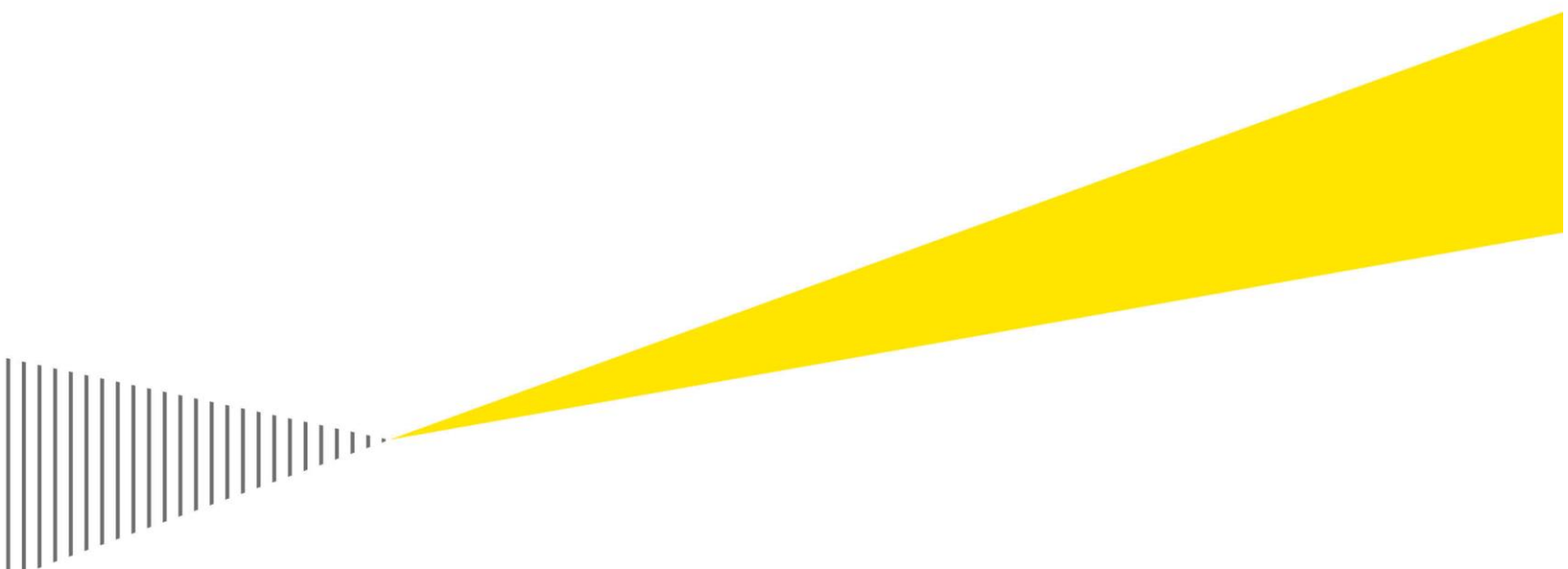


The Value of Tax Exemption and Community Benefits Among Tax- Exempt Hospitals in Connecticut (2021 to 2022)

Prepared for the Connecticut Hospital Association

May 2025



Contents

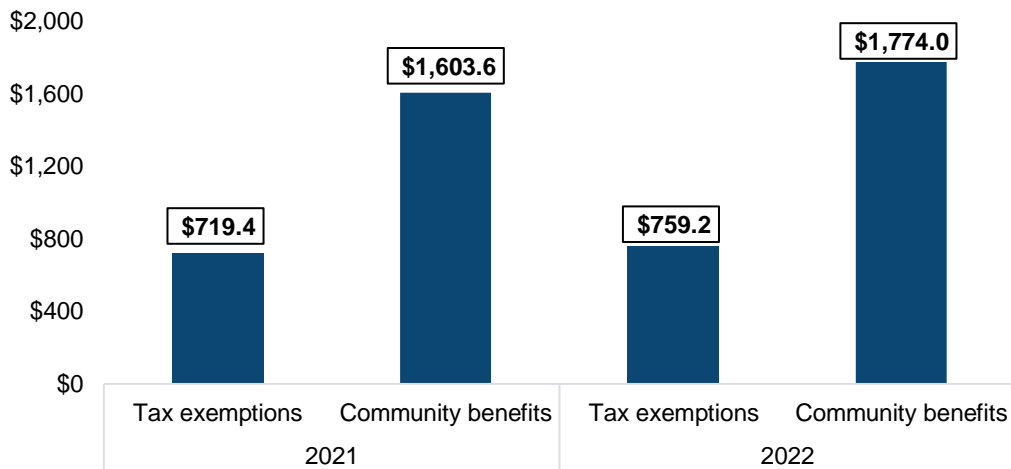
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Executive summary

This report provides an estimate of the federal, state, and local revenue foregone due to the tax-exempt status of Connecticut not-for-profit, tax-exempt hospitals (“tax-exempt hospitals”) as well as the benefit of their tax exemption compared to the community benefits provided in 2021 and 2022.¹ Connecticut has 27 acute care hospitals and systems, of which 23 are tax-exempt entities, three are for-profit entities, and one is a governmental entity.²

