

SDAT_SB0369_Support.pdf

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HEARING DATE: January 31, 2024

BILL: SB0369

TITLE: Property Tax Exemption – Rental Income – Reporting Requirement.

SDAT POSITION: SUPPORT

The Department of Assessments and Taxation supports Senate Bill 369 - Property Tax Exemption – Rental Income – Reporting Requirement. This legislation would require properties that are exempt from real property tax to report any rental income to the Department to be assessed for the value added.

Currently, property tax exemptions are granted to properties for very limited uses as outlined in Chapter 7, Subtitle 2 of the Tax - Property Article. Property that generates rental income is not recognized under current statute as exempt property, however, the Department generally does not conduct real property assessments for properties that are exempt from taxation. By requiring exempt properties to report value-added rental activities, Senate Bill 369 would help local jurisdictions capture missing revenues by making the Department aware of non-exempt properties that are subject to taxation.

Accordingly, the Department requests a **FAVORABLE** report on Senate Bill 369.

SB0369-BT_MACo_SUP.pdf

Uploaded by: Kevin Kinnally

Position: FAV



Senate Bill 369

Property Tax Exemption – Rental Income – Reporting Requirement

MACo Position: **SUPPORT**

To: Budget and Taxation Committee

Date: January 31, 2024

From: Kevin Kinnally

The Maryland Association of Counties (MACo) **SUPPORTS** SB 369. This bill would promote taxpayer equity by ensuring that tax-exempt treatment of specified real property is based on its actual use, rather than its nominal ownership.

Horizontal equity – the principle that people and businesses under similar circumstances should bear equal tax burdens – is a hallmark of a fair tax system. However, because of state-mandated property tax exemptions and special evaluations, Maryland’s property tax structure often fails to provide taxpayer equity across all properties.

Current law exempts certain types of real property from taxation, such as charitable, benevolent, educational, churches, veterans’ organizations, fire companies, historical societies, and museums. The State Department of Assessments and Taxation (SDAT) may grant a partial exemption if the owner of an exempt property self-attests that a portion of the property does not qualify for the exemption. However, because current law does not require self-attestation, many properties are receiving exemptions for which they do not qualify.

In an effort to resolve this inequity, SB 369 requires the owner of specified tax-exempt real property to report specified rental income attributable to the property. In addition, the report must be submitted within 30 days after the execution of the lease agreement in a form and manner required by SDAT and include a copy of the lease agreement.

This concept is not new to Maryland. Indeed, most personal property tax exemptions are based on equipment and machinery’s use rather than ownership. The federal income tax law also incorporates similar principles with income – where “unrelated business income” is taxable even on generally tax-exempt entities such as charities or similar classifications.

Mandated tax exemptions require counties to forego meaningful local revenues to support essential public services, even if the exemptions do not serve their best interests. In Baltimore City alone, the property value owned by universities, hospitals, nonprofits, and other tax-exempt organizations totals

well over 30 percent of Baltimore's assessed value. Although these entities are exempt from paying property taxes, they still reap the benefits of police and fire protection, snow and trash removal, road maintenance, and other essential services.

Simply put, these exemptions mean that other homeowners and businesses must bear a greater share of the property tax burden for universal services. SB 369 would level the playing field for all taxpayers by ensuring properties owned by a tax-exempt entity but used by another entity for broader, traditionally taxable functions, are subject to taxation. Accordingly, MACo urges the Committee to issue a **FAVORABLE** report on SB 369.

SB369_Hettleman_FAV.pdf

Uploaded by: Shelly Hettleman

Position: FAV

SHELLY HETTLEMAN
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Judicial Proceedings Committee

Joint Committee on Children, Youth,
and Families

Joint Committee on the Chesapeake
and Atlantic Coastal Bays Critical Area



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TESTIMONY OF SENATOR SHELLY HETTLEMAN SB 369 PROPERTY TAX EXEMPTION – RENTAL INCOME – REPORTING REQUIREMENT

Tax revenue from various sources is important for any government. Municipalities, Counties, and the State each rely on tax revenue to fund vital resources and services provided to residents, including education, infrastructure, public amenities, and emergency services. In Maryland, like other states, property tax revenue is among the largest sources of tax revenue. Property taxes are forecasted to produce more than \$10 billion in fiscal year 2024 alone, accounting for more than half of total tax revenue for the State.¹

Under current statute, property tax exemptions are granted to certain properties which have certain functions, statuses, or fall within certain statutory definitions. Exempt entities are varied and exist within nearly every community throughout the State.

The Maryland Department of Assessments and Taxation (SDAT) is tasked, among other things, with the responsibility of ensuring that property is accurately assessed, and that necessary tax-related information is conveyed to state agencies and local jurisdictions for their various purposes. Tax exempt properties are not treated the same for property assessment purposes. The Department also routinely assesses properties for any value added by new additions or construction so that appropriate revenue is captured by local jurisdiction.

SB369 seeks to address a particular type of Maryland property—those which are tax exempt, but which have rental income. Properties which generate rental income do not qualify for a property tax exemption. Under current law, there still exists the ability for property tax revenue to “slip through the cracks” when rental income is involved. SB369 seeks to address this by allowing the Department to recognize any rental income value added to a tax-exempt property and ensure accuracy.

The purpose of SB369 is simple and straightforward. It does not impose new taxes or make any new properties subject to taxation. Instead, the bill simply gives the Department the necessary tools and ability to report properties that are already subject to taxation.

I urge a favorable report on SB 369. Thank you.

¹ Office of Policy Analysis, *County Revenue Outlook report - Fiscal 2024*, Department of Legislative Services (2023), <https://dls.maryland.gov/pubs/prod/InterGovMatters/LocFinTaxRte/County-Revenue-Outlook-Fiscal-2024.pdf> (last visited Jan 24, 2024).