

## Tax-Exempt Firms in the Washington Area

Tax-exempt firms are major contributors to the Washington area economy. More than 7,000 private firms and organizations were not subject to federal income tax in the Washington area in 1997, according to the U.S. Census Bureau<sup>1</sup>. They employed 203,318 area residents and spent \$20.5 billion in 1997, or almost as much as the \$21.7 billion in federal procurement spending that year.

Who are these tax-exempt firms? Tax-exempt does not necessarily mean charitable. In fact, the largest category includes the 2,381 business, professional, and labor organizations who promote the interests of their members. These organiza-

tions spent \$6.1 billion in 1997. The second largest category consists of 47 hospitals that spent \$5.7 billion.

Most tax-exempt firms are relatively small. Excluding hospitals that averaged \$120 million each, the average tax-exempt firm spent just over \$2 million in 1997. This means tax-exempt firms form a very broad and stable base consisting of a large number of small firms.

Moreover, most tax-exempt firms provide quality jobs. In the greater Washington area, the average pay per employee in tax-exempt firms in 1997 was \$35,108, compared to \$32,370 for

### 1997 Washington Area Tax-Exempt Firms Expenses per Firm

Categories	Number of Firms	Expenses (in millions)	Expenses per Firm (in thousands)
Business Organizations	2,381	\$6,111	\$2,566
Hospitals	47	5,657	120,369
Physical Research	389	1,978	5,084
Social Advocacy	609	1,452	2,384
Social Assistance	1,303	1,230	944
Grantmaking	459	922	2,008
Other Health	180	655	3,640
Nursing Facilities	419	603	1,438
Social Research	186	525	2,821
Educational Services	319	505	1,583
Civic Organizations	509	440	865
Arts	323	391	1,210
Legal Aid	81	46	565
<b>Total</b>	<b>7,205</b>	<b>\$20,514</b>	<b>\$2,847</b>

Source: U.S. Census Bureau, 1997 Economic Census

employees in taxable firms. Tax-exempt average pay, however, varied from \$55,396, in firms doing physical science research, to \$17,709, for those providing social services.

From a regional perspective, the economic contribution of tax-exempt firms is divided about equally between the District and the suburbs.

**1997 Washington Area Tax-Exempt Firms  
Employment**

Categories	Number of Employees	Average Pay Per Employee
Physical Research	11,089	\$55,396
Business Organizations	40,428	44,309
Social Research	4,487	42,961
Hospitals	64,151	39,179
Grantmaking	6,531	38,217
Social Advocacy	9,919	36,945
Legal Aid	721	34,391
Other Health	7,541	30,453
Educational Services	3,968	29,845
Arts	6,807	20,899
Civic Organizations	6,570	20,847
Nursing Facilities	14,794	19,750
Social Assistance	26,312	17,709
<b>Total</b>	<b>203,318</b>	<b>\$35,108</b>

Source: U.S. Census Bureau, 1997 Economic Census

More than half of the total tax-exempt firms and employees were in the suburbs, but the payrolls and total spending of the firms were greater in the District. The importance to the District of tax-exempt firms, however, is much greater because of the District's smaller economic base. The \$3.7 billion of tax-exempt firm payrolls in the District

was equal to 39 percent of taxable firm payrolls. This compares to the \$3.4 billion tax-exempt suburban payrolls that were only 10 percent of taxable suburban payrolls. Tax-exempt firms also pay a higher average pay of \$39,150 in the District compared to \$31,610 in the suburbs. Only employees of firms doing physical science research and some health firms had average pay in the suburbs higher than in the District.

**1997 District/Suburbs Tax-Exempt Firms**

	District	Suburbs
Number of Firms	3,240	3,965
Total Expenses of Firms (billions)	\$11.1	\$9.4
Average Expenses (millions)	\$3.4	\$2.4
Number of Employees	94,311	109,007
Total Payrolls (billions)	\$3.7	\$3.4
Average Pay per Employee	\$39,150	\$31,610

Source: U.S. Census Bureau, 1997 Economic Census

A major concern for the District's economy is the outlook for its hospitals. The 14 hospitals in the District in 1997 spent an average of \$207 million each and had total payrolls of \$1.3 billion. A comparison with the 1992 Economic Census, however, shows a 7,663 or 20 percent decline in tax-exempt hospital employment, from 38,375 in 1992 to 30,712 in 1997. Hospital jobs paid an average of \$43,527 per employee in 1997 and represent an important source of good jobs for District residents. The loss of one or several hospitals would be a substantial economic blow to the city.

<sup>1</sup>Colleges and universities are not included by Census.