MARYLAND

Making the hospital tax exemption work for Maryland

An analysis of nonprofit hospital tax exemptions and community investments

SUMMARY

Maryland nonprofit hospitals receive $587 million in tax benefits each year

The Lown Institute analyzed how much 47 nonprofit hospitals in Maryland received in tax benefits and spent on free care and community health initiatives from 2020-2022. Data sources for this analysis include IRS Form 990, CMS hospital cost reports, and municipal property data.

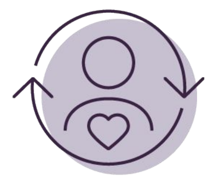
KEY TAKEAWAYS

- From 2020-2022, **18% of private nonprofit hospitals in Maryland had a "fair share deficit,"** meaning they received more in tax benefits than they spent on meaningful community investments (compared to national rate of 56%).
- Maryland had the **highest rate of community investment** among the 20 states studied.
- The total fair share deficit for Maryland hospitals was **$82 million each year**, one of the lowest fair share deficits among the 20 states studied.
- Some of the **largest fair share deficit and surplus hospitals in the state are in Baltimore**, reflecting that there are "have and have nots" in the Baltimore hospital market.

$82 MILLION

COULD BE PUT BACK INTO THE COMMUNITY

FOOD



BEHAVIORAL HEALTH

DEBT

INTRODUCTION

Nonprofit hospitals enjoy significant tax exemptions worth millions of dollars, and in return are expected to contribute to their communities through financial assistance and investments in community health. However, lax regulation leads to significant variation in the amount hospitals give back to their communities.

The Lown Institute has undertaken a comprehensive project across 20 states to assess hospitals' tax benefits and compare them to their community investments, what we call "Fair Share Spending." This initiative aims to identify hospitals that could do more for their communities, highlight leaders in community investment, and expose systemic issues within our healthcare system.

TAX EXEMPTION VALUE RESULTS

From 2020-2022, Maryland hospitals received $587 million in tax breaks each year, an average of $12.9 million per hospital or 2.9% of expenses (less than the 20-state average of $14.2 million per hospital and 4.2% of expenses).

Maryland's global budget system pays hospitals a set amount each year based on patient volume, uncompensated care, and other metrics. This makes revenue predictable and has kept hospital costs from rising above the target. Limiting hospital costs may explain Maryland hospitals' relatively low income and tax exemption value.

PROPERTY, SALES LARGEST CATEGORIES OF HOSPITAL TAX EXEMPTION

Tax exemption category	Total amount (per year average, 2020-2022)	% of total tax exemption, Maryland
Local property tax	$158 million	27%
State sales tax	$149 million	25%
Federal income tax	$132 million	23%
Value of tax-exempt bonds	$58 million	10%
State income tax	$57 million	10%
Value of tax-exempt donations	$29 million	5%
Federal unemployment tax	$4 million	1%
Total	**$587 million**	**100%**

Property tax made up the greatest proportion of the total exemption, in part due to the value of hospital-owned property in Baltimore. Nonprofit hospitals in the city own more than $3.9 billion worth of real estate.

Sales tax made up a significant proportion of the total exemption as well, largely driven by Johns Hopkins Hospital, which reported acquiring over $500 million worth of medical supplies each year.

COMMUNITY INVESTMENT RESULTS

From 2020-2022, Maryland hospitals spent $1.1 billion on financial assistance and other community investments each year, an average of $24.8 million per hospital and 7% of expenses, the highest share of expenses of all 20 states included in this study.

Subsidized health services (clinical services that meet an identified community need, provided at a loss to the hospital) made up the largest proportion of total community investment (49%). Financial assistance (free and discounted care for eligible patients) was the second-largest contributor, making up 28% of total community investment.

Maryland hospitals spent more proportionally on community health improvement and community building activities than other states on average, a positive sign that hospitals are interested in addressing upstream health needs.

