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How Tax Policy Shapes the Contributions of Nonprofits and Social Enterprises to Health Equity: Comparison of China and the United States

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Abstract. Nonprofit organizations and social enterprises have been regarded as an important solution to inequalities in healthcare systems around the world, yet their actual contributions are often contingent upon the governance regimes. Tax policies, such as exemptions, deductions and preferential treatment, support the development and operation of nonprofits while shaping their organizational behaviors in the medical systems. Through cross-national and within-country case comparisons, this paper shows that: 1) in the United States, the market-oriented healthcare system and law-based tax advantages encourage nonprofit and hybrid organizational participation, yet create challenges for accountability and necessitates; 2) in China, the state-led healthcare system and restricted fiscal incentives to recognized nonprofits ensure alignment to national health goals and effectiveness, though at the cost of autonomy and innovation. Countries need to design tax policies that are sensitive to local healthcare demands and find a balance between accountability and flexibility, to make sure that fiscal incentives translate into visible advances in health equity.

Keywords: Healthcare equity, tax policy, nonprofits and social enterprises, comparative analysis

1. Introduction

Enlarging disparities in access to healthcare and health outcomes has become a major concern for policymakers across countries. In the United States, life expectancy differs by more than a decade between the highest- and lowest-income groups, and millions are not covered by insurance. In China, there are huge gaps of access to medical resources between urban and rural areas. Governments are often under pressure to not only improve healthcare equity, but only to manage the rising costs and inadequate public resources at the same time.

Public medical systems are the primary channel of access to medical resources, which, however, often struggle to customize for diverse and localized medical demands. As a result, nonprofits and social enterprises have merged as increasingly important actors in healthcare systems. In spaces where public provision and market mechanisms fall short, they support underserved populations, invest in preventive and community-based care, and address social problems that impede healthcare development, such as housing, nutrition, and access to basic services. Nonetheless, due to their

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philanthropic nature, their performance is not only determined by their organizational mission, but more importantly support through public policy, especially tax policy.

This paper analyses how tax policy significantly shapes how nonprofits and social enterprises contribute to healthcare equity. Tax benefits such as exemption, deductions, and other preferential treatment are used as a mechanism to reduce operational costs for nonprofits, which consequentially influence their funding structures and organizational behaviors. Meanwhile, the level of oversight is a tradeoff between accountability and autonomy, which could either allow nonprofits to take advantage of tax incentives without delivering commensurate public value, or suffer from lack of innovation so as to align with policy priority. For this reason, organizations that share similar visions may play very different roles when it comes to advancing health equity, depending on how tax and the overarching nonprofit governance regimes are designed.

To examine such mechanisms, this paper compares two cases, the United States and China, in terms of their medical systems and tax incentives for nonprofits. Several case studies within each country and across the two countries are then presented to explain how the way institutions are set up affects the performance and effectiveness of nonprofits and social enterprises in achieving their missions. These two countries have very starkly different policy approaches. The United States represents a market-oriented healthcare system where tax incentives are used to encourage nonprofit and hybrid organizational participation despite of the ex post enforced accountability. China, by contrast, builds a state-led system in which health equity is viewed as public welfare, with nonprofit and social enterprise involvement being managed through administrative oversight and limited fiscal incentives. As supplementary actors to advance national health goals, nonprofits seek to improves policy alignment and accountability at the cost of autonomy and innovation.

2. Tax policy, nonprofits, and healthcare equity

Tax policy is an important institutional mechanism that determines the engagement of social enterprises and nonprofit organizations within the healthcare system and their contribution to health equity. In general, healthcare equity refers to the reasonable distribution of healthcare resources according to need, with special attention to access for vulnerable and underserved populations. Given the prevalence of market failures in healthcare, social enterprises and nonprofit organizations have emerged as institutional actors with the capability of addressing information asymmetry and inequality in unequal purchasing power to advance equitable health outcomes.

