Background

Charitable organizations are exempt from local property tax in Connecticut by CGS Section 12-81; Subsection (7) exempts the property owned by “a corporation organized exclusively for... charitable purposes.” Despite this statute and relevant caselaw, municipalities in Connecticut have been increasingly denying nonprofit property tax exemptions.

The Alliance surveyed members whose property has been taxed in the town in which it is located. Results highlight the widespread denial of nonprofit property tax exemptions, which forces nonprofits, burdened by years of state budget cuts, to choose between costly litigation and paying taxes on property that is exempt by state law. Either of these options diverts critical funding away from essential services for the State’s most vulnerable.

➢ In light of the findings outlined below, the legislature should amend CGS § 12-81 (7) to codify case law that defines “charity”, in order to clarify the tax exempt status of nonprofits.

Survey Respondents

A total of 35 nonprofits responded to the survey. The majority of respondents were providers of health and human services, with providers of intellectual/developmental disability services being the largest type (18), followed by children’s providers (11), adult behavioral health (10), housing, homelessness and basic needs (10), community justice (2), arts and culture (1), and association/member organization (1). Note that some providers deliver multiple service types.

Widespread Denial of Nonprofit Property Tax Exemptions

An increasing number of municipalities in Connecticut are denying or challenging nonprofit property tax exemptions. Thirty-five nonprofits surveyed stated that their property tax exemption was being denied or challenged in a total of 44 municipalities (note that some nonprofits have facilities in multiple municipalities):

| Berlin (2) | East Haddam | Manchester | Norwich (2) | Watertown |
| Bethel | East Hartford (2) | Meriden | Oxford | West Hartford (2) |
| Bloomfield (4) | East Hartford | Meriden | Plainville | West Hartford |
| Bridgeport (3) | Fairfield | Middlebury | Rocky Hill | West Haven |
| Bristol | Farmington | Middletown (3) | Simsbury | Wethersfield |
| Canton | Guilford | Naugatuck | Southbury | Windham |
| Colchester (3) | Hartford (2) | New Britain | Stratford (2) | Windsor |
| Coventry | Harwinton | Newington | Waterbury (2) | Wolcott |
| Cromwell (4) | Litchfield | Norwalk | Watertown |

66% of respondents stated that their property was recently assessed for taxes by a municipality after a history of it being exempt, yet 97% of facilities being assessed had not undergone a change of use.
Implications: Reduced Access to Essential Community Services

Nonprofits are dependent on the State for funding and have limited options in the face of increasing costs. They can’t raise taxes or charges, forcing them to cut services, close programs or lay off employees.

Almost all providers stated that having to pay property taxes would reduce the amount of funding available for direct services to adults, children and families in need. Payments to municipalities would put providers into a position of operating over budget, eventually making operations unsustainable. As a result, they would be forced to close programs or reduce services hours. One provider stated that:

“...funding for the program is already below program expenses and is subsidized by fundraising. A tax payment will further decrease [our] funding and make sustaining the current program model difficult going forward.”

All areas of the service delivery system would be negatively impacted if funding were to be redirected away from direct care, from mental health services for children, housing services designed to keep people off the street to supports for people with disabilities. These cuts would come at a time when the demand for community services is increasing.

“Having to pay taxes could literally force the close down of our residential programs. There is no other source of revenue for taxes.”

“We cannot afford to pay property tax and continue individualized services to DDS population.”

“We had paid almost $50,000 in taxes. $50,000 is [the equivalent of] 25,000 meals or one case manager.”

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“Of course it will hurt. We have no dollars for anything but direct service. This will lead to more homeless men not getting housed - which will be a domino effect.”

A small number of providers stated that assessments on their facilities will not hurt their ability to provide services, as they currently receive reimbursement for such costs from the State. However, rates have remained stagnant for years and would not account for increased taxes.

Recommendation

The mission of all nonprofits is to improve the health and well-being of our local communities, enhance the quality of life and serve the public good. In exchange, nonprofits are exempt from property, income and sales tax, and have access to tax-deductible contributions from individuals and corporations, and others.

In order for nonprofits to continue their mission driven work of strengthening communities through the delivery of essential services, the legislature should add clarifying language to CGS § 12-81 (7) that codifies relevant caselaw into statute, clarifying for municipalities that charitable property is exempt from property taxes.