

PENNSYLVANIA

Community Benefit Requirement

Pennsylvania requires “institutions of purely public charity” to provide community benefits as a condition of tax exemption.

In 2012, the Supreme Court of Pennsylvania ruled that to qualify for a property tax exemption an organization must first meet the definition of an institution of purely public charity under [Pa. Const. art. VIII, § 2\(a\)\(v\)](#). An organization will qualify as a purely public charity under the Pennsylvania Constitution if it: (1) advances a charitable purpose, (2) donates or renders gratuitously a substantial portion of its services, (3) benefits a substantial and indefinite class of persons who are legitimate subjects of charity, (4) relieves the government of some of its burden, and (5) operates entirely free from private profit motive. [Hospital Utilization Project v. Commonwealth, 507 Pa. 1, 487 A.2d 1306, 1317 \(Pa. 1985\)](#).

If an organization satisfies the constitutional standards, only then does a court look to the Institutions of Purely Public Charity Act to determine eligibility for property tax exemption under the statutory requirements. [Mesivtah Eitz Chaim of Bobov, Inc. v. Pike County Board of Assessment Appeals, 615 Pa. 463, 44 A.3d 3 \(Pa. 2012\)](#).

Pennsylvania’s [Institutions of Purely Public Charity Act](#) establishes specific criteria that a nonprofit corporation must satisfy in order to qualify as an “institution of purely public charity” that is exempt from Pennsylvania property and sales tax. These criteria include a requirement that the organization “donate or render gratuitously a substantial portion of its services” to benefit the community. [10 Pa. Stat. §375\(d\)](#). In addition, the Hospital & Healthsystem Association of Pennsylvania has developed voluntary guidelines for hospital charity care and financial assistance policies: [Charity Care and Financial Aid Guidelines for Pennsylvania Hospitals](#) (2004).

Minimum Community Benefit Requirement

Pennsylvania law permits most nonprofit hospitals to choose from among seven alternative community benefit standards in order to qualify as a tax-exempt “institution of purely public charity.” Six of these standards specify a minimum level of community benefits.

Pennsylvania’s Institutions of Purely Public Charity Act requires that in order to be deemed an “institution of purely public charity,” a hospital must do all of the following: advance a charitable purpose, operate free from any private profit motive, donate a substantial portion of its services to benefit the community, “benefit a substantial and indefinite class of persons who are legitimate subjects of charity,” and relieve government of some of its burden. [10 Pa. Stat. §375 \(a\)-\(f\)](#).

To fulfill the requirement of §375(d)(1) that a hospital “donate or render gratuitously a substantial portion of its services to benefit the community,” a hospital must satisfy one of seven standards. Six of these seven standards specify a minimum level of community benefits:



1. Providing goods or services to all who seek them without regard of their ability to pay if the institution a) has a written policy to this effect, b) has published this in a reasonable manner, and c) provides these uncompensated goods or services equal to at least 75% of net operating income, but not less than 3% of total operating expenses. [10 Pa. Stat. §375\(d\)\(1\)\(i\)\(C\)](#).
2. Providing goods or services that are based upon the recipient's ability to pay if a) the institution can demonstrate implementation of a written policy and fee schedule based on individual or family income, b) at least 20% of the individuals receiving these goods or services pay no fee or a fee which is lower than the cost of the goods or services, c) at least 10% of the individuals receiving the goods or services receive a reduction in fees of at least 10% of the cost of the goods or services provided to them, and d) no individual pays a fee which is greater than or equal to the cost of the goods or services. [10 Pa. Stat. §375\(d\)\(1\)\(ii\)\(B\)-\(D\)](#).
3. Providing wholly gratuitous goods or services to at least 5% of those receiving similar goods or services from the institution. [10 Pa. Stat. §375\(d\)\(1\)\(iii\)](#).
4. Providing financial assistance or uncompensated goods or services to at least 20% of those receiving similar goods or services if at least 10% either paid no fees or paid fees accounting for 90% or less than the cost of the goods or services. [10 Pa. Stat. §375\(d\)\(1\)\(iv\)](#).
5. Providing uncompensated goods or services which in the aggregate equal at least 5% of the institution's cost of providing the goods or services. [10 Pa. Stat. §375\(d\)\(1\)\(v\)](#).
6. Providing goods or services at no fee or reduced fees to government agencies or goods or services to individuals eligible for government programs if any one of the following applies:
 - A. The institution receives 75% or more of its gross operating revenue from grants or fee-for-service payments by government agencies and if the aggregate amount of government agency fee-for-service payments does not exceed 95% of the institution's costs for providing goods or services to the individuals for whom the fee for services payments are made. [10 Pa. Stat. §375\(d\)\(1\)\(vi\)](#).
 - B. This alternative (which does not specify a minimum level of community benefits) does not apply to nonprofit general hospitals.
7. Providing fundraising on behalf of (or grants to) an institution of purely public charity. [10 Pa. Stat. §375\(d\)\(1\)\(vii\)](#). (This standard does not specify a minimum level of community benefit.)

