

# Nonprofit Property Tax Exemptions Continued: Hospitals

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## These 5 Exemptions Account for Over \$1.7 Billion in Foregone Local Revenue

· All exclusions= \$2.1 Billion in foregone local revenue each year

Property Tax Exclusion or Exemption	Estimated Local Revenue Loss (\$)	Number of Counties with Exempt Property
Governmental	\$1.1B	100
Religious	\$255M	100
Educational (not governmental)	\$180M	89
Nonprofit Hospital Property	\$130M	75
Charitable-Nonprofit Low & Moderate Income Housing	\$60M	82
<b>Total of these 5 Exclusions or Exemptions</b>	<b>\$1.7B</b>	-

Source: NC Dept. of Revenue

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## Types of Hospitals



- **For-profit:** Pay property taxes like any other corporation.  
Ex: HCA Healthcare
- **Nonprofit:** Can apply for property tax exemptions on property they use for their charitable purpose.  
Ex: Novant Health, Duke Health, Cone Health
- **Hospital Authorities:** Government entities originally created to serve the poor. As units of government, any real and personal property they own is exempt from taxation, and they do not need to apply for exemptions.  
Ex: Atrium Health (The Charlotte-Mecklenburg Hospital Authority)

Definitions and Examples from: "Atrium, Novant, other hospital systems get millions in property tax breaks" by Charlotte Ledger, April 3, 2023

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## Tax Benefits

- Federal & state income tax exemption
- Sales tax refund
- Property tax exemption





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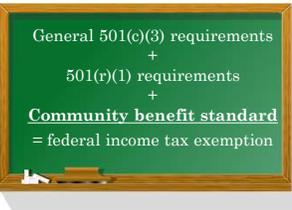
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## Income Tax Exemption

**IRS Requirements**



General 501(c)(3) requirements  
+  
501(r)(1) requirements  
+  
**Community benefit standard**  
= federal income tax exemption

**Community Benefit Standard Factors**

- Open emergency room
- Community board
- Open medical staff policy
- Care for all/ability to pay
- Surplus funds/patient care & facilities improvements
- Financial assistance

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## Sales Tax Refund

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### State & Local Sales Tax Refund



Nonprofits **may apply** for a refund for taxes paid on:

- Direct and indirect purchases of items for carrying on the work of the entity.
- Includes indirect purchases of building materials, fixtures, and equipment that become part of any building owned or leased by the entity.



Refunds **not allowed** on purchases of:

- Electricity
- Telecommunications
- Ancillary service
- Piped natural gas
- Video programming
- Prepaid meal plans



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### State & Local Sales Tax Refund



Maximum State Refund  
Per Year/Per Entity

\$31,700,000

Maximum Local Refund  
Per Year/Per Entity

\$13,300,000

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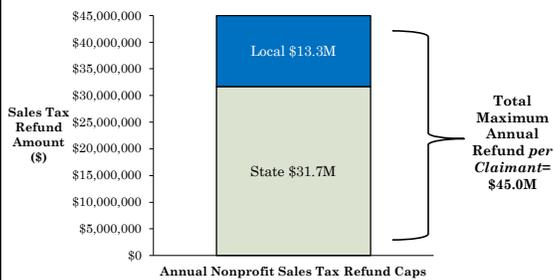
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### Annual Sales Tax Refund Caps are on a Per Nonprofit Entity Basis Under Current Law



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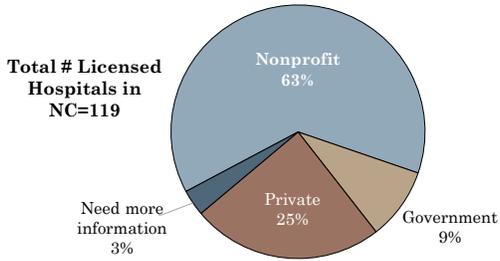
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Most Hospitals in the State are Nonprofits—Making them Eligible for Both Property and Sales Tax Relief



Source: NC DHHS, NC Sec. of State; as of Dec. 2025

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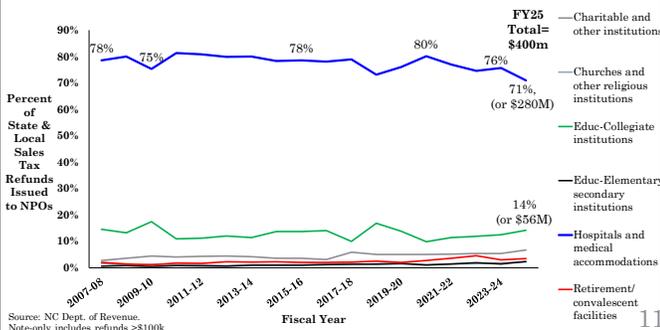
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Percentage of Sales Tax Refunds Issued by Type of Nonprofit



Source: NC Dept. of Revenue. Note-only includes refunds >\$100k.

