

This Revenue Notice was revoked on July 3, 2017 by publication of Revenue Notice # 17-03 (42 SR 6-7).

MINNESOTA DEPARTMENT OF REVENUE

Modification of Revenue Notice #98-02

Revenue Notice # 98-02: Sales and Use Tax – Hospital Exemption*

***With modifications shown (see “Key” below).**

This Revenue Notice clarifies the term “hospital” under Minnesota Statutes, § ~~297A.25, subdivision 63~~, 297A.70, subdivision 7.

Minnesota Statutes, § ~~297A.25, subdivision 63~~ 297A.70, subdivision 7, provides an exemption from sales and use tax to hospitals for purchases to be used in providing hospital services to human beings. To qualify for this exemption, a hospital must be:

- approved as charitable under § 501(c)(3) of the Internal Revenue Code of 1986, as amended; and
- licensed as a hospital under chapter 144 of the Minnesota Statutes or, if located outside Minnesota, licensed as a hospital by another state or country.

Hospital components, such as clinics, rehabilitation centers, and outpatient surgical centers, may qualify for the exemption if they have been approved as charitable under § 501(c)(3) of the Internal Revenue Code of 1986, as amended; and have been formally approved to operate under the hospital’s license and Medicare certification, i.e., services are billed under the hospital’s Medicare provider number as an outpatient department of the hospital as opposed to being billed under a different number as a clinic. Evidence of formal approval ~~may be~~ must be demonstrated by presentation of a letter from ~~Health Care Financing Administration (HCFA)~~ the Centers for Medicare and Medicaid Services (CMS), approving the component as a part of the hospital. Rural health clinics, as defined in 42 C.F.R. § 405.2401(b), may qualify for the exemption if approved by CMS as provider-based. Under 42 C.F.R. § 413.65(a)(2), a rural health clinic qualifies as provider-based if it is “created by, or acquired by, a main provider for the purpose of furnishing health care services of a different type from those of the main provider under the name, ownership, and administrative and financial control of the main provider. . . .”

Clinics, physicians’ offices, rehabilitation centers, outpatient surgical centers, ~~ambulance services,~~ and any other medical facilities that are separate legal entities, or that are not hospital components, are not exempt under Minnesota Statutes, § ~~297A.25, subdivision 63~~ 297A.70, subdivision 7. Additionally, nursing homes, supervised living facilities, and boarding care homes are not exempt under Minnesota Statutes, § ~~297A.25, subdivision 63~~, 297A.70, subdivision 7 because they are not licensed as hospitals under chapter 144 of the Minnesota Statutes. *(Note: Certain facilities that do not qualify for exemption under this provision may still be eligible for exemptions allowed under other provisions of Minnesota Statutes, Chapter 297A.)*

Since state and federal regulations governing hospitals require hospitals to provide laboratory, pharmacy and radiological (x-ray) services, these facilities are included in the exemption if they are a part of and operated by the same legal entity as the qualifying hospital. Ambulance services that are a part of and operated by the same legal entity as the qualifying hospital are included in this exemption if the ambulance services are billed under the hospital’s Medicare provider number. Administrative functions, dietary services, janitorial services, and other functions that are a part of the qualifying hospital’s normal operations are also included in this exemption.

Minnesota Statutes, § 297A.70, subdivision 4, provides an exemption for sales to nonprofit groups that are operated exclusively for charitable purposes. Sometimes, an exempt hospital and a nonprofit unit that is operated exclusively for charitable purposes are part of the same legal entity. Examples of these nonprofit units are: nursing homes, assisted living facilities, or independent living facilities. A legal entity that includes a nonprofit unit and a hospital may not meet the requirements for exemption under Minnesota Statutes, § 297A.70, subdivision 4. However, when a legal entity contains either an exempt hospital or a nonprofit unit, it may claim the hospital exemption on purchases for both the hospital and the nonprofit unit, as long as the nonprofit unit meets the requirements for charitable organizations under Minnesota Rules, part 8130.6200, subpart 2. A nonprofit unit is not required to apply for nonprofit exempt status when part of the same legal entity as an exempt hospital. If a legal entity includes a qualifying nonprofit unit, a non-qualifying clinic and an exempt hospital, the hospital exemption would not apply to purchases made for the clinic.

