

LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

SENATE, No. 1659

STATE OF NEW JERSEY

209th LEGISLATURE

DATED: JANUARY 10, 2001

SUMMARY

Synopsis: Permits religious or charitable organization to lease property to other tax-exempt entities without loss of property tax exemption.

Type of Impact: Annual property tax loss to local government units.

Agencies Affected: Local government units.

Office of Legislative Services Estimate

Fiscal Impact	Year 1	Year 2	Year 3
Local Government Units	(\$2.6 million)	(\$2.6 million)	(\$2.6 million)

- ! Since property leases are not recorded at the county registrar's office no actual information is available with which to estimate the number of religious and charitable leases that exist or the actual property tax loss or gain from those leases to local government units under the bill.
- ! Religious and charitable property in New Jersey in 1998 was exempted on a statewide basis from the payment of about \$256.7 million in property tax. Not counting any increase in property taxes due to profit making entities leasing the property of religious and charitable organizations for the first time, and assuming that one percent of the \$256.7 million in foregone property tax payments represents property taxes currently paid by other tax exempt entities leasing the property of religious and charitable organizations, it can be estimated that the statewide property tax loss to local government units would be \$2.6 million.
- ! Of course, local government units will experience no actual property tax loss if property taxes are shifted to other property taxpayers to make up for the property tax loss under the new exemptions granted under this bill.

BILL DESCRIPTION

Senate Bill No. 1659 (1R) of 2000 amends N.J.S.A.54:4-3.6 to permit a religious or charitable organization to lease a portion of a building to a non religious or non charitable organization to use for a different tax exempt use without risking the loss of its property tax exemption as is the case under current law. This amendment is in direct response to a 1998 New Jersey Tax Court case 17 N.J.Tax 298, aff'd 18 N.J.Tax 649 (App. Div., March 21, 2000) which

held that "a religious or charitable organization which leases its property to an educational organization loses its tax exemption under N.J.S.A.54:4-3.6." For example, this case leads to the result under current law that public boards of education, which are themselves tax exempt entities, are required to pay real property taxes if they lease property from a religious or charitable organization.

The bill also amends N.J.S.A.54:4-3.6 by removing the religious or charitable organization's exclusive use requirement of its property in order to enjoy its property tax exemption. The bill would now permit a religious or charitable organization to lease a part of its building to a profit making organization and pay property tax on only that leased portion of its property.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The Office of Legislative Services (OLS) notes that since property leases are not recorded at the county registrar's office no actual information is available with which to estimate the number of religious or charitable leases that exist or the potential revenue loss or gain from those leases to local government units under the bill.

However, the 1999 Annual Report of the Division of Taxation indicates that the exempt assessed value of religious and charitable property in New Jersey in 1998 was \$8.7 billion. The same report also indicates that the 1998 State average property tax rate is \$2.95 per \$100 of assessed value. Therefore, religious and charitable property in New Jersey in 1998 was exempted on a statewide basis from the payment of about \$256.7 million in property tax (\$8.7 billion x .0295). Not counting any increase in property tax due to profit making entities leasing the property of religious and charitable organizations for the first time, and assuming that one percent of the \$256.7 million in foregone property tax payments represents property taxes currently paid by other tax exempt entities on the property of religious and charitable organizations leased by them, there would be a statewide estimated property tax loss to local government units under this bill of \$2.6 million. Of course, local government units will experience no actual property tax loss if property taxes are shifted to other property taxpayers to make up for the property tax loss under the new exemptions granted under this bill.

Section: *Local Government*

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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67.