



Senate Bill 369

Property Tax Exemption – Rental Income – Reporting Requirement

MACo Position: **SUPPORT**

To: Budget and Taxation Committee

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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.