As part of their charitable missions, these 23 tax-exempt hospitals in Connecticut provided community benefits totaling over \$1.6 billion (11.6% of total expenses) in 2021 and nearly \$1.8 billion in 2022 (11.8% of total).³ Through their tax-exempt status, the 23 hospitals received tax exemptions totaling approximately \$719 million and \$759 million in 2021 and 2022, respectively. These tax exemptions represented 5.2% of the hospitals’ total expenses in 2021 (\$13.9 billion) and 5.0% of the hospitals’ total expenses in 2022 (\$15.1 billion).⁴ Overall, the community benefits Connecticut tax-exempt hospitals provided exceeded the value of their tax exemptions by \$884 million in 2021 and by \$1.0 billion in 2022, as shown in figure E1.

Figure E1. Tax exemptions for Connecticut tax-exempt hospitals relative to community benefits provided, 2021 and 2022 (\$ in millions)



Sources: EY tabulations of IRS Forms 990, Schedule H; EY’s report on “Community Benefits Provided by Tax-Exempt Hospitals in Connecticut (2019 to 2022)”; and audited financial statements for tax-exempt hospitals and health systems within Connecticut.

¹ Consistent with the Connecticut Office of Health Strategy, this report uses filing year (the year after fiscal year end for calendar year filers and the fiscal year end for all other filers). The Internal Revenue Service utilizes a tax year which corresponds to when a filer’s fiscal year begins. For this reason, filing year will be one year ahead of the corresponding IRS tax year. External report references in this study have been shifted to match filing year.

² Results are shown for the 23 hospitals within Connecticut that currently have tax-exempt status. Our analysis excludes any additional hospitals that were tax-exempt in prior years. In fiscal year 2019, there were 24 EINS as Milford Hospital was a separate entity. For subsequent years Milford Hospital was included in Bridgeport Hospital’s Schedule H. St. Vincent’s Medical Center had a change in EIN from fiscal year 2019 to fiscal year 2020 due to a change in ownership.

³ See EY’s report on “Community Benefits Provided by Tax-Exempt Hospitals in Connecticut (2019 to 2022)” for additional details on community benefit calculations and results.

⁴ Total expenses are based on total reported expenses on IRS Forms 990. Separately, based on EY calculations from hospital audited financial statements, total expenses were \$15.7 billion in 2021 and \$17.0 billion in 2022.

The largest exemptions were \$253 million from sales tax, \$256 million from real property tax, and \$178 million from tangible property tax in 2021, and \$275 million from sales tax, \$262 million from real property tax, and \$187 million from tangible property tax in 2022.

Notably, the tax-exempt status of hospitals leads to forgone revenue primarily through tax-exempt bond financing and the federal unemployment tax exemption at the federal level, and through exemptions from state sales taxes, local real property taxes, and local tangible property taxes at the state and local levels. This is due to the fact that these hospitals typically experience annual income losses, meaning if their income were taxable, they could apply these losses in future tax filings, preventing the generation of federal and state corporate income taxes. When accounting for losses that these hospitals likely would be able to claim, if they were taxable entities, on federal corporate income taxes and Connecticut corporation business taxes due to expenses in excess of revenue, the total value of tax exemptions received would drop to \$643 million in 2021 and \$454 million in 2022.

I. Benefit of tax exemptions for Connecticut tax-exempt hospitals, 2021 and 2022

Benefit of tax exemptions

This report provides an estimate of the federal, state, and local revenue foregone due to the tax-exempt status of Connecticut tax-exempt hospitals, as well as the benefit of their tax exemptions compared to the community benefits provided in 2021 and 2022.⁵ Connecticut has 27 acute care hospitals and systems, of which 23 are tax-exempt entities, three are for-profit taxable entities, and one is a governmental entity.⁶

The 23 tax-exempt hospitals within Connecticut received tax exemptions over \$700 million each year for 2021 and 2022. In 2021, the tax-exempt hospitals received \$719 million in benefits, comprising \$33 million in forgone federal taxes and \$686 million in forgone state and local taxes. In 2022, the tax-exempt hospitals received \$759 million in benefits, comprising \$36 million in forgone federal taxes and \$724 million in forgone state and local taxes.

For comparison, as presented in EY's report on "Community Benefits Provided by Tax-Exempt Hospitals in Connecticut (2019 to 2022)," Connecticut's 23 tax-exempt hospitals provided community benefits totaling \$1.6 billion in 2021 and nearly \$1.8 billion in 2022.⁷ Community benefits included unreimbursed costs for Medicaid patients totaling almost \$1.0 billion in 2021 and \$1.1 billion in 2022.⁸

Figure 1 below displays total federal, state, and local tax revenue foregone due to the tax benefits available to tax-exempt hospitals relative to the value of hospital-provided financial assistance and other community benefits. Overall, the community benefits Connecticut hospitals provided exceeded the value of their tax exemptions by \$844 million in 2021 and \$1.0 billion in 2022.

