



Community Benefit Expenditures at Nonprofit Hospitals

Most nonprofit hospitals appear to spend more to benefit their communities than they receive in tax benefits. However, limited data and competing definitions make it difficult to accurately quantify either community benefits or tax benefits.

Report Summary

Tax Benefits

Nonprofit hospitals in Minnesota benefit from multiple tax exemptions at the federal, state, and local levels. However, estimating exactly how much hospitals benefit is challenging.

- It is necessary to make numerous assumptions in order to calculate nonprofit hospitals' tax benefits, creating uncertainty in those estimates. (pp. 18-19)
- Although estimates are imprecise, nonprofit hospitals received a substantial amount in tax benefits from 2019 through 2023. (p. 21)
- Tax benefits varied substantially from year to year and from hospital to hospital. (pp. 21-22)

Community Benefits

Differences of opinion exist about what types of hospital spending actually benefit communities. We thus developed three definitions of community benefit expenditures: a moderate definition matching Minnesota's reporting requirement, a more limited definition, and a more expansive one.

- The choice of definitions mattered. In the years we analyzed, reported community benefit spending was between seven and ten times as much under the expansive definition as under the limited definition. (p. 29)
- Hospitals reported that most community benefit spending has been directed toward care for hospital patients. (pp. 30-31)
- Reported community benefit spending varied more widely across hospitals when using the moderate and expansive definitions than when using the limited definition. (p. 32)
- Some nonprofit hospitals reported community benefit spending differently to the IRS and the state. (p. 28)

Background

Nearly all of Minnesota's 135 hospitals are nonprofit or government-owned. The vast majority of these are small (30 to 74 beds) or very small (fewer than 30 beds).

The federal Internal Revenue Service (IRS) and Minnesota law require nonprofit hospitals to publicly report the amounts they spend on "community benefits"—uncompensated services that benefit the public.

The IRS requires nonprofit hospitals to provide some benefits to their communities as a condition of receiving tax exemptions, but it does not require any minimum spending by hospitals. Minnesota law sets no conditions on nonprofit hospitals' tax exemptions.

Some policy advocates have argued that hospitals' community benefit spending should be commensurate with the value of their tax exemptions. However, neither the federal government nor Minnesota has such a requirement.

Comparing Community Benefits to Tax Benefits

Because of the lack of consensus around defining community benefits and the challenges to accurately estimating tax benefits, comparing the two is tenuous.

- Using a moderate definition of community benefit expenditures, total reported community benefits exceeded estimated total tax benefits from 2019 through 2023. (p. 37)
- Using limited or expansive definitions of community benefit expenditures changed our estimates of the number of hospitals receiving more in estimated tax benefits than they provided in community benefit spending. (pp. 39-40)
- The extent to which reported community benefit spending exceeded estimated tax benefits varied among hospitals and over time. (p. 38)

Legislative Considerations

We do not make specific legislative recommendations, but we offer the following observations:

- The Minnesota Constitution prevents the Legislature from requiring community benefit expenditures as a condition of exempting hospitals from corporate income tax or sales and use taxes. (p. 42)
- Possible legislative actions would have varying effects depending on how tax benefits and community benefits are defined. (p. 43)