

**SUBJECT:** Expanding property tax exemptions for charitable organizations

**COMMITTEE:** Ways and Means — favorable, with amendment

**VOTE:** 8 ayes — Oliveira, McCall, Bonnen, Y. Davis, Heflin, Hilbert, Keffer, T. King  
0 nays  
3 absent — Craddick, Ramsay, Sadler

**WITNESSES:** For — Mary Findley, Baylor Health Care System; John Mitchell, Texas Health Resources  
Against — None

**BACKGROUND:** Under current law, property owned by a charitable organization is entitled to an exemption from property taxes. Noncharitable functions performed by a charitable organization incidental to the charitable functions do not result in the loss of the property tax exemption.

**DIGEST:** HB 2821, as amended, would allow a division of responsibilities between a charitable organization and another organization that furthers the charitable functions of the charitable organization without loss of the property tax exemption. The other organization would have to be exempt from federal income tax under the U.S. Internal Revenue Code, sec. 501(c)(3), meet the requirements of a charitable organization under the Texas Tax Code, sec. 11.18, and be under common control with the charitable organization.  
HB 2821 would take effect September 1, 1999.

**SUPPORTERS SAY:** Many nonprofit hospital associations are organized under holding companies that create separate divisions for certain support and administrative functions. The tax treatment of these separate divisions varies from county to county. Some counties consider these divisions exempt from property taxes as part of the charitable organization, while others consider them separate entities not entitled to the exemption. Requiring these related divisions to pay property taxes drains money from the delivery of nonprofit health-care services,

because the same holding company owns all of the property.

The separate divisions allowed to take the exemption under this bill would be required to support the charitable organization exclusively. For example, if the accounting function of a nonprofit hospital were moved into a separate division, that function would have to support the nonprofit functions exclusively in order to qualify for the exemption.

**OPPONENTS  
SAY:**

Exempting additional property from property taxes would shift more of the overall tax burden to other property owners who must support public schools, cities, and counties.

**NOTES:**

The committee amendment would remove from the original bill language providing a remedy for denial of the property tax exemption, allowing the award of attorney's fees for successful appeals of such denials, and applying that remedy to appeals filed after the effective date of the bill.