Community Benefit Reporting Requirement

Pennsylvania requires nonprofit hospitals to report community benefits annually.

Except for religious institutions, a nonprofit hospital or other institution of purely public charity that receives contributions of \$25,000 or more per year or collects service revenues of \$5 million or more per year must submit an annual report, including a copy of its federal tax return, to the state Bureau of Charitable Organizations. [10 Pa. Stat. §379](#).



Community Health Needs Assessment

Pennsylvania does not require nonprofit hospitals to perform community health needs assessments.

Community Benefit Plan/Implementation Strategy

Pennsylvania does not require nonprofit hospitals to develop community benefit plans or implementation strategies.

Financial Assistance Policy

Pennsylvania requires hospitals, including nonprofit hospitals, to adopt and implement financial assistance policies.

As a condition of receiving reimbursement from the state's Uncompensated Care Program, hospitals must verify that they have a financial assistance policy in place under which the hospital 1) accepts all individuals regardless of ability to pay for emergent medically necessary services; 2) seeks to collect claims only from the person(s) responsible for payment; 3) seeks to obtain health care coverage for patients, including assisting patients to apply for available public medical coverage; 4) ensures that emergency admission or treatment is not delayed or denied for monetary reasons; and 5) posts adequate notice of the availability of medical services and the obligations of hospitals to provide free services. [Pa. Stat. §5701.1104\(b\)](#). The Hospital & Healthsystem Association of Pennsylvania has also developed voluntary guidance on hospital financial assistance policies. [Charity Care and Financial Aid Guidelines for Pennsylvania Hospitals](#) (2004).

Financial Assistance Policy Dissemination

Pennsylvania requires all hospitals to post notices of the hospital's obligation to provide charity care.

As a condition of receiving reimbursement from the state's Uncompensated Care Program, hospitals must post adequate notice of the hospital's obligation to provide free services. [35 Pa. Stat. §5701.1104\(b\)\(5\)](#).

The voluntary guidance developed by the Hospital & Healthsystem Association of Pennsylvania also addresses the dissemination of financial assistance policies. [Charity Care and Financial Aid Guidelines for Pennsylvania Hospitals](#) (2004).

Limitations on Charges, Billing, and Collections

Pennsylvania state law does not limit nonprofit hospital charges, billing, or collection practices.



However, the voluntary guidelines developed by the Hospital & Healthsystem Association of Pennsylvania offer a number of recommendations regarding hospital billing and collection policies including, among other things, offering reasonable patient payment plans and instituting legal action only when there is evidence that the patient has income or assets to meet his or her financial obligation. [Charity Care and Financial Aid Guidelines for Pennsylvania Hospitals](#), p. 10 (2004).

Income Tax Exemption

Pennsylvania exempts from state income tax organizations that are exempt from federal income tax.

A corporation, trust, or other entity that is an exempt organization under §501 of the Internal Revenue Code is exempt from Pennsylvania's corporate net income tax. [72 Pa. Stat. § 7401\(1\)\(3\)](#).
[Pennsylvania Department of Revenue, Frequently Asked Questions](#).

Property Tax Exemption

Pennsylvania exempts institutions of purely public charity from state property tax.

All hospitals that are institutions of charity under the Pennsylvania Constitution and the [Institutions of Purely Public Charity Act](#) are exempt from state property tax. [Mesivtah Eitz Chaim of Bobov, Inc. v. Pike County Board of Assessment Appeals](#), 615 Pa. 463, 44 A.3d 3 (Pa. 2012).

Sales Tax Exemption

Pennsylvania exempts institutions of purely public charity from sales tax.

The sale [of personal property or services] at retail to or use by any charitable organization that has been granted exemption by the Internal Revenue Service is exempt from Pennsylvania sales tax. [72 Pa. Stat. § 7204\(10\)](#). [Pa. Rev-72–Application for Sales Tax Exemption](#).