SUBSIDIZED HEALTH CARE SERVICES LARGEST CATEGORY OF COMMUNITY INVESTMENT

Community investment category	Total spending (per year average, 2020-2022)	% of total community investment, Maryland
Subsidized health care services	$551 million	49%
Financial assistance	$318 million	28%
Community health improvement services	$215 million	19%
Community building activities	$30 million	3%
Cash and in-kind contributions	$16 million	1%
Total	**$1.1 billion**	**100%**

"Fair share spending" is the difference between hospitals' tax exemptions and community investment.

FAIR SHARE SPENDING RESULTS

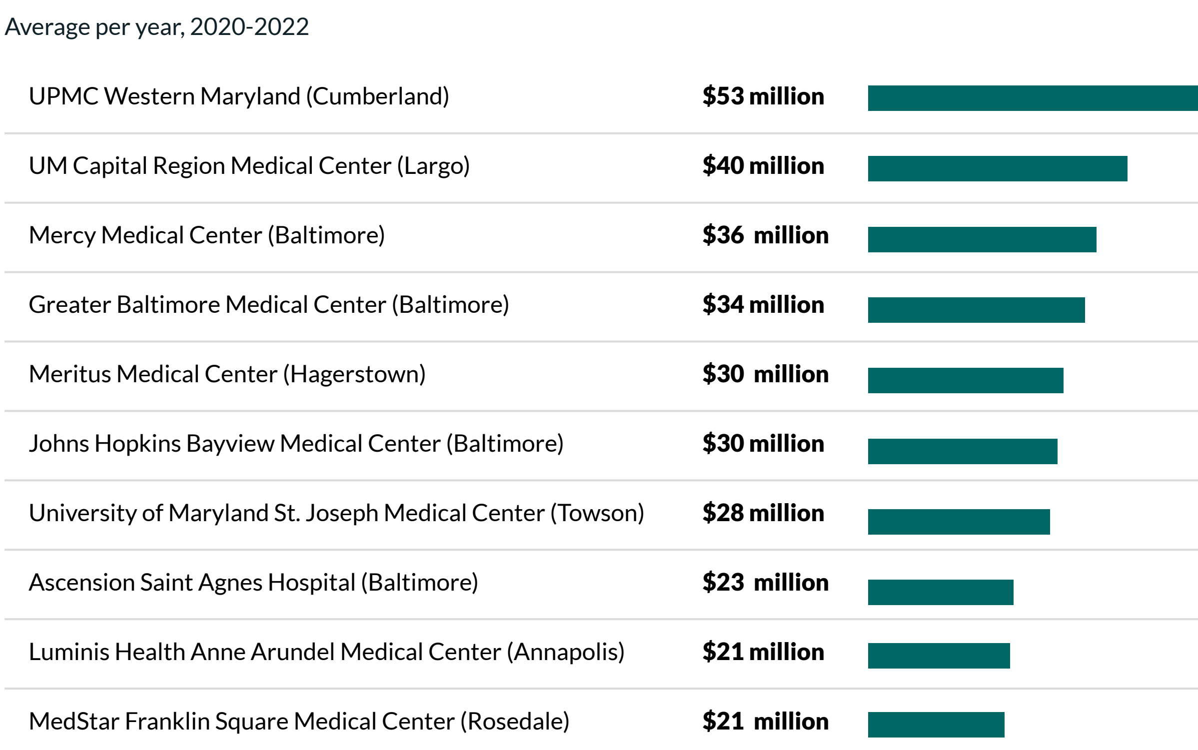
On average, 18% of hospitals received more in tax breaks than they spent on community investment from 2020-2022 – the smallest share of deficit hospitals across all 20 states included in the study. Hospitals with a fair share deficit had a collective deficit of about $82 million each year.

For most of these hospitals, their fair share deficits are driven by their wealth and size. University of Maryland Medical Center stands out for their comparatively large fair share deficit, largely driven by their income in 2021 ($244 million) and property value ($680 million worth of real estate).

