Fiscal Year 2024 & 2025

The Value of State and Federal Tax Preferences for Nonprofit Health Care

Section 23, Chapter 376, Laws of 2024

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October 2024

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Executive summary

In 2024, the Legislature directed the Office of Financial Management (OFM) in coordination with the Department of Revenue (DOR) to conduct a study of costs to the state related to nonprofit health care providers, facilities, and insurers focused on state and federal tax preferences such as tax-preferred capital financing and other public reimbursement streams outside of health care claims payments. (Section 23, Chapter 376, Laws of 2024.) Many of these deductions are not specific to health care operations and are applicable to a broad range of businesses or nonprofits. OFM contracted with Western Washington University's Center for Economic and Business Research in the College of Business and Economics to conduct this study. In collaboration with DOR, this report was prepared with a focus on nonprofit health care entities (NHCEs).

A 10-year (calendar years 2013 through 2022) analysis of tax preferences (which can include deductions, credits, preferential tax rates, deferrals, and exemptions) was completed using aggregated tax information provided by DOR. These tax preferences may reduce tax liability for the taxpayer (i.e., NCHE). This study examined current tax preferences and modeled potential revenue gains if these were repealed in July of 2024 and collected for **11 months of fiscal year 2025**. Estimated revenues for fiscal year 2026 included a full 12 months of revenue collection.

A list of 749 NHCEs was generated of which up to 198 entities paid taxes in a calendar year between 2013 and 2022 (total number varied each year). Of those 198 taxpayers, up to 91 reported business and occupation (B&O) tax deductions, up to 71 reported sales and use tax deductions, and up to 92 reported B&O tax credits. In 2022, B&O deductions reported were more than $9.6 billion, with over $896 million in sales and use tax deductions.

This report also presents relevant data from DOR's 2024 tax exemption study and a discussion of the role of the Washington State Health Care Facilities Authority related to interest cost savings to health care providers.

Methods

Identifying individual nonprofit health care entities (NHCEs)

Using a list of Unified Business Identifier (UBI) numbers, the study team identified relevant nonprofit businesses. A comprehensive list of businesses was generated using the D&B Hoovers industry database, which contains all nonprofits in Washington operating under two North American Industry Classification system (NAICS) codes: **62** - Health Care & Social Assistance and **524** - Insurance Carriers and Related Activities. This process captured a very broad range of businesses, not all relevant to this study.

To narrow the list to NHCEs, the team referenced descriptions in RCW 48.47.010[1] and RCW Title 18.[2] The definition of health care providers had two requirements based on Washington state policy: (1) a provider must be licensed and (2) entitled to seek reimbursement for health care services. If an occupational definition did not reflect these requirements, businesses within that occupation were excluded.

These exclusions were also based on the relevant Standard Industrial Classification (SIC) and NAICS definitions. The team reviewed all of the businesses and excluded those related to social services. These included those with a definition of "no significant medical portion" within their services as defined by the SIC and included training programs, school settings, and welfare programs. Additional exclusions included adoption services, skilled training centers, and training centers. Results of businesses from NAICS code 524 (Insurance Carriers and Related Activities) were similarly trimmed based on relation to health care, restricting the group to health insurance carriers, while excluding fire and marine insurance carriers.

This process resulted in a final list of 749 NHCEs in Washington.

Timeframe and approach of study

Conversations with OFM and DOR determined the time period evaluated in this study. A 10-year analysis of tax preferences was completed using aggregated tax information provided by DOR between calendar years 2013 through 2022. Some tax preferences are only provided on a calendar year basis, so findings are reported in calendar years. Some tax preferences

[1] RCW 48.47.010
[2] RCW Title 18

accessed by these facilities extend beyond those based on operations as a medical facility, such as the Commute Trip Reduction Credit and Small Business Credit.

While 749 NHCEs were identified in total, the highest reported count at any time for the entire group was 198. Comparatively, 100 NHCEs reported a deduction and 108 reported a credit. In 2022, 198 NHCEs referred to here as "taxpayers"[3] in this study paid B&O taxes, 124 paid sales and use taxes, and 15 paid other aggregated taxes. Of these entities, 91 reported B&O deductions, 71 reported sales and use tax deductions, and 92 reported B&O credits.

Taxpayer savings versus potential revenue gain

Nonprofit health care entity savings (i.e., taxpayer savings) through tax preferences was calculated by DOR. The potential revenue gain was determined based on a hypothetical model of repealing the current tax preference. DOR notes in its tax exemption studies[4] that savings to taxpayers do not indicate the potential revenue that governmental jurisdictions (state or local for the purposes of this study) would gain if the tax preference did not exist. Several reasons for this include:

- Constitutional prohibitions against taxing certain activities,
- Property tax exemptions that result in tax shifts among remaining property owners,
- Possible changes in taxpayer reporting behavior, or
- Actual cash receipts are lower because of compliance factors.

In this report, tax exemptions include a variety of preferences that reduce tax liability for taxpayers. Some of the exemptions discussed in this report include exemptions, deductions, deferrals, and credits.

[3] The term "taxpayers" is consistent with Department of Revenue reporting in its tax exemption studies.
[4] https://dor.wa.gov/sites/default/files/2024-01/Summary_of_Impacts_2024.pdf

Results

Analysis of taxes due and tax preferences utilized

Of the 198 NHCEs reported between calendar years 2013 and 2022,[5] the utilization of credits and deductions varied. Some of the most notable tax preferences utilized related to medical operations include:

- A deduction based on the prescription drugs sold by publicly operated or nonprofit hospitals[6]
- A high technology sales & use tax deferral[7]
- A deduction for government funded mental health services.[8]

Notably, a government-funded mental health services deduction was utilized in 2018 by two NHCEs within the study population for a value of $5,559 and $870,636 in 2018. There were no other years that reported this tax preference in the study period by NHCEs. In 2013, a credit for customized employment training was utilized for a value of $4,200. In 2015 and 2016, a data center sales and use tax exemption was reported with values of $226,279 and $64,632, respectively. These tax incentives are accessed within the study period intermittently, as opposed to the high technology sales and use tax deferral.

High technology sales and use tax deferral program appeared in all years within the study period and expired on January 1, 2015. Businesses with approved certificates were required to begin “meaningful construction”[9] no later than December 31, 2019. This program allowed eligible businesses to defer taxes if the business used the investment project for qualified research and development during the year in which the investment was certified as operationally complete, and the next seven calendar years. These investments could include qualified buildings, qualified machinery and equipment, or labor and services rendered in the

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[5] 2020 has a taxpayer count of 211 taxpayers. However, taxpayer count by taxable amount and by tax due was 198 taxpayers. This report chooses to utilize taxpayer count by taxes due, as 2020 is the only year with this difference between taxpayer count and taxpayer count by taxable amount or by tax due.

