

Property:

Pennsylvania Supreme Court Says Taxpayer Qualified as Exempt Public Charity Despite Affiliate's Executive Compensation

Case No. 95 MAP 2023, Pa. (5/30/25). In a much-awaited decision on whether an in-state hospital was operating entirely free from profit motive so as to qualify as a “purely public charity” under Article VIII, Section 2(a)(v) of the Pennsylvania Constitution and thus eligible for exemption from local property tax for the tax years at issue, the Pennsylvania Supreme Court (Court) held that the hospital qualified for the exemption based on the underlying facts despite its relationship with a non-profit corporation that was its sole managing member (*i.e.*, “parent”), because the hospital’s separate overall executive compensation plan was deemed reasonable in light of the relevant factors which were employed in developing the plan – including the fact that the hospital’s executive compensation plan was within fair market value as compared to similar executives at similar healthcare institutions.

URL: <https://www.pacourts.us/assets/opinions/Supreme/out/J-48-2024mo%20-%20106387571313054729.pdf>

In considering the relevancy (if any) of the hospital’s relationship with its parent for purposes of qualifying for the charity exemption under state law, the Court explained that absent any evidence that would justify “piercing the corporate veil,” only the salaries of the executives of the corporate taxpayer (in this case, the hospital) seeking the exemption – and “the net impact the payment of fees by that organization to a parent or affiliate corporation has on its own ability to fulfill its charitable mission” – are relevant. In doing so, the Court explained that in this case, the size of the parent’s executive compensation and the amount of management fees that the hospital had paid to it were “insufficient by themselves” to render the hospital ineligible for the charity exemption, and held that the Pennsylvania Commonwealth Court had erred by resting its ineligibility determination on these two considerations. A dissenting opinion, which differs with the majority’s conclusion that the parent’s finances “should be excluded from view,” follows. Please contact us with any questions.

URL: <https://www.pacourts.us/assets/opinions/Supreme/out/J-48-2024do%20-%20106387571313062109.pdf>

— Marcia Shippey-Pryce (Atlanta)
Managing Director
Deloitte Tax LLP
mshippeypryce@deloitte.com

Donna Empson-Rudolph (Houston)
Senior Manager
Deloitte Tax LLP
dempsonrudolph@deloitte.com

Kenn Stoops (Philadelphia)
Managing Director
Deloitte Tax LLP
kstoops@deloitte.com

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