

Sue Jeffers is a legal consultant to the League. You may contact her at sjeffers@mml.org.

Can a tax-exempt parent corporation extend its tax-exempt status to a related entity?

FACTS

Trinity Health-Warde Lab, LLC (the Lab), is a wholly owned subsidiary of Trinity Health Michigan (Trinity). Trinity is a charitable institution entitled to a property tax exemption under MCL 211.7o. The Lab was created for the purpose of owning real property located in Pittsfield Township and used solely as a medical laboratory by Trinity and other nonprofit hospitals under a co-tenancy agreement. The Lab filed a petition with the Tax Tribunal alleging the real property is exempt from property taxation. The township responded that the property is not eligible for tax-exempt status since the Lab is, in fact, a for-profit entity.

MCL 211.7o, known as the charitable institution exemption, provides: "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 is exempt from the collection of taxes under this act."

MCL 211.7r also provides an exemption for real property owned or operated by a nonprofit trust used for hospital or other public health purposes.

QUESTION

Is the Lab, a for profit entity, entitled to a charitable institution exemption under MCL 211.7o or MCL 211.7r since the Lab is wholly-owned by a tax-exempt entity, i.e., Trinity?

ANSWER ACCORDING TO THE TAX TRIBUNAL:

YES. The Tribunal concluded that because the Lab is a wholly owned subsidiary of Trinity—which is a nonprofit charitable institution—it was proper to extend Trinity's exempt status to the Lab.

ANSWER ACCORDING TO THE COURT OF APPEALS:

NO. The court of appeals found that the Tribunal's reliance upon Michigan case law was in error. The court found that the Tribunal erroneously relied upon a previous Michigan Supreme Court decision for the proposition that a tax-exempt parent corporation could extend its tax-exempt status to a related, but for profit, entity. The court found that the Lab could not utilize the tax-exempt status of its parent corporation when it is not itself a nonprofit entity.

Trinity Health-Warde Lab, LLC v Charter Township of Pittsfield, No. 328092 (November 3, 2016)

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