NORTH CAROLINA

Making the hospital tax exemption work for North Carolina

An analysis of nonprofit hospital tax exemptions and community investments

LOWN INSTITUTE

SUMMARY

North Carolina's nonprofit hospitals received $678 million in tax benefits each year

The Lown Institute analyzed how much 58 nonprofit hospitals in North Carolina 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.

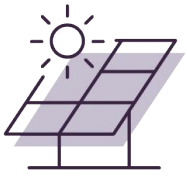
KEY TAKEAWAYS

- From 2020-2022, **37% of private nonprofit hospitals in North Carolina 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 North Carolina hospitals was **$105 million each year**. That's enough to **feed more than 140,000 people** facing food insecurity, increase the **Hurricane Helene disaster relief fund** by nearly 50%, or increase salaries for **mental health workers.**
- More than 80% of North Carolina hospitals' community spending went towards financial assistance, indicating that the need for free care in 2020-2022 may have **limited hospital efforts to invest in upstream drivers of health**.

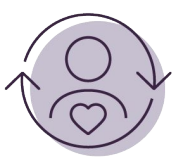
$105 MILLION

COULD BE PUT BACK INTO THE COMMUNITY

FOOD



CLIMATE RESILIENCE



MENTAL HEALTH WORKFORCE

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, North Carolina hospitals received $678 million in tax breaks each year, an average of $12.1 million per hospital (less than the 20-state average of $14.2 million).

High incomes for some hospitals drove large federal income tax breaks, with four hospitals reporting at least $100 million in net income per year on average in 2020-2022.

INCOME, PROPERTY TAX LARGEST CATEGORIES OF HOSPITAL TAX EXEMPTION

Tax exemption category	Total amount (per year average, 2020-2022)	% of total tax exemption, North Carolina
Federal income tax	$262 million	39%
State and local sales tax refund*	$202 million	30%
Local property tax	$109 million	16%
Value of tax-exempt bonds	$53 million	8%
State income tax	$32 million	5%
Value of tax-exempt donations	$16 million	2%
Federal unemployment tax	$4 million	0.6%
Total	**$678 million**	**100%**

**Nonprofit hospitals not exempt from sales taxes in NC, but can request a refund for sales tax paid.*

In North Carolina, property tax exemption is a significant proportion of the overall tax exemption as well, largely due to the value of property owned by a handful of hospitals. For example, Atrium Health Wake Forest Baptist Medical Center owns $800 million worth of real estate and WakeMed Raleigh Campus owns $695 million, according to county assessment data.

We estimated hospitals' state and local sales tax refunds using sales tax rates applied to hospitals' total supply expense. No hospital in our data set hit the maximum refund threshold set by the state.

COMMUNITY INVESTMENT RESULTS

From 2020-2022, nonprofit hospitals in the state spent $960 million on financial assistance and other community investments each year, an average of $17 million per hospital.

Financial assistance (free and discounted care for eligible patients) made up by far the largest proportion of total community investment (81%).

Despite increased emphasis on the social drivers of health, relatively little hospital spending went to community health improvement services or community building activities. North Carolina reported the second smallest rate of spending on community health improvement activities across all 20 states studied.

FINANCIAL ASSISTANCE LARGEST CATEGORY OF COMMUNITY INVESTMENT

Community investment category	Total spending (per year average, 2020-2022)	% of total community investment, North Carolina
Financial assistance	$776 million	81%
Subsidized health care services	$84 million	9%
Cash and in-kind contributions	$44 million	5%
Community health improvement services	$43 million	4%
Community building activities	$13 million	1%
Total	**$960 million**	**100%**

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

FAIR SHARE SPENDING RESULTS

On average, 37% 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 $105 million each year.

Among the hospitals with the highest fair share deficits below, all spent less than the state average on community investment and **half spent under 50% of the state average rate**.

In 2020-2022 North Carolina had not yet expanded Medicaid and there was a high need for free and discounted care in the state. Yet, the **rates of hospital spending on financial assistance varied considerably**. Six hospitals in our data set spent less than one percent of their expenses on financial assistance while five hospitals spent more than six percent.

HOSPITALS WITH THE LARGEST FAIR SHARE DEFICITS IN NORTH CAROLINA

Average per year, 2020-2022

-$20 million	FirstHealth Moore Regional Hospital (Pinehurst)*^
-$10 million	Novant Health Huntersville Medical Center (Huntersville)*
-$9 million	Novant Health Matthews Medical Center (Matthews)
-$7 million	High Point Medical Center (High Point)
-$7 million	Davie Medical Center (Bermuda Run)
-$5 million	CaroMont Regional Medical Center (Gastonia)
-$4 million	The Outer Banks Hospital (Nags Head)
-$4 million	Scotland Memorial Hospital (Laurinburg)
-$4 million	Novant Health Medical Park Hospital (Winston-Salem)
-$3 million	UNC Health Blue Ridge (Morganton)

