

# HOSPITALS and Taxes

Prior to 2012, Connecticut did not tax not-for-profit hospitals. By 2016, the hospital tax had ballooned to \$556 million a year. It is the fourth largest state tax after the income tax, sales tax, and corporate tax.

Hospitals now have a state tax burden that exceeds by nearly thirty times the corporate tax rate. The hospital tax increases the cost of healthcare, reduces access, and hurts our state and local economies.

## The Hospital Tax

The hospital tax was imposed in 2011. Here is how it was supposed to work:

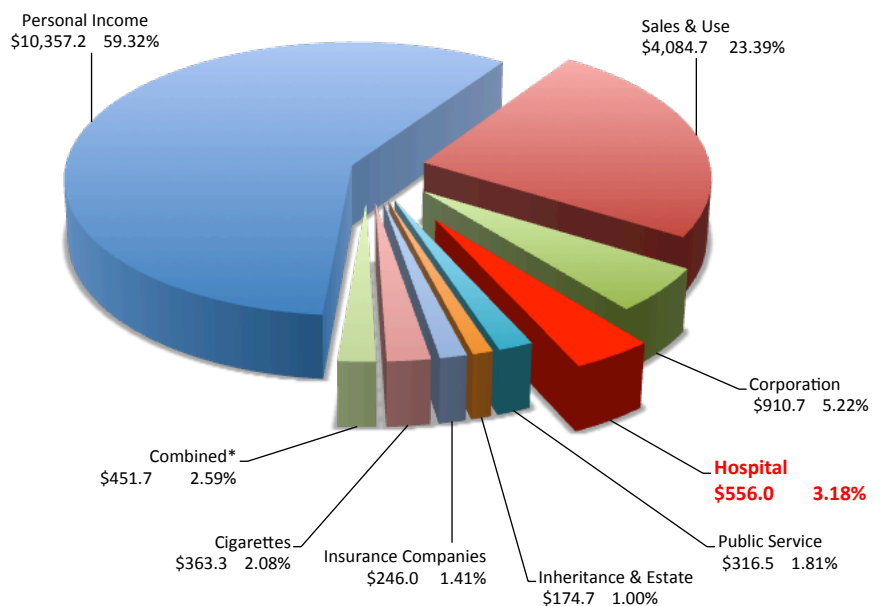
- The state implements a tax on hospitals.
- The state appropriates Medicaid funds to hospitals.
- The state receives a federal match on the Medicaid dollars appropriated to hospitals.

In 2012, Connecticut hospitals paid \$350 million in taxes. The state made a Medicaid payment to hospitals of \$400 million. The state received \$200 million in matching funds from the federal government, and kept \$150 million of that for its coffers.

In short, for every federal dollar received, a quarter went to help hospitals and three quarters were kept by the state.

The situation worsened for hospitals as the years passed. While the state kept collecting \$350 million in taxes from hospitals each year, the amount appropriated to hospitals kept declining. The state abandoned its commitment to maximize the federal reimbursement and instead embraced direct taxation of hospitals. Then, in 2016, the state raised the hospital tax to \$556 million. In 2017, of that, only \$118 million is being appropriated to hospitals. The balance of \$438 million and the \$80 million in federal matching funds are being retained by the state. That's a direct tax on hospitals, ultimately impacting patient care, access, costs, and jobs.

## 2017 Estimated Taxes (in millions of dollars)



\* includes real estate conveyance, oil companies, alcoholic beverages, admissions, other healthcare providers, and miscellaneous taxes.

Connecticut hospitals cannot endure these taxes.