Performance of these organizations is influenced through three ways: (1) cost advantages, (2) allocation of resources incentives, and (3) governance structures for the purpose of accountability. First, tax policies support social enterprises and nonprofits primarily through offering them a considerable competitive edge and lower thresholds to participate in the healthcare sector. Exemptions from property taxes, sales taxes, and corporate income taxes reduce the operational cost of nonprofit hospitals, which allows them to expand market share and supply additional public goods [1]. From the perspective of health economics, such tax advantages serve as compensatory mechanisms for the failure of the healthcare market by producing socially desirable services at a lower cost [2]. As a main actor with non-market preferences, social enterprises and nonprofits benefit from tax advantages to fill the gap between vulnerable populations and medical services that they cannot afford, thus directly improving healthcare equity.

Second, tax policy leads to distributional consequences among different types of providers within the healthcare system and shape their incentives in delivering medical service in ways that align with health equity. By granting tax exemptions to nonprofits, fiscal policy reallocates a substantial amount of resources toward organizations that are expected to serve public and community-oriented

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objectives. Empirical studies help to illustrate the scale of these resource transfers within the healthcare system. Rosenbaum et al. [3] estimate the aggregate value of the tax exemption enjoyed by nonprofit organizations to reach $24.6 billion in 2011. Herring et al. [4] and Zare and Anderson [5] find that a large proportion of hospitals receive significant tax benefits more than their spending on community benefit programs. Park and Peng [6] further reveal that the characteristics of funding sources matter: hospitals supported by private donations and contributions tend to deliver community and preventive care, while those relying on program revenues and service fees are more likely to reduce benefits for vulnerable groups. From the perspective of resource allocation, these findings show that tax policy channels resources toward nonprofit providers with additional expectations on their role in advancing healthcare equity.

Third, tax policy reinforces such expectations on social enterprises' commitment to healthcare equity through embedding accountability requirements into the governance structures of tax benefits. In theory, tax exemptions are not unconditional transfers. They generate responsibilities for social enterprises to fulfill their promise and deliver measurable public and community benefits. Therefore, tax benefit function as a regulatory mechanism that links organizational behavior to public objectives. Nonetheless, concern about this accountability mechanism has persisted. The rise of commercialization of nonprofit healthcare organizations has diminished the financial and performance differences between them and for-profit organizations [7], thereby diluting the conventional logic of "tax exemption in return for public benefit." Frank and Salkever [8] identify information asymmetry and limited transparency as causes of the insufficient accountability, as they keep regulators and communities from accurately measuring whether their public missions are fulfilled. Pan [9] further shows that even under the stricter standards of the Affordable Care Act (ACA), nonprofits may retain their tax-exempt status while engaging in profit-driven joint ventures that challenge their missions on healthcare equity.

Taken together, the existing literature highlights that while tax exemptions empower social enterprises to enter the healthcare sector and creates responsibilities for them to advance health equity, the effectiveness of these benefits can be undermined by inadequate accountability. The actual impact of such tax policies is contingent upon how they are designed and implemented. It is thus important to examine how tax policy operates within different institutional contexts and their implications for nonprofit engagement in healthcare equity. In the next section, I investigate this question in two large and structurally diverse healthcare systems, China and the United States.

3. Comparing healthcare systems in the United States and China

Health equity stands as a critical policy issue for both the United States and China which they approach through different institutional frameworks that govern their healthcare systems. Such difference approaches create different possibilities for nonprofits and social enterprises to provide medical services while their taxation system determines how nonprofits and social enterprises will engage with the healthcare sector.

The healthcare system of the Unites States reflects a market-oriented, multi-payer model with the predominant role played by private actors. which gives private organizations the primary responsibility to manage healthcare services. Most people receive healthcare through private providers which include insurance companies and private hospitals and clinics even though Medicare and Medicaid offer coverage to certain groups. Nonprofit organizations need financial resources to operate because their nonprofit status requires them to promote equity in healthcare access through their hospital services. Nonprofit hospitals receive tax exemptions in return for providing community benefits, including charity care, public health programs, and services for

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underserved populations. Nonprofit hospitals must conduct Community Health Needs Assessments to determine which needs exist with the Affordable Care Act establishing a requirement that hospitals develop strategies to meet those needs [10]. Nonprofit organizations generate public value through their work, but this model needs governmental monitoring, and complete operational transparency to maintain its effectiveness.