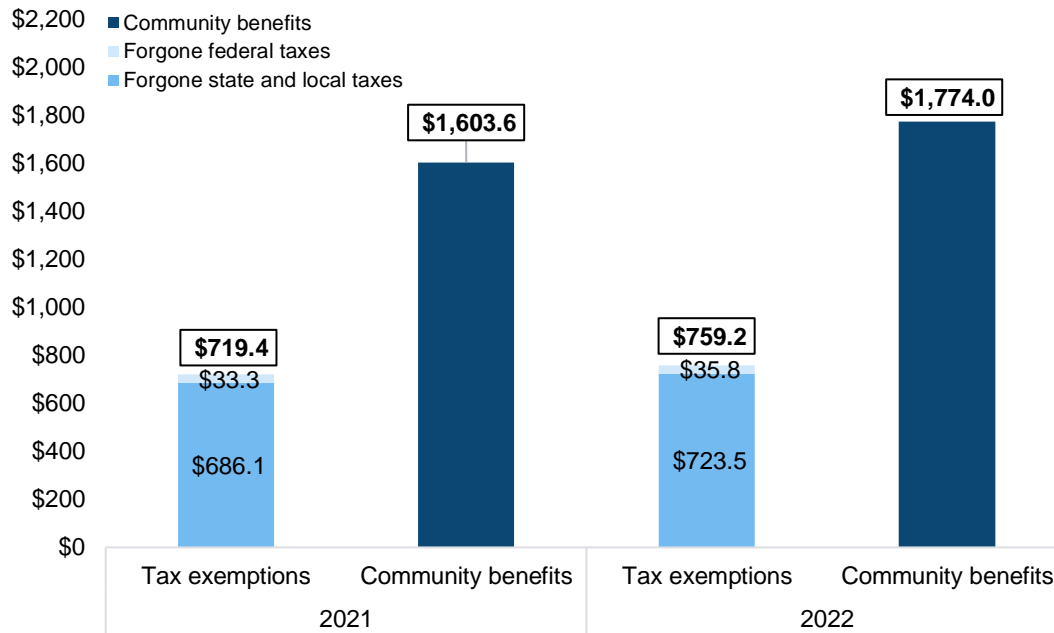
⁵ Please see footnote 1 in the executive summary.

⁶ Please see footnote 2 in the executive summary.

⁷ See EY's report on "Community Benefits Provided by Tax-Exempt Hospitals in Connecticut (2019 to 2022)" for additional details on community benefit calculations and results.

⁸ See EY's report on "Community benefits of tax-exempt hospitals in Connecticut for 2019 to 2022" for additional details on community benefit calculations and results.

Figure 1. Tax exemptions for Connecticut tax-exempt hospitals relative to community benefits provided, 2021 and 2022 (\$ in millions)



Sources: EY tabulations of IRS Forms 990, Schedule H; EY's report on "Community Benefits Provided by Tax-Exempt Hospitals in Connecticut (2019 to 2022)"; and audited financial statements for hospitals and health systems within Connecticut.

Table 1 compares forgone taxes with total benefits to the community for tax-exempt Connecticut hospitals. In 2021, total tax exemptions represented 5.2% of total hospital expenses, of which federal taxes were 0.2% of expenses and state and local taxes were 4.9% of expenses. In 2022, total tax exemptions represented 5.0% of total hospital expenses, of which federal taxes were 0.2% of expenses and state and local taxes were 4.8% of expenses. Meanwhile, community benefits represented 11.6% of tax-exempt hospital expenses in 2021 and 11.8% of tax-exempt hospital expenses in 2022.

Table 1. Tax-exempt hospitals' forgone taxes and total benefits to the community as a percentage of expenses for 2021 and 2022 (\$ in millions)

	2021		2022	
	Net Expense	Percent of total expense	Net Expense	Percent of total expense
Forgone federal taxes	\$33.3	0.2%	\$35.8	0.2%
Forgone state and local taxes	\$686.1	4.9%	\$723.5	4.8%
Total forgone taxes	\$719.4	5.2%	\$759.2	5.0%
Community benefits	\$1,603.6	11.6%	\$1,774.0	11.8%

Note: Figures may not sum due to rounding.

Sources: EY tabulations of IRS Forms 990, Schedule H; EY's report on "Community Benefits Provided by Tax-Exempt Hospitals in Connecticut (2019 to 2022)" and audited financial statements for hospitals and health systems within Connecticut.

II. Value of tax exemptions for Connecticut tax-exempt hospitals, 2021 and 2022

Total value of tax exemptions

Connecticut tax-exempt hospitals benefit from multiple tax exemptions because of their tax-exempt status. The overall benefit to Connecticut hospitals, as well as the distribution of exemptions by tax exemption type, are displayed in Table 2 below for 2021 and 2022. For the 23 tax-exempt hospitals within Connecticut, the overall benefit of their tax exemptions totaled \$719 million in 2021, including \$686 million in state and local tax exemptions and \$33 million in federal tax exemptions. In 2021, the overall benefit was \$759 million, including \$724 million in state and local tax exemptions and \$36 million in federal tax exemptions. The total value of tax exemptions as a percentage of hospital expenses were 5.2% and 5.0% in 2021 and 2022, respectively.

