

BEFORE THE IDAHO BOARD OF TAX APPEALS

ELMORE COUNTY ASSESSOR,	)	
	)	
Appellant,	)	APPEAL NOS. 17-A-1051
	)	& 17-A-1052
v.	)	
	)	FINAL DECISION
GLENNS FERRY HEALTH CENTER, INC.,	)	AND ORDER
	)	
Respondent.	)	
	)	
	)	
_____	)	

**CHARITABLE EXEMPTION APPEALS**

These appeals are taken from the decisions of the Elmore County Board of Equalization granting a property tax exemption to property described by Parcel Nos. RPA3S07E304060A and RPB0070036007AA. The appeals concern the 2017 tax year.

The appeals came on for hearing October 6, 2017 in Mountain Home, Idaho before Hearing Officer Travis VanLith. Appellant was represented by Assessor Ron Fisher at hearing. Attorney Nikeela Abrams represented Respondent.

Board Members David Kinghorn, Leland Heinrich and Kenneth Nuhn join in issuing this decision.

**The issue on appeal is whether the subject properties qualify for exemption from property taxation pursuant to Idaho Code § 63-602C.**

**The decisions of the Elmore County Board of Equalization are reversed.**

FINDINGS OF FACT

Due to the above-captioned appeals sharing the same central issue, the appeals are hereby consolidated for purposes of this decision.

Appeal No. 17-A-1051 - Parcel No. RPA3S07E304060A

This 3.26 acre improved parcel is located in Mountain Home, Idaho. The property was granted a 2017 property tax exemption by the Elmore County Board of Equalization as property

belonging to a charitable organization. Appellant contends the property does not qualify for the charitable exemption and should be assessed under the market value standard, with \$67,065 attributable to the land and \$385,147 to the improvements, totaling \$452,212.

Appeal No. 17-A-1052 - Parcel No. RPB0070036007AA

This .826 acre improved parcel is located in Glens Ferry, Idaho. The property was granted a 2017 property tax exemption by the Elmore County Board of Equalization as property belonging to a charitable organization. Appellant contends the property does not qualify for the charitable exemption and should be assessed under the market value standard, with \$29,250 attributable to the land and \$315,888 to the improvements, totaling \$345,138.

Respondent operates the subject properties as medical clinics providing health care services to the surrounding communities. Respondent's mission is to provide quality health care to all persons without regard to geographic, economic or cultural barriers. The stated purpose of the corporation is to provide "health care for persons in the community served by the corporation at full cost, reduced cost, or no cost, depending on the financial circumstances of the patient." In addition to medical care, the Mountain Home facility also provides dental care and behavioral health services to patients. The Glens Ferry facility offers similar services with the exception of dental care. Respondent also participates in a federal discounted pharmacy program to help low income uninsured patients obtain necessary prescription drugs at a reduced cost, or no cost. And for patients in need of prescription drugs not covered by the program, Respondent works directly with pharmaceutical manufacturers to obtain the needed drugs for patients at heavily discounted prices or in some instances at no cost to the patient.

Fees for the services provided at both facilities are on a sliding scale depending on a

patient's particular financial situation according to federal poverty levels. For example, the full fee for a medical visit is \$200, however a patient at 100% below the federal poverty level is charged only \$20 for such visit. In some cases a patient pays no fee for visiting Respondent's facilities. Respondent reported in 2016, 46% of all patients served at the subject facilities were below 100% of the federal poverty level. Respondent estimated the 6,561 patients treated through 30,753 patient visits amounted to approximately \$1,400,000<sup>1</sup> in charitable care provided during 2016.

In addition to the above medical, dental, behavioral health, and pharmacy services, Respondent also hosts an annual health fair which provides free blood pressure checks, skin cancer screenings, breast exams, pulmonary function exams, and bone density tests. Respondent also provides free sports physical exams for community youth.

In arguing the subjects do not qualify for the charitable exemption, Appellant focused heavily on the source of Respondent's funding. Respondent does not receive monetary donations. Rather, Respondent is funded through fees paid by patients utilizing Respondent's services, as well as government grants. The funds received from the government help offset the cost of providing discounted services to low income patients, though according to Respondent such funds do not cover the full cost of the care provided. Appellant contended Respondent is not a charitable organization because it does not receive charitable donations and roughly 35% of Respondent's revenue comes from the government.

While no monetary donations are received, Respondent argued it effectively receives in-

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<sup>1</sup>This reported charitable value does not include the value of services provided through the medication assistance nor the discounted pharmaceuticals programs, which Respondent estimated contributed roughly \$800,000 and \$500,000 in additional charitable service value during 2016, respectively.

kind donations from the doctors and dentists it employs, all of whom work at below-market rates. Respondent stated it pays its medical professionals approximately 60% of what they could earn in a larger market area, which in Respondent's view equates to a charitable donation. Respondent further noted its board of directors serve in a volunteer capacity.

