"Y or Why Not? -- Should Fitness Facilities be Tax Exempt?"

Should for-profit gyms have to pay taxes while competing with similar facilities operated by nonprofit entities that enjoy an exemption from property taxes?

Nonprofit fitness facilities can obtain 501(c)(3) tax-exempt status, but there have been challenges to the validity of that status. While somewhat counter-intuitive, the charitable purpose that supports nonprofit fitness facilities' tax-exemption is generally not "promotion of health." Only fitness facilities that provide patient rehabilitation in connection with a hospital or clinic are generally considered to be promoting health. Instead, tax exemption is usually granted for fitness facilities because they provide a benefit to the community.

To provide a benefit to the community and earn tax-exempt status, fitness facilities must offer membership rates that make membership financially available to the general community. The actual prices charged will vary with the demographics of the community the facility intends to benefit. The facilities might also provide other community benefits, such as day care and youth development in addition to providing recreational services.

For-profit gyms have begun to challenge tax exemptions for nonprofit fitness facilities. The for-profit gyms argue that there is no difference between the nonprofit and for-profit models. They point out that, as low-income communities become gentrified, the rates at many nonprofit fitness facilities approach those charged by for-profit facilities. A 2000 study by the International Health, Racquet, and Sportsclub Association (IHRSA) showed very little difference in member demographics and also in the services offered in both nonprofit and for-profit fitness facilities.[1] The study also suggested that the benefits nonprofits received (such as preferred loan terms from banks, lower postage rates, and exemption from local property tax) gave nonprofit fitness facilities an unfair competitive advantage over their for-profit counterparts.

However, another study by the Lebow College of Business and the Wharton School of Business rebutted many of IHRSA's concerns.[2] The joint study found that nonprofit and for-profit fitness facilities serve different markets, even if both tend to serve people with higher incomes. The Lebow/Wharton study also found that, while the property tax exemption was an important benefit to nonprofit facilities, removal of that benefit would not affect the level of competition between nonprofit and for-profit facilities.

We can expect that this issue, which has been discussed for a number of years, will continue to be debated.

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[1] See http://download.ihrsa.org/gr/fried.pdf

[2] See http://bpp.wharton.upenn.edu/kseim/UserFiles/Media/nonprofit_2012.pdf