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time in decades be required to pay some sales taxes under a Senate bill introduced Thursday.

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Large nonprofits in North Carolina — including many hospitals — would for the first time in decades be required to pay some sales taxes under a Senate bill introduced Thursday.

State and local governments now pay more than \$400 million in annual sales tax refunds to nonprofits. Most of that money goes to hospitals.

Under the bill co-sponsored by Sen. Bob Rucho, sales tax refunds would be capped at \$100,000 per year starting in 2016. That would affect only about 250 of the state's 9,500 nonprofits, Rucho said.

But it would help lower taxes for everyone else by dramatically reducing the amount of sales tax refunds paid out each year, the Matthews Republican said.

The legislation's prospects are uncertain. A House tax reform bill, also introduced on Thursday, would not require large nonprofits to pay sales taxes. And the state's powerful hospital industry, which has successfully fought off similar proposals in recent years, is expected to lobby vigorously against the Senate bill.

Carolinas HealthCare System, the multibillion-dollar chain that owns Carolinas Medical Center and other hospitals in the Charlotte region, said it opposes any reduction in refunds, contending that such changes could make it harder to give free care to needy patients. The nonprofit system said it provided \$284 million in financial assistance and discounts to uninsured patients last year.

“Access to these types of services could be negatively affected should more cuts

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drugs and procedures, the newspapers found.

Carolinas HealthCare posted total profits of more than \$500 million last year while awarding CEO Michael Tarwater \$4.76 million in total compensation.

“The average person who's paying taxes looks at this and says, ‘Wait a minute. How fair is this?’ ” Rucho said Thursday. “... At the moment, (hospitals) seem to be very flush in cash.”

Some hospital officials say they more than earn their tax breaks by providing valuable charitable services. Novant Health, which owns medical centers in Charlotte, Matthews and Huntersville, said it received a sales tax refund of about \$21 million in 2012, but spent \$123 million in charity care for the poor and uninsured.

“The tax refund we receive in North Carolina helps Novant Health continue its mission to provide critical services to our communities — all without concern for a patient's ability to pay,” the system said in a statement.

Despite their status as nonprofits, many charitable hospitals make more money than they spend in a typical year. But unlike for-profit companies, which pay dividends to stockholders, nonprofit hospitals must plow extra revenue back into their organizations.

‘Special carve-outs’

In addition to hospitals, the proposed cap on refunds would likely affect any nonprofit that makes taxable purchases of more than about \$2.1 million per year. Experts say that could include colleges, large churches, food banks and other nonprofit medical facilities.

The plan would be phased in over three years. Starting in July 2014, refunds would be

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for sales taxes, personal income taxes and corporate income taxes. In most counties, the combined state and local sales tax rate is 6.75 percent.

The bill has been referred to the Senate Finance Committee, a panel chaired by the bill's sponsors — Rucho and Bill Rabon, a Brunswick County Republican.

At a finance committee meeting Thursday, Rucho issued a warning about lobbyists — particularly the hospital association — trying to kill the tax plan. “The people they represent in many cases are concerned more about the fact that they maintain their loopholes and their special carve-outs,” he said.

Rucho targeted the state hospital association for its opposition to the bill, mentioning a TV ad he recently saw.

The N.C. Hospital Association did not respond to a request for comment about the legislation.

The newspapers' investigation found that hospitals form one of the most influential lobbying groups in Raleigh. Former state Rep. Dale Folwell said hospitals killed his 2011 proposal to limit sales tax refunds to some of the state's largest and most profitable hospitals. The bill was never discussed in committee.

Will services be cut?

The latest Senate bill might also affect large churches when they undertake building projects. Ed Holland, church administrator at Friendship Missionary Baptist Church, said the Charlotte church counted on — and received — a sizable sales tax refund when it was constructing the building that houses its main sanctuary between 2004 and 2006.

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David Heinen, a lobbyist for the N.C. Center for Nonprofits, a group with more than 1,600 charitable members, said the Rucho plan could force some large nonprofits to trim services. Heinen said he's also concerned that any cap approved might one day be lowered.

"It would really jeopardize the existence of a lot of nonprofits if it would go down to zero," he said. Observer reporter Tim Funk and News & Observer reporters John Frank and Joseph Neff contributed.

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