



Senate Bill 760

Property Tax Exemption - Religious Group or Organization - Third-Party Leases

MACo Position: **LETTER OF
INFORMATION**

To: Budget and Taxation Committee

Date: March 10, 2022

From: Kevin Kinnally

The Maryland Association of Counties (MACo) takes **no position** on SB 760, but raises the following issues for the Committee's consideration on the tax policy matters raised by this bill.

The bill's intent appears to condition tax exempt treatment of certain real property based on its use, rather than its nominal ownership. This concept is not new to Maryland; indeed most personal property tax exemptions are based on equipment and machinery's use, rather than its ownership. Federal income tax law also incorporates similar principles with income – where “unrelated business income” is taxable even on entities that are generally tax-exempt as charities or similar classifications. The potential taxation of properties owned by a tax-exempt entity but used by another entity for broader, traditionally taxable, functions is a part of this larger and unsolved policy matter.

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.

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 value of property owned by universities, hospitals, nonprofits, and other tax-exempt organizations totals well over 30 percent of Baltimore's entire 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 to provide universal services.

The breadth of tax-exempt properties in Maryland, and concentrated in Baltimore City in particular, make this topic both sensitive and important for evaluation, as the General Assembly contends with challenging policy related to revenue capacity and resources to fund education and other shared priorities.