INDIANA

Making the hospital tax exemption work for Indiana

An analysis of nonprofit hospital tax exemptions and community investments

LOWN INSTITUTE

SUMMARY

Indiana nonprofit hospitals receive $1.3 billion in tax benefits each year

The Lown Institute analyzed how much 75 nonprofit hospitals in Indiana 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, **66% of private nonprofit hospitals in Indiana had a "fair share deficit,"** meaning they received more in tax benefits than they spent on meaningful community investments.
- The total fair share deficit for Indiana hospitals was **$716 million each year**. That's enough to feed all people in Indiana facing **food insecurity**, increase funding for local **public health** departments, or wipe out **medical debt** for more than 400,000 people.
- Indiana could fill fair share spending gaps and prevent medical debt by improving **reporting requirements**, creating **standards** for financial assistance eligibility standards, **screening** patients for assistance, and limiting **extraordinary debt collection actions**.

$716 MILLION

COULD BE PUT BACK INTO THE COMMUNITY

FOOD | PUBLIC 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 that lead to underspending.

TAX EXEMPTION VALUE RESULTS

From 2020-2022, Indiana hospitals received $1.3 billion in tax benefits each year, an average of $17.4 million per hospital (greater than the 20-state average of $14.2 million). On average, hospital tax benefits were worth 6.1% of expenses, the second highest rate among the 20 states studied.

INCOME, PROPERTY TAX LARGEST CATEGORIES OF HOSPITAL TAX EXEMPTION

Tax exemption category	Total amount (per year average, 2020-2022)	% of total tax exemption, Indiana
Federal income tax	$654 million	51%
Local property tax	$223 million	17%
State income tax	$173 million	13%
State sales tax	$149 million	12%
Value of tax-exempt bonds	$64 million	5%
Value of tax-exempt donations	$15 million	1%
Federal unemployment tax	$3 million	0.2%
Total	**$1.3 billion**	**100%**

Hospitals in Indianapolis owned **$688 million in real property** and avoided $23 million in property tax in 2022.

High incomes for some hospitals drove large federal income tax breaks. Thirteen hospitals reported net income of at least $100 million each year on average from 2020-2022 and several hospitals reported over $300 million in income in at least one year.

Property tax made up a significant proportion of the overall tax exemption as well. Deaconess Midtown Hospital owns $472 million worth of real estate and Parkview Regional Medical Center owns $376 million, according to county assessment data.

COMMUNITY INVESTMENT RESULTS

From 2020-2022, Indiana hospitals spent $702 million on financial assistance and other community investments each year, an average of $9.5 million per hospital.

Financial assistance (free and discounted care for eligible patients) made up the largest proportion of total community investment (47%). Subsidized health services (clinical services that meet an identified community need, provided at a loss to the hospital) were the second-largest contributor.

Indiana hospitals spend more proportionally on community health improvement activities than other states on average, a positive sign that they are interested in addressing upstream and unmet health needs.

FINANCIAL ASSISTANCE LARGEST CATEGORY OF COMMUNITY INVESTMENT

Community investment category	Total spending (per year average, 2020-2022)	% of total community investment, Indiana
Financial assistance	$328 million	47%
Subsidized health care services	$168 million	24%
Community health improvement services	$155 million	22%
Cash and in-kind contributions	$34 million	5%
Community building activities	$17 million	2%
Total	**$702 million**	**100%**

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

FAIR SHARE SPENDING RESULTS

On average, 66% of hospitals received more in tax breaks than they spent on community investment from 2020-2022. Hospitals with a fair share deficit had a collective deficit of about $716 million each year.

For most of these hospitals, their high fair share deficits are driven by their wealth and size. However, low community investment spending also plays a role. Nine of these hospitals spent less than the state average on community investment and half of these hospitals spent under 50% of the state average rate.

IU Health Methodist stands out for their fair share deficit which is driven largely by their high income. They reported over $1 billion in net income in 2020 and more than $800 million in 2021. IU Health Methodist had among the ten largest fair share deficit of all hospitals across the 20 states studied.