[6] DOR Deductions Page, under “Prescription Drugs Sold by Publicly Operated or Nonprofit Hospitals” Deductions | Washington Department of Revenue, per WAC 458-20-168:

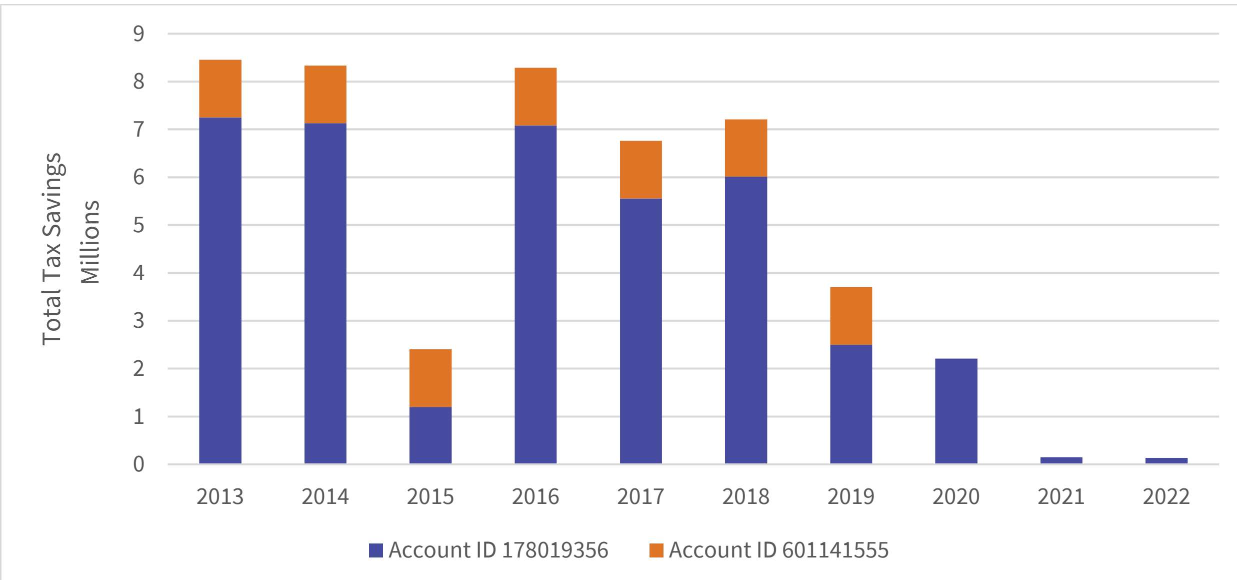
[7] High technology sales and use tax deferral program | Washington Department of Revenue

[8] Government Funded Mental Health and Chemical Dependency Services, per Deductions | Washington Department of Revenue, expired January 1, 2020.

[9] Meaningful construction refers to active construction. Qualifying activities include building site excavation, laying a building foundation, and other tangible signs of construction. Planning, permitting, and land clearing do not qualify as active construction.

planning, installation, and construction of the project. It is likely that the qualifying equipment for businesses on this list fell under biotechnology or electronic device technology. These payments have either ended or tapered down in value with a deferred tax savings value of $133,047 in 2022. The figure below shows the stacked, total tax savings of the high technology sales and use tax deferral between 2013 and 2022. The account IDs referenced in the figure refer to a specific business, in this case attributed to Seattle Children's Hospital (178019356) and Bloodworks Northwest (601141555).

Figure 1: Tax savings from high technology sales & use tax deferral, 2013–2022

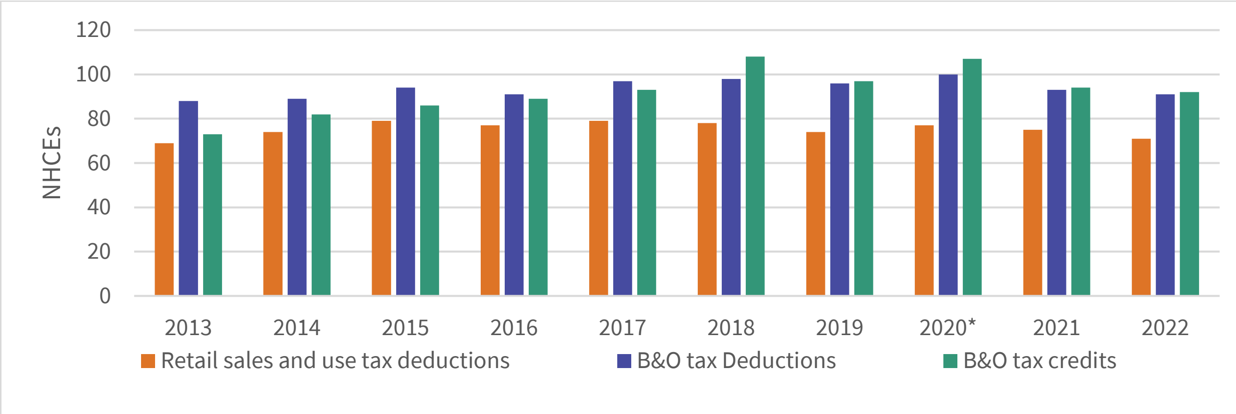


Source: DOR Tax Summary Compilation.

The peak utilization of B&O credits was in 2018 by 108 NHCEs and averaging about 92 NHCEs a year overall. B&O deductions were used by about 94 NHCEs per year with a peak in 2020 with 100 NHCEs utilizing this deduction. Retail and sales use deductions were used by about 75 NHCEs per year with a peak in 2015 and 2017 of 79 NHCEs.

The following dollar amounts represent the NHCEs reporting a deduction or credit only and are not averaged across 198 NHCEs. Total B&O credits by tax due have decreased by $51,484,016 between 2013 and 2022, despite a growth of 19 taxpayers. Taxes due for the retail and sales use tax have increased by $9,108,674 between 2013 and 2022, and B&O taxes due has increased by $42,110,260 in the same time period (Figure 2).

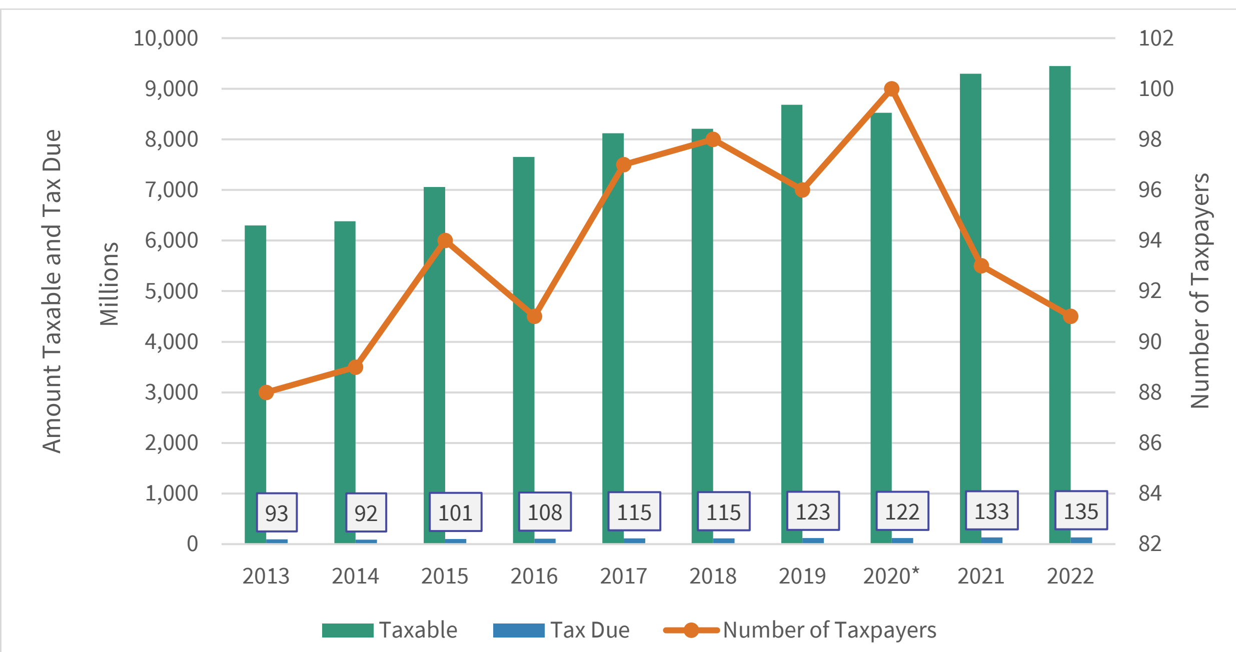
Figure 2: NHCEs who utilize deductions or credits, 2013–2022



Source: DOR Tax Summary Compilation.
*Taxpayer count by taxable income was less than total taxpayer count in 2020.