Dated: 9 March 1998

Jennifer L. Engh
Assistant Commissioner for Tax Policy

Publication Date: July 5, 2005

***Key:** Underlining indicates additions to existing Revenue Notice language. Strikeouts indicate deletions from existing Revenue Notice language.

Please see page 2 for a clean, printable copy of this notice as modified.

MINNESOTA DEPARTMENT OF REVENUE

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Revenue Notice # 98-02: Sales and Use Tax – Hospital Exemption**

**As modified

This Revenue Notice clarifies the term "hospital" under *Minnesota Statutes*, section 297A.70, subdivision 7.

Minnesota Statutes, section 297A.70, subdivision 7, provides an exemption from sales and use tax to hospitals for purchases to be used in providing hospital services to human beings. To qualify for this exemption, a hospital must be:

- approved as charitable under § 501(c)(3) of the *Internal Revenue Code of 1986*, as amended; and
- licensed as a hospital under chapter 144 of the *Minnesota Statutes* or, if located outside Minnesota, licensed as a hospital by another state or country.

Hospital components, such as clinics, rehabilitation centers, and outpatient surgical centers, may qualify for the exemption if they have been approved as charitable under § 501(c)(3) of the *Internal Revenue Code of 1986*, as amended; and have been formally approved to operate under the hospital's license and Medicare certification, i.e., services are billed under the hospital's Medicare provider number as an outpatient department of the hospital as opposed to being billed under a different number as a clinic. Evidence of formal approval must be demonstrated by presentation of a letter from the Centers for Medicare and Medicaid Services (CMS), approving the component as a part of the hospital. Rural health clinics, as defined in 42 C.F.R. § 405.2401(b), may qualify for the exemption if approved by CMS as provider-based. Under 42 C.F.R. § 413.65(a)(2), a rural health clinic qualifies as provider-based if it is "created by, or acquired by, a main provider for the purpose of furnishing health care services of a different type from those of the main provider under the name, ownership, and administrative and financial control of the main provider. . ."

Clinics, physicians' offices, rehabilitation centers, outpatient surgical centers, and any other medical facilities that are separate legal entities, or that are not hospital components, are not exempt under *Minnesota Statutes*, section 297A.70, subdivision 7. Additionally, nursing homes, supervised living facilities, and boarding care homes are not exempt under *Minnesota Statutes*, section 297A.70, subdivision 7 because they are not licensed as hospitals under chapter 144 of the *Minnesota Statutes*. (Note: Certain facilities that do not qualify for exemption under this provision may still be eligible for exemptions allowed under other provisions of *Minnesota Statutes*, chapter 297A.)

Since state and federal regulations governing hospitals require hospitals to provide laboratory, pharmacy and radiological (x-ray) services, these facilities are included in the exemption if they are a part of and operated by the same legal entity as the qualifying hospital. Ambulance services that are a part of and operated by the same legal entity as the qualifying hospital are included in this exemption if the ambulance services are billed under the hospital's Medicare provider number. Administrative functions, dietary services, janitorial services, and other functions that are a part of the qualifying hospital's normal operations are also included in this exemption.

Minnesota Statutes, section 297A.70, subdivision 4, provides an exemption for sales to nonprofit groups that are operated exclusively for charitable purposes. Sometimes, an exempt hospital and a nonprofit unit that is operated exclusively for charitable purposes are part of the same legal entity. Examples of these nonprofit units are: nursing homes, assisted living facilities, or independent living facilities. A legal entity that includes a nonprofit unit and a hospital may not meet the requirements for exemption under *Minnesota Statutes*, section 297A.70, subdivision 4. However, when a legal entity contains both an exempt hospital and a nonprofit unit, it may claim the hospital exemption on purchases for either the hospital or the nonprofit unit, as long as the nonprofit unit meets the requirements for charitable organizations under *Minnesota Rules*, part 8130.6200, subpart 2. A nonprofit unit is not required to apply for nonprofit exempt status when part of the same legal entity as an exempt hospital. If a legal entity includes a qualifying nonprofit unit, a non-qualifying clinic and an exempt hospital, the hospital exemption would not apply to purchases made for the clinic.

JOHN H. MANSUN, Assistant Commissioner
for Tax Policy and External Relations

Publication Date: July 5, 2005