In all, Respondent claimed it is a valuable member of the community by helping bridge the gap between health care providers and low-income patients unable to afford full market rates for medical services. Respondent explained if it did not exist patients would be forced to use high cost emergency rooms for care, thereby adding further strain to limited hospital resources and emergency room staff. In Respondent's view, it plays a vital role in the local health care community and the subject properties should therefore be exempt from property taxation.

#### CONCLUSIONS OF LAW

This Board's goal in its hearings is the acquisition of sufficient, accurate evidence to support a determination of fair market value, or as applicable exempt status. This Board, giving full opportunity for all arguments and having considered all testimony and documentary evidence submitted by the parties in support of their respective positions, hereby enters the following.

The issue in these appeals is whether the subject properties qualify for a property tax exemption pursuant to Idaho Code § 63-602C, the charitable exemption. For the reasons expressed below, we find the properties in question do not qualify for exempt status.

Idaho Code § 63-602C provides in pertinent part,

The following property is exempt from taxation: property belonging to any fraternal, benevolent, or charitable limited liability company, corporation or society, the World War veteran organization buildings and memorials of this state, used exclusively for the purposes for which such limited liability company, corporation or society is organized . . . .

There are two (2) requirements, both of which must be satisfied, in order for a property to qualify for the charitable exemption. First, the property must belong to a charitable organization and secondly the property must be used exclusively for the purposes for which such charitable organization is organized. We look first to whether Respondent is a charitable organization.

The term “charitable organization” is not defined in Idaho Code. The Idaho Supreme Court, however, has stated “. . . in order to be a charitable organization, an organization need not provide monetary relief to the needy but it needs to provide a gift for public benefit.” *Evangelical Lutheran Good Samaritan Soc’y v. Bd. of Equalization of Ada Cnty.*, 161 Idaho 378, 381, 386 P.3d 901, 904 (2016); citing *Appeal of Sunny Ridge Manor, Inc.*, 106 Idaho 98, 100, 675, 675 P.2d 813, 815 (1984). The Court in *Sunny Ridge* identified eight (8) factors to consider when determining whether an organization is charitable, as follows:

(1) the stated purposes of its undertaking, (2) whether its functions are charitable (in the sense just discussed), (3) whether it is supported by donations, (4) whether the recipients of its services are required to pay a fee for the assistance they receive, (5) whether there is general public benefit, (6) whether the income received produces a profit, (7) to whom the assets would go upon dissolution of the corporation, and (8) whether the “charity” provided is based on need. *Id.*

An organization’s charitable status is an individual matter so must be decided on a case-by-case basis. “There may be factors listed above which have no application to particular cases, and factors not listed which would need to be considered.” *Id.* The primary question to be considered is whether the organization provides a public benefit and therefore qualifies as a charitable organization. *Evangelical Lutheran*, at 904, 386 P.3d 381. We will examine each of the above factors individually as they relate to Respondent.

**1. The stated purposes of its undertaking.**

Appellant concedes Respondent satisfies this factor.

**2. Whether its functions are charitable.**

Respondent argued this factor is met because it provides discounted health care services to low-income patients based on a particular patient's income relative to federal poverty levels. Appellant contended this factor was not satisfied because Respondent receives government funds to offset the cost of the discounted health care services provided. We agree with Appellant.

In considering this factor, Respondent must demonstrate it provides some sort of public benefit. *Coeur d'Alene Pub. Golf Course v. Kootenai Bd. of Equalization*, 106 Idaho 104, 105, 675 P.2d 819 (1984). "If the general public does not receive a direct benefit from a corporation's donations, then the question presented by the 'general public benefit' factor is whether the corporation fulfills a need which the government might otherwise be required to fill." *Housing Southwest, Inc. v. Washington Cnty.*, 128 Idaho 335, 339, 913 P.2d 68, 72 (1996). In *Housing Southwest*, the organization argued the low-income housing it provided to senior citizens and disabled persons did fulfill a need which would otherwise be the obligation of the government. The Court rejected this argument, pointing out "[t]his argument is circular in that the need Housing Southwest meets is in fact being met by government through tax-supported FHA subsidies." *Id.* The same holds true here, where Respondent is compensated for the services it provides by either non low-income patients who pay full market rates, or government funds. Respondent does not perform a function which would otherwise be performed by the government because the government already pays for the discounted health care services

Respondent provides. Accordingly, Respondent does not satisfy the second *Sunny Ridge* factor.

**3. Whether it is supported by donations.**

Whether an organization is supported by outside donations is regarded by the Court as an important charitable factor because it reduces the cost to the general public. *Owyhee Motorcycle Club, Inc. v. Ada Cnty.*, 123 Idaho 962, 965, 855 P.2d 47, 50 (1993). Respondent acknowledged it does not receive monetary donations, however, argued its doctors and dentists effectively donate time because Respondent pays them below-market rates for their services. Respondent also highlighted its board of directors are not compensated for their board service. Even if these were charitable donations, nothing in the record suggests these donations reduce the cost of care to the general public. As such, this factor weighs against Respondent.

