

Economic Results of Tax Reductions for Health Clubs in Kansas

**Analysis of the Positive
Economic Benefits for Kansas
from the Elimination of Property
Tax on Facilities and Sales Tax
on Membership Dues**

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January 2013

INTRODUCTION

According to Trust for America's Health 2012 report; Kansas ranks as the thirtieth most obese state in the Country. Kansas' obesity rate is nearly thirty percent of the population and has more than doubled since 1995. It is projected to continue on this course and double again by 2030 if changes are not made. Obesity is known to lead to many diseases including diabetes, hypertension, obesity related cancer, and heart diseases.¹

The costs of obesity are staggering. Estimates place the national costs of obesity as at least \$147 billion per year. Medicare and Medicaid spending represents over one-third of these costs. Trust for America states that reducing the Body Mass Indicator obesity measurement for Kansas by only five percent could save a cumulative total of \$2.1 billion by 2020 and nearly \$6 billion by 2030.² Hundreds of millions of dollars would be saved by Medicare and Medicaid.

The Kansas Legislature has an opportunity to pass legislation that will encourage fitness and help to reverse the obesity trend. Studies cited later in this report show a link between additional exercise and increased wellness. New legislation could reduce the cost of health club memberships encouraging more participation in fitness activities.

The Statutes also create a tax inequity between for-profit health clubs and non-profit health clubs that provide similar services. The revision of these Statutes would have positive effects on employment, tax revenues, and the healthiness of the citizens of Kansas. There have been significant studies done in the last ten years that show these effects would have an impact on Kansas. The major areas of impact would be:

- Increased Usage of Health Clubs through reduced costs for membership dues
- Reduced Health Care costs for businesses, individuals, and the State resulting in more disposable income to spend on taxable items; thus added tax revenues
- Tax Equity between all Fitness Club providers
- Development of new Fitness Clubs adding to employment
- Reduced operating costs to Fitness Clubs as well as removing unequal tax treatment will allow the industry not only to survive but flourish

The Kansas Health and Fitness Association represents health clubs in Kansas that operate for profit. KHFA proposes that all health clubs, not just those that are 501(c)3 Corporations be exempt from paying property taxes on its owned facilities and exempt from collecting sales tax on its membership dues. KHFA believes that the result will be a healthier Kansas and that it will not have a negative financial impact to State tax receipts.

¹ 2012 Trust for America's Health and Robert Wood Johnson's Foundation: "F as in Fat How Obesity Threatens America's Future" pp 9-15

² 2012 Trust for America's Health and Robert Wood Johnson's Foundation: "F as in Fat How Obesity Threatens America's Future" pp 30-31

INCREASED USAGE THROUGH REDUCE COSTS OF MEMBERSHIP DUES

The first question usually asked is whether a reduction in dues will result in increased usage. There are two separate studies that show reduced membership costs lead to increased usage of health clubs.

A 2006 Medica and Life Time Fitness study evaluated whether offering discounts would encourage increased usage of health facilities and what the results of the increased usage would be on the healthiness of the users. The study states, "*The study did find that a discount on fitness center membership does encourage people to exercise regularly.*"³

In 2007 Blue Cross Blue Shield of Minnesota also studied the link between discounts, usage, and healthiness. That study reports, "*Part of the study involved an analysis of Blue Cross employees, and 43 percent of those working out joined health clubs because of the discount.*" The study further states, "*A discount on fitness center dues boosts workouts and appears to improve health.*"⁴

Kansas currently charges sales tax on the memberships of all for-profit health clubs. This tax, sometimes over eight percent, increases the cost of the memberships. Also increasing membership costs are property taxes. These costs must be passed on to users in the form of higher membership dues. The ability to pass on the direct savings of the sales tax and the indirect savings of the property tax would result in significant discounts in membership dues.

Both the Medica/Life Time Fitness Study and Blue Cross Study were based on twenty dollar discounts. Both studies showed increases of over forty percent in usage of health facilities as a result of the discounts. A smaller discount may not achieve a forty percent increase in membership. However, it appears safe to conclude that a significant discount that resulted from a change in taxation would result in increased usage of health clubs.

