

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6137

BILL NUMBER: SB 19

DATE PREPARED: Feb 24, 2002

BILL AMENDED: Feb 21, 2002

SUBJECT: Property Tax Exemption for Religious Property.

FISCAL ANALYST: Bob Sigalow

PHONE NUMBER: 232-9859

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill eliminates certain tax exemptions for income and property of an otherwise exempt organization that are earned or used in a trade or business that is not directly related to the purposes for which the organization is exempt. It repeals a provision concerning taxation of property used in a trade or business.

The bill makes conforming amendments to a statute providing a property tax exemption for the property of various charitable organizations. It provides for a maximum of 50 acres for tracts of land that are exempt because an exempt building is situated on the tract. It also preserves the 15 acre limitation for a tract of land that contains a parsonage. The bill allows certain churches or religious institutions to file a claim for a refund for taxes due and payable in 2001. It also establishes an interim study committee.

Effective Date: Upon passage; July 1, 2002; January 1, 2003.

Explanation of State Expenditures: (Revised) ***Property Tax Exemption Status:*** Under this provision, the Department of Local Government Finance (State Tax Board) would be required to promulgate rules regarding the apportionment of a building's tax exemption for buildings that are used for both exempt and non-exempt purposes. The Department of State Revenue will also incur additional expenses to address the provisions of this bill.

Interim Study Committee: This bill would create the Interim Study Committee on the Assessment of Property Owned by Educational, Religious, and Other Nonprofit Organizations. The committee would examine the assessment of property owned by these organizations and the exemptions provided to them.

Members of committees receive a per diem and travel reimbursement. Current Legislative Council Resolution 01-03 allocates \$9,000 per interim for study committees of fewer than 16 members.

Explanation of State Revenues: (Revised) ***Property Tax Exemption Land Limit:*** The State levies a small tax rate for State Fair and State Forestry. Any reduction in the assessed value base, as described below, will reduce the property tax revenue for these two funds.

Tax Exempt Status of Nonprofit Entities: The bill eliminates Gross Income Tax, certain Sales Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, and Financial Institutions Tax exemptions for income of an otherwise exempt organization that is earned or used in a trade or business that is not directly related to the purposes for which the organization is exempt. These provisions will have an indeterminable impact on state revenue collections.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) ***Property Tax Exemption Land Limit:*** Under current law, up to 15 acres of land on which an exempt building sits (or will sit) is also exempt for most qualifying organizations. The current exceptions are educational institutions, which may exempt up to 150 acres, 4-H associations, which may exempt up to 200 acres, and tracts of land that were exempt on March 1, 1987.

Except for parsonages, this bill would limit all land exemptions to 50 acres for all entities that receive an exemption, including those who are not subject to the current 15 acre limitation. The exemption for land under a parsonage would continue to be limited to 15 acres.

In general, additional exemptions would reduce the assessed value tax base. This would cause a shift of the property tax burden from the taxpayers receiving the exemptions to all taxpayers in the form of an increased tax rate. Total local revenues, except for cumulative funds, would remain unchanged in future years. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

The actual fiscal impact depends on the amount of additional property that would qualify for an exemption under this proposal. There is no data currently available to quantify the impact.

Refund: The bill would allow a church or religious institution to file for a refund of property taxes paid in 2001. The grounds for the refund would be that this proposal would allow an exemption of up to 50 acres. This means that any religious organization that paid property tax in 2001 because its acreage exceeded 15 acres would be entitled to a refund of the taxes paid on up to 35 acres of land. The refunds would be paid with interest at an annual rate of 6%. Property tax refunds reduce the proceeds of current year taxes that are distributed to local civil taxing units and schools.

The actual cost of the refunds depends on the amount of property over 15 acres that would qualify for an exemption under this proposal. There is no data currently available to quantify the impact.

Property Tax Exemption Status: Under current law, property that is predominantly, but not totally, used or occupied for an exempt purpose by a religious organization or non-profit school is 100% exempt. Under this provision, the property tax exemption would be apportioned on the basis of exempt use versus total use. This apportionment is currently applied to exempt property that is not owned by a religious organization or non-profit school.

Also under current law, the predominant (more than 50%) use of property must be *substantially* related to stated exempt purposes to obtain any amount of exemption. The bill would require that the predominant use

be *directly* related to qualify for an exemption.

The property tax provisions in this bill could reduce the number and value of property tax exemptions. A reduction of exemptions would increase the assessed value tax base and would result in lower property tax rates. The amount of increased valuation from reduced exemptions is unknown.

State Agencies Affected: Department of Local Government Finance (State Tax Board); Department of Revenue.

Local Agencies Affected: County auditors; Local civil taxing units; School corporations.

Information Sources: