



Bill Draft 2025-DFxfz-4A: Hospital Sales Tax Refund Mods.

2025-2026 General Assembly

Committee:	House Select Committee on Property Tax Reduction and Reform	Date:	March 18, 2026
Introduced by:		Prepared by:	Trina Griffin and Zoey Howe
Analysis of:	2025-DFxfz-4A		Committee Co-Counsel

OVERVIEW: Bill Draft 2025-DFxfz-4A would do the following:

- Reduce the aggregate annual sales tax refund amounts for all eligible nonprofits as follows:
 - For State sales tax, from \$31,700,000 to \$10,000,000.
 - For local sales tax, from \$13,300,000 to \$4,200,000.
- Recognize the highest level of a nonprofit hospital, a public hospital or a hospital authority and its affiliates, related facilities, or component units, as applicable, as one entity for purposes of applying the cap on State and local sales tax refunds.

These changes would become effective July 1, 2026, and apply to requests for a refund submitted on or after that date.

CURRENT LAW & BILL ANALYSIS:

Reduce the Sales Tax Refund Caps for Nonprofit Entities

CURRENT LAW: Certain nonprofit organizations may apply semiannually for refunds of both State and local sales tax paid on direct and indirect purchases of items for carrying on the work of the entity, including indirect purchases of building materials, fixtures, and equipment that become part of any building owned or leased by the entity. Entities eligible for these refunds include nonprofit hospitals, hospital authorities, and public hospitals; volunteer fire departments and EMS squads; certain other 501(c)(3)s; qualified retirement facilities; and university affiliated nonprofit organizations that procure, design, construct, or provide facilities to, or for use by, a constituent institution of The University of North Carolina.

The amount an eligible entity may receive as a sales tax refund is subject to statutory caps. Currently, the aggregate annual State sales and use tax refund an entity may receive is \$31,700,000, and the aggregate annual local sales and use tax refund an entity may receive is \$13,300,000.

BILL ANALYSIS: Section 1(a) would reduce the aggregate annual cap on **State** sales and use tax refunds available to the types of nonprofits that are currently eligible from \$31,700,000 to \$10,000,000. Section 1(b) would reduce the aggregate annual cap on **local** sales and use tax refunds for those same nonprofits from \$13,300,000 to \$4,250,000.

The reduction in the State and local sales tax refund caps would apply to all of the following entities:

- Nonprofit hospitals, hospital authorities, and public hospitals described under Article 2 of Chapter 131E of the General Statutes

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- Volunteer fire departments and EMS squads
- Certain other 501(c)(3)s, including churches, private colleges, PTAs, arts organizations, charities that help with shelter/food, etc.
- Qualified retirement facilities
- University affiliated nonprofit organizations that procure, design, construct, or provide facilities to, or for use by, a constituent institution of The University of North Carolina.

Limit Application of the Cap for Hospitals

CURRENT LAW: Among the entities eligible for a State and local sales tax refund are nonprofit hospitals, hospital authorities,¹ and public hospitals.² The statute provides that the annual aggregate refund amount is allowed "to an entity," but does not define entity, other than by listing the types of eligible entities. In other words, and as it relates to nonprofit corporations, it does not specify whether the cap is available to the parent corporation and to each of its subsidiaries or affiliates, or whether the cap applies at the parent level, meaning that refunds for purchases by a parent's subsidiaries or affiliates should be aggregated collectively for purposes of calculating the cap. Similarly, as it relates to governmental hospitals, it does not specify whether the cap applies the entity as a whole or whether each related facility is eligible for a separate capped amount.

BILL ANALYSIS: Section 1(a) would require a nonprofit hospital and its affiliates to be treated as one entity for purposes of applying each of the State and local sales and use tax refund caps. Each parent organization of a nonprofit hospital system, including all of its affiliate corporations, would be eligible collectively, but not individually, for up to the aggregate annual refund amounts. The term "affiliate" is defined as follows:

"A corporation is an affiliate of another corporation when both are directly or indirectly controlled by the same parent corporation or by the same or associated financial interests by stock ownership, interlocking directors, or by any other means whatsoever, whether the control is direct or through one or more subsidiary, affiliated, or controlled corporations."

Section 1(a) would also require a public hospital or a hospital authority and all of its related facilities or component units, as applicable, to be treated as one entity for purposes of applying each of the State and local sales and use tax refund caps. Like nonprofit hospitals, the highest level of the entity's organization, including all of its related facilities, would be eligible for up to the aggregate annual refund amount but each related facility or component unit would not be eligible for a separate capped amount.

The bill would define the term "related facilities" as "all facilities owned, maintained, or operated by the public hospital or public hospital authority." The term "component unit" is defined as follows:

"Any of the following:

- a. The University of North Carolina Hospitals at Chapel Hill.
- b. The clinical patient care programs established or maintained by the School of Medicine of the University of North Carolina at Chapel Hill, including the UNC Faculty Physicians practice.

¹ A hospital authority is defined in G.S. 131E-16(14) as a public body and a body corporate and politic organized by a municipality to plan, establish, construct, maintain, or operate a hospital facility.

² A public hospital is defined in G.S. 159-39(a) as a hospital that is owned and operated by a municipality or hospital authority; owned by a municipality and operated by a nonprofit organization a majority of whose board of directors is made up of individuals appointed by the municipality or hospital authority; or a hospital on whose behalf a municipality has issued and has outstanding general obligation or revenue bonds or to which a municipality currently makes appropriations.

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- c. Any entity that merges with the University of North Carolina Health Care System pursuant to G.S. 116-350.60 and is designated by the Board of Directors as a component unit of the System."

This change would apply only to nonprofit hospitals, public hospitals, and hospital authorities and would not impact the other nonprofit entities eligible for sales and use tax refunds.

EFFECTIVE DATE: This act would become effective July 1, 2026, and apply to requests for a refund submitted on or after that date.

BACKGROUND: At its February 18, 2026, meeting, the House Select Committee on Property Tax Reduction and Reform heard a presentation on the current law as it relates to the property tax exemption and sales tax refund available to nonprofit hospitals. The presentation is linked [here](#).