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New Jersey Reinstates Property Tax Exemption for Nonprofit Hospitals: Ballard Spahr

Summary

New Jersey Gov. Phil Murphy signed into law legislation that restores property tax exemptions for nonprofit hospitals. However, the law requires New Jersey nonprofit hospitals to make a community service contribution.

The Upshot

- The change stemmed from a 2015 New Jersey Tax Court decision, where the court found a tax-exempt nonprofit corporation liable for property taxes.
- The new law addresses the 2015 decision by exempting nonprofit hospitals and satellite emergency care facilities from property tax.
- Hospitals and satellite emergency care facilities that are exempt from property tax will be assessed a "community service contribution" to the municipality in which they are located.

The Bottom Line

The change begins with tax year 2021, so hospitals and health systems should put plans in place to comply.

FULL ALERT

On February 22, 2021, New Jersey Gov. Phil Murphy signed into law legislation that restores property tax exemptions for nonprofit hospitals. However, the law requires New Jersey nonprofit hospitals to make a community service contribution, beginning in tax year 2021, to municipalities in which the facilities operate.

Previously, the New Jersey Tax Court found Morristown Medical Center, a tax-exempt New Jersey nonprofit corporation, liable for property taxes for years 2006 through 2008. The court concluded that the hospital failed to meet the legal standard for a nonprofit, charitable organization under New Jersey law due to its "entangled infrastructure" of for-profit and nonprofit activities.

The new law addresses the 2015 Tax Court decision by exempting nonprofit hospitals and satellite emergency care facilities from property tax. However, any portion of the hospital or emergency care facility leased to a profit-making organization or used for purposes that are not exempt from taxation shall be subject to property tax.

Additionally, hospitals and satellite emergency care facilities that are exempt from property tax will be assessed a "community service contribution" to the municipality in which they are located.

The annual community service contribution for hospitals will be "$3 a day for each licensed bed at the hospital in the prior tax year." And, for satellite emergency care facilities, "$300 for each day in

the prior tax year." The amount of the contributions will increase by 2% each year.

A hospital may be exempt from making annual contributions if, in the previous year, the hospital did not bill any patient for inpatient or outpatient professional or technical services rendered at the hospital and the hospital has provided community benefit over the preceding three years averaging at least 12% of the hospital's total expenses. Additionally, facilities may offset required contributions by any amounts paid to municipalities pursuant to voluntary agreements.

Ballard Spahr attorneys represent hospitals and health systems, as well as other clients across the health care industry in New Jersey and throughout the nation. Our attorneys are available to assist clients with navigating this developing New Jersey law.

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