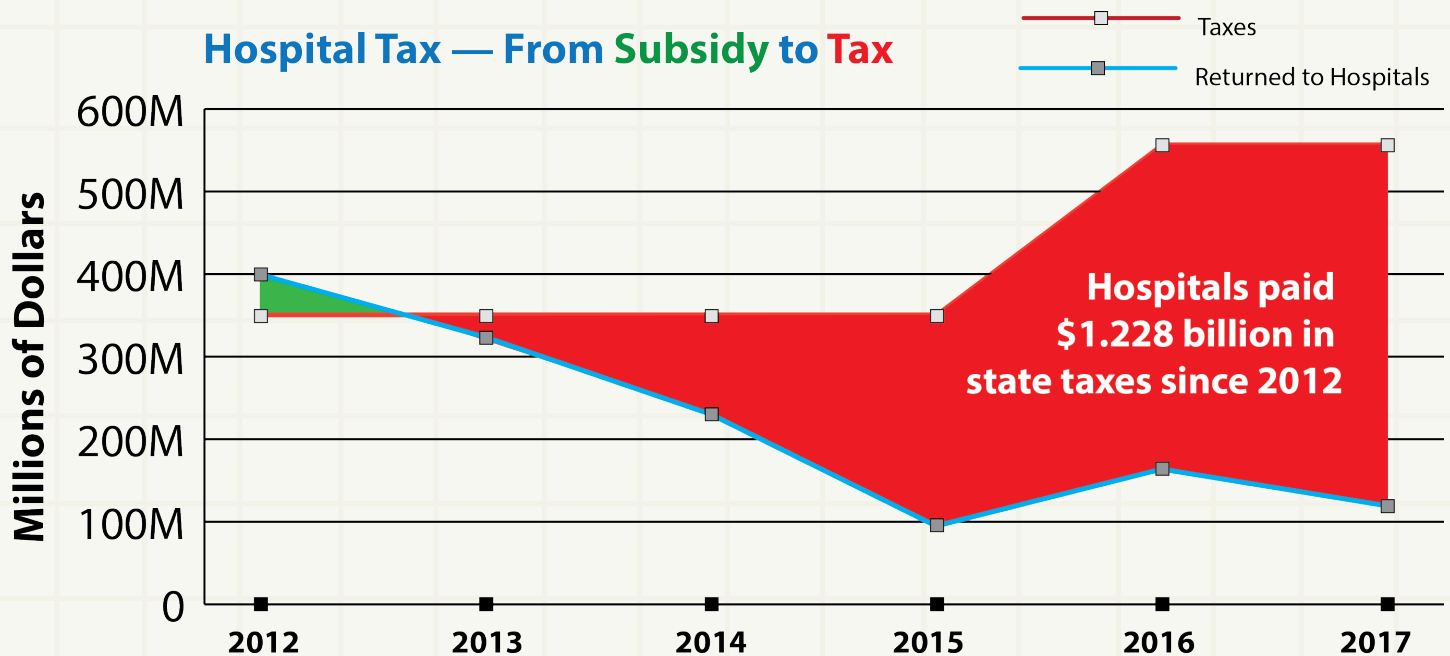
More than 3,000 hospital jobs have been lost in Connecticut since 2013, programs and services have been curtailed, and some hospitals have been forced to delay or cancel capital improvements.

## The Hospital Tax Compared to Other Taxes

The effective tax rate for hospitals is 30 times the corporate tax rate. But unlike the corporate tax, which is a tax

on profits, the hospital tax is based on gross receipts. This means hospitals must pay it regardless of their financial performance or whether or not their revenue exceeds their expenses. The hospital tax imposes a severe financial

## Hospital Tax — From Subsidy to Tax



burden on hospitals. Its adverse impact on the economic health of our state is undeniable.

### Hospitals Drive Our Economy

Connecticut hospitals contribute more than \$21 billion to state and local economies each year. In 2015, The Connecticut Center for Economic Analysis at the University of Connecticut released a report showing that by appropriating back to hospitals the taxes that they must pay to the state, the state can generate 6,600 jobs, and bring in close to \$35 million more per year to the General Fund, than the current practice of taxing hospitals.

### Hospitals Pay Local Property Taxes

Connecticut, like every other state, exempted hospitals from local taxes to recognize the important role they play in their communities, caring for the sick and working to improve community health. In 2014, Connecticut hospitals invested \$1.5 billion in community benefit initiatives.

Connecticut hospitals are worthy of continued exemption from the property tax. But on October 1, 2015, the state imposed a local tax on real property acquired by a health system if the acquired property was subject to local property tax when acquired. The tax also includes any personal property related to healthcare services to be

delivered at the acquired property. This new tax applies to health systems that had for FY 2013 at least \$1.5 billion in net patient revenue from facilities located in Connecticut. It excludes real and personal property within a main hospital campus.

### How Legislators Can Help

Connecticut is heading in the wrong direction when it comes to taxing hospitals. Please help us get back on track by eliminating taxes on hospitals:

- **REPEAL THE HOSPITAL TAX.** The tax should be eliminated either in full or by phasing it out over a period of years.
- **REPEAL THE PROPERTY TAX ON HOSPITALS.** Not-for-profit hospitals should not be subject to local property tax. The 2015 tax should be repealed.

Other measures to relieve the tax burden on hospitals include:

- **EXPAND TAX CREDITS TO HOSPITALS.** Hospitals should qualify for the same tax credits afforded other businesses to promote expansion and growth.
- **OFFSET UNPAID REIMBURSEMENTS AGAINST HOSPITAL TAXES.** A hospital should be able to offset any money owed by the state against its next quarterly tax payment. This ensures that a hospital will not be further harmed if the Administration fails to expend appropriated funds.

For additional information, please contact CHA Government Relations at (203) 294-7310.