

Targeting this \$2.8 trillion tax shelter could solve a big U.S. problem

Only good can come from taxing these “nonprofits.”

Yesterday at 7:30 a.m. EST

By Scott Hodge

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The Congressional Budget Office’s latest economic report offers a bleak forecast of the U.S. government’s fiscal health. The study projects deficits surpassing \$2 trillion for years to come, and the widening gap between federal spending and tax revenue means that the national debt will hit levels not seen even in wartime.

The menu of solutions to close this gap is just as depressing: slash benefits and services or raise taxes. But one option could generate substantial revenue while making the tax system fairer: ending the tax exemption for America’s massive nonprofit business sector.

Many “charities” have become big businesses. While numerous benevolent charities do wonderful work, the industry is dominated by some of the top companies in America operating largely free from the tax obligations that burden their for-profit competitors. The commercial revenue generated by these nonprofits totaled \$2.8 trillion in 2023, nearly three times the amount nonprofits receive from donations and government grants.

The warning signs were there in 1909 when Congress exempted charitable organizations from the corporate income tax. Although lawmakers intended to protect small fraternal societies providing insurance to widows and tending to the poor, they also exempted enterprises such as mutual lending and insurance companies, thus opening the door to exempting other businesslike entities.

During the 1909 Senate floor debate, Sen. Coe Crawford (R-South Dakota) warned about the slippery slope of exempting businesslike entities from the tax. His question then still resonates today: “Is it a corporation for profit and has it a net income to which this proposed law shall apply? If so, why should it be exempted?”

The past century of special-interest lobbying has transformed a modest carve-out into a sprawling network of billion-dollar enterprises that look, act and compete like businesses — while enjoying privileged tax status.

Consider nonprofit hospitals and health care plans: In 2023, they generated \$1.3 trillion in revenue and nearly \$45 billion in tax-free profits. The largest, Kaiser Foundation Health Plan and its affiliated hospitals, recently announced over \$127 billion in revenue in 2025 — more than many of America’s largest for-profit companies — yet paid no corporate income tax on

more than \$9.3 billion in net income. The justification? In exchange for their tax exemption, nonprofit hospitals are supposed to provide charity care for the poor. However, studies consistently find that tax-exempt hospitals don't provide more free or discounted care to low-income patients than their taxpaying competitors.

Or take AARP, an advocacy group for older Americans, which earned \$9.9 billion in tax-free royalties in 2024 by licensing the use of its name to for-profit companies. AARP signed a sponsorship deal last year with the Washington Nationals to place its logo on players' uniforms. Hardly the action of your neighborhood nonprofit.

The PGA Tour qualifies as a nonprofit "business league," which means that it pays no income taxes on the hundreds of millions it makes from tournament sponsorships and TV deals. Other tax-exempt sports and entertainment businesses include the U.S. Tennis Association, the U.S. Polo Association, the WTA Tour, the Breeder's Cup and the National Hot Rod Association. The NFL and MLB gave up their tax-exempt status years ago.

Award shows can also be very profitable tax-free businesses. The Academy of Motion Picture Arts and Sciences earned nearly \$147 million tax-free in 2023 presenting the Academy Awards. The Grammys earned the nonprofit Academy of Recording Arts and Sciences nearly \$93 million from TV revenue, sponsorships and ticket sales in 2024. Similarly, the Academy of Television Arts and Sciences pocketed \$35 million hosting the 2024 Primetime Emmys.

With more than \$2.3 trillion in assets, the tax-exempt credit union industry has long outgrown its Depression-era roots. Originally exempted to serve working-class people of "small means" who lacked access to banking, credit unions are now indistinguishable from commercial banks. They offer mortgages, auto loans, credit cards and investment services — and they're using tax-free cash to buy banks. In the past decade, credit unions have purchased nearly 100 commercial banks, converting taxpaying businesses into tax-exempt ones. Imagine your local YMCA buying Gold's Gym.

The solution to reining in the tax-exempt business sector isn't to eliminate support for genuine charitable work. Food banks, homeless shelters and organizations serving those in need should retain tax-exempt status. But we must distinguish between true charities and commercial enterprises wearing nonprofit clothing.

Reform could take several paths. The simplest: exempt only charitable donations and government grants from taxation, while taxing all commercial revenue — TV deals, insurance payments, ticket sales, royalties and sponsorship income — at standard corporate rates. The infrastructure exists; nonprofits must already categorize these revenue streams on their tax returns.

Alternatively, adopt a “commerciality test” that taxes any activity where an organization competes in a market, charges market-rate prices and accumulates profits — regardless of how those profits are later used. If it walks and quacks like a business, tax it like one.

The fiscal stakes are enormous. Taxing the net business income of nonprofits at the standard 21 percent corporate rate could raise \$51 billion annually — without raising rates on anyone currently paying taxes. That’s real money toward deficit reduction.

More importantly, this reform would restore fairness in the tax code by making some of America’s wealthiest business entities pay their fair share toward critical government services. In a free-enterprise system, it is wrong to ask some businesses to pay full freight while their nonprofit competitors contribute nothing.

In 1909, senators worried that exemptions would create an unfair, unsustainable system. In 2026, the nation is living with the consequences. It’s time to ask Sen. Crawford’s question again — and this time, act on the answer.