

MINNESOTA

Making the hospital tax exemption work for Minnesota

An analysis of nonprofit hospital tax
exemptions and community investments



LOWN
INSTITUTE



SUMMARY

Minnesota nonprofit hospitals receive \$876 million in tax benefits each year

The Lown Institute analyzed how much 105 nonprofit hospitals in Minnesota received in tax benefits and spent on free care and community health initiatives from 2020-2022. Data sources for this analysis include IRS Form 990, CMS hospital cost reports, and municipal property data.



KEY TAKEAWAYS

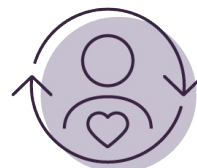
- From 2020-2022, **55% of private nonprofit hospitals in Minnesota had a “fair share deficit,”** meaning they received more in tax benefits than they spent on meaningful community investments.
- The total fair share deficit for Minnesota hospitals was **\$487 million each year.** That’s enough to feed all people in Minnesota facing food insecurity, hire thousands more mental health professionals, or **wipe out half of the state’s medical debt.**
- The **Mayo Clinic in Rochester** had the second-largest fair share deficit in our 20-state analysis at **-\$260 million per year.** The Mayo Clinic alone comprised more than 50% of Minnesota’s total fair share deficit.

\$487 MILLION

COULD BE PUT
BACK INTO THE
COMMUNITY



FOOD



MENTAL HEALTH



DEBT

INTRODUCTION

Nonprofit hospitals enjoy significant tax exemptions worth millions of dollars, and in return are expected to contribute to their communities through financial assistance and investments in community health. However, lax regulation leads to significant variation in the amount hospitals give back to their communities.

The Lown Institute has undertaken a comprehensive project across 20 states to assess hospitals' tax benefits and compare them to their community investments, what we call "Fair Share Spending." This initiative aims to identify hospitals that could do more for their communities, highlight leaders in community investment, and expose systemic issues within our healthcare system that lead to underspending.

TAX EXEMPTION VALUE RESULTS

From 2020-2022, Minnesota hospitals received \$876 million in tax breaks each year, an average of \$8.4 million per hospital or 3.7% of expenses (less than the 20-state average of \$14.2 million).

High incomes for some hospitals also drove large federal and state income tax breaks. For example, Mayo Clinic Hospital reported over \$1 billion in net income in 2021 and three other hospitals had net income above \$100 million that year.

INCOME, SALES TAX LARGEST CATEGORIES OF HOSPITAL TAX EXEMPTION

Tax exemption category	Total amount (per year average, 2020-2022)	% of total tax exemption, Minnesota	
Federal income tax	\$325 million	37%	<div style="width: 37%;"></div>
State income tax	\$168 million	19%	<div style="width: 19%;"></div>
State and local sales tax	\$136 million	16%	<div style="width: 16%;"></div>
Local property tax	\$95 million	11%	<div style="width: 11%;"></div>
Value of tax-exempt donations	\$93 million	11%	<div style="width: 11%;"></div>
Value of tax-exempt bonds	\$54 million	6%	<div style="width: 6%;"></div>
Federal unemployment tax	\$4 million	0.4%	<div style="width: 0.4%;"></div>
Total	\$876 million	100%	

Twenty three hospitals in MN spent less than 1% of expenses on community investment.

Sales tax also made up a significant proportion of the overall tax exemption. In 2021, Abbott Northwestern Hospital and Mayo Clinic Hospital each spent more than \$100 million on medical supplies and 11 other hospitals spent more than \$50 million on medical supplies.

COMMUNITY INVESTMENT RESULTS

From 2020–2022, Minnesota hospitals spent \$519 million on financial assistance and other community investments each year, an average of \$5 million per hospital. The total spending on community investment is less than hospitals received in [340B revenue in 2023](#).

Overall, hospitals spent 4.1% of expenses on community investment, but rates varied widely from 0.1% to more than 15%. Twenty-three hospitals spent less than 1% of expenses.

Subsidized health services (clinical services that meet an identified community need, provided at a loss to the hospital) made up the largest proportion of total community investment (49%). Financial assistance (free and discounted care) was also a significant contributor, making up 33% of total community investment.

Despite increased emphasis on the social drivers of health, relatively little hospital spending went to community health improvement services or community-building activities, echoing the concerns of Minnesota state officials in their [2022 community benefits report](#).

SUBSIDIZED HEALTH CARE SERVICES LARGEST CATEGORY OF COMMUNITY INVESTMENT

Community investment category	Total spending (per year average, 2020-2022)	% of total community investment, Minnesota
Subsidized health care services	\$256 million	49%
Financial assistance	\$173 million	33%
Community health improvement services	\$70 million	13%
Cash and in-kind contributions	\$14 million	3%
Community building activities	\$6 million	1%
Total	\$519 million	100%

"Fair share spending" is the difference between hospitals' tax exemptions and community investment.

FAIR SHARE SPENDING RESULTS

On average, 55% of hospitals received more in tax breaks than they spent on community investment from 2020-2022. Hospitals with a fair share deficit had a collective deficit of about \$487 million each year.

For most of these hospitals, their high fair share deficits are driven by their wealth and size. However, low community investment spending also plays a role. Nine of these hospitals spent 2% or less of expenses on community investment and six hospitals spent less than 1%. In 2023, these hospitals received \$258 million in [340B revenue](#), which is not included in the fair share calculation.

The Mayo Clinic in Rochester stands out for their very high fair share deficit, making up half of the state's total deficit. The Clinic received \$338 million in tax breaks each year on average, due to its high income (over \$1 billion in 2021 and 2022), property (\$538 million in assessed property value), and donations (\$188 million per year on average). The Mayo Clinic is not a 340B hospital.

