

Community Benefit Expenditures at Nonprofit Hospitals

Project Description

July 2024

BACKGROUND

Federal and state law exempt nonprofit hospitals in Minnesota from federal, state, and local taxes. To qualify for federal tax exemptions as charitable entities, hospitals must provide “community benefits,” or services that benefit the health of the community as a whole. “Charity care,” or medical services provided free or at a reduced cost to those who cannot afford to pay, is one category of community benefit. Other community benefit activities include community health education and community-based clinic services.

There are few legal requirements related to hospitals’ community benefit spending. Neither state nor federal law requires hospitals to spend a minimum amount on community benefits as a condition of their tax-exempt status. Although the Internal Revenue Service (IRS) has identified actions that may demonstrate a hospital operates to benefit the health of the community as a whole, the IRS does not mandate that hospitals perform specific community benefit activities.

Hospitals must annually report their community benefit expenditures to the Minnesota Department of Health (MDH). Although state law establishes nine categories of community benefits for the purpose of reporting, most of these categories are not clearly defined in law.

Of the 136 licensed hospitals in Minnesota, 106 are private nonprofit hospitals. Most of the other hospitals are government-owned; Minnesota has only two for-profit hospitals.

EVALUATION ISSUES

1. How does nonprofit hospitals’ spending on community benefits compare to the tax exemptions they receive?

2. What percentage of community benefit spending is dedicated to charity care, and how is charity care defined?
3. What changes, if any, to community benefit reporting requirements for nonprofit hospitals should the Legislature consider?

DISCUSSION

We will use data collected by MDH to report on hospitals’ community benefit expenditures in recent years. We will also interview staff at a selection of hospitals to understand how they define and report community benefits.

We will estimate the value of federal, state, and local tax benefits for individual hospitals using data reported to MDH and property assessment values collected by the Minnesota Department of Revenue. Such estimates will require several assumptions, and we will likely report a range of possible results.

We will review hospitals’ charity care policies to see how different hospitals determine who is eligible for financial assistance and what conditions hospitals impose on that assistance. Finally, we will review requirements—including reporting requirements—related to community benefit expenditures in other states.

Modeling the impact of tax policy changes on hospitals is beyond the scope of our evaluation. As a result, we will not attempt to project the revenue that would be generated by taxing nonprofit hospitals.

This evaluation is scheduled to be completed in early 2025. For additional information, contact David Kirchner, evaluation manager, at 651-296-3322 or David.Kirchner@state.mn.us.