**4. Whether the recipients of its services are required to pay for the assistance they receive.**

Generally, patients seeking treatment at Respondent's facilities are required to pay for the services received. Respondent stated some patients do not pay a fee, however, it was not clear what income level or situation is required for a patient to receive free care. According to the information provided, patients at or below 100% of the federal poverty level would be required to pay a fee. Though some patients may not pay a fee, the record suggests an overwhelming majority do pay a fee for the services provided.

**5. Whether there is general public benefit.**

Appellant argued Respondent does not satisfy this factor because it is subsidized by the government for providing discounted fees for low-income patients. Respondent stated the

government funding it receives does not fully cover the cost of discounted services, and therefore this factor is satisfied. The Court, in *Housing Southwest* at 339, 913 P.2d at 72, discussed general public benefit, stating:

For a corporation's uses to be considered charitable it is essential that they provide some sort of general public benefit. If the general public does not receive a direct benefit from a corporation's donations, then the question presented by the "general public benefit" factor is whether the corporation fulfills a need which the government might otherwise be required to fill. While the requirement that a corporation lessen the burden of government is but one factor to be considered in determining tax exempt status, it is nevertheless an important one.

The Court further held an organization does not provide a public benefit when such organization is subsidized by the government for the services it provides. *Id.* While providing discounted health care services to low-income individuals is undertaken at times by a government, Respondent does not fulfill this obligation because in this instance the government compensates Respondent for these services. Even if the funds received from the government do not fully cover the cost of the discounted care provided as claimed by Respondent, such government funding plus the revenue received from fee-paying patients is sufficient to cover Respondent's out of pocket operating costs, and in some years results in excess revenue. As such, we found Respondent failed to satisfy this factor.

**6. Whether the income received produces a profit.**

Respondent is a nonprofit organization pursuant to Internal Revenue Code section 501(c)(3). Though details were not provided, Respondent acknowledged it does produce a profit some years. Such profits, however, are invested back into the facilities and are not distributed. This factor weighs in favor of Respondent.

**7. To whom the assets would go upon dissolution of the corporation.**

According to Respondent's articles of incorporation, its assets would go to a "nonprofit corporation, government agency, or foundation, chosen by a majority of the board of directors, that is engaged in charitable activities within the meaning of Section [501](c)(3) of the Internal Revenue Code." This factor is clearly satisfied in favor of Respondent.

**8. Whether the "charity" provided is based on need.**

The Court has stated ". . . to maintain tax exempt status, an organization should provide charitable assistance in the form of reduced costs for those who need it." *Owyhee Motorcycle Club*, 123 Idaho at 966, 855 P.2d at 48. As noted above, the fees charged by Respondent are determined according to a sliding scale based on a patient's income as it relates to federal poverty levels. And for patients with no ability to pay, no fees are charged. Even though the government provides funds to offset the reduced fees for qualifying patients, the services provided by Respondent are based on a patient's needs. We find this factor satisfied.

While we agree Respondent's services are of great benefit to low income individuals seeking health care services and its efforts in this regard are laudable and praiseworthy, such considerations are not determinative of its charitable status under the charitable exemption statute. "Tax exemptions exist as a matter of legislative grace, epitomizing the antithesis of traditional democratic notions of fairness, equality, and uniformity. Therefore, they are to be construed according to the 'strict but reasonable' rule of statutory construction." *Corp. of the Presiding Bishop of Church of Jesus Christ of Latter-Day Saints v. Ada Cnty.*, 123 Idaho 410, 416, 849 P.2d 83, 86 (1993). "Idaho case law requires that all tax exemption statutes be strictly and narrowly construed against the taxpayer, who must show a clear entitlement, and in favor of the state." *Id.* "Exemptions are never presumed. The burden is on a claimant to establish

clearly a right to exemption. It must be in terms so specific and certain as to leave no room for doubt.” *Sunset Memorial Gardens, Inc. v. Idaho State Tax Comm’n*, 80 Idaho 206, 219, 327 P.2d 766, 774 (1958).

Though several of the *Sunny Ridge* factors are satisfied, some of the factors considered most important by the courts, such as being supported by donations and fulfilling a need which would otherwise be the obligation of the government were not. Exemption statutes must be strictly construed against organizations seeking exemption. The heavy burden of proving entitlement to a tax exemption falls on the party claiming such an exemption. Despite some facts weighing in favor of Respondent, the Board is unable to find Respondent clearly demonstrated it qualifies as a charitable organization as required by Idaho Code § 63-602C. As such, the exemption must be denied.

Having found Respondent is not a charitable organization under the *Sunny Ridge* analysis, we need not address the second requirement of Idaho Code § 63-602C which requires the subject properties be used exclusively for the charitable purposes for which Respondent is organized.

Based on the above, the decision of the Elmore County Board of Equalization granting Respondent charitable exemptions on the subject properties is reversed.

#### FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decisions of the Elmore County Board of Equalization concerning the subject parcels be, and the same hereby are, REVERSED, denying property tax exemptions to the subject properties under Idaho Code § 63-602C.

DATED this 22<sup>nd</sup> day of January, 2018.