



Illinois Hospital Association

Hospitals Meet the Current Criteria for a Charitable Property Tax Exemption

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Over the years, Illinois courts have applied a six-factor analysis based on the Illinois Supreme Court case of *Methodist Old Peoples' Home v. Korzen*⁴ to determine whether property is exclusively used for charitable purposes and exempt from taxation. The six-factor *Methodist* test has not been applied directly to hospitals by a court of law; however, the Illinois Department of Revenue has been using it as a guideline for examining hospitals' property tax exempt status. The following illustrates how hospitals meet the six factors for demonstrating the charitable use of property for the purposes of a property tax exemption.

1. "The benefits derived are for an indefinite number of persons for their general welfare or in some way reduces the burdens on government."

The relief of disease and illness is the type of benefit for the general welfare that is eligible for exemption. By providing this benefit to the community, a hospital is relieving the burden of government. This guideline is satisfied as long as the hospital's services are available to the members of the community and it does not discriminate against patients based on race, religion, gender or national origin.

2. "The organization has no capital, capital stock, or shareholders, and does not provide profit in a private sense to any person connected with it."

Non-profit hospitals that receive a tax exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code do not have capital stock or shareholders. No person or organization profits from the operation of a non-profit hospital, and any profit that may be realized goes back into hospital resources for staff, facility improvements, and new medical technologies. As with federal tax exemption, none of the hospital's earnings may inure to the benefit of private individuals.

3. "Funds are derived mainly from private and public charity, and the funds are held in trust for the objects and purposes expressed in the organization's charter."

⁴ 39 Ill.2d 149 (1968)

At first glance, it would appear that no modern hospital would satisfy this guideline because its funds are not “derived from public or private charity.” However, earlier court decisions indicate that the real focus should be on whether the hospital derives its funds from its charitable activities. Thus, so long as a hospital derives its funds primarily from providing health care, it satisfies this standard. In any event, more recent decisions have put little weight on this guideline and have instead focused on the organization’s use of its revenues and whether the organization has provided services to those who were unable to pay.

4. “Charity is dispensed to all who need and apply for it and there are no obstacles placed in the way of those who would avail themselves of it.”

Hospitals satisfy this criteria by having and following reasonable charity care policies and by providing emergency care to patients regardless of their ability to pay. Recent cases involving the charitable use of property by medical clinics indicates that failing to advertise the charity care policy may be considered an “obstacle.”⁵

The Illinois Supreme Court has stated that a hospital cannot be expected to “extend its benefactions to those who did not need them, or to those who did not seek admission.”⁶ Illinois hospitals consistently offer financial assistance and even free care to persons who qualify and ask for assistance with their bills. But, many individuals choose not to return completed applications for financial assistance. Hospitals are not placing obstacles in the way of providing charity care by expecting payment from people who can pay⁷ or who choose not to avail themselves of financial assistance.

5. “The property is actually and factually used for charitable purposes.”

The hospital’s property must in fact be used for its charitable mission, providing health care to the community. If the property is used for purposes that are not related to a charitable purpose then it is not eligible for exemption.

6. “The exclusive, or primary, use of the property is for charitable purposes.”

While the Constitution and statute state that the property must be “exclusively” used for charitable purposes, the courts have interpreted this word as meaning “primarily” in this context.⁸ Thus, so long as the primary, as opposed to an incidental or secondary, use of the hospital’s property is for health care, it satisfies this guideline.

⁵ Riverside Medical Center v. The Department of Revenue, 342 Ill.App. 3d 603 (2003)

⁶ Sisters of Third Order of St. Francis v. Board of Review of Peoria County, 231 Ill. 317, 83 N.E. 272, 274 (1907).

⁷ “Sound business dictates that hospitals inquire into the ability of a prospective patient to pay, and it is the generally accepted practice of all hospitals.” *People v. Southern Illinois Hospital Corporation*, 404 Ill. 66 (1949).

⁸ *Methodist Old Peoples’ Home v. Korzen*, 39 Ill.2d 149 (1968).