Overall, the value of taxable income for B&O activity has increased over time, with the associated increase in taxes due. The gross income for a particular B&O activity before deductions has been steadily increasing, from $11.3 billion in CY 2013 to $19.9 billion in CY 2022 (Figure 3). In that same period, taxable income increased from $6.3 billion to $9.4 billion, with taxes due increasing from $93.1 million to $135.2 million.

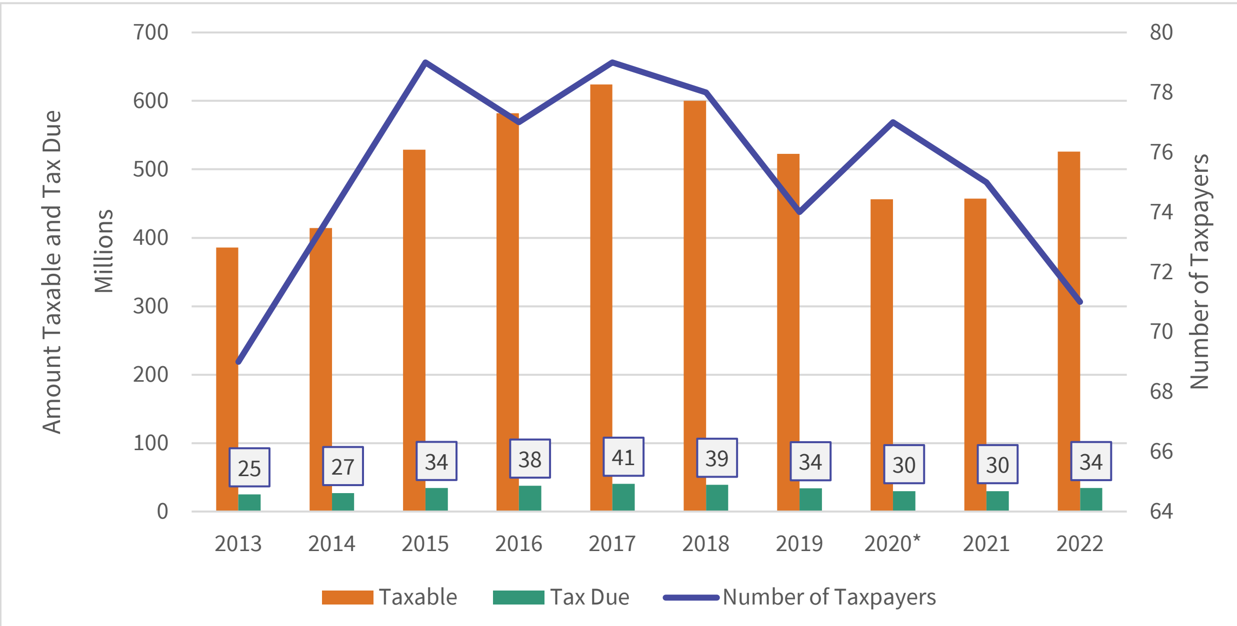
Figure 3: B&O Tax reported for NHCEs reporting a deduction, 2013–2022



Source: DOR Tax Summary Compilation. *Taxpayer count by Taxable Income was less than total Taxpayer Count in 2020.

Overall, the value of taxable income for retail sales and use tax activity has increased over time, with an associated increase in taxes due. The gross income for a particular retail sales and use tax activity before deductions has been steadily increasing but peaked in 2017 with decreases until 2022. Overall, gross income for sales and use tax activities increased from $760.5 million in CY 2013 to $1.4 billion in CY 2022. In that same period, taxable income increased from $385.7 million to $525.8 million, with taxes due increasing from $25.1 million to $34.2 million.

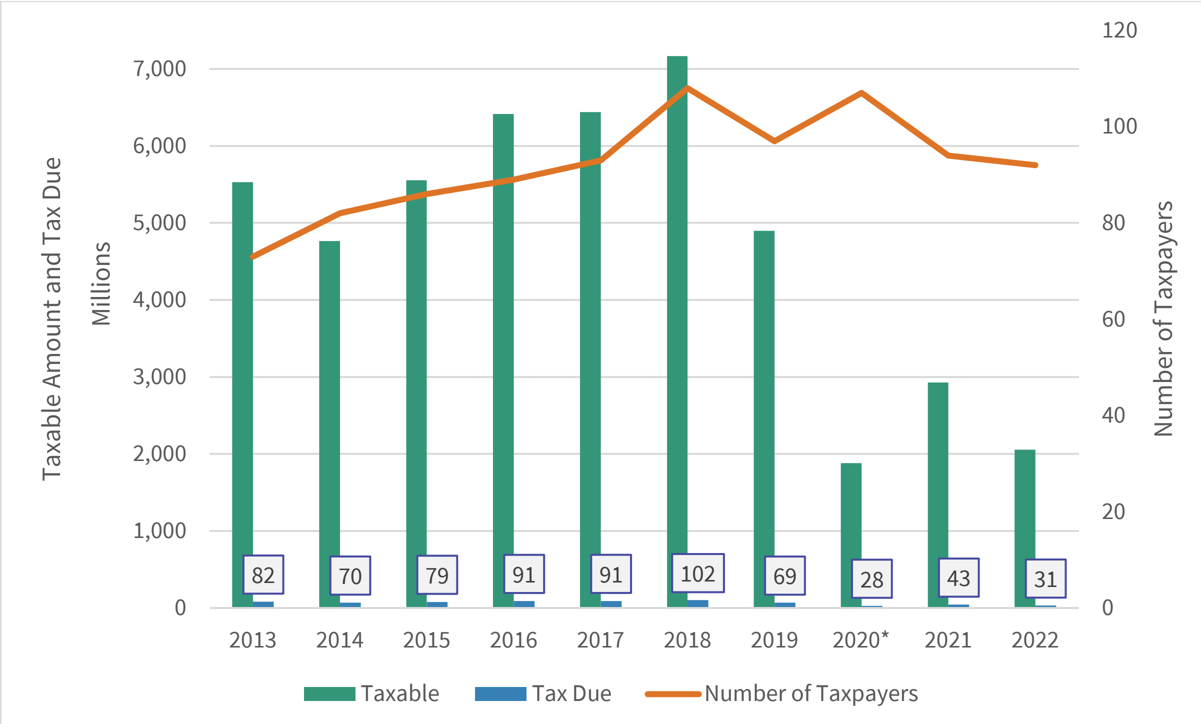
Figure 4: Retail sales and use tax reported for NHCEs reporting a deduction, 2013–2022



Source: DOR Tax Summary Compilation.
**Taxpayer count by Taxable Income was less than total Taxpayer count in 2020*

The value of taxable income for B&O tax activity for NHCEs who reported a credit has decreased over time, opposite to the changes for taxable income for NHCEs who reported a deduction. The gross income for a particular B&O tax activity has also steadily decreased, from $8.8 billion in CY 2013 to $4.6 billion in CY 2022. In that same period, taxable income decreased from $5.5 billion to $4.6 billion, with taxes due decreasing from $82.1 million to $30.6 million (Figure 5). This is in contrast with the steady increases in taxable income for NHCEs who reported a B&O deduction in the same period. This may be a feature of lower overall utilization of these B&O credits among the study population.