Table 2. Benefit of tax exemptions for Connecticut's tax-exempt hospitals, 2021 and 2022 (\$ in millions)

	2021		2022	
	Net Expense	Percent of total expense	Net Expense	Percent of total expense
Sales tax (state)	\$252.3	1.8%	\$275.4	1.8%
Real property tax (local)	\$255.7	1.8%	\$261.7	1.7%
Tangible property tax (local)	\$178.0	1.3%	\$186.5	1.2%
State and local tax total	\$686.1	4.9%	\$723.5	4.8%
Tax exempt financing	\$30.1	0.2%	\$32.6	0.2%
Federal unemployment tax	\$3.2	0.0%	\$3.2	0.0%
Federal tax total	\$33.3	0.2%	\$35.8	0.2%
Total value of tax exemptions	\$719.4	5.2%	\$759.2	5.0%
State corporation business tax	-\$21.3	0.2%	-\$85.1	0.6%
Federal corporate income tax	-\$55.2	0.4%	-\$220.5	1.5%
Total value of losses on income	-\$76.5	0.6%	-\$305.6	2.0%
Total tax benefits after losses on income	\$642.8	4.6%	\$453.7	3.0%

Source: EY tabulations of audited financial statements for hospitals and health systems within Connecticut

Current year losses will generally reduce net payments in the current or future years due to refunds or net operating losses carried forward. To reflect this impact, the estimates presented in this report assume that current year losses reduce the aggregate current year exemption of Connecticut's tax-exempt hospitals from the federal corporate income tax and the Connecticut corporation business tax.⁹ Together, federal corporate income taxes and Connecticut corporation business taxes resulted in \$77 million in losses in 2021 and \$306 million losses in 2022. When accounting for these losses, the total tax benefits to Connecticut's tax-exempt hospitals, if they were taxable entities, would be approximately \$643 million in 2021 and approximately \$454 million in 2022.¹⁰ These losses are also shown in Table 2. When

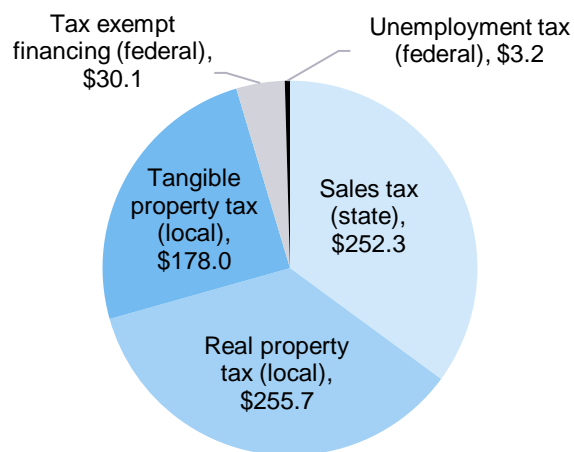
⁹ For Federal corporate income tax purposes, net operating loss deductions can be carried forward indefinitely, but the deductions are limited to 80% of taxable income each tax year.

¹⁰ 2021 includes substantial government relief funds related to COVID-19. Given these funds were ruled to be taxable as income of taxable organizations, such funds were included in the taxable income calculation.

considering total tax benefits after losses on income, these percentages decline to 4.6% in 2021 and 3.0% in 2022.

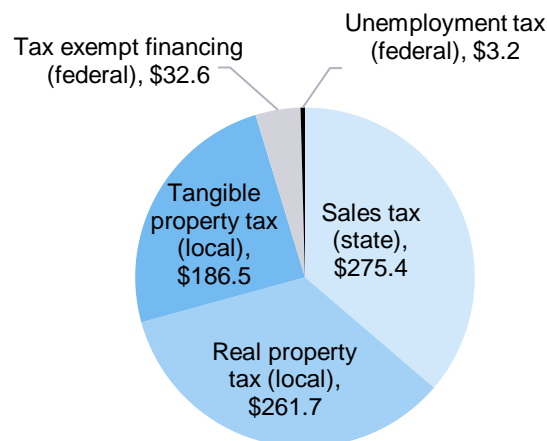
As shown in Figure 2 below, the largest tax exemptions in 2021 were \$253 million from sales tax, \$256 million from real property tax, and \$178 million from tangible property tax. As shown in Figure 3 below, the largest tax exemptions in 2022 were \$275 million from sales tax, \$262 million from real property tax, and \$187 million from tangible property tax. The hospitals also received exemptions of \$30 million and \$33 million in tax exempt financing in 2021 and 2022, respectively, and about \$3 million in federal unemployment tax each year.