Maryland's global budget accounts for hospital financial assistance through increased reimbursement rates, which may not be taken into account on IRS Form 990. An examination of Maryland hospitals' community investment taking into account reimbursement for financial assistance finds that the state's annual fair share deficit increases by $19 million. The largest difference among hospitals was for Johns Hopkins Hospital, which reported $47 million more to the IRS than in state reports, potentially because rate support for charity care was not taken into account on Form 990.

HOSPITALS WITH FAIR SHARE DEFICITS IN MARYLAND OVER $1 MILLION

**IRS information prorated across multiple hospitals*



Seven of these high surplus hospitals above gave more proportionally in community investment than the state average. The total community investment of these ten hospitals made up 40% of the state's total community investment.

Among the community investments by these hospitals include COVID-19 response efforts and vaccine outreach, free meals, supportive services for families at risk of homelessness, mental health crisis call center, support for residents living with HIV/AIDS, mobile health unit for maternal care, and more.

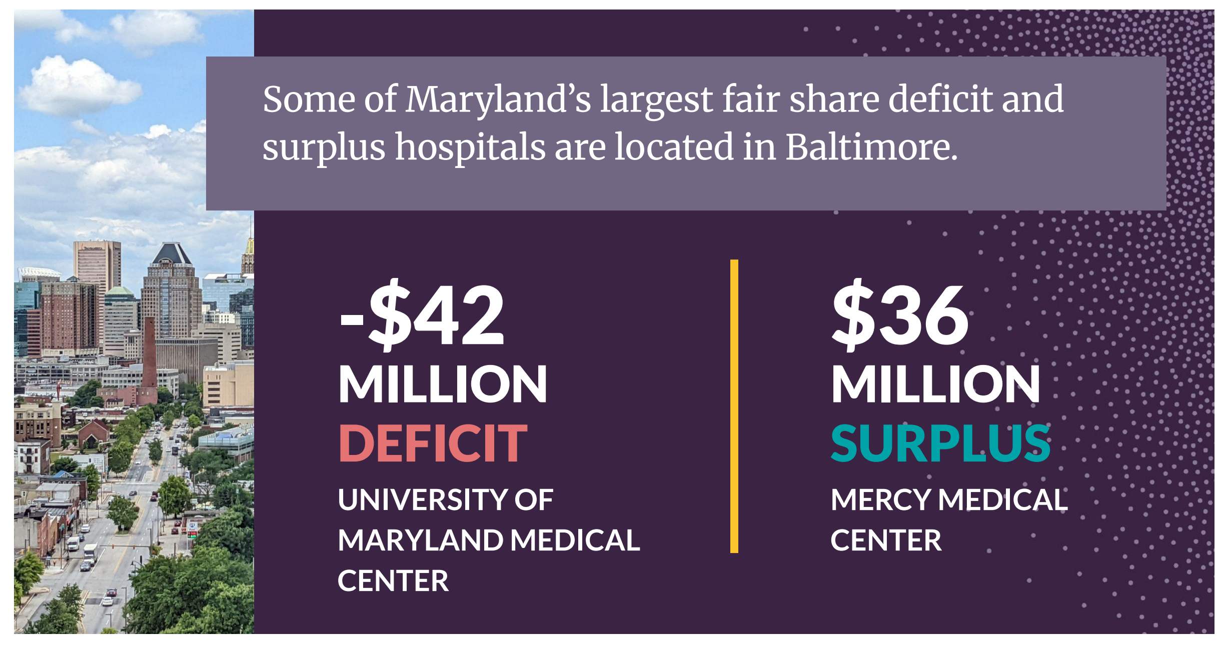
However, hospitals provided limited information about their spending on subsidized healthcare services on their 990s. Hospitals are instructed to only report spending on health services that serve an identified community need; however, there is not enough detail on Schedule H to determine whether hospitals are doing so. Maryland's 2022 state report on Community Benefits concluded similarly that reporting on physician subsidies was inconsistent; the state has since clarified their reporting requirements for that category.

Two of the deficit and four of the top-surplus hospitals are in Baltimore. This reflects a pattern in urban hospital markets in which higher-resourced hospitals are often inaccessible to low-income patients, while "safety net" hospitals that serve more of these patients operate on thin margins.

