

Fiscal Note

BILL # SB 1298

TITLE: property tax exemption; religious activities

SPONSOR: Kavanagh

STATUS: House Engrossed

PREPARED BY: Hans Olofsson

Description

Under current law, property that is used for religious worship is exempt from property tax, if such property is not used or held for profit. The bill would expand this exemption by providing that property that is owned by a nonprofit organization and that is used for religious-related activities be exempt from property tax. SB 1298 defines "religious-related activities" as those including worship, education, and housing used for religious or charitable purposes.

Estimated Impact

Based on information provided by the Maricopa County Assessor's Office and the Arizona Association of Counties, we do not anticipate that the bill will have any fiscal impact in the near term. However, over time, the bill could have the effect of resulting in a smaller property tax base for certain housing developments than under current law, as discussed in the *Analysis* section below.

Analysis

Under current law, the property and buildings of churches, synagogues, temples, mosques, and similar "houses of worship" are exempt from property tax if they are used for religious worship and not used or held for profit. Based on our discussion of this proposal with the Maricopa County Assessor's Office, it is our understanding that although the bill changes the language of this provision from "religious worship" to "religious-related activities," such change does not appear to have any material impact in the near term since the owner of the property must still be a nonprofit entity (which is the same as under current law.) The Maricopa County Assessor's Office does not expect that the bill would reduce the net assessed value (NAV) of the properties currently on their assessment rolls.

While the bill does not change the ownership requirement (namely that the property must be owned by a nonprofit entity), it appears to expand the exemption by allowing "religious-related activities" rather than "religious worship." The bill defines "religious-related activities" as those including housing that are used for religious or charitable purposes. It is not clear to us what the practical and legal implication of this change is, if any. However, some county assessors believe that the current language in the bill could result in future ownership arrangement under which property could become tax-exempt. One such scenario that was presented to us is if a church or other house of worship allows a private, for-profit developer to build housing (e.g., an apartment complex) on church-owned land but instead of taking ownership of the housing complex, the developer transfers the title to the church and then leases the buildings from the church. Under this arrangement, the private developer would not owe any property taxes. We cannot determine in advance, however, to what extent such arrangement would occur, if at all.

Local Government Impact

As with the General Fund impact discussed above, we do not expect the bill to have any local government impact in the near term.

3/10/25

