

Illinois Governor Patrick Quinn Signs Tax Exemption and Tax Credit Legislation Affecting Hospitals

Healthcare Alert | 4 min read

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On June 14, 2012, Illinois Governor Patrick Quinn signed into law tax exemption and tax credit legislation that codifies Senate Bill 2194 (the “Act”). This legislation includes provisions governing property and sales tax exemptions for not-for-profit hospitals and providing income tax credits for investor-owned hospitals. The bill acknowledges it was essential to ensure that tax exemption law relating to hospitals accounts for the complexities of the modern health care delivery system. While addressing hospital property tax exemption, the new law is intended to help promote increased access to free health care for indigent persons and strengthen the medical assistance program. It was the state legislature’s intent to establish quantifiable standards for the issuance of a charitable exemption for hospital use property, and to establish criteria to be applied to hospitals on a case-by-case basis as they apply for exemption and seek to maintain exemption.

In order to obtain and maintain exemption under the Act, a hospital must be able to show that the value of services or activities specified in the Act (discussed below) for the hospital year equals or exceeds the relevant hospital entity’s estimated property tax liability for the year (without regard to any exemptions). There are different tests for hospitals and hospital affiliates. For individual hospitals, the analysis focuses on the value of specified activities compared to the estimated property tax liability relating only to that specific hospital. Hospital affiliates applying for exemption have the option of performing an analysis similar to the hospital. That is, analyzing the value of activities versus the estimated property tax liability related to a specific hospital affiliate. Or the affiliate may utilize an analysis using the aggregate value of activities performed in Illinois by the hospital system and estimated Illinois property tax liability for the system.

The Act recognizes that there are instances where property may have dual use. For instance, if a parcel has both exempt and non-exempt uses, exemption may be granted for the qualifying portion of that parcel. The Act references parking lots and common areas serving both exempt and non-exempt uses, such that those parcels or portions thereof may qualify for an exemption in proportion to the amount of the qualifying use.

Hospitals seeking to obtain exemption must apply for it, and the hospital may elect for each fiscal year to use either the value of the services or activities listed in the Act for that year or the average value of those services or activities for the three fiscal years ending with that year.

The Act lists a number of services and activities that may be used in the calculation required by the Act. These services and activities address the health care needs of low income or underserved individuals, or relieve the burden of government with regard to health care services. The services and activities listed below shall be considered for purposes of making the calculation:

1. **Charity Care.** Free or discounted services provided pursuant to the relevant hospital entity's financial assistance policy, measured at cost, including discounts provided under the Hospital Uninsured Patient Discount Act.
2. **Health Services to Low Income and Underserved Individuals.** Unreimbursed costs of the relevant hospital entity for providing without charge, paying for, or subsidizing goods, activities or services for the purposes of addressing the health of low income or underserved individuals. These services could include financial or in-kind support to affiliated or unaffiliated hospitals, community clinics or programs that treat low income or underserved individuals; paying for or subsidizing health care professionals who care for low income or underserved individuals; providing or subsidizing outreach or educational services to low income or underserved individuals for disease management and prevention; providing free or subsidized goods, supplies or services needed by low income or underserved individuals; and prenatal or childbirth outreach to low income or underserved persons.
3. **Subsidy of State or Local Governments.** Direct or indirect financial or in-kind subsidies of state or local governments that a relevant hospital could either pay for or subsidize the activities or programs related to health care for low income or underserved individuals.
4. **Support of State Health Care Programs for Low Income Individuals.** A hospital may elect either: (a) 10 percent of payments to the relevant hospital entity and any hospital affiliate designated by the relevant hospital entity under Medicaid or other means tested programs, such as General Assistance, All Kids Health Insurance Act, and the State's Children's Health Insurance Program; or (b) the amount of subsidy provided by the relevant hospital entity and any hospital affiliate of state or local governing in treating Medicaid recipients and recipients of means tested programs, including those referenced above.
5. **Dual-Eligibility Subsidy.** The amount of subsidy provided to government for treating dual-eligibility Medicare/Medicaid patients.
6. **Relief of the Burden of Governing Related to Health Care of Low Income Individuals.** The portion of unreimbursed costs for providing, paying for or subsidizing goods, activities or services that relieve the burden of government related to health care for low income individuals. This could include providing emergency, trauma, burn, neonatal, psychiatric, rehabilitation or other special services; providing medical education; or conducting medical research or training of health care professionals. This provision involves a calculation of the total of the unreimbursed costs for the above identified services divided by the total hospital costs.
7. **Other Activities.** Other activities provided by the hospital that the Illinois Department of Revenue determines relieves the burden of government or addresses the health of low income or underserved individuals.

It is also important to note the same tests for property tax exemption will be utilized for sales tax exemption. That is, the value of qualified services and activities listed equals or exceeds the estimated property tax liability.

For more information, please contact [Stephen T. Moore](#), [Dean E. Parker](#), [Roy M. Bossen](#) or your regular [Hinshaw attorney](#).

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Related People



Roy M. Bossen

Partner

📞 312-704-3067



Stephen T. Moore

Partner

📞 815-490-4903



Dean E. Parker

Partner

📞 312-704-3117