Figure 5: Business and occupation tax reported for NHCEs reporting a credit, 2013–2022



Source: DOR Tax Summary Compilation.
**Taxpayer count by Taxable Income was less than total Taxpayer count in 2020.*

The difference between gross income and taxable B&O tax income has grown from just under $5 billion in 2013 to almost $10 billion in 2022. Similarly, the difference between gross income and sales and use taxable income has increased from $400 million to almost $900 million.

Deductions related to bad debt fluctuate significantly over time. A list of relevant deductions has been included in the table below. Some notable deductions related to medical care include deductions for prescriptions drugs sold by publicly operated or nonprofit entities, and deductions on the sale of prescription drugs, hearing aids, lenses, and more. Many other deductions, such as cash and trade discounts or bad debts, are not limited to NHCEs but appear within this sample. Some credits claimed among the sampled NHCEs that are not related to health care include the Commute Trip Reduction Credit, Syrup Tax Credit, and Main Street Credit.

Table 1: All deductions utilized within study population, 2013–2022

Tax Type	Deduction Line Code	Description	Legislation Information
B&O	1	Amounts previously reported and determined to be noncollectable. These amounts must also be written off for IRS purposes. The bad debt credit or deduction is limited to the original retail seller	WAC 458-20-196
B&O	2	The amount of the discount may be deducted from the gross proceeds of sales if such amount was previously reported. Discounts are typically used as incentives for early payment.	WAC 458-20-108
B&O/Sales and use tax	4	Goods sold and delivered to customers outside of Washington or transportation of persons or goods across state or international boundaries. Documentation is necessary.	WAC 458-20-193; 458-20-193C
B&O/Sales and use tax	4	Income subject to the service and other activities classification, the royalties classification, and other apportionable income B&O classifications must apportion income between states and/or countries.	Apportionment guide; WAC 458-20-19401
B&O	7	Amounts received as advancement or reimbursement when the customer or client alone is liable to pay for the procurement of goods and services. The taxpayer making the payment cannot have primary or secondary liability, other than as agent, to pay for the goods and services.	WAC 458-20-111; WAC 458-20-108
B&O	11	Bona fide initiation fees and membership dues received by a business for which no goods or services are received and only give the payee the right to be a member. Contributions that are given as outright gifts for which no goods or services are received can also be deducted.	RCW 82.04.4282

B&O	12	Interest received on investments or loans primarily secured by first mortgages or trust deeds on nontransient residential properties. Interest received on obligations of the state of Washington, its political subdivisions, and municipal corporations. Interest received on direct obligations of the federal government. (Interest attributable to loans or other financial obligations on which the federal government is merely a guarantor or insurer does not qualify.)	WAC 458-20-146; WAC 458-20-14601
B&O/Sales and use tax	14	Used to "back out" the amount of retail sales tax included in the gross amount reported on Retailing [02] and Retail Sales [01] only if the gross amount includes retail sales tax.	
B&O	17	Sales of prescription drugs by religious or charitable nonprofit organizations operating kidney dialysis facilities, certain nursing homes, and homes for unwed mothers.	WAC 458-20-168
B&O/Sales and use tax	99	Use of the *Other* deduction line requires appropriate documentation or explanation. A 'resale' deduction is not valid under the retail sales tax. Report amounts sold for resale under the wholesaling classification of the B&O tax. Also, there are no deductions for labor, materials, or any other costs of doing business.	
B&O/Sales and use tax	MISC	N/A, *Deductions with less than three taxpayers are confidential. Those deductions are combined here.	NA
Sales and use tax	21	Sales of the above items for human use are exempt from the sales tax when the buyer presents a prescription.	WAC 458-20-18801
Sales and use tax	22	Sales of food and food ingredients are exempt from the retail sales tax. However, prepared foods, dietary supplements, and soft drinks are taxable.	Special Notices. RCW 82.08.0293; WAC 458-20-244

State tax exemptions

This section covers the impact of exemptions and deductions to NHCEs (referred to in this section as “taxpayers”) at the state level, drawn from the **2024 Department of Revenue Tax Exemption Study**.[i] [10] Twenty-five exemptions related to health care were identified. Of the 25 exemptions:

- Four exemptions and eight deductions applied to the B&O tax
- One is an exemption applied to the fuel tax
- Eight exemptions applied to the property tax
- Three exemptions applied to retail sales & use tax
- One is an exemption applied to the vehicle excise tax

These sections briefly cover each exemption or deduction, taxpayer savings at the state and local levels, and the potential revenue from the repeal of each exemption or deduction. This study reports values for a fiscal year (FY), as opposed to a calendar year (CY) in the previous section. All potential revenue gains from full repeals of these exemptions are assumed to take effect in July 2024, impacting 11 months of FY 2025. Potential revenue for FY 2026 and FY 2027 accounts for a full 12 months of revenue collection and any predicted growth in utilization or collection. RCWs relating to specific classifications of tax preferences by facility are included, but some of the information is not publicly available and has been noted in the text.

The term tax exemption includes a variety of preferences that reduce tax liability for taxpayers. Tax exemptions discussed here primarily include deductions and exemptions.

[10] https://dor.wa.gov/sites/default/files/2024-01/Summary_of_Impacts_2024.pdf

B&O tax

Table 2: Potential revenues from the repeal of B&O tax exemptions

	Taxpayer savings ($ millions)			Potential revenue if repealed ($ millions)					
RCW	FY 2024	FY 2025	FY 2026	FY 2025	FY 2026	FY 2027	Year enacted	No. of current taxpayers	Title
82.04.324	10.12	10.97	10.97	9.63	10.97	11.49	1995	3	Nonprofit blood, bone and tissue banks
82.04.4289	5.066	5.262	5.492	4.207	5.493	5.749	1945	23	Nonprofit kidney dialysis, nursing homes, and hospice
82.04.4297	561.9	589.7	622.1	540.6	622.1	656.6	1979	41,500	Nonprofit organization government grants
82.04.4311	156.8	156.8	156.8	143.7	156.8	156.8	2002	105	Medicare payments to public and nonprofit hospitals
82.04.43395(1)	1.747	1.747	1.747	1.602	1.747	1.747	2018	100	Accountable communities of health
82.04.43395(2)(a)	3.072	5.083	4.551	4.66	4.551	4.596	2019	100	Hospital incentive payments received through Medicaid quality

									improvement program
82.04.43395(2)(b)	--	--	--	--	--	--	2018	None	Hospital delivery system reform incentive payments
82.04.43395(3)	.023	.023	.023	.021	.023	.023	2019	100	Managed care organization incentive payments

The table above contains the potential taxpayer savings and potential revenue if B&O deductions and exemptions available to NHCEs are repealed.

Per RCW 82.04.324,[11] qualifying nonprofit blood or tissue banks receive a B&O tax exemption from income exempt from federal income tax to support their activities. In FY 2024, taxpayers saved over $10.1 million with projected savings of $10.5 and almost $11 million in FY 2025 and FY 2026. For FY 2025, potential revenue could amount to $9.6 million. Projected potential revenue gains for FY 2026 amount to about $11 and $11.5 million in FY 2027.