The government operates China's healthcare system through its control over social health insurance, which provides coverage to nearly the entire population. The government and public medical institutions act as the primary entity responsible for funding healthcare services, planning healthcare programs, and delivering medical treatments. The public sector maintains the primary duty to achieve healthcare equity, which government agencies should handle instead of transferring this responsibility to tax-exempt organizations. Nonprofits and social enterprises function as additional resources, which government authorities use to achieve their healthcare objectives by providing healthcare services in rural areas and performing disease prevention activities and preventive healthcare support. The organization must operate its activities according to official objectives, which serve as primary priorities, while following registration and fundraising rules that limit its operational freedom but maintain policy alignment.

Tax policy reflects such divergence and further differentiates the roles of social enterprises in the two medical systems. In the United States, nonprofits that qualify under Section 501(c)(3) receive federal tax exemption, raise public funds and can accept tax-deductible donations. Rather than coordinating with the government, nonprofits only need to complete the legal procedures and earn the status that automatically grants them such benefits. They are, however, required to comply with rules set by both the federal and state governments, such as filing annual financial reports. Different types of nonprofits, including hospitals, community groups, foundations, and hybrid organizations, are allowed and encouraged to work jointly for better delivery of healthcare services. Nonetheless, definition and acknowledgement of social enterprises are relatively blurry, and many social enterprises, such as Benefit Corporations, do not receive equivalent tax benefits even when pursuing health equity goals.

In China, tax incentives for nonprofits are much more limited and selective. To obtain or retain their legal status, nonprofits must complete a dual registration process with both a sponsoring government agency and the civil affairs authority, and they are subject to annual inspection. Only organizations with approved public fundraising status qualify for tax benefits and raising tax-deductible donations on registered platforms, and medical nonprofits constitute a small share of eligible entities. Social enterprises exist without a national legal framework, and they depend on local pilot initiatives which provide minimal financial assistance. Their activities face limits because of strict fundraising regulations and their dependence on foreign donations which result in increased government control that reduces their capacity to innovate.

These different institutional structures determine three main areas of impact for health equity advancement, which include their operational effectiveness, their contribution to health equity, and the obstacles they must navigate. The American system provides extensive tax deductions which entice both nonprofits and social enterprises to operate their organizations while creating diverse service networks that deliver innovation to underserved communities. The community benefits provided by organizations show substantial differences when compared to the tax deductions they receive, as showed by relevant studies. The state-led system in China delivers extensive coverage and complete control over services, while nonprofit organizations concentrate on immediate needs and additional services. The macro-level comparison establishes a strong foundation to investigate specific cases as comparison within and between China and the United States.

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4. Case analysis of nonprofits and social enterprises

Cases in the United States demonstrate how a pluralistic nonprofit and social enterprise ecosystem enables a diverse approach to health equity, which also generates creates challenges for funding stability and mission accountability. The Mayo Clinic operates as a traditional United States nonprofit hospital which receives tax benefits for fulfilling its commitment to provide community services, conduct research and deliver advanced medical treatments. The organization establishes itself as a model which integrates medical excellence with community service through its extensive operations but results in a fundamental problem because large nonprofit medical facilities need to maintain their tax-exempt status while they compete against commercial enterprises which have fewer responsibilities to the public. The situation creates confusion about charitable activities and commercial practices, which leads to doubts about whether tax regulations achieve their intended health equity objectives. By contrast, Cityblock Health operates as a B-Corporation that delivers integrated medical and social services to Medicaid and Medicare beneficiaries. Yet the organization grapples between its mission and its need to meet investor requirements because it lacks tax-exempt status and must depend on private funding sources.

