

Health Care Facilities

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This fact sheet describes exemptions from sales and use tax allowed for various health care facilities and a special exemption allowed for purchases of medical supplies.

Nonprofit hospitals and outpatient surgical centers

Purchases by licensed nonprofit hospitals and nonprofit outpatient surgical centers are generally exempt from sales and use taxes. To qualify for the exemption, the hospital or the outpatient surgical center must be organized and operated for charitable purposes within the meaning of section 501(c)(3) of the Internal Revenue Code and be licensed as a hospital or outpatient surgical center under Chapter 144 of the Minnesota Statutes.

Hospitals or outpatient surgical centers located outside Minnesota must be licensed by the other state or country as a hospital or outpatient surgical center to qualify for the exemption.

Ambulance services that are a part of and operated by the same legal entity as a qualifying hospital are included in this exemption if the ambulance services are billed under the hospital's Medicare provider number. If the ambulance service is separate from the hospital, see Fact Sheet 135, Fire Fighting, Police, and Emergency Equipment, for more information.

Hospital components such as clinics, rehabilitation centers and outpatient surgical centers may qualify for exemption if they have been approved as charitable under section 501(c)(3) of the Internal Revenue Code and have been formally approved to operate under the hospital's license and Medicare certification. Billing for Medicare services must be through the hospital's Medicare provider number. A letter from the Centers for Medicare and Medicaid Services (CMS), approving the component as part of the hospital, is needed as proof of qualification.

Rural health clinics, as defined in 42 Code of Federal Regulations (CFR), section 405.2401(b), may qualify for the exemption if approved by CMS as provider-based. Under 42 CFR, section 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 . . ."

What purchases are exempt?

Qualifying hospitals may purchase items or services exempt from sales or use tax if they are used to provide hospital services to human beings.

Qualifying outpatient surgical centers may purchase items or services exempt from sales or use tax if they are used to provide outpatient surgical services or "urgent care services" to human beings. "Urgent care services" means health services furnished to a person whose medical condition is sufficiently acute to require treatment unavailable through, or inappropriate to be provided by a clinic or physician's office, but not so acute as to require treatment in a hospital or emergency room.

Purchases made by or for units that perform administrative functions, dietary services, janitorial services, laboratory, x-ray and pharmacy services for the qualifying hospital or outpatient surgical center are exempt if the unit is a part of and operated by the same legal entity as the qualifying hospital or outpatient surgical center.

Government facilities

Purchases by hospitals and nursing homes owned and operated by local government entities, or the University of Minnesota, are exempt. Facilities owned by the State of Minnesota do not qualify for this exemption.

Other nonprofit organizations

Nonprofit organizations that are operated exclusively for charitable purposes are also exempt if they have been issued an Exempt Status number by the Minnesota Department of Revenue. Facilities such as nursing homes, assisted living facilities and independent living facilities may qualify for this exemption. To apply for an Exempt Status number, download and complete Application for Nonprofit Exempt Status, Form ST16, from our website or call our office to request the form.

Combined hospitals and nonprofit organizations

Sometimes, an exempt hospital and a qualified nonprofit organization are part of the same legal entity. A legal entity that includes a nonprofit organization and a hospital may not meet the requirements for exemption as a nonprofit organization. However, when a legal entity contains both an exempt hospital and 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.

How to claim exemption

Qualifying hospitals, outpatient surgical centers, rural health clinics, government facilities and nonprofit organizations must provide a fully completed Certificate of Exemption, Form ST3, to the seller in order to claim exemption from sales tax.

Exclusions - what cannot be purchased exempt?

Sales or use tax must be paid on the following:

- purchases of prepared food, soft drinks, candy, dietary supplements and vending machine food; lodging; and purchases or leases of motor vehicles
- building or construction materials used in constructing buildings that will not be used principally by the hospital, outpatient surgical center or other nonprofit organization
- building, construction or reconstruction materials purchased by a contractor as part of a lump-sum contract or similar contract with a guaranteed maximum price for labor and materials

For-profit health care facilities and health care professionals

Health care facilities that are not exempt, such as clinics, physicians' offices, rehabilitation centers, ambulance services, and any other medical facilities that do not qualify for the exemptions explained in the previous sections, must pay sales or use tax on the purchase, lease or rental of taxable items, such as:

- durable medical equipment for non-home use
- administrative supplies and equipment such as computers, software, furniture for rooms and offices, safety equipment, toys and books
- medical manuals, books, charts and pamphlets

- taxable services such as building and grounds cleaning and maintenance, laundry, and telecommunications services
- laboratory supplies and equipment

Medical supplies

Purchases of medical supplies by *any* licensed health care facility or licensed health care professional (for-profit or nonprofit) are exempt from tax if they are *used directly on patients or residents as part of treatment*. This exemption applies to adhesive and non-adhesive bandages, gauze pads and strips, cotton applicators, antiseptics, eye solutions and other similar supplies used directly on residents or patients in providing medical services.

This exemption does not apply to items such as tongue depressors, lancets, electrodes, and rolls of paper to cover exam tables. Even though these items have direct contact with the patient, they are not used as part of treatment, but rather are used for diagnostic or sanitary purposes.

This exemption also does not apply to durable medical equipment or components of durable medical equipment, laboratory supplies, radiological supplies, and other items used in providing medical services. Refer to Fact Sheet 117B for more information on durable medical equipment.

References:

M. S. 297A.68, Subd. 28, Medical supplies
M. S. 297A.70, Subd. 2, Sales to government
M. S. 297A.70, Subd. 4, Sales to nonprofit groups
M. S. 297A.70, Subd. 7, Hospitals and outpatient surgical centers
Revenue Notice 98-02 (as modified), Hospital Exemption
Revenue Notice 05-12, Exemption for Durable Medical Equipment; Definition of "Home Use" and "Medical Purpose"

Other fact sheets you may need:

Drugs, Grooming and Hygiene Products, #117A
Durable Medical Equipment, #117B
Mobility Enhancing Equipment, #117C
Prosthetic Devices, #117D
Health Product Exemptions, #117E
Sales to Government, #142
Use Tax for Businesses, #146
Local Sales and Use Taxes, #164