Per RCW 82.04.4289,[12] compensation received for patient care or from the sale of prescription drugs furnished as an integral part of services to patients are exempt from B&O taxes for the following entities: nonprofit nursing homes, nonprofit kidney dialysis facilities, nonprofit hospice agencies, and homes for unwed mothers operated by religious or charitable organizations. This deduction is aimed at reducing the cost of caring for patients. Taxpayer savings in FY 2024 were over $5 million with projected savings of about $5.3 and $55 million in FY 2025 and FY 2026. Potential revenue gains from the repeal of the exemption include $4.2 million on FY 2025. Projected potential revenue gains for FY 2026 amount to $5.5 and $5.7 million in FY 2027.

Per RCW 82.04.4297,[13] nonprofit organizations or local government entities may take a B&O tax deduction for amounts received by health or social welfare organizations as compensation from federal, state, or local governments for the support of health or social welfare programs. This includes, among others, programs for health care, family and drug counseling, day care, and services for the sick, elderly, and handicapped. Medicare and Medicaid receipts[14] of nonprofit and public hospitals are also deductible. These deductions aim to "*provide government with greater purchasing power when government provides financial support for the provision of health or social welfare services to benefited classes of persons.*" Taxpayer savings in FY 2024 were over $561 million with projected savings of about $589 and $522 million in FY 2025 and FY 2026. Potential revenue gains from the repeal of the exemption include $540.6 million in FY 2025. Projected potential revenue gains for FY 2026 amount to $656.6 and $656.6 million in FY 2027.

Per RCW 82.04.4311,[15] public and nonprofit hospitals and community health centers receive a B&O tax deduction for health care services received from the federal Medicare program, state

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[11] RCW 82.04.324
[12] RCW 82.04.4289
[13] RCW 82.04.4297
[14] Receipts refers to payments received for Medicaid or Medicare services to the hospital, from the local, state, or federal government.
[15] RCW 82.04.4311

health programs under Chapter 74.09 RCW, or the state's basic health program under Chapter 70.47 RCW. The deduction applies whether the revenues are received directly from these programs or through managed health care organizations. The deduction is limited to payments from these governmental programs and does not extend to patient copayments or deductibles. The deduction aims to recognize that the "*provision of health services to people who receive federal or state subsidized health benefits by reason of age, disability, or lack of income is a recognized, necessary, and vital governmental function.*" Taxpayer savings in FY 2024 were $156 million with projected savings of about $156 million in FY 2025 and FY 2026. Potential revenue gains from the repeal of the exemption include $143.7 million in FY 2025. Projected potential revenue gains amount to $156.8 million in FY 2026 and FY 2027.

Per RCW 82.04.43395(1),[16] Accountable Communities of Health (ACHs) may take a B&O tax deduction for Medicaid delivery system reform incentive payments and transformation project funding distributed by the Washington Health Care Authority (HCA) through Medicaid demonstration project number 11-W-00304/0. The Centers for Medicare and Medicaid Services (CMS) approved the project in accordance with Sec. 1115(a) of the Social Security Act. The Patient Protection and Affordable Care Act allows CMS to approve demonstration projects, giving states flexibility to design and improve their Medicaid programs. These projects intend to demonstrate and evaluate state specific experimental policy approaches to determine whether there are alternative means to better serve Medicaid populations. Projects must be budget neutral to the federal government. Washington has nine ACHs: Better Health Together, Choice, Elevate Health, Greater Health Now, HealthierHere, North Sound ACH, Olympic Community of Health, SWACH, Thriving Together NCW. This deduction aims to promote a more consistent tax structure and adhere to CMS tax uniformity regulations. By allowing ACHs and qualifying hospitals to take a deduction like that taken by other nonprofit and public-private health care organizations, this deduction helps create consistency. Taxpayer savings in FY 2024 were $1.7 million with no expected growth through FY 2027. If this deduction were repealed, potential revenues to the state would be $1.6 million in FY 2025 and $1.7 million in FY 2026.

Per RCW 82.04.43395(2)(a),[17] certain hospitals may take a B&O tax deduction from income for incentive payments received through the Medicaid quality improvement program established through federal law [42 CFR 438.6(b)(2)]. To claim this deduction, a hospital must be owned by a municipal corporation or political subdivision or must be affiliated with a state institution. This deduction aims to lower costs for hospitals and managed care organizations. Taxpayer savings from this deduction amounted to over $3 million in FY 2024, with expected

[16] RCW 82.04.43395
[17] 42 CFR § 438.6

savings of $5 million and $4.5 million in FY 2025 and FY 2026. If this deduction were to be repealed, potential revenue gains would be $4.6 million in FY 2025 and $4.5 million in FY 2026.

Per RCW 82.04.43395(2)(b),[18] certain hospitals may take a B&O tax deduction for income from Medicaid delivery system reform incentive payments and the transformation project funding distributed by the HCA through Medicaid demonstration project number 11-W-00304/0. To claim this deduction, a hospital must be owned by a municipal corporation or political subdivision or must be affiliated with a state institution. This deduction aims to lower costs for hospitals and managed care organizations. It is not currently used by taxpayers, so there are no taxpayer savings or potential revenue gains from a repeal.

Per RCW 82.04.43395(3),[19] managed care organizations may take a B&O tax deduction for income received as incentive payments for achieving quality performance standards established through 42 C.F.R. 438.6(b)(2), as it existed on July 28, 2019. "Managed care organization" refers to an organization authorized by the Office of the Insurance Commissioner to offer prepaid health care services to eligible clients through the HCA's Medicaid managed care programs. In FY 2024, taxpayer savings amounted to $23,000, with no projected change through FY 2027. If this deduction were repealed, potential revenue gains in FY 2025 amount to $21,000 and $23,000 in FY 2026 and FY 2027.

The following are a list of additional deductions and exemptions that apply to nonprofit health care entities. This study could not quantify these deductions because at the time fewer than three taxpayers received each of these exemptions, which results in the data being confidential.

Per RCW 82.04.326,[20] qualifying nonprofit organ procurement organizations receive a B&O tax exemption on income that is exempt from federal income tax to support their activities. This exemption was enacted in 2002.

Per RCW 82.04.4265,[21] comprehensive cancer center income is exempt from B&O tax to the extent the amounts are exempt from the federal income tax, to help encourage these centers to conduct cancer research. This exemption was enacted in 2005.

Per RCW 82.04.640,[22] funds collected by the Washington Vaccine Association are exempt from the B&O tax. These funds are collected from health care insurers and third-party

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[18] Ibid
[19] Ibid
[20] RCW 82.04.326
[21] RCW 82.04.4265
[22] RCW 82.04.640

administrators for the cost of vaccines provided to children. This exemption was enacted in 2010 to improve the health of children.

Per RCW 82.04.4290,[23] amounts received as compensation or for distribution for providing mental health services or substance use disorders services under a government-funded program may be deducted by the following organizations: health or social welfare organizations and behavioral health administrative services. This deduction was enacted in 2021 and will expire in 2032.

Fuel tax

Per RCW 82.38.080(1)(d)[24] and RCW 82.38.180(3)(a),[25] private nonprofit organizations that provide transportation services for people with special transportation needs are exempt from motor vehicle fuel and special fuel taxes. This exemption aims to support transportation programs for the elderly and disabled. Taxpayer savings for this exemption amounted to $270,000 in FY 2024, with no expected change through FY 2027. Potential revenue gains from repealing this exemption amount to $250,000 in FY 2025 and $270,000 in FY 2026 and FY 2027. This exemption was enacted in 1983, and it is unknown how many taxpayers utilize this exemption.

