

Department of Legislative Services
 Maryland General Assembly
 2009 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 48 (Senator Haines)
 Budget and Taxation

Property Tax - Exempt Property of Charitable Organizations

This bill expands the eligibility for a property tax abatement for properties that are transferred to a nonprofit charitable organization, by enabling an eligible property to have a value of less than \$500,000. Under current law, an eligible property must have a value of less than \$300,000.

The bill takes effect June 1, 2009 and applies to taxable years beginning after June 30, 2009.

Fiscal Summary

State Effect: State property tax revenues may decrease by approximately \$52,200 annually beginning in FY 2010. This estimate is based on calendar 2008 data, thus the actual revenue decrease will depend on the number and value of eligible property transfers that occur each year. Expenditures are not affected.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
SF Revenue	(\$52,200)	(\$52,200)	(\$52,200)	(\$52,200)	(\$52,200)
Expenditure	0	0	0	0	0
Net Effect	(\$52,200)	(\$52,200)	(\$52,200)	(\$52,200)	(\$52,200)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: County property tax revenues may decrease by approximately \$462,700 annually beginning in FY 2010. Expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Current Law: Except for property used exclusively for charitable or educational purposes or property owned by a housing authority, property tax on wholly exempt property must be abated for the taxable year that follows the date on which the property became exempt. If an owner of property subject to an exemption on June 30 files an application for abatement on or before the following September 1 with the State Department of Assessments and Taxation (SDAT), the tax is abated for the taxable year.

If property that is exempt from property tax is transferred to a person whose use of the property qualifies the property for an exemption from the date of transfer, then the property tax must be abated from that date if the transferee (1) files a specified application on or before September 1 of the following taxable year; or (2) files a specified application with regards to manufacturing personal property within six months after receipt of the first assessment notice which includes the manufacturing personal property that is issued after the date of the transfer.

Notwithstanding the above provisions, the property tax for property transferred to a nonprofit charitable organization must be abated from the date the transfer is recorded if (1) the property is transferred to a nonprofit charitable organization qualified under IRC 501(c)(3); (2) the property becomes exempt; (3) the property has a value of less than \$300,000 in the records of SDAT; and (4) the nonprofit charitable organization provides SDAT evidence of the property tax it actually paid or reimbursed at the property settlement.

State Fiscal Effect: Extending eligibility for the property tax abatement to additional property transfers will decrease State property taxes by approximately \$52,200 each year, based on calendar 2008 data. The actual revenue decrease will depend on the number and value of eligible property transfers that occur each year.

SDAT indicates that, in 2008, nonprofit charitable organizations applied for property tax exemptions for 736 accounts. Of those accounts, 233 were for property transfers that would have qualified for the exemption had the bill been in effect in 2008. The assessment values for each of the 233 properties were between the current exemption limit of \$300,000 and the \$500,000 limit imposed by the bill. Accordingly, State property tax revenues would have decreased by \$52,200 in fiscal 2009. This estimate is based on the following facts and assumptions:

- transferred properties have an average assessment of \$400,000;
- on average, property tax is abated for one-half year; and

- SDAT indicates that the number and value of these property transfers will be relatively constant in future years.

State property taxes are special fund revenues used for debt service payments on the State's general obligation bonds. The State property tax rate is \$0.112 per \$100 of assessment. State property tax revenues are projected to total \$750.0 million in fiscal 2010.

Debt service payments on the State's general obligation bonds are paid from the Annuity Bond Fund. Revenue sources for the fund include State property taxes, premium from bond sales, and repayments from certain State agencies, subdivisions, and private organizations. General funds may be appropriated directly to the Annuity Bond Fund to make up any differences between the debt service payments and funds available from property taxes and other sources. The fiscal 2010 State budget allowance includes \$785.0 million for general obligation debt service costs, all of which are special funds from the Annuity Bond Fund.

To offset the reduction in State property tax revenues, general fund expenditures could increase in an amount equal to the decrease in the Annuity Bond Fund revenues or the State property tax rate would have to be increased in order to meet debt service payments. This assumes that the Annuity Bond Fund does not have an adequate fund balance to cover the reduction in State property tax revenues.

Local Fiscal Effect: County property tax revenues may decrease by approximately \$462,700 annually beginning in fiscal 2010. This estimate is based on calendar 2008 data, thus the actual decrease will depend on the number and value of eligible property transfers that occur each year. **Exhibit 1** shows the potential effect on county property tax revenues had the bill been in effect for 2008. This estimate assumes a three-quarters of a year effect. SDAT indicates that the number and value of these property transfers will be relatively constant in future years.

Exhibit 1
Potential Effect of SB 48 on State and County Property Tax Revenues

County	Tax Rate	Number of Accounts	Transfers in Between \$300k-\$500k	Value of Tax Exempt Property	Local Revenue Decrease
Allegany	\$0.9829	0	0	\$0	(\$0)
Anne Arundel	0.8880	50	2	400,000	(3,552)
Baltimore City	2.2680	108	6	1,200,000	(27,216)
Baltimore	1.1000	120	8	1,600,000	(17,600)
Calvert	0.8920	0	0	0	(0)
Caroline	0.8700	0	0	0	(0)
Carroll	1.0480	3	1	200,000	(2,096)
Cecil	0.9600	3	0	0	(0)
Charles	1.0260	0	0	0	(0)
Dorchester	0.8960	0	0	0	(0)
Frederick	1.0640	6	3	600,000	(6,384)
Garrett	1.0000	0	0	0	(0)
Harford	1.0820	7	1	200,000	(2,164)
Howard	1.1495	3	0	0	(0)
Kent	0.9720	0	0	0	(0)
Montgomery	0.9150	274	186	37,200,000	(340,380)
Prince George's	1.3190	148	21	4,200,000	(55,398)
Queen Anne's	0.7700	0	0	0	(0)
St. Mary's	0.8570	0	0	0	(0)
Somerset	0.9200	0	0	0	(0)
Talbot	0.4490	0	0	0	(0)
Washington	0.9480	6	0	0	(0)
Wicomico	0.8140	5	4	800,000	(6,512)
Worcester	0.7000	3	1	200,000	(1,400)
Total		736	233	\$46,600,000	(\$462,702)

Source: State Department of Assessments and Taxation, Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Department of Legislative Services

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