

TEXAS

Making the hospital tax exemption work for Texas

An analysis of nonprofit hospital tax
exemptions and community investments



LOWN
INSTITUTE



SUMMARY

Texas nonprofit hospitals receive \$2.1 billion in tax benefits each year

The Lown Institute analyzed how much 148 nonprofit hospitals in Texas 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, **42% of private nonprofit hospitals in Texas 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 Texas hospitals was **\$643 million each year.** That’s enough to feed nearly 1 million people in Texas facing food insecurity, hire thousands of nurse midwives, or wipe out medical debt for about 1 million people.
- More than 80% of Texas hospitals’ community investment spending went towards financial assistance, resulting in **some of the lowest rates of spending on upstream health needs** across the 20 states studied.

\$643 MILLION

COULD BE PUT BACK INTO THE COMMUNITY



FOOD



HIRE NURSE MIDWIVES



DEBT

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, Texas hospitals received \$2.1 billion in tax breaks, an average of \$14.6 million per hospital (similar to the 20–state average). Unlike the majority of states included in this analysis, Texas does not levy a state income tax, but does implement a franchise tax. The state franchise tax requires all commercial entities making above a specified amount to pay taxes on a portion of their revenue (determined on an annual basis).

INCOME, PROPERTY TAX LARGEST CATEGORIES OF HOSPITAL TAX EXEMPTION

Tax exemption category	Total amount (per year average, 2020-2022)	% of total tax exemption, Texas
Federal income tax	\$856 million	40%
Local property tax	\$525 million	25%
State and local sales tax	\$449 million	21%
Value of tax-exempt bonds	\$104 million	5%
State franchise tax	\$88 million	4%
Value of tax-exempt donations	\$88 million	4%
Federal unemployment tax	\$7 million	0.4%
Total	\$2.1 billion	100%

High incomes for some hospitals, particularly in 2021, drove large federal income tax breaks. For example, Baylor University Medical Center reported about \$630 million in net income in 2021 and Cook Children’s hospital reported about \$400 million in net income in 2022.

Property tax exemption comprised a significant proportion of the overall tax exemption as well, primarily due to the value of property owned in major metro areas like Houston. For example, Houston Methodist Hospital owns \$1.15 billion worth of real estate and Texas Children’s Hospital owns \$1.1 billion, according to county assessment data.

COMMUNITY INVESTMENT RESULTS

From 2020-2022, nonprofit hospitals in the state spent \$2.4 billion on financial assistance and other community investments each year, an average of \$16.3 million per hospital.

Financial assistance (free and discounted care for eligible patients) made up the largest proportion of total community investment (82%), largely due to the state’s non-expansion status. Subsidized health services were the second-largest contributor, making up 10% of total community investment.

Despite increased emphasis on the social drivers of health, relatively little hospital spending went to community health improvement services or community-building activities, with Texas spending far less than other states on these categories proportionally.

FINANCIAL ASSISTANCE LARGEST CATEGORY OF COMMUNITY INVESTMENT

Community investment category	Total spending (per year average, 2020-2022)	% of total community investment, Texas
Financial assistance	\$1.9 billion	82%
Subsidized health care services	\$225 million	10%
Community health improvement services	\$115 million	5%
Cash and in-kind contributions	\$86 million	4%
Community building activities	\$11 million	0.5%
Total	\$2.4 billion	100%

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

FAIR SHARE SPENDING RESULTS

On average, 42% 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 about \$643 million each year.











This finding contrasts with a [2024 Texas state report](#) finding that nearly all nonprofit hospitals gave in community benefits in excess of their tax exemption. These differences can be attributed to differences in community benefit categories included; this Lown Institute report does not include education, research, or shortfall from publicly insured.

The wealth and size of some Texas hospitals drive their large fair share deficits. However, low community investment spending also plays a role. **Eight of these hospitals spent less than the state average on community investment**, and half of these hospitals spent under 50% of the state average rate.

Despite the high need for financial assistance in the state, Texas hospitals varied greatly in their financial assistance spending. **Sixteen hospitals spent less than 1% of expenses on financial assistance**, while thirteen hospitals spent 10% or more.

HOSPITALS WITH THE LARGEST FAIR SHARE DEFICITS IN TEXAS

Average per year, 2020-2022











	-\$91 million	Cook Children’s (Fort Worth)
	-\$65 million	Baylor University Medical Center (Dallas)*
	-\$46 million	Dell Children’s Medical Center (Austin)*
	-\$45 million	Children’s Medical Center Dallas (Dallas)*
	-\$32 million	Baylor Scott & White The Heart Hospital - Plano (Plano)*
	-\$27 million	Texas Children’s (Houston)^
	-\$22 million	Baylor Scott White Medical Center - Plano (Plano)*
	-\$21 million	Covenant Children’s Hospital (Lubbock)
	-\$20 million	Baylor Scott & White Heart and Vascular Hospital - Dallas (Dallas)*
	-\$19 million	Baylor Scott & White Medical Center Grapevine (Grapevine)