Property tax

This section explores the RCWs that identify a specific type of nonprofit health care entity that is eligible for a property tax exemption. For each of the individual entities identified, there is a common theme that repealing this type of tax would not increase state revenues. The repeal shifts the state property tax to the currently exempt taxpayers and reduces the tax burden of other taxpayers. The repeal may decrease the local tax rate. Local taxing districts at their statutory maximum may experience a revenue increase. A table on the following page contains potential revenues to the state and local tax districts if these exemptions are repealed.

[23] RCW 82.04.4290
[24] RCW 82.38.080
[25] RCW 82.38.180

Table 3: Taxpayer savings and potential revenue from the repeal of property tax exemptions for NHCEs

RCW	Tax payer savings ($ millions)			Potential revenue if repealed ($ millions)					
	FY 2024	FY 2025	FY 2026	FY 2025	FY 2026	FY 2027	Year enacted	No. of current taxpayers, parcels	Title
84.36.035 (State)	0.180	0.184	0.189	0.000	0.000	0.000	1941	4 taxpayers, 20 parcels	Nonprofit blood and tissue banks
84.36.035 (Local)	0.532	0.562	0.593	0.016	0.032	0.034			
84.36.040(1)(d) (State)	3.175	3.252	3.330	0.000	0.000	0.000	1891	18 taxpayers, 384 parcels	Nonprofit homes for the sick or infirm
84.36.040(1)(d) (Local)	9.393	9.919	10.475	0.291	0.57	0.598			
84.36.040(1)(e) (State)	37.691	38.600	39.530	0.000	0.000	0.000	1886	25 taxpayers, 793 parcels	Nonprofit hospitals
84.36.040(1)(e) (Local)	11.497	117.736	124.337	3.451	6.761	7.097			
84.36.040(1)(f) (State)	0.182	0.186	0.190	0.000	0.000	0.000	1987	2 taxpayers, 32 parcels	Nonprofit outpatient dialysis facilities
84.36.040(1)(f) (Local)	0.537	0.567	0.598	0.017	0.033	0.034			
84.36.041 (State)	7.658	7.842	8.031	0.000	0.000	0.000	1989	85 taxpayers, 449 parcels	Nonprofit homes for the aging
84.36.041 (Local)	22.653	23.921	25.262	0.701	1.374	1.442			
84.36.042 (State)	0.175	0.179	0.183	0.000	0.000	0.000	1998	14 taxpayers, 157 parcels	Nonprofit developmentally disabled housing
84.36.042 (Local)	0.517	0.546	0.577	0.016	0.032	0.033			
84.36.045 (State)	8.719	8.929	9.145	0.000	0.000	0.000	1975	14 taxpayers, 71 parcels	Nonprofit medical research facilities
84.36.045 (Local)	25.793	27.236	28.763	0.798	1.564	1.641			
84.36.046 (State)	0.669	0.685	0.702	0.000	0.000	0.000	1997	2 taxpayers, 21 parcels	Nonprofit cancer treatment clinics
84.36.046 (Local)	1.980	2.091	2.208	0.061	0.120	0.126			

Per RCW 84.36.035,[26] real and personal property owned or leased by nonprofit organizations and used for blood banks, tissue banks, or blood and tissue banks are exempt from property taxes. This exemption aims to support the social benefits provided by these organizations. In FY 2025, this exemption amounted to $180,000 in taxpayer savings at the state level and $532,000 in taxpayer savings at the local level. At the state level, taxpayer savings are expected to increase to $184,000 in FY 2025, and $189,000 in FY 2026. At the local level, taxpayer savings are expected to increase to $562,000 in FY 2025 and $593,000 in FY 2026. Potential revenue from repealing this exemption at the local level would generate $16,000 in FY 2025 and $32,000 in FY 2026. At the state level, an estimated $195,000 in state property taxes would be shifted to exempt property owners, and an estimated $560,000 in local property taxes in fiscal year 2026. The total estimated exempt value is $82.8 million, across 20 parcels owned by blood and tissue banks.

Per RCW 84.36.040(1)(d),[27] nonprofit nursing homes are exempt from property taxes on real and personal property. This exemption aims to support the social benefits these organizations provide, and the total estimated exempt value is $1.46 billion across 384 parcels. The taxpayer savings at the state level amount to over $3.17 million in FY 2024, with expected increases to $3.25 million in FY 2025 and $3.3 million in FY 2026. At the local taxes level, the exemption results in over $9 million not collected in property taxes in FY 2024, with expected increases to $9.9 million in FY 2025 and over $10 million in FY 2026. If this exemption were to be repealed, local tax revenue gains in FY 2025 would amount to $291,000 and $570,000 in FY 2026. Repealing this exemption shifts an estimated $3.4 million in state property taxes to the current exempt property owners and shifts an estimated $9.9 million in local property taxes in fiscal year 2026.

Per RCW 84.36.040(1)(e),[28] nonprofit hospitals are exempt from property taxes on real and personal property. This exemption aims to support the social benefits these organizations provide, and the total estimated exempt value is $17.3 billion across 793 parcels. The taxpayer savings rolled up to the state level amounting to over $37 million in FY 2024, with expected increases to over $38 million in FY 2025 and $39 million in FY 2026. At the local taxes level, taxpayer savings amounted to over $111 million in FY 2024, with expected increases to over $117 million in FY 2025 and $124 million in FY 2026. Potential local tax revenue gains in FY 2025 amounted to over $3 million and $6 million in FY 2026. Repealing this exemption shifts an estimated $41 million in state property taxes to exempt property owners and shifts an estimated $118 million in local property taxes in fiscal year 2026.

[26] RCW 84.36.035
[27] RCW 84.36.040
[28] Ibid

Per RCW 84.36.040(1)(f),[29] nonprofit outpatient dialysis treatment facilities are exempt from property taxes on real and personal property. This exemption aims to support the social benefits these organizations provide, and the total estimated exempt value is $83.6 billion across 32 parcels. Rolled up to the state level, the taxpayer savings amounts to $182,000 in FY 2024, with expected increases to $168,000 in FY 2025 and $190,000 in FY 2026. At the local taxes level, taxpayer savings amounted to $537,000 in FY 2024, with expected increases to $567,000 in FY 2025 and $598,000 in FY 2026. If this exemption were to be repealed, there would be no changes to the state tax revenue. Potential local tax revenue gains in FY 2025 amounted to $17,000 and $33,000 in FY 2026. Repealing this exemption shifts an estimated $200,000 in state property taxes to exempt property owners and shifts an estimated $570,000 in local property taxes in fiscal year 2026.

Per RCW 84.36.041,[30] real and personal property owned or leased by a nonprofit home for the aging is exempt from property tax if they meet one of the following conditions: residents occupy at least 50% of the dwellings, the U.S. Department of Housing and Urban Development program subsidizes the home, or the home is financed in part by tax exempt bonds. Property taxes do not apply if home financing is 75% tax exempt bonds, and the financing requires a certain percentage of dwellings for low-income residents. The exemption lasts as long as the bond term, or as long as the requirement for low-income resident dwellings, whichever is shorter. A partial exemption applies if the home fails to qualify in its entirety. A partial exemption applies for areas jointly used by a home for the aging and a nonprofit organization that is also exempt from property taxes. This exemption aims to help provide equal treatment of senior citizens who own their own homes and qualify for the senior citizen property tax exemption and those residing in homes for the aging. The total estimated exempt value is $3.5 billion, across 449 parcels and 85 taxpayers. The taxpayer savings rolled up to the state is estimated at over $7.6 million in FY 2024, with expected increases to over $7.8 million in FY 2025 and $8 million in FY 2026. At the local taxes level, taxpayer savings amounted to over $22 million in FY 2024, with expected increases to over $23 million in FY 2025 and $25 million in FY 2026. If this exemption were to be repealed, there would be no changes to the state tax revenue. Potential local tax revenue gains in FY 2025 are estimated at $701,000 and over $1.3 million in FY 2026. Repealing this exemption shifts an estimated $8.3 million in state property taxes to exempt property owners and shifts an estimated $23.9 million in local property taxes in fiscal year 2026.