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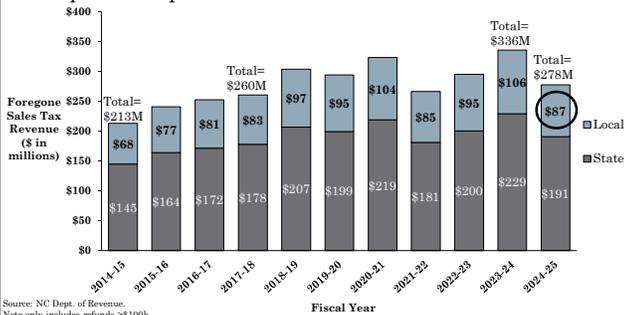
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Local Gov'ts Forego Nearly \$100 Million Annually Due to Nonprofit Hospital Sales Tax Refunds



Source: NC Dept. of Revenue. Note-only includes refunds >\$100k.

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# Property Tax Exemption

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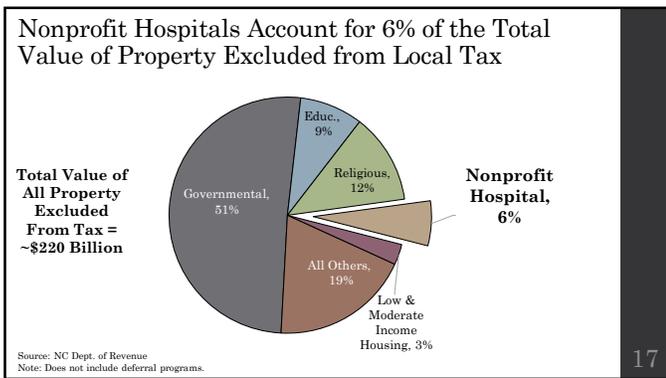
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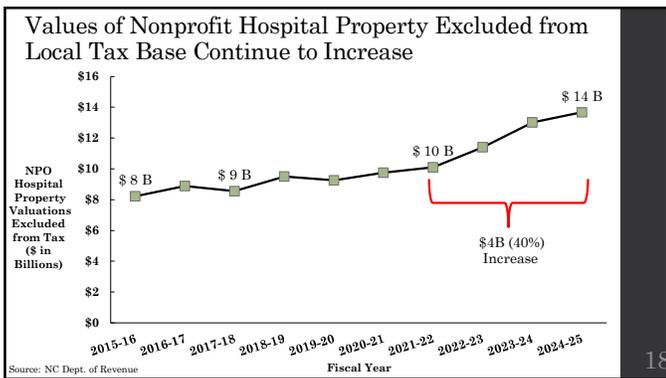
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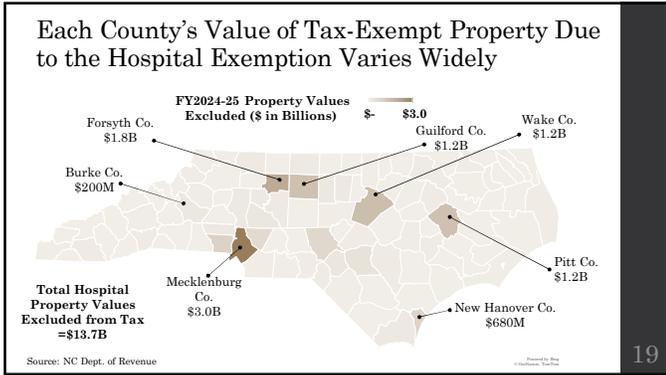
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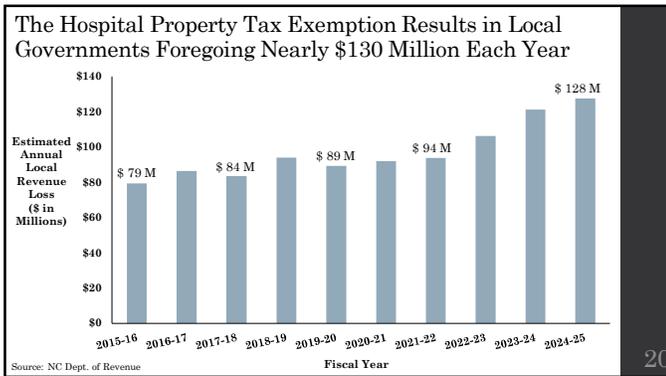