Figure 2. Breakdown of federal, state, and local tax revenue forgone from tax-exempt hospitals within Connecticut (\$ in millions), 2021



Source: EY tabulations of audited financial statements for hospitals and health systems within Connecticut

Figure 3. Breakdown of federal, state, and local tax revenue forgone from tax-exempt hospitals within Connecticut (\$ in millions), 2022



Source: EY tabulations of audited financial statements for hospitals and health systems within Connecticut

State and local tax exemptions

Sales tax exemption

The state of Connecticut imposes a sales and use tax at the rate of 6.35%. The sales tax applies to the retail sale, lease, or rental of most goods and taxable services for the privilege of doing business in the state.¹¹ In addition, the Connecticut use tax complements the retail sales tax by taxing purchases for which the sales tax has not been paid (e.g., supplies purchased in another state for use in a Connecticut hospital). The sales tax is levied by the state; there is no applicable local sales tax in Connecticut.

The value of the sales tax exemption was estimated by applying the state sales tax rate of 6.35% to the estimated amount of taxable purchases by Connecticut tax-exempt hospitals. With regard to the sales tax calculation:

- ▶ Purchases of medicines, some disposable medical supplies, and prescription prosthetic or mobility aids are generally exempt from the state sales tax in Connecticut. Items typically included in these categories are blood products, oxygen, artificial limbs and organs, and other items that replace a malfunctioning portion of the body, including extremities.
- ▶ Sales tax collected by tax-exempt hospitals on retail sales by hospitals (i.e., cafeteria sales, breast pump sales, etc.) is treated as paid by the purchasers.

The estimated value of the sales tax exemption on purchases by tax-exempt Connecticut hospitals was \$253 million in 2021 and \$275 million in 2022.

Real property tax exemption

In Connecticut, all types of real property and improvements to real property are taxed. The tax is levied by localities, such as towns, cities, and boroughs.

Real property is taxed based on the value of land and the improvements to that land. Our analysis applies Connecticut's assessment ratio of 70% to the total value of real property (land and buildings), leased improvements, and construction in progress as reported on each tax-exempt hospital's audited financial statements. For 2022, applicable Connecticut property taxes ranging from 1.168% for Greenwich Hospital in Greenwich to 7.429% for Connecticut Children's in Hartford were applied to assessed values. Similarly, for 2022, applicable property tax rates were applied. Greenwich had a slightly lower rate of 1.159% and the tax rate for Hartford remained the same.

The total estimated assessed value of real property owned by Connecticut tax-exempt hospitals was \$5.9 billion for 2021 and \$6.0 billion for 2022. The total estimated value of their real property tax exemptions was \$256 million for 2021 and \$262 million for 2022.

¹¹ Wolters Kluwer CCH. Connecticut, Rate of Tax. ¶60-110, Rate of Tax. Retrieved from: <https://answerconnect.cch.com/state/jct0109013e2c83b1a3f7/explanations>

Tangible personal property tax

In Connecticut, tangible personal property taxes are also levied by localities. Tangible personal property is assessed and taxed at the same rates as real property. Tangible personal property includes items such as furniture and fixtures (e.g., desks, chairs, tables, file cabinets).

Similar to real property, our analysis applies Connecticut's assessment ratio of 70% to the total value of tangible personal property (i.e., equipment, furniture) reported on each tax-exempt hospital's audited financial statements. The same tax rates, ranging from 1.168% (2021) and 1.159% (2022) to 7.429% (2021 and 2022) for each hospital's locality are then applied to the assessed values for those hospitals.

The total estimated value of tangible personal property owned by Connecticut tax-exempt hospitals was \$3.9 billion for 2021 and \$4.0 billion for 2022. The total estimated value of their tangible personal property tax exemptions was \$178 million for 2021 and \$187 million for 2022.

Federal tax exemptions

Tax exempt financing

In calculating the revenue forgone from tax-exempt bond financing by tax-exempt hospitals, EY assumed the total amount of long-term debt reported on the audited financial statements of the tax-exempt hospitals was issued as federally tax-exempt bonds. EY also assumed that the average marginal tax rate applicable to investors in tax-exempt bonds is approximately 30%.¹² The difference in the rates for Aaa and Baa corporate bonds to tax-exempt bonds is applied to the long-term debt reported on the audited financial statements for each tax-exempt hospital or health system.

The estimated revenue forgone from tax-exempt bonds of tax-exempt hospitals was \$30 million in 2021 and \$33 million in 2022. To the extent that tax-exempt hospitals are using short-term financing with lower yields, the revenue forgone would be lower.

It should be noted that the benefit received by a tax-exempt hospital bond issuer is likely smaller than the federal revenue forgone, as the amount of revenue forgone is dependent on all the marginal tax brackets of the investors, whereas the market-clearing interest rate may be for a lower marginal tax bracket than that of many of the other bondholders. Furthermore, investors may not convert the entire tax benefit they receive into a lower cost of financing for the hospital.

¹² Our analysis uses a 30% average marginal rate applicable to investors in tax exempt bonds. This percentage is likely far higher than the actual average (CBO estimates for 2007 ran as low as 21%). This analysis assumes the higher percentage in order to provide a more conservative estimate, as a lower average marginal tax rate would lead to a lower amount of federal revenue forgone for tax-exempt financing. For instance, if the marginal tax rate were assumed to be 21%, then the federal revenue forgone as a result of tax exempt financing would decline to \$3.5 billion.

