



**American Hospital  
Association**

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Statement  
Of the  
American Hospital Association  
Before the  
Committee on Ways and Means  
On  
Tax Reform and Charitable Contributions  
February 14, 2013

I am Pam King Sams, Executive Vice President for Development at Children's National Medical Center, a 303-bed not-for-profit academic medical center located at 111 Michigan Avenue, NW, in the District of Columbia. Children's National has provided hope to sick children and their families for more than 140 years. We are proud to provide convenient, high quality pediatric primary and specialty care to the District's children and families.

I testify today on behalf of the American Hospital Association and its more than 5,000 member hospitals, health systems and other health care organizations, and its 42,000 individual members. The American Hospital Association (AHA) appreciates this opportunity to provide its views on the importance of the tax code's charitable contribution provisions to America's nonprofit hospitals.

Hospitals do more to assist the poor, sick, elderly and infirm than any other entity in health care. Since 2000, hospitals of all types have provided more than \$367 billion in uncompensated care to their patients. In 2011 alone, hospitals delivered more than \$41.4 billion (in costs) in uncompensated care to patients and uncounted billions more in value to their communities through services, programs and other activities designed to promote and protect health and well-being. This broad array of benefits includes basic research, medical education, unprofitable services such as burn intensive care, emergency department care, high-level trauma care, and labor and delivery services.



America's communities receive a positive return on their investment from the tax-exemption of hospitals. Federal revenue forgone because of hospital tax-exemption is an estimated 2.3 percent of hospital expenses compared to the 9.3 percent of expenses hospitals provide in community benefit.

As the Committee debates tax reform, we ask you to consider that current tax code incentives for the provision of health care have worked to provide access to hospital services in communities large and small across the country. The ability to obtain tax-exempt financing and to accept tax-deductible charitable contributions are two key benefits of hospital tax-exemption that work to make hospital services available where needed.

The Committee's interest in tax reform and charitable contributions comes at a time when hospitals have come to rely on community support more than ever because other funding sources have become increasingly limited. A January 2013 Moody's report maintains a negative outlook for the nonprofit health care sector for 2013. The report cites Federal cuts to health care spending, limited reimbursement increases from commercial insurers, and a tepid economy as causes. Since 2010, Medicare hospital payments have been reduced by \$250 billion over ten years. As a result, hospital Medicare margins stand at an average negative 7 percent.

AHA understands that this Committee and the public continue to be concerned by the growth in national health expenditures. The good news is that health care spending growth slowed dramatically in 2012, and hospitals are out front in bending the cost curve. At the same time, it is essential to remember the vital community and safety net role hospitals play.

Hospitals recognize the responsibilities that come with tax-exemption and fully appreciate the benefits. One important benefit is the ability to attract community investment through tax-deductible giving. Hospitals are the backbone of the communities they serve, and people in those communities recognize their importance through generous philanthropic giving. In FY 2011, philanthropic support for nonprofit hospitals and health care organizations reached \$8.9 billion, according to the Association of Healthcare Philanthropy (AHP). Needed construction and renovation projects receive almost a quarter of philanthropic dollars, but many hospitals rely on funds raised from community partners simply to meet operating expenses, allocating on average more than 15 percent of the funds they raise to general operations.

Philanthropic giving is also increasingly important as a source of capital financing as hospital change to meet the healthcare needs of the future. Hospitals that are under significant financial strain—not profitable, not liquid and with a significant debt burden—often are shut out of traditional capital markets. They have a limited number of capital sources and incur higher costs than hospitals with a brighter financial picture. For these hospitals, philanthropy is essential to

finance the necessary facility upgrades and investments in information technology required if they are to continue to provide high quality health care services in their communities.

Community support for hospitals is strong, but incentives are necessary to retain this critical support. The AHA is concerned that in an environment where hospitals rely increasingly on charitable giving, limiting or eliminating the current charitable contribution deduction would reduce the availability of resources that are critical to fund hospital operations. The most recent Association for Healthcare Philanthropy survey of hospital and health care development professionals found that nine out of 10 agreed that proposed limits on charitable deductions would result in significant reductions in giving to their organizations. About 40 percent estimate that giving would decrease between 10 and 30 percent if significant changes are made to the current tax incentives for charitable donations, which conservatively could amount to a decrease of more than a \$1.07 billion in total annual giving to nonprofit hospitals and health care providers, based on AHP's FY 2009 giving statistics.

America's hospitals are always open, serving our communities 24 hours a day, seven days a week, 365 days a year. As hospitals face new challenges to maintaining access to high-quality care to everyone who needs it, they need the support they find from generous members of the communities they serve now more than ever. As you work to reform the nation's tax laws, we urge you to continue to encourage private giving by excluding charitable giving from any limitations on deductions and maintaining the existing federal tax charitable deduction.