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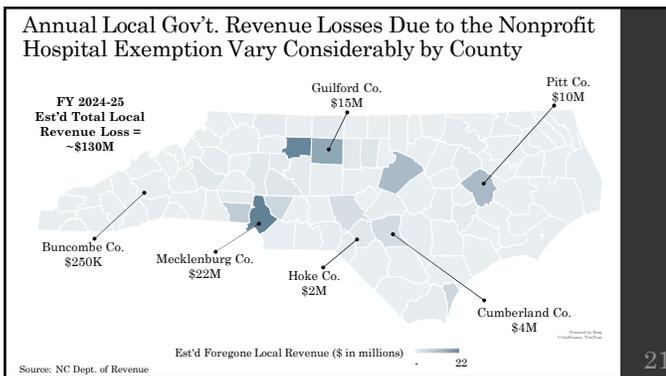
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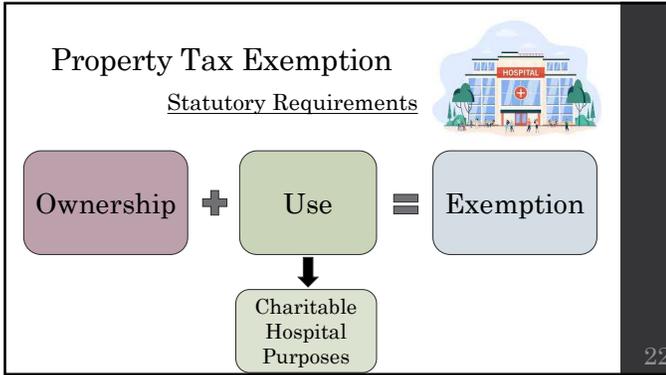
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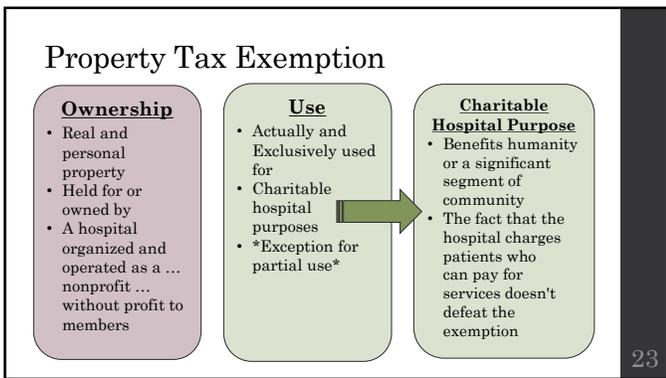
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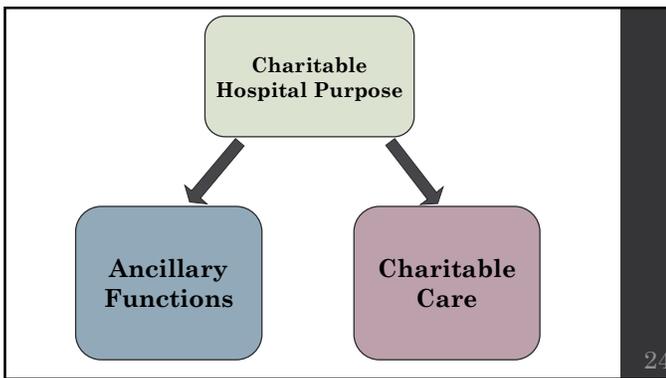
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### Caselaw

#### Outpatient Surgical Center *In re Found. Health Sys. Corp., 96 N.C. App 571 (1989).*

- Issue: Is an outpatient surgical center a "hospital" and did it meet "charitable" standard, despite charging patients for care provided?
- Yes. Hospital: "[a]n institution for the . . . care of sick, wounded, infirm, or aged persons..."



