



## **NON-PROFIT HOSPITALS ARE IN DANGER OF LOSING THEIR TAX EXEMPT STATUS**

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In communities across the nation, many non-profit hospitals are finding that their status as tax exempt organizations are being challenged by state and local authorities. Questions are being raised as to whether these hospitals are providing sufficient services to the needy. Questions are also being asked to whether these hospitals are engaging in activities that normally are performed by for-profit businesses.

As state and local authorities review hospital activities, Congress is holding hearings on how the IRS treats non-profit hospitals. The IRS is in the process of reviewing the status of these hospitals for purposes of analyzing the application of federal tax exempt regulations.

Much of the controversy is directly caused by the tremendous increase in the cost incurred by a hospital in providing basic healthcare services. As hospitals' costs increase and Medicare and insurance providers curtail payments, the hospital is caught between a rock and a hard place. If the hospital is asked to expand the free services it provides to needy members of the community, it must find sources of revenue that enable it to provide such services and still be able to pay its bills. Some non-profit hospitals have found that they have to curtail the services that they provide on a charitable basis. Emergency rooms that were once

opened 24-hours a day regardless of a patient's ability to pay must operate on a more limited basis. Hospitals that have provided free prenatal and obstetrical care to needy patients find that they can no longer operate such programs. However, as the hospitals begin to curtail these programs they find that they are in a "catch 22 situation."

When community leaders recognize that these services are no longer being provided by the "non-profit" hospitals, they begin to raise questions as to why these hospitals are entitled to "non-profit" status. Non-profit hospitals do not have to pay local real estate taxes. They don't have to pay local income taxes. They may be exempt from payment of sales or use taxes on their purchases. Finally, they are exempt from federal corporate income taxes. Without these tax exemptions, many non-profit hospitals could not survive. Yet when they curtail services to the needy, they endanger their continued existence. In the State of Minnesota, the Attorney General reviewed the conduct of many non-profit hospitals and told the hospitals that unless they expanded rather than curtailed services to the needy, they would be in danger of losing their non-profit status. Similarly, in Illinois, Wisconsin and Pennsylvania, there have been challenges to force non-profit hospitals to provide more community services and to

limit the hospitals' unrelated business activities.

Textile rental companies can take advantage of this situation by offering non-profit hospitals a means of lowering costs and at the same time providing an environmentally friendly solution to the community in which the hospital operates. TRSA members can explain to hospital administrators that in-house hospital laundries are traditionally inefficient and do not properly process waste. TRSA has information available to assist members in such a task. Contact either Bill Mann or Roger Cocivera at TRSA for assistance in this area. Available data clearly shows that a textile rental program will not only reduce the hospital's overall laundry costs but will eliminate the environmental concerns that go with any in-house laundry operation.

If hospitals indicate that they are considering some type of a cooperative laundry or utilizing the services provided by another hospital's laundry, TRSA members are in a good position to explain that such a solution is not a real solution. Operation of a joint hospital laundry creates additional tax issues and both the IRS and the states will question whether a tax exempt hospital should be in the laundry business rather than the hospital business. Further, studies have shown that joint hospital laundries are

inefficient, create environmental concerns, and require capital that is often not available. Use TRSA's information to show that utilizing the services of an outside textile rental company will enable the hospital to better use space within its facility, reduce costs, and eliminate environmental concerns.

## **Conclusion**

Hospitals are now being challenged with the loss of their tax exemption. TRSA members are in a unique position to convince the Hospital Administrator that rather than being part of the problem, utilization of outside textile rental services can be part of the solution. Outside textile rental services will enable the hospital to not only reduce its costs, but also eliminate environmental concerns and make additional space available within the hospital for hospital-related services. You should be able to sell this concept to Hospital Administrator and TRSA is more than willing to help you do this. Non-profit hospitals are a wonderful opportunity for our industry. Utilization of outside textile rental services in the hospital area has been growing exponentially. The tax exemption issue is an excellent opportunity for you to promote your company and its services to this expanding marketplace.