



Different Categories of Property Tax Exemptions in Michigan

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As I discussed in the first article in this series addressing property tax exemption issues in Michigan, property taxes account for billions of dollars for essential community services such as schools, public safety departments, transportation, infrastructure, and governance for local residents and businesses. And while all property owners within a jurisdiction benefit from these services, not all contribute toward them, as a number of different property tax exemptions exist in Michigan.

This article addresses two significant property tax exemptions in Michigan: charitable institution exemptions and healthcare/hospital exemptions.

Charitable Institution Exemptions

Charitable institutions are exempt from property tax in Michigan under MCL 211.7o. The problem is that there is no statutory definition of what a “charity” is for property tax exemption purposes, and some organizations walk a fine line between not-for-profit and for-profit status.

Accordingly, when Michigan municipalities challenge a group’s claimed tax exemption based on charitable institution status, the dispute centers around the interpretation of MCL 211.7o1, which restricts the exemption to: “Real or personal property owned and occupied by a nonprofit charitable institution while occupied by that nonprofit charitable institution solely for the purposes for which that nonprofit charitable institution was incorporated...”

In 2006, the Michigan Supreme Court decided *Wexford Medical Group v City of Cadillac*, and established six factors for assessing whether an organization is “charitable.” These include:

1. A “charitable institution” must be a nonprofit institution.
2. A “charitable institution” is one that is organized chiefly, if not solely, for charity.

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3. A "charitable institution" does not offer its charity on a discriminatory basis by choosing who, among the group it purports to serve, deserves the services. Rather, a "charitable institution" serves any person who needs the particular type of charity being offered.
4. A "charitable institution" brings people's minds or hearts under the influence of education or religion; relieves people's bodies from disease, suffering, or constraint; assists people to establish themselves for life; erects or maintains public buildings or works; or otherwise lessens the burdens of government.
5. A "charitable institution" can charge for its services as long as the charges are not more than what is needed for its successful maintenance.
6. A "charitable institution" need not meet any monetary threshold of charity to merit the charitable institution exemption; rather, if the overall nature of the institution is charitable, it is a "charitable institution" regardless of how much money it devotes to charitable activities in a particular year.

On June 28, 2017, the Michigan Supreme Court, in *Baruch SLS Inc v Township of Tittabawassee* (MSC Docket No 152047), clarified the application of the Wexford factors. Specifically, the Supreme Court clarified that the third prong ("discriminatory basis"). "Bans restrictions or conditions on charity that bear no reasonable relationship to an organization's legitimate charitable goals." This "reasonable relationship" test is to be construed "quite broadly to prevent unnecessarily limiting the restrictions a charity may choose to place on its services."

This recent case doesn't necessarily limit or expand the Wexford factors dealing with the granting of property tax exemptions. Rather it clarifies an important factor that should make it easier for municipalities and non-profits, alike, to make strategic decisions regarding property tax exemption.

Healthcare/Hospital Exemptions

Hospitals and other healthcare institutions may be exempt from property tax, but as is the case with any party seeking an exemption in Michigan, they have the burden of proving their entitlement to the exemption.

A medical facility's right to an exemption in Michigan arises under several different areas of statutory authority. For example, a medical facility may be exempt from property tax assessment pursuant to the charitable exemption provided by MCL 211.7o.

In 2005, a new exemption provision was enacted into law which exempts "federally-qualified health centers" under MCL 211.7jj. Specifically, MCL 211.7jj provides that the real and personal property of a federally-qualified health center, as defined in the federal social security act, is exempt from property taxation.

A "federally-qualified health center" is defined as a health center that services a medically underserved population that (i) receives a federal grant under Public Health Act Section 330 (or funding from such a grant by contract), or (ii) is identified by the health Resources and Services Administration and the Centers for Medicare and Medicaid Services as meeting the qualifications for a federal grant.



Another exemption is found under MCL 211.7r, under which the real estate and building of a clinic erected, financed, occupied, and operated by a nonprofit corporation or by the trustees of health and welfare funds is exempt from taxation, if the funds of the corporation or the trustees are derived solely from payments and contributions under the terms of collective bargaining agreements between employers and representatives of employees for whose use the clinic is maintained.

Conclusion

Property tax exemptions are an important issue for both those claiming exemptions - there are significant dollars at stake, after all - as well as municipalities and their assessing departments who rely on property tax revenue to fund community operations and services.

Michigan's courts have established that the burden of proving an exemption lies with the party claiming the exemption, and not the taxing authority, and that tax exemptions are to be "narrowly construed" in favor of taxing authorities. Therefore, understanding the nuances of the statutory framework that gives rise to these exemptions is critical.

If you have any questions about Michigan's property tax exemption framework, please contact Laura Genovich at 616.726.2238