REDUCED HEALTH CARE COSTS FOR BUSINESSES, INDIVIDUALS, AND THE STATE; ADDED TAX REVENUES FOR THE STATE

In 2007 Total national health care expenditures reached \$2.2 trillion, or more than \$7000 per person.⁵ Based on Kansas population that means there is approximately \$19 billion spent on health care. These costs affect businesses, individuals and government. Hospital, prescription drug, and medical spending are currently exempt from sales taxes in Kansas. Therefore the majority of money spent on health care in Kansas reduces businesses ability to expand or an individual's ability to purchase

³ 2007 Medica Lifetime Fitness Study "The Health and Financial Benefits of Exercise The Value of Incentives for Healthy Ways-of-Life

⁴ Blue Cross Blue Shield May 2007 "Fitness Discounts Program May Be Linked to Improved Health and Reduced Sickness"

⁵ Hartman M. et al. National Health Spending in 2007: Slower Drug Spending Contributes to Lowest Growth of Overall Growth since 1998; Health Affairs, 28 no. 1 (2009):246-261

other items. If there was a way to reduce these costs it would result in significant savings to businesses and individuals.

Test Group Financial Benefits for New/High Exercisers (Exercising at least 8X/month; enrolled in Fit Choices SM by Medica)	Control Group Higher Costs from Higher Claims for non-participants in Fit Choices SM by Medica.
<ul style="list-style-type: none">• 64.3% decrease in facility claims.• 13.0% decrease in physician claims.• 9.2% decrease in RX claims.	<ul style="list-style-type: none">• 43.3% more outpatient visits• 63.6% more inpatient visits• 105% more emergency room visits

The Medica and Life Time Fitness Study consisted of a test group, those participating in exercise at least eight times per month and a control group, those not participating. Compared to the control group the test group had significantly lower medical bills. This spending was 33.6% less per member per month after two years of participation.⁶

Blue Cross Blue Shield in Minnesota discovered that those using a fitness center at least eight times per month for nine months (“frequent users”) had costs that were 17.8% lower than non-participants after adjusting for health history. Users had emergency room visits that were 38.7 percent lower than non-participants. They also had hospital admission rates that were 41.4% lower than non-participants. Perhaps most telling is that new “frequent users” of health clubs had 17.6% lower hospital admissions than they did in the previous twelve months.⁷

Savings are not confined to young and middle age participants. The Center for Disease Control conducted a study to determine the association between use of a health plan sponsored health club benefit by older adults and total health care costs over a 2 year period. Their results showed that participants that averaged at least two health club visits per week over 2 years incurred at least \$1252 less in health care costs in year 2 than those who visited on average less than once per week.⁸

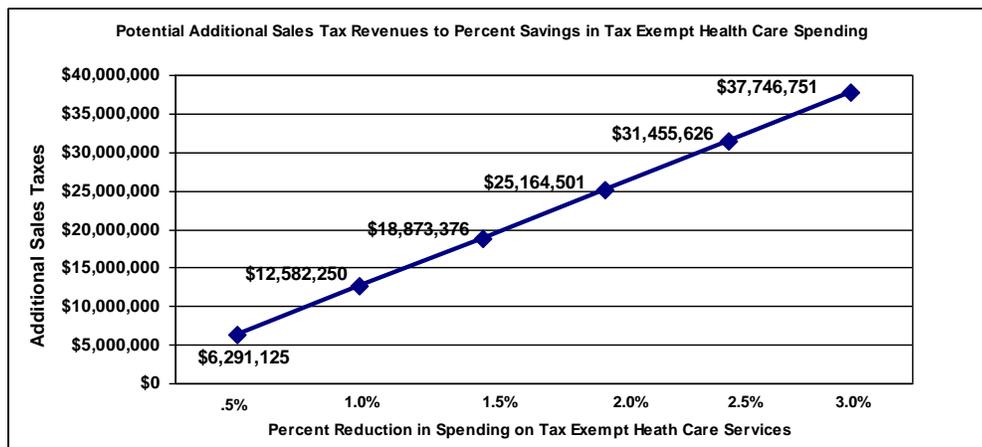
These studies show a nexus between health club usage and reduced health care costs. These savings will result in additional disposable income for businesses and citizens. This translates into additional tax revenues for the State. Since medical expenses are not subject to sales tax any money saved in health care spending that goes to other spending will result in additional funds for State and Local Governments. **Based on the information in these reports the State could receive**