HOW COULD FILLING GAPS IN FAIR SHARE SPENDING IMPROVE COMMUNITY HEALTH?

The $82 million annual fair share deficit is enough to:

- **Feed 105,000 people facing food security** in Maryland. Nearly 750,000 people in Maryland face food insecurity every year, including 220,000 children (Feeding America).
- **Cover the state's needed investment in their behavioral health workforce**. The Maryland Health Care Commission estimates that the state needs to invest about $150 million over the next five years in order to cover the 50% shortage in mental health workers.
- **Wipe out medical debt for nearly 100,000 people** in Maryland who owe $500 or less. An estimated 340,000 adults in Maryland owed medical debt each year in 2019-2021 (Peterson-KFF Health System Tracker).



POLICY IMPLICATIONS

Maryland's robust community benefit policies and medical debt protections make this state a model for other states to follow.

TRANSPARENCY

Maryland is one of a few states with a **community benefit reporting requirement** that breaks out categories of spending by program type and requires hospitals to report spending to address health needs identified in the Community Health Needs Assessment.

Maryland's fair share deficit is enough to cover needed investment in the **behavioral health workforce** .

Maryland's new Community Benefits Working Group identified "wide variation across hospitals in the percentage of expenditures directed toward CHNA initiatives" and plans to "review the criteria hospitals are using to... determine whether additional guidance is needed." Hospital reporting on physician subsidies within subsidized healthcare services has also been clarified as of 2023, according to the state. Future analyses of fair share spending will likely reflect these reporting changes.

ACCOUNTABILITY

Maryland has taken several steps to protect residents from medical debt including financial assistance requirements, payment plan requirements, refunds for wrongly charged patients, and creating a uniform financial assistance application. Maryland policymakers are considering **requiring hospitals to report to a state commission** on medical debt and to **disallow certain extraordinary collection actions**, which would further reduce harm from medical debt.

Maryland hospitals also **require patient screening for financial assistance before sending debt to collections**, by asking all patients to sign an information sheet upon discharge notifying them about financial assistance availability. State officials should be aware of implementation challenges other states have faced in their patient screening programs, and continue to monitor financial assistance spending. Policymakers may also consider **requiring screening earlier in the care process** and using **different methods of screening** beyond patient notification.

MAKING THE SYSTEM EQUITABLE

Fair share spending in Maryland highlights the problem of "have and have nots" within the hospital system, as some of the largest fair share deficit *and* surplus hospitals are in Baltimore. This suggests that certain **safety net hospitals in Baltimore** are taking on a disproportionate share of community investment and financial assistance.

To address these inequities, local policymakers could implement an **assessment on property for hospitals with low community investment spending**. This pool of funds could be used by the local public health department to address community health needs and medical debt.

Maryland's rate assistance is a powerful tool for aligning hospital incentives with community needs. Hospital spending on **services that are typically underfunded** but serve essential community needs could be further incentivized through rate-setting.

METHODOLOGY

The study analyzed seven types of tax exemptions enjoyed by hospitals in Maryland, including federal and state income tax, federal unemployment tax, sales tax, property tax, and the values of tax-exempt donations and bonds. Hospital net income data was sourced from CMS hospital cost reports. Information on tax-exempt donations and bonds was obtained from IRS Form 990. Three years of data (2020-2022) were included.

Property tax estimates are likely underestimated throughout the state. Maryland's State Department of Assessment and Taxation, which houses assessment data for all property in the state, does not allow users to search by owner name. To capture as accurate as possible the extent of property owned by each facility, we searched all streets intersecting the main campus for any additional exempt parcels.

Community investments were identified from IRS Form 990 Schedule H, including the following categories: financial assistance, community health improvement services, subsidized healthcare services, contributions to community groups, and community building activities. For hospitals that filed as a group, community investment data was prorated according to hospitals' share of system charity care.

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ABOUT THE LOWN INSTITUTE

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