[29] Ibid
[30] RCW 84.36.041

Per RCW 84.36.042,[31] real and personal property owned or leased by a nonprofit organization and used to provide housing and a level of care for people with developmental disabilities is exempt from property tax. This exemption aims to support the social benefits provided by these organizations. The total estimated exempt value is $80 million, across 157 parcels. The taxpayer savings at the state level amount to $175,000 in FY 2024, with expected increases to $179,000 in FY 2025 and $183,000 in FY 2026. At the local taxes level, taxpayer savings amounted to $517,000 in FY 2024, with expected increases to $546,000 in FY 2025 and $577,000 in FY 2026. If this exemption were to be repealed, there would be no changes to the state tax revenue. Potential local tax revenue gains in FY 2025 amount to $16,000 and $32,000 in FY 2026. Repealing this exemption shifts an estimated $190,000 in state property taxes to exempt property owners and shifts an estimated $550,000 in local property taxes in fiscal year 2026.

Per RCW 84.36.045,[32] real and personal property owned or leased by a nonprofit corporation or association that provides facilities for medical research and training free of charge is exempt from property tax. This exemption aims to support nonprofit medical research and training facilities. The total estimated exempt value is $4 billion, across 71 parcels. The taxpayer savings at the state level amount to over $8.7 million in FY 2024, with expected increases to over $8.9 million in FY 2025 and $9 million in FY 2026. At the local taxes level, taxpayer savings amounted to over $25 million in FY 2024, with expected increases to $27 million in FY 2025 and $28 million in FY 2026. If this exemption were to be repealed, there would be no changes to the state tax revenue. Potential local tax revenue gains in FY 2025 amounted to $798,000 and $1,564,000 in FY 2026. Repealing this exemption shifts an estimated $9.5 million in state property taxes to exempt property owners and shifts an estimated $27.2 million in local property taxes in fiscal year 2026.

Per RCW 84.36.046,[33] real and personal property used by nonprofit cancer prevention, detection, or treatment facilities is exempt from property tax. The property tax exemption also applies to real and personal property used by a municipal hospital corporation for cancer prevention, detection, or treatment. This exemption aims to provide equal taxation treatment for nonprofit cancer treatment clinics as for nonprofit hospitals. The total estimated exempt value is $308 million, across 21 parcels. The taxpayer savings at the state level amount to $669,000 in FY 2024, with expected increases to $685,000 in FY 2025 and $702,000 in FY 2026. At the local taxes level, taxpayer savings amounted to over $1.9 million in FY 2024, with expected increases to $2 million in FY 2025 and $2.2 million in FY 2026. If this

[31] RCW 84.36.042
[32] RCW 84.36.045
[33] RCW 84.36.046

exemption were to be repealed, there would be no changes to the state tax revenue. Potential local tax revenue gains in FY 2025 amount to $61,000 and $120,000 in FY 2026. Repealing this exemption shifts an estimated $730,000 in state property taxes to exempt property owners and shifts an estimated $2.1 million in local property taxes in fiscal year 2026.

Retail sales & use tax

Table 4. Potential taxpayer savings and potential revenue if retail sales and use taxes were repealed

	Taxpayer savings ($ millions)			Potential revenue if repealed ($ millions)					
RCW	FY 2024	FY 2025	FY 2026	FY 2025	FY 2026	FY 2027	Year enacted	No. of current taxpayers	Title
82.08.02805 and 82.12.02747 (State)	7.998	8.183	8.372	7.501	8.372	8.565	1995	5	Nonprofit blood and tissue banks
82.08.02805 and 82.12.02747 (Local)	3.597	3.680	3.765	3.373	3.765	3.852			
82.08.02807 and 82.12.02749 (State)	--	--	--	--	--	--	2002	Fewer than 3	Organ procurement
82.08.02807 and 82.12.02749 (Local)	--	--	--	--	--	--			
82.08.02808 and 82.12.808 (State)	--	--	--	--	--	--	2005	Fewer than 3	Comprehensive cancer centers
82.08.808 and 82.12.808 (Local)	--	--	--	--	--	--			

Per RCW 82.08.02805[34] and RCW 82.12.02747,[35] nonprofit blood and tissue banks are exempt from sales and use taxes on purchases of medical supplies, chemicals, and materials. However, the exemption does not extend to construction materials, office equipment and supplies, or vehicles. This exemption aims to support the activities of these entities. Taxpayer savings at the state level for this exemption amounted to $7,998,000 in FY 2024, with expected increases to $8,183,000 in FY 2025 and to $8,372,000 in FY 2026. Taxpayer savings at the local level for this exemption amounted to $3,597,000 in FY 2024, with expected increases to $3,680,000 in FY 2025 and to $3,765,000 in FY 2026. Potential revenue gains at the state level from repealing this exemption amount to $7,501,000 in FY 2025, and $8,372,000 in FY 2026 and $8,565,000 in FY 2027.

Per RCW 82.08.02807[36] and RCW 82.12.02749,[37] the sales of human blood, tissue, organs, bodies, or body parts are exempt from sales and use taxes when they are used for medical research or quality control testing. This exemption aims to support medical research in Washington. Fewer than three taxpayers receive this exemption, so any potential impacts are confidential.

Per RCW 82.08. 808[38] and RCW 82.12.808,[39] the sales of medical supplies, chemicals, or materials to a comprehensive cancer center are exempt from retail sales and use taxes. The exemption does not extend to the sale of construction materials, office equipment, building equipment, administrative supplies, or vehicles. This exemption aims to encourage cancer research by comprehensive cancer centers in Washington. Fewer than three taxpayers receive this exemption, so any potential impacts are confidential.

Vehicle excise tax

Per RCW 82.48.100(8),[40] an aircraft excise tax exemption is provided for nonprofit, emergency medical air transport providers. This exemption aims to ease the tax burden on nonprofit organizations providing emergency air transport services. The exempted aircraft are unknown, so there are no available estimates of taxpayer savings or potential revenue gains from the repeal of this exemption. This exemption was enacted in 2010, and primarily

[34] RCW 82.08.02805
[35] RCW 82.12.02747
[36] RCW 82.08.02807
[37] RCW 82.12.02749
[38] RCW 82.08.808
[39] RCW 82.12.808
[40] RCW 82.48.100

benefits nonprofit medical ambulance services. It is unknown how many taxpayers this exemption affects.

Federal tax exemptions for nonprofit hospitals

As per the proviso language, this study looked at some of the federal tax preferences available for NHCEs. The discussion below describes some of the tax preferences available, not limited to Washington-specific hospitals.