Federal unemployment tax

The value of the revenue forgone from the federal unemployment tax is calculated assuming an effective federal unemployment tax rate of 0.6 percent¹³ and a maximum wage base of \$7,000 per employee. Based on the estimated 76,000 employees working at the tax-exempt hospitals in Connecticut, the total value of the exemptions from federal unemployment tax is estimated as \$3 million in both 2021 and 2022.¹⁴

Federal and state corporate income tax exemptions

Federal corporate income tax and Connecticut corporation business tax losses

Based on the aggregate estimated taxable income in 2021, Connecticut's tax-exempt hospitals have net operating losses of \$263 million. Federal and Connecticut tax law allows for these losses to be applied against future taxable income, providing an effective tax credit of \$55 million for future federal income taxes and \$21 million for future Connecticut income taxes. In 2022, Connecticut's tax-exempt hospitals have aggregate net operating losses of over \$1 billion, resulting in an effective federal tax credit of \$221 million and a Connecticut tax credit of \$85 million.

Hospitals with tax net operating losses (NOLs) in 2021 or 2022 could potentially carryback those losses against taxable income in prior years and receive an immediate tax refund, or carryforward those losses into future years, thereby reducing future tax liabilities. To reflect that current year losses will generally reduce net payments in the current or future years due to refunds or NOL carryforwards, the estimates presented in this report assume that 2021 losses would have reduced the hospitals' aggregate 2021 federal corporate income taxes and Connecticut corporation business taxes, and similarly that 2022 losses would have reduced the 2022 federal corporate income taxes and Connecticut corporate business taxes.¹⁵

Estimates of taxable incomes

Connecticut tax-exempt hospitals are exempted from paying federal corporate income taxes and Connecticut corporation business taxes. Among the tax-exempt hospitals, 68% had a net

¹³ SurePayroll by Paychex. Payroll Tax Management Services. Retrieved from: <https://www.surepayroll.com/resources/tax-management>

¹⁴ Estimated number of employees from Connecticut Hospital Association.

¹⁵ Wolters Kluwer CCH. Internal Revenue Code §172 Retrieved from: <https://answerconnect.cch.com/federal/arp1209013e2c83dc44a7SPLIT172b/explanations/arp109d8d62be7c551000bdfad8d385ad169401f/what-are-the-net-operating-loss-nol-carryback-and-carryforward-periods>

For Federal corporate income tax purposes, net operating loss deductions may not be carried back beginning after 2020 (previously NOLs could be carried back two years, though up to five years for 2018-2020) and carried forward 20 years.

Wolters Kluwer CCH. General Statutes of Connecticut, Revision of 1958, Title 12 Taxation, Chapter 208 Corporation Business Tax, Part I Imposition and Payment of Tax. Retrieved from:

<https://answerconnect.cch.com/state/ct0109013e2c83b191c8/explanations>

For state corporate income tax purposes, a subtraction is allowed for capital loss carryovers to reduce, but not below zero, any net capital gain (as defined under the IRC) in each of the five income years following the year of the capital loss. The available amount of capital loss carryover must be applied against net capital gains each year, in sequence, during the five-year carryover period.

book operating gain (income) in 2021. After taking into account differences in the measurement of book net income and federal taxable income, plus the additional deductible expenses from state and local taxes and higher interest expense that would apply if the tax exemption were not available, 64% of the hospitals and systems analyzed would have net operating losses for federal and state tax purposes. Meanwhile, in 2022, 44% of tax-exempt hospitals had a net operating gain, while 88% had net operating losses for federal and state tax purposes.

Tax-exempt hospitals within Connecticut reported \$419 million in net book operating gains, which increased slightly to \$435 million in gains after consideration of book/tax differences that would be subject to tax in the absence of exemptions. Meanwhile, in 2022, these hospitals reported \$220 million in net book operating losses, and their significant book/tax differences correspond with a larger loss of \$376 million. Federal corporate income taxes and Connecticut corporation business taxes were applied to the net income after taxes were the tax-exempts to be non-tax-exempt. The federal 21% statutory rate was applied to hospitals based on taxable income. The Connecticut corporate business tax rate is 7.5%.¹⁶

With regard to the income tax calculations:

- ▶ For multi-entity hospital systems, there are inter-company allocations that affect income and expense among the consolidated groups. Full eliminations to isolate the consolidated income and expense have not been done in this analysis.
- ▶ For multi-entity hospital systems including both Connecticut and foreign (non-Connecticut) subsidiaries, only data for tax-exempt hospitals within Connecticut was used. Shared activities were apportioned to entities based on revenue.
- ▶ Our analysis assumes that each primary entity would file a consolidated tax return and would be able to fully deduct net operating losses in one entity against taxable income from other entities in the group.
- ▶ There are book/tax differences that require adjustment to estimate federal and state taxable income. For instance, “net assets released from restrictions used for operations” may be an equity transfer from other tax-exempt hospitals and would not be included in income for tax purposes. Impairments are one of several major book/tax differences that affect the estimated federal and state income tax liability.
- ▶ Other book/tax differences include depreciation/amortization, realized vs. unrealized gains, the tax basis of assets sold, capital loss limitations, and reserves that may not be deductible for income tax purposes. Adjustments were made where data was available.
- ▶ Some book/tax differences, such as impairments (e.g. unrealized declines in fair market value), may be due to timing differences. While the book treatment recognizes declines in fair market value, the tax loss deduction would not be taken until a later year when the asset has been abandoned or sold.
- ▶ State and local taxes would be deductible against federal income tax liability and have been considered in the estimates. In 2022, this includes the \$275 million for Connecticut sales taxes, \$262 million for real property taxes, \$187 million for tangible personal