#### Hospital Day Care Center *In re Moses H. Cone Mem. Hosp., 113 N.C. App 562 (1984)*

- Issue: Does onsite childcare for hospital employees only qualify for exemption?
- Yes. It's "reasonably necessary to accomplish efficient administration of the hospital."



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### What about . . .

- Parking facilities
- Administrative buildings
- Wellness centers
- Educational & training facilities
- Research facilities
- Warehouses
- Physician/nurse housing



Ancillary  
Functions

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### What about . . .

- Offsite medical office buildings
- Property leased to private physicians or operated by separate for-profit affiliates, such as imaging centers or labs operated under profit-sharing arrangements
- On-site pharmacies owned by a third party
- Retail gift shops and cafes



Ancillary  
Functions

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### Other States

- Exclude separate **medical office buildings** from the exemption, even if owned by the hospital. (Ex: Wisconsin)
- Exclude **retail or commercial leased space** on hospital grounds (Ex: Wisconsin, Michigan)
- Exclude buildings **held for investment** or unrelated to patient care or training, such as **administrative buildings** (Ex: Georgia)
- Exclude areas used as employee or administrative **recreational spaces** (Ex: Minnesota).




Ancillary Functions

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### Charitable Hospital Purpose

- A **“hospital purpose”** that has humane and philanthropic objectives
  - What is a “hospital purpose”?
- A **“hospital activity”** that benefits humanity or a significant segment of the community without expectation of pecuniary profit or reward
  - Should only the portion of property engaging in this type of hospital activity receive exemption, i.e., not retail shops or for-profit doctor’s offices/labs/pharmacies? How distinguishable from for-profit hospitals that also provide charitable care?
- The fact that a qualifying hospital charges patients who are able to pay does not defeat exemption.
  - Who qualifies as a “patient able to pay”?



Charitable Care

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### Other States

- Limit exemption amount** to amount spent on community benefit. (Ex: Utah & Illinois)
- Require a minimum community benefit **spending floor**. (Ex: Oregon)
- Require an **increase** of total dollars spent on community benefits by at least 1% **every year**. (Ex: Connecticut)
- Require **documentation** describing community building activity and amount spent. (Ex: Maryland & New York)
- Require nonprofit hospitals to pay a community service **contribution to local governments**. (Ex: New Jersey)





Charitable Care

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### Zoom In: Texas

Hospitals must meet **at least one** of the following requirements:

- 4% of the hospital's net patient revenue
- 100% of the hospital's tax-exempt benefits
- Combined amount equal to at least 5% of the hospital's net patient revenue, if charity care is at least 4% of net patient revenue

Operate in a county w/ a population under 58,000 and which has been designated as a health care professionals shortage area

Be designated as a Disproportionate Share Hospital under the state Medicaid program.

Provide medical care to patients regardless of the ability to pay

Charitable Care

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### Policy Considerations

**Step 1**

- Low-income housing exemption
- Increased availability of long-term, affordable rental housing

**Step 2**

- Statute lacks definitions, has not been substantially updated in over 20 years, and provides no accountability measures.
- Caselaw has muddied the waters and created potential for "abuse."

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### Policy Considerations

**Step 1**

- Nonprofit hospitals
- A certain level of free, no-cost care? Other community benefits? Additional ancillary functions? Monitor the use of the exemption?

**Step 2**

- Statute has not been modified since 1973 enactment.
- No minimum level of "charitable care" required.
- No verification or accountability measures.

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### Policy Considerations

- #1 Should the exemption be limited to the portion of hospital property that provides inpatient care?
- #2 Should there be a minimum standard of "charitable care" or other "community benefit" provided?
- #3 Should the amount of the exemption be tied to the amount of charitable care provided?
- #4 Should nonprofit hospitals be required to provide documentation of their charitable care and/or community benefit?

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### Policy Considerations

#5 Should state/local governments monitor the use of the exemption through data collection?

**Information that could be collected:**

<p><b>Property Tax</b></p> <ul style="list-style-type: none"> <li>• Name of the hospital or organization receiving benefits</li> <li>• List and value of each parcel</li> <li>• Other hospital parcels receiving similar treatment under a different exemption</li> </ul>	<p><b>Sales Tax</b></p> <ul style="list-style-type: none"> <li>• Name of hospitals and/or umbrella organizations receiving funds</li> <li>• Local governments foregoing sales tax revenues</li> <li>• Amount of the statutory cap issued (state and local tax)</li> </ul>
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## Questions?

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