Hospitals may file for nonprofit status, guided by a set of minimum community benefit thresholds set at the federal level.[41] [ii] These hospitals may then file IRS Form 990 Schedule H and receive the following federal level exemptions:

- Nonprofit hospitals are not required to pay **federal income taxes**. According to a study by the Kaiser Family Foundation, this made up $10.3[iii] billion of a total $28.1 billion tax exemption value total in 2020. In addition, they have access to tax exempt interest rates on bonds through entities such as the Washington Health Care Facilities Authority (which is discussed in the next section). Although not as significant, this exemption makes up about $1.6 billion of the tax exemption value in the Kaiser Family Foundation study. It is important to note that many small nonprofit hospitals may not access this benefit due to a minimum project cost that makes the tax benefit outweigh administrative burden.
- Nonprofit hospitals also benefit from the privilege of **donations** by individuals or companies. Since they are designated as nonprofit charitable organizations under Section 501(c)(3) of the Internal Revenue Code, these donations can be deducted from individual tax returns, which suggests the total amount of donations to nonprofit hospitals should be greater than those to for-profit hospitals. This was estimated in 2020 to be about $2.5 billion, thus making the national total value of federal exemption for nonprofit hospitals $14.4 billion in 2020. [iii]
- **Property taxes** are not collected at the federal level for nonprofit hospitals but vary by state. Much like income taxes, all states currently do not impose property taxes on nonprofit hospitals, if they meet their state designated requirements. Nationally, local property tax exemptions in sum were $5.0 billion for 2020.[iii]

[41] IRS definition for community benefits range from providing emergency care for those unable to pay, to their use of excess funds to improve technology and equipment to better care for their community. They are also required to maintain an open medical staff and a board of directors from the community.

- States also differ within other forms of taxation, such as **sales tax**. Most states collect sales tax, and many of those do not exempt nonprofit hospitals.[vi] This figure accounted for $5.7 billion in 2020, being a little under one-half of the total value of all state and local exemptions.[iii] According to a Hilltop Institute analysis,[iv] 36 states provide sales tax exemptions to nonprofit hospitals, and a further six states do not impose sales taxes.

Washington Health Care Facilities Authority

The Washington Health Care Facilities Authority (WHCFA) was created by the Legislature in 1974 and is charged with a goal of minimizing capital costs for nonprofit health care facilities. It provides public benefit by serving as a conduit to federally tax-exempt interest rate bond financing for nonprofit health care entities, including hospitals, community health centers, behavioral health centers, and other nonprofit health care providers.

The value provided by the WHCFA is difficult to quantify at specific points in time, unlike other types of deductions or credits. Rather than money returned, a health care entity borrowing funds in the tax-exempt bond market through the WHCFA to make a capital investment pays a lower interest rate on such debt than it would otherwise pay had it borrowed on its own. This is because the interest received by the owners of WHCFA bonds is exempt from federal income taxes, which is effectively a federal subsidy in the amount of the interest rate differential. As a result, a one- or two-percent difference in interest rates for a high value (often millions of dollars) capital investment at a NHCE can create significant savings when financing the project.

At no point do the benefiting NHCEs ever actually hold the money saved by using tax-exempt bond financing. Rather, this is money saved by them relative to the cost of other financing options. If a capital project costs a nonprofit health care entity $30 million over 30 years, a 6% interest rate saves $600,000 per year, as opposed to an 8% interest rate, known as the "interest cost savings."[v] The WHCFA facilitated $33.1 million in "interest cost savings" in CY 2022 to NHCEs.

Balancing tax preferences with community benefit

Although not contained within the scope of this study, many discussions around tax preferences for NHCEs include a discussion around community benefit. There is more focus in the literature around charity care and comparing charity care amounts to some of the tax preferences allowed to NHCEs.[vi] Transparency requirements vary across states, and the community benefits required for 501(c)(3) status are generally broad. A common example is free or reduced-cost care, or using surplus funds for improving patient care, facilities, and equipment. This is reflective of the IRS standard evolution from a “charity care” standard to the current “community benefit” standard.[vii] Charity care is defined as “medically necessary hospital health care rendered to indigent persons when third-party coverage, if any, has been exhausted, to the extent that the persons are unable to pay for the care or to pay deductibles or coinsurance amounts required by a third-party payer.”[viii] In Washington, hospitals submit financial data regarding charity care to the Washington State Department of Health, including total billed charges, total charity care, and bad debt.[42]

At the national level, a 2020 analysis by the Government Accountability Office (GAO) identified 30 hospitals nationwide that reported no spending on community benefits, indicative of potential noncompliance with standards for tax exempt 501(c)(3) status.[ix] Per the GAO analysis, the

> *“IRS does not have authority to specify activities hospitals must undertake and makes determinations based on facts and circumstances. As a result, tax-exempt hospitals have broad latitude to determine the community benefits they provide, but the lack of clarity creates challenges for IRS in administering tax law.”*

As a result of this GAO recommendation, in 2021 the IRS implemented a more well-documented review of reported community benefit and established an audit code to track that review.

While the IRS does not require a minimum contribution to charity care for 501(c)(3) status, Washington requires hospitals to give charity care to patients below a certain income threshold.[x] Hospitals cannot deny patients access to care based on inability to pay, nor adopt admission policies that significantly reduce charity care, per RCW 70.170. A Joint Legislative Audit & Review Committee (JLARC) 2022 report found that of 94 beneficiaries of a property tax exemption, 86 reported providing charity care worth more than their estimated beneficiary savings. That same report found that charity care provided in 2019 had a value of $339 million, in addition to $1.4 billion in Medicaid shortfalls. Due to the state's budget-based property tax system, eliminating these preferences would shift the tax burden among property owners without increasing overall revenue. The report called for clarification of preference objectives, as there is no explicit public policy objective.[xi]

An August 2020 briefing[xii] found that charity care costs varied widely among hospitals, ranging from 0–7% of total billed charges in 2017, with the variation in charity care also reflected by geographic variation. Bad debt declines from 2013 to 2016, before beginning to

[42] Bad debt, the failure to pay by patients on previously reported expected collections, is not classified as charity care.

increase again in 2017. The study noted that the Medicaid shortfall began increasing in Washington after 2014, contributing to no change in the net financial liability for hospitals in Washington state after the implementation of the Affordable Care Act (ACA). As a note, that study examined trends prior to the COVID pandemic which makes it difficult to determine whether those trends continued into the current decade.

A recent study[xiii] published in the Journal of the American Medical Association (JAMA) found Washington ranked 44 out of all 50 states and Washington, D.C. by total tax benefit per hospital bed. The table below (Table 5) contains the estimates for federal and state tax benefits used in that study for Washington. The study estimated that Washington has 8,249 nonprofit hospital beds, approximately 67% of all available beds in the state. The total tax benefit per bed was $48,239, with federal tax-related benefits greater than state and local tax benefits for nonprofit hospitals. The study estimated the sales tax benefit by multiplying the applicable state and local sales tax rate by hospitals' purchase of non-drug tangible items and equipment. Data for that study was sourced from Medicare Cost Reports for 2021, and the 2021 American Hospital Association Survey. The authors note that study estimates should be viewed as a conservative lower bound for 2021, given limitations on estimation of other tax exemptions.

Table 5: Washington estimated tax benefits for nonprofit hospitals, Plummer et al 2024

Tax Type	Estimated Amount of Tax Benefit
Federal income tax	$183,617,793
State income tax	$0
Sales Tax	$0
Property Tax	$79,187,314
Charitable Contribution	$86,642,213
Tax-exempt bond financing	$44,189,323
Federal Unemployment Tax	$4,287,339
Total Tax Benefit	$397,923,982

Conclusion

Nonprofit health care entities receive a variety of tax preferences to help lower the costs of providing health care. The utilization of these incentives can vary significantly year to year and by institution. Additionally, NHCEs can utilize exemptions that are not specific to health care entities which represent a significant proportion of deductions.

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