¹⁶ Connecticut State Department of Revenue Services. Business Taxes, IP 2018(5). Retrieved from: <https://portal.ct.gov/DRS/Publications/Informational-Publications/2014/IP-201421-Business-Taxes>

property taxes, and \$3 million for federal unemployment taxes that would be paid by the hospitals if they were not tax-exempt.

- ▶ Loss of tax-exempt bonds would increase interest costs related to debt by an estimated \$33 million in 2022. To calculate the unconsolidated income tax liability for each hospital in a system, the total amount of long-term debt was distributed among the hospitals based on the proportion of total hospital expense.
- ▶ Federal and state income tax credits may be available, but they are beyond the scope of this review. No state or federal tax credits are assumed.

Recent years of data show there would be no net benefit for Connecticut tax-exempt hospitals from federal and state corporate income tax exemptions. Rather, they would have total federal and state income losses of \$77 million in 2021 and \$306 million in 2022.

Adjustments to reported income incorporated in the estimate of revenue forgone from corporate income tax exemptions

In this analysis, we apply the general federal and state tax rules to the levels of tax-exempt activities reported by tax-exempt hospitals. Not all aspects of the detailed federal and state tax rules can be applied to the available financial data in audited financial statements for those hospitals, so estimates of revenue forgone require additional data and/or assumptions, which are described below.

Bonus depreciation not reflected

In 2021 and 2022, federal tax law allowed bonus depreciation that provided additional first-year tax write-offs of capital investments as part of the fiscal stimulus.¹⁷ Bonus depreciation applied to only certain qualifying property, and some state tax systems did not conform to this provision. Due to this complexity and data constraints, bonus depreciation was not considered in this analysis. Had bonus depreciation been reflected in the estimates, it would have reduced the federal corporate income tax forgone for these two years.

Contributions excluded from income

Our analysis reduces hospitals' taxable income by the amount of contributions they received. If contributions constitute gifts for federal income tax purposes, such gifts are not included in taxable income, but may be subject to gift tax. Restricted gifts used for capital improvements may not be included in taxable income if certain conditions are met, in which case they would reduce the taxable basis of the capital improvements. Further, if contributions to hospitals are not eligible for a tax deduction, it is assumed that most donors would choose other qualified

¹⁷ Murray, J. (2020, December 29). Bonus Depreciation and How It Affects Business Taxes. The Balance. Retrieved from: <https://www.thebalancemoney.com/what-is-bonus-depreciation-398144>
US Bank. (2024, January 29). Maximizing your deductions: Section 179 and Bonus Depreciation. Retrieved from: <https://www.usbank.com/financialiq/improve-your-operations/industry-insights/maximizing-your-deductions-section-179-and-bonus-depreciation.html#:~:text=The%20rules%20allowed%20Bonus%20Depreciation,reduced%20to%2060%25%20for%202024.>

organizations. For these reasons, contributions are excluded from the estimate of corporate taxable income.

State and local taxes

Many hospitals would also lose their state and local tax exemptions if they no longer qualified for federal tax exemption. Thus, estimates of the potential sales tax on business inputs and of potential property taxes on tax-exempt hospitals were incorporated in the federal and state tax calculations as deductions from taxable income.¹⁸ Increased state corporate income taxes also would be deductible against federal taxable income, and this factor also is reflected in our analysis.

Items not considered for analysis

The actual federal revenue forgone is likely to be less than the estimate above for the following reasons:

- ▶ Potential federal tax credits, such as enterprise zone and work opportunity tax credits, and special deductions, such as accelerated depreciation, are not included in this analysis due to lack of necessary information;
- ▶ Routine tax planning could result in hospitals retaining less earnings and thus earning less future investment income;
- ▶ Tax net operating losses that remained at the end of 2019 could be used by some hospitals to offset future taxable income; and
- ▶ Some tax-exempt hospitals already pay unrelated business income tax on a portion of their income.¹⁹

The estimates do not account for the effects of these issues.

¹⁸ Council on State Taxation, Total State and Local Business Taxes: Nationally 1980-2019 and by State 2000-2019, October 2020. The methodology used by Ernst & Young in this study was used for the state-by-state hospital estimates of sales tax on business inputs and property taxes.