⁶ 2007 Medica Lifetime Fitness Study “The Health and Financial Benefits of Exercise The Value of Incentives for Healthy Ways-of-Life

⁷ Blue Cross Blue Shield May 2007 “Fitness Discounts Program May Be Linked to Improved Health and Reduced Sickness”

⁸ Nguyen HQ, Ackermann RT, Maciejewski M, Berke E, Patrick M, Williams B, et al. Managed-Medicare health club benefit and reduced health care costs among older adults. *Prev Chronic Dis* 2008;5(1)

an additional \$6.3 million in new sales taxes for every 1/2% savings of health care dollars that were spent on taxable goods.⁹



A report by Trust for America’s Health found that implementing health programs in communities could spare millions of Americans from serious diseases and save the U.S. billions of dollars within five years. The report further estimates that in Kansas for every one dollar invested in programs that increase physical activity, improve nutrition or break smoking habits can provide a return of \$5.70, or better than five to one after a five year period.¹⁰ This return in the form of reduced medical spending can also be translated into reduced Medicare and Medicaid funding.¹¹

There are additional costs to businesses in lost hours on the job. In the State of Michigan physical inactivity results in the loss of 20 days per worker costing the state \$8.6 billion annually.¹² Another study showed that active employees take 27% less sick days and report 14-25% fewer disability days than inactive employees.¹³ Similar results are likely to happening in Kansas. This loss of days means lower productivity, lower tax revenues for the State, and lower success for businesses. These costs are unnecessary and could result and the elimination of these costs will result in additional profits for business, additional wages for employees and additional revenues for the State.

TAX EQUITY AMONG SIMILAR BUSINESSES

Current State Statutes tax for-profit and non-profit health clubs differently. This is true without any requirement that non-profit health clubs provide service to low income or needy families. The requirements in KSA79-201 Ninth basically allow a health club that is a 501(c)3 corporation, does not distribute its profits, has no director that has ownership, and provide “humanitarian service” to be free from taxation.

⁹ Average of \$7000 per person spent on Health Care results in over \$14.265 billion in total Health Care Spending

¹⁰ Prevention for a Healthier America, Trust for America’s Health; July 2008

¹¹ IHSA and Cybex Report; The Economic Benefits of Regular Exercise; 2009

¹² Chenowith, D, De Jong, G, Sheppard, L, Lieber, M, Executive Summary: The Cost of Physical Inactivity in Michigan, 2003

¹³ Plotnikoff, R. et al. Workplace Physical Activity Framework, Alberta Centre for Active Living, 2003

However, the definition of “humanitarian service” is so broad as to allow any health club that does not distribute profit or have ownership can comply.

This has created great inequity among like businesses. So called non-profits are able to pay six figured salaries to employees and construct mega-million dollar facilities that are 100% tax exempt. Most of these facilities are built within a few miles of existing tax paying clubs. The result is that many of the tax paying clubs have closed. Those that remain open struggle to remain profitable. It is very difficult to compete with a business that provides the same services, pays no property tax, and has a 7-8.5% cost advantage due to State Statutes.

Apart from any other discussion the fact that this inequity exists should dictate that the State change its tax policy. Kansas has a long history of fairness and equality. Treating like businesses different is not the Kansas way. There are many facts in this report that demonstrate the benefits of eliminating taxes on health clubs. However, tax fairness and equality are just as important as those facts.

DEVELOPMENT OF NEW FITNESS CLUBS WILL ADD EMPLOYMENT AND INCREASE OPPORTUNITY FOR HEALTHINESS

An important aspect of the Blue Cross Blue Shield Study was the discovery that people were more likely to work out if the fitness center was easy to access. About 63.3% of studied members live within two miles of a participating fitness center. Non-study participants were, on average, at least 3.5 miles from participating fitness centers.¹⁴ It is therefore important to encourage the development of large and small fitness clubs in Kansas Communities.