*IRS information prorated across multiple hospitals

^Includes more than one hospital campus within same CMS ID

HOSPITALS WITH THE LARGEST FAIR SHARE SURPLUSES IN TEXAS

Average per year, 2020-2022

CHRISTUS Spohn Hospital Corpus Christi - Shoreline (Corpus Christi)**^	\$73 million	
Memorial Hermann - Texas Medical Center (Houston)**^	\$57 million	
Houston Methodist Baytown Hospital (Baytown)*	\$55 million	
Memorial Hermann Greater Heights Hospital (Houston)**^	\$51 million	
St. Joseph Health Regional Hospital (Bryan)*	\$48 million	
Houston Methodist Hospital (Houston)	\$37 million	
United Regional Health Care System (Wichita Falls)	\$26 million	
Houston Methodist Willowbrook Hospital (Houston)*	\$26 million	
Texas Health Fort Worth (Fort Worth)	\$24 million	
Texas Health Dallas (Dallas)**^	\$23 million	

*IRS information prorated across multiple hospitals

^Includes more than one hospital campus within same CMS ID

Seven of these high-surplus hospitals gave more proportionally in community investment than the state average, and two of these hospitals gave at about twice that rate. The total community investment of these ten hospitals made up about 35% of the state’s total community investment.

Among the community investments by these hospitals include community health workers, case management, community advocacy, mobile dental vans, school health centers, mental health crisis clinics and more.

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

The \$643 million annual fair share deficit is enough to:

- **Feed nearly 1 million people in Texas facing food insecurity.** About 5 million people in Texas face food insecurity every year, including almost 2 million children ([Feeding America](#)).
- **Hire more than 5,000 additional nurse midwives.** Maternal mortality rates and racial disparities in maternal health are persistently high in Texas ([Bureau of Labor Statistics](#)).
- **Wipe out medical debt for about 1 million people in Texas who owe \$1,000 or less.** An estimated 2.3 million adults in Texas owed medical debt each year in 2019-2021 ([Peterson-KFF Health System Tracker](#)).

Baylor Scott & White had the largest system fair share deficit in Texas.



**-\$235
MILLION**

**TOTAL FAIR SHARE DEFICIT
FOR 33 BAYLOR HOSPITALS**

Texas hospitals' total fair share deficit is enough to feed **1 million** people facing food insecurity.

POLICY IMPLICATIONS

Texas can build on its existing community benefit policies to reduce fair share gaps.

TRANSPARENCY

Texas requires hospitals to report their spending on community benefits to the state and provides annual reports on hospital spending. In a [2024 state report](#) on hospital community benefit compliance, researchers and hospitals suggested ways to improve transparency:

- Conduct **audits of hospital spending as needed**, given that all spending is self-reported by hospitals and is not currently checked for accuracy.
- Create a **centralized reporting system** to reduce duplication and make the data more consistent

Additionally, the state could **require hospitals to report their spending specifically on health needs identified in the CHNA**, to better understand how hospitals are serving the most important community health needs.

Proposed [legislation](#) that would remove the requirement for the Health and Human Services Commission to evaluate hospital community benefit spending and tax exemptions would be a **step backward in transparency**.

ACCOUNTABILITY

Texas has a minimum spending threshold, which requires hospitals' community benefit spending to fulfill one of these standards: Exceed the total amount of their tax exemption not including federal income tax, exceed 4% of net patient revenue, or be provided at a level "reasonable in relation to the community needs."

Nonprofit hospitals have maintained compliance with these regulations according to [state reports](#), although in the latest report, only one hospital chose to fulfill the standard based on their tax exemption value, which limits the amount of information available.

The [latest state report](#) also shows that the **amount of nonprofit hospital spending still varies widely**, and that dozens of for-profit hospitals are also spending over the threshold despite paying taxes.

To ensure that all hospitals are making financial assistance accessible, state policymakers could require hospitals to **screen patients for financial assistance eligibility** before billing or sending patients to collections, as [state policymakers have proposed](#).

Additionally, while hospitals are required by state law to notify patients about their charity care programs in various ways, regulators noted in a [2024 report](#) that the state does not appear to be monitoring hospital compliance for notification. The state should consider **monitoring hospitals or conducting a secret shopper study** to ensure that hospitals are advertising the availability of financial assistance as required by the state.



METHODOLOGY

The study analyzed seven types of tax exemptions enjoyed by hospitals in Texas, including federal income tax, federal unemployment tax, state franchise tax, sales 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.

Texas is a non-disclosure state, meaning a property's sales price does not have to be made public. Therefore, hospitals' estimated property tax exemption may be an underestimate.

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.



163 Highland Avenue, Needham, MA 02494

lowninstitute.org 617.992.9322

Media contact: AToleos@lowninstitute.org

Policy contact: JGarber@lowninstitute.org

ABOUT THE LOWN INSTITUTE

The Lown Institute is an independent think tank advocating bold ideas for a just and caring system for health. We envision a healthcare system focused on what's best for people, like hospitals caring for those most in need, patients living without fear of financial distress, and health professionals finding joy in their roles. Learn more: www.LownInstitute.org.