HOSPITALS WITH THE LARGEST FAIR SHARE DEFICITS IN MINNESOTA











Average per year, 2020-2022

	-\$260 million	Mayo Clinic Hospital, Saint Marys Campus (Rochester)*
	-\$36 million	CentraCare - St. Cloud Hospital (Saint Cloud)
	-\$21 million	Lakeview Hospital (Stillwater)
	-\$21 million	Methodist Hospital (Saint Louis Park)
	-\$15 million	Essentia Health - Duluth (Duluth)*
	-\$15 million	Essentia Health - St. Mary's Medical Center (Duluth)
	-\$9 million	North Memorial Health - Maple Grove Hospital (Maple Grove)
	-\$7 million	Essentia Health - St. Joseph's Medical Center (Brainerd)
	-\$7 million	M Health Fairview University of Minnesota Medical Center - West Bank East (Minneapolis)*
	-\$6 million	Abbott Northwestern Hospital (Minneapolis)*

*IRS information prorated across multiple hospitals

HOSPITALS WITH THE LARGEST FAIR SHARE SURPLUSES IN MINNESOTA

Average per year, 2020-2022

Regions Hospital (Saint Paul)	\$17 million	
Gillette Children's Specialty Healthcare - Saint Paul Campus (Saint Paul)	\$12 million	
Sanford Bemidji Medical Center (Bemidji)*	\$8 million	
Avera Marshall Regional Medical Center (Marshall)	\$8 million	
Astera Health (Wadena)	\$5 million	
Olmsted Medical Center (Rochester)	\$4 million	
Intl Falls Memorial Hospital (International Falls)	\$4 million	
Winona Health (Winona)	\$4 million	
Mayo Clinic Health System - Albert Lea and Austin (Albert Lea)*	\$3 million	
Sanford Worthington Medical Center (Worthington)*	\$3 million	

*IRS information prorated across multiple hospitals

Seven of the highest-surplus hospitals above gave more proportionally in community investment than the state average. The total community investment of these ten hospitals made up more than 20% of the state's total community investment.

Among the community investments by these hospitals include free blood pressure screenings, support groups, suicide prevention programs, vaccine access, and a community paramedicine program to improve emergency healthcare access in rural areas.

However, some hospitals provided limited information about their spending on subsidized healthcare services, despite this category comprising a substantial proportion of total spending.

HOW COULD FILLING GAPS IN FAIR SHARE SPENDING IMPROVE COMMUNITY HEALTH?

The \$487 million annual fair share deficit is enough to:

- Feed all 538,000 people in Minnesota facing food insecurity, including 183,000 children ([Feeding America](#)).
- Hire about 7,000 more mental health social workers or 5,000 more clinical psychologists. Nearly half a million people in Minnesota experience serious psychological distress each year, with more than one quarter reporting an unmet need for care ([Bureau of Labor Statistics](#); [KFF](#)).
- Increase state spending on health improvement initiatives in 2022 by 60%, including screening and tracking chronic condition prevalence, suicide prevention lifelines, services for pregnant people and children, and more ([MN Governor's Office](#)).
- Wipe out 50% of medical debt in the state. An estimated 330,000 adults in Minnesota owed medical debt each year in 2019-2021 ([Peterson-KFF Health System Tracker](#)).

The Mayo Clinic's fair share deficit makes up half of Minnesota's total deficit.



**-\$260
MILLION**

The Mayo Clinic's average annual fair share deficit

POLICY IMPLICATIONS

Minnesota is a leader in state policies around community benefit; however, there are still opportunities to improve accountability.

TRANSPARENCY

Minnesota is one of several states with a community benefit reporting requirement, and one of fewer states that aggregates and reports this information. Our analysis corroborates [state agency concerns](#) that Minnesota hospitals spend relatively little of their reported community benefits on priority health needs identified in the Community Health Needs Assessment (CHNA).

The state's 2024 legislation requiring hospitals to report their spending on community health improvement services by category of spending and connection to community health needs will help improve transparency for future reports.

ACCOUNTABILITY

Minnesota has taken several steps recently to protect residents from medical debt including [limits on collection actions](#) and requirements for uninsured patients to be [screened for financial assistance](#) (and all patients [before taking legal action](#)).

State officials should be aware of [implementation challenges other states have faced](#) in their patient screening programs, and invest sufficient resources into helping hospitals make administrative changes. The impact of these policies may be seen in future fair share assessments.

While the Mayo Clinic stands out for their high tax exemption and fair share deficit, this may be changing, as the **health system recently started a [presumptive eligibility policy](#)** for financial assistance, writing off an additional \$90 million of bad debt in 2023.

Minnesota's Constitution does not permit requirements for community benefit expenditures as a condition of state tax exemption. However, policymakers could set a **voluntary spending target** for programs specifically to tackle community health needs identified in the CHNA or make **property tax exemption** conditional on a certain amount of spending.



METHODOLOGY

The study analyzed seven types of tax exemptions enjoyed by hospitals in Minnesota, including federal and state income tax, federal unemployment tax, sales tax, property tax, and the values of tax-exempt donations and bonds. Hospital net income data was sourced from CMS hospital cost reports. Information on tax-exempt donations and bonds was obtained from IRS Form 990. Three years of data (2020-2022) were included.

Community investments were identified from IRS Form 990 Schedule H, including the following categories: financial assistance, community health improvement services, subsidized healthcare services, contributions to community groups, and community building activities. For hospitals that filed as a group, community investment data was prorated according to hospitals' share of system charity care.



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ABOUT THE LOWN INSTITUTE

The Lown Institute is an independent think tank advocating bold ideas for a just and caring system for health. We envision a healthcare system focused on what's best for people, like hospitals caring for those most in need, patients living without fear of financial distress, and health professionals finding joy in their roles. Learn more: www.LownInstitute.org.