



BALTIMORE CITY COUNCIL

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Senate Budget and Taxation Committee
Senator Guy Guzzone, Chair
Senator Jim Rosapepe, Vice-Chair
3 West
Miller Senate Office Building
Annapolis, Maryland 21401

Submitted electronically

March 8, 2022

SUPPORT: SB760 – Property Tax Exemption - Religious Group or Organization - Third-Party Leases

Dear Mr. Chair and Members of the Committee,

I request a favorable report on SB760. This bill clarifies what I believe should be the appropriate interpretation of the existing statute, but which I believe SDAT is misinterpreting, against public interest.

When a tax-exempt entity leases the use of a property from a non-exempt entity, the non-exempt entity still pays taxes on the property. And if a tax-exempt entity were to lease the use of its own property to a non-exempt entity, that would violate the rules of tax exemption. The reason for both is the same. The owner in each case is conducting business for a financial gain, which should be taxable.

But SDAT has interpreted the law as if the above principle doesn't exist when one tax-exempt entity leases to another tax-exempt entity. A church that leases its space to another church is utilizing access to its space for financial gain. To allow this gives an untaxed entity an unfair advantage over a non-exempt entity that could just as well offer that same space. The lessee needs the use of the space one way or the other, and it is not in the public's interest to give a financial advantage to any one type of entity who can provide it.

The spirit of the tax exemption law is that if those who wish to worship require space to do so, we can accommodate this inalienable right to worship by relieving the burden of taxation. But in the absence of certain other limitations, the exemption is open to abuse. Leasing an exempt property, to no matter whom, violates both the spirit of the law, and fundamentally violates the letter of the law, which is explicit about allowable exempt uses, none of which is "rental to a 3rd party."

Consider a dwindling congregation, one that was once 300 is now 3. The pastor used to be paid through tithing, an indication that he is compensated for his labors according to the value he brings to those who care to worship. And the congregants' tithing covered the costs of building maintenance and operations because it was necessary for their purpose. But now the revenues come from leasing the building and the parking lot to

another congregation. The pastor still gets his paycheck, but he has no need of and makes no use of the property, except for the revenue it generates for him. He is functioning as a landlord, not a pastor. Because he leases the church to another religious entity, it meets the standard for exemption, that use be actual and exclusive, for the purposes of worship, education, or parsonage, but by capitalizing on the property it violates the spirit and intent of the law. Unfortunately, SDAT believes otherwise, hence the clarification necessary in this bill.

In one case like what is described above, a school pays more than \$80,000 annually to use the parking lot at a church property whose would-be \$40,000 tax bill could be doubly covered by that. But SDAT allows it to fall within the exemption standard, because education is an allowable use within the religious exemption standards. But this turns a blind eye to the handsome profit being turned. Nobody would mind the school using the lot if the church weren't charging a fee. And the clarification offered in this bill would not stop that.

On the flip side, another church that might lease its parking lot to some nearby businesses is not allowed to, because those businesses are for-profit. So the church began letting the businesses use the lot free of charge, because the whole community benefits from it, and then they eventually sold the parking lot to one of the businesses, who now pays taxes on it and permanently enshrined their customers' access to it. The church is now taking up a more right-sized space, still benefitting from tax exemption, but only to an appropriate extent.

The public is missing out on tax revenue that it should have. SB760 is a very reasonable clarification that would remedy this while not infringing on the freedom to worship as one chooses. Again, if you ask me, the law as written hits the mark, but is not being applied and interpreted as intended. This bill merely clarifies that intent.

I urge your favorable report on this bill, unamended.

Sincerely,

A handwritten signature in black ink that reads "Ryan Dorsey". The signature is written in a cursive, flowing style with a large initial "R".

Ryan Dorsey