

Nonprofits worry about tax changes

By Gary D. Robertson
Associated Press

RALEIGH | Senate Democrats, promoting a tax overhaul plan that would reduce rates while generating more revenues overall for North Carolina, say everyone has to be willing to give up something to make it work.

"We're not trying to gore anybody's ox here in particular. But we're just saying we have got to have

ANALYSIS

some help from all segments from our economy," said Sen. David Hoyle, D-Gaston, co-chairman of the Senate Finance Committee. "We're asking everybody to put a little skin in the game."

Some powerful not-for-profit institutions say the first edition of the tax proposal, which rolled out two weeks ago, would force them to give too much of

their hides. Hospitals and private universities are worried about a provision that would limit at \$5 million per year the amount of refunds they can receive on paying sales taxes.

While only a handful of large urban hospitals and big private colleges could bump up against that threshold, industry representatives argue it would set a bad precedent by making their tax-exempt status subject to change.

The plan would eliminate scores of tax credits and exemptions and expand the scope of services that are subject to the state sales tax, which currently rings up at 6.75 percent in most counties.

In exchange, income and sales tax percentage rates would fall across the board—the combined sales tax would fall to 6 percent almost everywhere—and filing income taxes would be simplified.

"Part of the goal of this plan is to put a tax structure in place where we don't have to keep monkeying around with rates every year," said Sen. Dan Clodfelter, D-Mecklenburg, another co-chairman.

The \$5 million cap would collect an additional \$60 million for the state by 2011—still a small amount compared to the \$20 billion-plus annual budget.

Not-for-profit hospitals, which still compete with private companies, say they're being put at an extra disadvantage.

While traditional corporations could see their overall rates fall from 6.9 percent to 4.5 percent, hospitals could lose by having to eat sales taxes as they provide more services.

The value of charity care at the 100 hospitals soared by 39 percent in 2008 to \$790 million, according to the North Carolina Hospital Association, which attributed the in-

crease to the higher percentage of unemployed and people without health insurance.

"We're tax-exempt and we're doing things that the government would otherwise have to do," said Greg Gombar, chief financial officer for Carolinas HealthCare System, which owns, manages or leases 25 hospitals across the Carolinas, including Columbus Regional Healthcare System in Whiteville.

The system received \$32 million in tax refunds last year, equal to half of its operating income for 2008.

Senators are "quickly doing a knee jerk to find new revenue," Gombar added.

Bill Pully, the hospital association's executive director, estimated the plan would hurt more than half of the 100 acute care hospitals in the state, because

SEE TAX | 4B

5/4/09

TAX

CONTINUED FROM 1B

the largest hospitals that face the limit will have less money to subsidize care at rural medical centers they now operate. He estimated that could affect 5,000 hospital jobs or severely cut indigent services.

It's not clear how many not-for-

profit groups would reach the \$5 million cap because of confidential specific taxpayer records, but a not-for-profit would have to generate \$83 million in qualifying purchases to reach the limit.

Forty-two of the 9,251 entities that claimed sales tax refunds received more than \$1 million during the 2006-07 fiscal year, according to state Department of Revenue data.

Of the groups that received more than \$100,001 in refunds, 77 percent were hospitals, followed by private colleges and universities at 16 percent.

Clodfelter said they plan's architect ultimately wants a final product that provides stability, but he added the tax code can bring only so much certainty: "Every law on the books is subject to change from year to year."