¹⁹ For example, for tax year 2013 (filing year 2014), there were 393 Forms 990-T filed that paid a total of \$52 million in unrelated business income tax that was classified as “Healthcare and social assistance”. This likely does not account for all unrelated business income taxes paid by hospitals, as taxes paid may have been classified under a different category, such as “retail trade” for gift shop sales. Tax year 2013 is the most recent year of reporting for this statistic. Source: Internal Revenue Service Statistics of Income (SOI) Tax Stats – Exempt Organizations’ Unrelated Business Income (UBI) Tax Statistics, October 2016

Final summary

Overall, the community benefits Connecticut tax-exempt hospitals provided exceeded the value of their tax exemptions by approximately \$884 million in 2021 and \$1.0 billion in 2022. Together, the 23 tax-exempt hospitals within Connecticut received tax exemptions totaling approximately \$719 million and \$759 million in 2021 and 2022, respectively. When taking into consideration losses these hospitals would be able to claim, if they were taxable entities, to offset federal corporate income taxes and Connecticut business corporation taxes as a result of expenses in excess of revenue, these totals would drop to \$643 million in 2021 and \$454 million in 2022.

The largest tax exemptions were approximately \$252 million from sales tax, \$256 million from real property tax, and \$178 million from tangible property tax in 2021. Additionally, the largest tax exemptions were \$275 million from sales tax, \$262 million from real property tax, and \$187 million from tangible property tax in 2022. The hospitals also received exemptions of \$30 million in 2021 and \$33 million in 2022 for tax exempt financing, as well as about \$3 million in federal unemployment tax each year.

Appendix

Methodology

Aggregate data from audited financial statements was used to analyze reported book income, certain potential book/tax differences, and tax-exempt financing. For entities within systems falling partially outside of Connecticut, we distributed tax-exempt bonds based on Connecticut entities' portion of total revenue.

EY analyzed three tax provisions that provide a federal exemption for tax-exempt hospitals:

- 1) Federal corporate income tax exemption;
- 2) Tax-exempt bond financing; and
- 3) Federal unemployment tax-exemption

In addition, EY analyzed four tax provisions that provide a state or local exemption for tax-exempt hospitals:

- 1) State corporation business tax exemption;
- 2) State sales tax exemption;
- 3) Local real property tax exemption; and
- 4) Local tangible property tax exemption

Of note, in our analysis, only tax-exempt bond financing and the federal unemployment tax-exemption result in forgone federal revenue. In addition, only exemptions for state sales taxes, local real property tax, and local tangible property tax result in forgone state and local revenue. This is because the tax-exempt hospitals in our analysis generally experience annual income losses due to expenses in excess of revenue. As such, if their income were taxable at the federal and state level, the hospitals would be able to claim losses on future year income tax statements. Consequently, the tax-exempt hospitals' operating losses would not generate federal corporate income taxes or Connecticut corporation business taxes.

The estimates for 2021 and 2022 in this report reflect the upper bound of the potential values of the federal, state, and local tax exemptions for two reasons:

- 1) Some hospitals may qualify for tax exemption due to their educational or religious nature, in addition to their charitable nature. In the absence of a tax exemption for charitable hospitals, certain institutions could continue to be exempt for other reasons.
- 2) Certain tax exemptions, deductions, and credits provided by federal, state, and local tax codes and regulations are not reflected in this analysis due to a lack of necessary information, such how hospitals would change their structure or behavior to reduce their taxable income, if they were subject to tax.

Limitations of analysis

The estimates of the value of Connecticut tax-exempt hospitals' tax exemption are made for two individual years, 2021 and 2022, which may not be representative of past or future years. In particular, the COVID-19 pandemic may have had an impact on these years that caused them to vary systematically from other years. In addition, the estimates are sensitive to the following limitations and estimating conventions:

- ▶ This high-level analysis is intended to provide the general magnitude of the tax exemptions from the current tax-exempt status of tax-exempt hospitals within Connecticut. This is a static, non-behavioral calculation of the value of the current tax exemption. The estimates assume no behavioral changes on the part of the hospitals, although some behavioral changes would likely occur if the hospitals were to become taxable. If subject to taxation, organizations might have an incentive to take advantage of existing tax deductions, other exemptions, and tax credits to reduce the cost of their federal, state, and local tax liabilities. For example, a hospital could take advantage of available tax credits to reduce its income tax liability.
- ▶ 501(c)(3) tax-exempt organizations, including tax-exempt hospitals, are eligible to receive tax-deductible charitable contributions. If donations to tax-exempt hospitals were not deductible, many donors would likely donate to other charitable organizations instead. Because the tax-exempt status of hospitals results in a tax benefit to their donors, rather than to the hospitals, the value of this benefit is not included in this calculation. However, if donations to tax-exempt hospitals were no longer deductible to the donors, future endowments may be lower, with reduced taxable investment income and lower income tax liabilities. This potential effect has not been considered in our analysis.
- ▶ Our analysis is based on information supplied to EY by Connecticut tax-exempt hospitals and IRS Forms 990, Schedule H data. EY did not perform an independent audit of the data used in this analysis and therefore makes no representations as to the accuracy of those data. Additionally, not all data was available in detail for all respondents. In these cases, EY based its estimates on the total revenue of a tax-exempt hospital as a percentage of the total revenue of its specific hospital system.