Health Leads and RadiologyAssist serve as nonprofit organizations that work to solve healthcare accessibility problems, which the conventional healthcare system fails to address for individuals with low income and without health insurance. Health Leads uses clinical settings to direct patients toward essential needs such as food and housing, which enables the organization to address complex health challenges that result from deep-seated societal issues that extend beyond medical treatment. The organization depends on grants and donations to sustain its operations, which creates a financial risk for mission-driven organizations that do not have access to consistent revenue sources. RadiologyAssist employs a market-driven strategy because it offers discounted diagnostic tests while making medical resources more accessible to people who belong to underprivileged groups. The organization depends on the partnership for its operational needs but the absence of complete business model information creates issues about its accountability and ability to sustain the hybrid system. Together, these cases show that the US tax and regulatory framework encourages experimentation and organizational diversity, although potentially at the cost of long-term sustainability and equity-focused accountability.

Chinese cases show a vastly different model where nonprofits operate within a rigorously regulated, state-led framework that prioritizes policy alignment. The Lifeline Express Foundation exemplifies this approach through its mobile train hospitals providing free cataract surgeries in underserved regions. The excellent collaboration of the Lifeline Express Foundation with government departments enables better delivery of services and bridges the rural-urban gap of the healthcare system of the country. However, its dependence on government budget limits its operational autonomy and makes it vulnerable to shifts in policy priorities rather than focusing on community needs.

Similarly, the Ai You Foundation and One Foundation show how officially registered charities can tap in public funding and respond to shortfalls left by official institutions, such as children with serious illnesses or populations affected by disasters. The official endorsement of their work gives their organization greater legitimacy and visibility, but their activities need to obtain administrative approval before they can operate according to their specific mandates. Shuidichou (Waterdrop), on the other hand, operates as a for-profit crowdfunding platform which provides emergency medical funding solutions but its business model creates ongoing difficulties related to trustworthiness and regulatory compliance and public opinion. The cases demonstrate that China's administrative system

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values organizational size and system coordination and national objective alignment while sacrificing organizational adaptability and innovative capacity.

In both countries, nonprofits and social enterprises bring positive change through their work which helps vulnerable people and addresses unfulfilled community requirements. However, their effectiveness is fundamentally shaped by the existing policy framework which governs government oversight and tax benefits and resource distribution. The United States framework allows organizations to operate through both decentralized systems and hybrid business structures, but often fails to secure consistent funding and enforce accountability. China's system, on the other hand, promotes coordination and policy alignment but limits the capacity of organizations to adapt or challenge existing policy boundaries. These differences illustrate that health equity outcomes depend not only on institutional design such as tax policy, but more importantly how governance, taxation and regulation conditions what nonprofits and social enterprises are able to achieve.

5. Conclusion and implication

This study demonstrates that nonprofits and social enterprises are in principle important actors in advancing health equity in both the United States and China, yet the policy environment, in particular the tax regime and regulatory regime that they operate under, determines their effectiveness. The US model relies on tax incentives to reduce costs and support organizational autonomy of nonprofits, which encourages their innovation and diversity in healthcare provision. Yet such flexibility causes concern on accountability and inconsistency with outcomes of public benefit. The Chinese state-led system emphasizes coordination with official agencies and offers limited and selective financial support. Such close partnership improves policy alignment, broad coverage and targeted intervention, but constrains organizational independence and limits experimentation.

Such analysis shows that tax policy alone cannot guarantee health equity through its implementation. Instead, its impacts depend on how financial incentives are embedded within the broader governance structures and integrated used to ensure accountability. For the United States, accountability can be improved through a stronger connection between tax incentives and measurable social outcomes, without sacrificing flexibility. For China, fiscal incentives should be expanded together with experimental space, which might improve official department coordination and enhance the capacity of nonprofits to address structural health disparities. In general, countries seeking to mobilize nonprofit and social enterprise in healthcare must design tax policies that serve local healthcare demands and stirke a balance between accountability and flexibility, in order to make sure that fiscal incentives translate into visible advances in health equity.

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