There are two large barriers for the development of new health clubs in Kansas. One is the unfair competition that exists between non-profit, or community funded recreation centers, and for-profit clubs. As previously discussed it is difficult to compete when a competitor can charge seven or eight percent less for a membership; and is not required to pay property tax. This could translate into a competitive advantage of as much as 30% for clubs not paying taxes. In communities where there are these existing non-profits there are very few, if any, new clubs that are being developed. One large fitness company had plans to build a new facility in Wichita. This facility would have employed over one hundred people. Property was purchased and design was commenced. However, when a new non-profit was announced within two miles of this planned facility it was never constructed. The land remains vacant after five years.

The lack of development of new clubs has an impact on the healthiness of Kansans. It discourages people from working out. If the non-profit club or recreation center is not nearby or convenient the Blue Cross Blue Shield Study discovered that less

¹⁴ Blue Cross Blue Shield May 2007 “Fitness Discounts Program May Be Linked to Improved Health and Reduced Sickness”

usage occurs.¹⁵ Therefore, it is important to have policies that encourage development of fitness facilities.

The second barrier is the cost of the tax itself. Smaller communities present profit challenges for health clubs. The savings of a few thousand dollars per year in taxes could be the difference in success or failure. Elimination of sales and property taxes could spur development of clubs where none currently exist. This would contribute to the availability of work out facilities throughout Kansas.

This would also translate into additional employment in Kansas. The average employment of a health club in Kansas is thirty one employees.¹⁶ While smaller communities would have fewer employees per club, large clubs would have a significantly greater number. Encouragement of development of new health clubs could add significant employment. It is quite feasible that if as few as twenty clubs were put in place each year throughout the State that could translate into hundreds of new jobs each year.

REDUCED OPERATING COST AND REMOVAL OF UNEQUAL TAX TREATMENT ALLOWS GREATER OPPORTUNITY FOR SUCCESS

As stated earlier the unfair competition between non-profit and for-profit clubs discourages new clubs from being built. However, the issue goes much deeper. The last ten years over fifty for-profit clubs have closed in Kansas communities. Nearly all of these directly compete with non-profit clubs that are tax exempt. This has translated into the loss of hundreds of jobs and millions in tax revenues. When one non-profit facility was constructed in Northwest Wichita two for-profit facilities, that had both been open for many years, closed. They both stated in the Wichita Eagle that they were closing because of the new non-profit facility.¹⁷

Many clubs in Kansas are hanging on during the tough economic times. However, it is more and more difficult. The reduction of thousands of dollars in cost will have an important effect on their ability to remain open. The ability to reduce the cost of memberships seven to eight percent will also allow them to expand their membership base; thus increasing revenues. This added success will maintain jobs while improving workout opportunities for Kansans across the State.

CONCLUSION

While there are numerous reasons to eliminate the taxes currently being charged to for-profit health clubs it is hard to find a reason not to make this change. Kansas will end the inequitable treatment of similar businesses. This policy, which is contrary to all that Kansas has been built upon, needs to end. Justice and fairness will be the result.

¹⁵ Blue Cross Blue Shield May 2007 "Fitness Discounts Program May Be Linked to Improved Health and Reduced Sicknes"

¹⁶ International Health Racquet and Sports Club Association (IHRSA) Profiles of Success

¹⁷ Wichita Eagle February 2007

It is understandable that State Government is scratching for all revenues; however, the benefits are far greater than the costs. Based on the International Health Racquet and Sports Club Association's information the State will lose less than \$1.3 million in sales tax revenues.¹⁸ This is far less than the benefit of increased healthiness of Kansas. That increased healthiness will translate into less spending on tax exempt health care. There will be added disposable income that will increase tax revenues at a far greater amount than the cost. Jobs will be created that will also increase State revenues.

The benefits are documented. Now is the time to invest in the future of Kansas by reducing health costs for individuals and businesses. Now is the time to reduce State spending on Medicaid and employee benefits. Now is the time to eliminate sales taxes on health club membership dues and property taxes on privately owned facilities.

¹⁸ International Health Racquet and Sports Club Association (IHRSA) Profiles of Success