report to HSCRC detailing the community benefits provided by the hospital during the preceding year. The report must include the hospital’s mission statement; the initiatives undertaken by the hospital, including costs, objectives, and efforts taken to evaluate effectiveness; gaps in the availability of specialist providers to serve the uninsured in the hospital; and the hospital’s efforts to track and reduce health disparities in the community.

There are 55 nonprofit hospitals in Maryland. Section 501(c)(3) of the Internal Revenue Code identifies as tax-exempt those organizations that are organized and operated exclusively for specific purposes, including religious, charitable, scientific, and educational purposes. Nonprofit hospitals receive many benefits from their tax-exempt status. They are generally exempted from federal income and unemployment taxes, as well as State and local income, property, and sales taxes. In addition, they are allowed to raise funds through tax-deductible donations and tax-exempt bond financing.

The most recent [Maryland Hospital Community Benefit Report](#), released in October 2016, notes that Maryland hospitals provided just over \$1.5 billion in total community benefit activities in fiscal 2015 – representing a slight increase over the fiscal 2014 total. The total includes \$468.6 million in subsidized health services, \$435.8 million in health professions education, \$362.6 million in charity care, \$91.3 million in community health services, \$56.5 million in unreimbursed Medicaid expenses, \$21 million in community-building activities, \$16.6 million in financial contributions, \$10.9 million in community benefit operations, \$10.8 million in research activities, and \$3.2 million in foundation-funded community benefits.

State Expenditures: HSCRC advises that it needs to hire a contractual tax professional to develop definitions, standards, and instructions for the reporting of tax exemptions at a cost of \$75,000 in fiscal 2018 and \$100,000 annually thereafter. However, the Department of Legislative Services (DLS) advises that, while the development of initial definitions, standards, and instructions likely requires contractual assistance, out-year expenditures may be significantly lower, barring drastic changes to the tax-exempt status of hospitals in the State. Therefore, DLS advises that future year expenditures may increase minimally to revise reporting standards, as necessary.

Additional Information

Prior Introductions: SB 601 of 2016 received an unfavorable report from the Senate Finance Committee. Its cross file, HB 1189, received a hearing in the House Health and Government Operations Committee but was subsequently withdrawn.

Cross File: HB 921 (Delegate Angel, *et al.*) - Health and Government Operations.

Information Source(s): Department of Health and Mental Hygiene; Department of Legislative Services

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