HOSPITALS WITH THE LARGEST FAIR SHARE DEFICITS IN INDIANA

Average per year, 2020-2022

-$129 million	IU Health Methodist Hospital (Indianapolis)^
-$49 million	Deaconess Midtown Hospital (Evansville)^
-$49 million	Ascension St. Vincent Hospital - Indianapolis (Indianapolis)*
-$43 million	Community Hospital East (Indianapolis)*^
-$41 million	Franciscan Health Indianapolis (Indianapolis)*
-$41 million	Memorial Hospital (South Bend)
-$31 million	Reid Hospital and Health Care Services (Richmond)
-$30 million	IU Health North Hospital (Carmel)
-$27 million	Ascension St. Vincent Carmel (Carmel)
-$25 million	Ascension St. Vincent Evansville (Evansville)

**IRS information prorated across multiple hospitals*
^Includes more than one hospital campus within same CMS ID

HOSPITALS WITH THE LARGEST FAIR SHARE SURPLUSES IN INDIANA

Average per year, 2020-2022

Baptist Health Floyd (New Albany)*	**$21 million**	
Goshen Hospital (Goshen)	**$18 million**	
Franciscan Health Lafayette East (Lafayette)*	**$15 million**	
Franciscan Health Michigan City (Michigan City)*	**$11 million**	
Franciscan Health Crawfordsville (Crawfordsville)*	**$10 million**	
Franciscan Health Dyer (Dyer)*	**$7 million**	
Franciscan Health Munster (Munster)*	**$7 million**	
Margaret Health Mary Main Campus (Batesville)	**$7 million**	
IU Health Jay Hospital (Portland)	**$2 million**	
Community Hospital of Bremen (Bremen)	**$2 million**	

**IRS information prorated across multiple hospitals*

All of the high-surplus hospitals above gave more proportionally in community investment than the state average, and half of these hospitals gave at more than twice that rate.

Among the community investments by these hospitals include free physical activity programming, prenatal assistance program, youth mental health first aid, medication assisted treatment clinics, meals and other resources for older adults, social workers, CPR training, and more.

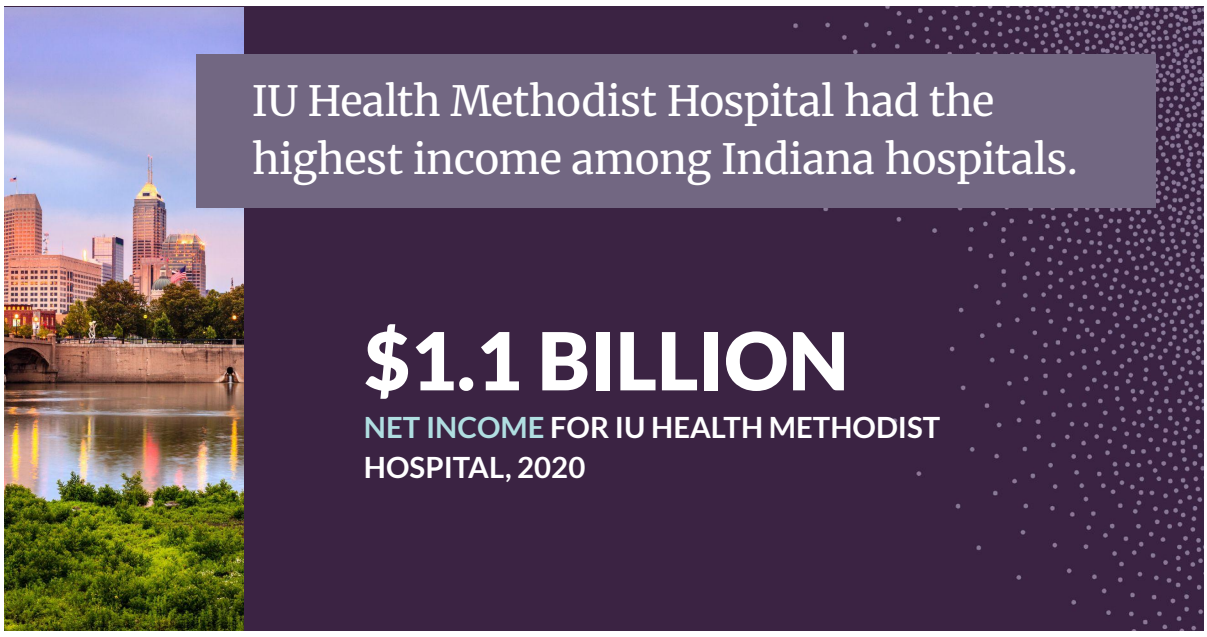
However, the lack of detail in Schedule H still creates transparency issues. For example, hospitals offered little or no information on their spending for subsidized healthcare services, even in cases where this category comprised a substantial proportion of their reported community benefit spending.