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

HOSPITALS WITH THE LARGEST FAIR SHARE SURPLUSES IN NORTH CAROLINA

Average per year, 2020-2022

WakeMed Raleigh Campus (Raleigh)*^	**$64 million**	
Novant Health New Hanover Regional Medical Center (Wilmington)*	**$56 million**	
Novant Health Forsyth Medical Center (Winston-Salem)^	**$37 million**	
Duke University Hospital (Durham)*	**$35 million**	
Cape Fear Valley Medical Center (Fayetteville)*	**$27 million**	
Duke Regional Hospital (Durham)*	**$25 million**	
The Moses H. Cone Memorial Hospital (Greensboro)^	**$22 million**	
Atrium Health Wake Forest Baptist Medical Center (Winston-Salem)	**$14 million**	
Novant Health Rowan Medical Center (Salisbury)*	**$13 million**	
Sentara Albemarle Medical Center (Elizabeth City)*	**$13 million**	

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

Of the hospitals with the largest fair share surpluses, **seven of these hospitals gave more proportionally in community investment than the state average**, and one of these hospitals gave at three times that rate. The total community investment of these ten hospitals made up more than 60% of the state's total community investment.

For all but two of these hospitals, the vast majority their community investment went towards financial assistance. Providing free and discounted care is essential for helping prevent medical debt. However, low spending on community health programs relative to financial assistance indicates that **the burden placed on hospitals to cover the cost of care for low-income patients limited hospitals' efforts to invest in community health upstream**.

It is important to acknowledge that this analysis does not include data post-Medicaid expansion in North Carolina in 2023. With a reduced burden of uncompensated care, we may see a shift in community investment spending from financial assistance to other community health programs. Further research is needed to evaluate the impact of Medicaid expansion on the state hospital's financial assistance spending.

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

The $105 million annual fair share deficit is enough to:

- **Increase the amount of the hurricane Helene Disaster Relief Fund by nearly 50%.** The state had $225 million in relief funds after Hurricane Helene, which were recommended for repairing homes, rebuilding infrastructure, and supporting families (NC Governor's Office).
- **Feed more than 140,000 people facing food insecurity in North Carolina.** Nearly 1.5 million people in North Carolina face food insecurity every year, including 448,000 children (Feeding America).
- **Increase salaries for mental health workers** to fill staffing shortages. The state spent $220 million to increase salaries for mental health professionals in 2023 (NC Health News). The amount of the fair share deficit is enough to increase this spending by nearly 50%.
- **Wipe out medical debt for 141,700** people in North Carolina who owe $250 or less. An estimated 1 million adults in North Carolina owed medical debt each year in 2019-2021 (Peterson-KFF Health System Tracker).

WakeMed Raleigh Campus had the largest fair share surplus in North Carolina.

$64 MILLION
ANNUAL FAIR SHARE SPENDING, 2020-2022

$99 MILLION
ANNUAL COMMUNITY INVESTMENT, 2020-2022

POLICY IMPLICATIONS

Building on North Carolina's unique medical debt protections

North Carolina's medical debt protections passed in 2024 make the state a model for others to follow. The state used Medicaid state-directed payments as an incentive for hospitals to accept new regulations including **medical debt relief, financial assistance eligibility requirements, presumptive eligibility requirements**, and restrictions on debt sales and reporting debt to credit agencies.

North Carolina's recent medical debt protections make the state a model for others to follow.

As these protections are implemented, state officials should be aware of implementation challenges other states have faced in their patient screening programs, and **invest sufficient resources into helping hospitals** make administrative changes.

ENSURING ACCOUNTABILITY

The combination of Medicaid expansion and additional financial assistance requirements should result in a large reduction in medical debt rates. Ideally, these policies will reduce the burden of uncompensated care on hospitals, allowing them to invest more heavily in upstream community health needs.

Additional reporting requirements would help state policymakers understand the extent to which these new protections are working. For example, the state could require hospitals to report the number of patients who applied for assistance or were approved via presumptive eligibility, and the **number of patients who were denied financial assistance**.

The state could also improve reporting requirements to understand how hospitals are spending on upstream health needs. IRS Form 990 does not always provide details on what programs hospitals spent on for community benefit, or whether these programs address the health needs identified in the Community Health Needs Assessment. North Carolina requires hospitals to report their community benefit spending to the state; however, we were unable to find these reports compiled on a government website.

For improved transparency, hospitals could be **required to report the amount spent on community health programs by category of health need**, as Colorado does.

METHODOLOGY

The study analyzed six types of tax exemptions enjoyed by hospitals in North Carolina, including federal and state income tax, federal unemployment 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.

While North Carolina hospitals are not exempt from paying sales taxes, they can request a refund from the state and county. The exact amount of this refund is not available for private nonprofit hospitals. We estimated the amount hospitals could have received based on their supply expenses from the AHA hospital survey, assuming hospitals would seek a full reimbursement. No hospital in the study hit the maximum threshold for sales tax refund set by the state.

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.

The study does not include hospitals part of a for-profit system, such as Lifepoint, or public hospitals that do not file a Form 990 such as certain Advocate Atrium Health Hospitals.

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ABOUT THE LOWN INSTITUTE

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