A few hospitals also appear to be reporting contributions to their affiliated medical school or hospitals as a "cash and in-kind contribution for community benefit," which is allowed by the IRS but may be misleading to stakeholders examining these reports. For example, in 2021, IU Health Methodist reported $416 million in contributions to the Indiana University School of Medicine as a community benefit on their Schedule H (these contributions were not included in our analysis).

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

The $716 million annual fair share deficit is enough to:

- ➔ Continue the **state's historic increase in public health funding** for the rest of the decade. Indiana approved $225 million in funding for public health for 2024-2025, a remarkable investment that brought the state much closer to the national per capita rate of public health funding. The amount of the fair share deficit is enough to continue this funding for another five years.
- ➔ **Feed all 950,220 people in Indiana** who face food insecurity every year, including 426,600 children (Feeding America).
- ➔ **Wipe out medical debt for 430,000** people in Indiana who owe $2,000 or less. An estimated 600,000 adults in Indiana owed medical debt each year in 2019-2021 (Peterson-KFF Health System Tracker).



POLICY IMPLICATIONS

Indiana can improve upon their existing regulations and increase medical debt protections.

TRANSPARENCY

Indiana requires hospitals to file a report of their community benefit plan to the state, but the only community benefit reports publicly available from the state are copies of Schedule H. Indiana could follow the lead of Colorado and Massachusetts by asking states to report their spending on **specific health needs** identified in the CHNA, and ensuring that these reports are made publicly available.

Indiana has a higher rate of medical debt than the national average, with 12% of adults reporting debt.

Indiana could also take steps to improve transparency around financial assistance and collection actions, by **asking hospitals to report how many patients receive financial assistance**, how many were denied, and **how many extraordinary collection actions were taken** against patients to collect medical debt.

ACCOUNTABILITY

Indiana has a higher rate of medical debt compared to the national average, with an estimated 12% of adults reporting medical debt over $250. To fill fair share spending gaps and reduce medical debt, Indiana could require **patient screening for financial assistance** and establish state **standards for financial assistance eligibility**, both of which policymakers have proposed. Should screening be adopted, state officials should be aware of implementation challenges other states have faced in their screening programs, and invest sufficient resources into helping hospitals make administrative changes.

Indiana has historically depended heavily on property taxes to fund local public health departments. While fortunately state funding for public health has increased in recent years, municipalities in areas with high hospital property values may consider implementing a **Payment in Lieu of Taxes (PILOT) program** to recoup a portion of forgone property taxes, as some cities have done.

EXTRAORDINARY COLLECTION ACTIONS

Indiana residents with medical debt may be vulnerable to extraordinary collection actions, such as legal action, reporting debt to credit agencies, and wage garnishments. Indiana could pass legislation to **restrict certain aggressive collection actions**, such as liens on a primary residence, as some policymakers have proposed.

METHODOLOGY

The study analyzed seven types of tax exemptions enjoyed by hospitals in Indiana, 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.

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.

LOWN INSTITUTE

163 Highland Avenue, Needham, MA 02494
lowninstitute.org 617.992.9322
Media contact: AToleos@lowninstitute.org
Policy contact: JGarber@lowninstitute.org

ABOUT THE LOWN INSTITUTE

The Lown Institute is an independent think tank advocating bold ideas for a just and caring system for health. We envision a healthcare system focused on what's best for people, like hospitals caring for those most in need, patients living without fear of financial distress, and health professionals finding joy in their roles. Learn more: www.LownInstitute.org.