



Iowa Property Tax Exemption Report 2012

A Report from the
Governor's Nonprofit
Project



Iowa Property Tax Exemption Report 2012

This report is the work of the Governor’s Nonprofit Project. Our goal is to make Iowa a nonprofit friendly state. Our partnership, consisting of the Larned A. Waterman Iowa Nonprofit Resource Center, the Iowa Nonprofit Collaborative, and various state agencies, will work to find effective and efficient collaborative efforts between state agencies and private nonprofits to address Iowa’s community needs.

The Property Tax Exemption Committee of the Governor’s Nonprofit Project convened in the summer of 2012. Our goal was to preserve the tax exempt status for nonprofits owning real property in Iowa in the education, medical and religious categories. Property Tax Exemption Committee members are:

Tami Gilmore	Four Oaks
Bill Nutty	Leading Age Iowa
Maureen Keehnle	Iowa Hospital Association
Richard Koontz	Iowa Nonprofit Resource Center
Liz Weinstein	Elizabeth Weinstein & Associates, Inc.

The Property Tax Exemption Committee of the Governor’s Nonprofit Project wishes to thank Governor Branstad for his support of this study. Additionally, we wish to thank Jeffrey Boeyink, Chief of Staff, and his staff for their efforts.

This survey report was authored by Richard Koontz, Director of the Larned A. Waterman Iowa Nonprofit Resource Center, a program at the University of Iowa College of Law.

Introduction

Iowa's nonprofits believe it is crucial that exemption from property taxes, which has been part of Iowa law for over 150 years, remain Iowa law. Not having to use nonprofit funds for property taxes allows nonprofits to deliver more services to fulfill its mission to Iowa's citizens. A number of states have recently altered their exemption statutes, but Iowa should not pursue this trend.

The Property Tax Exemption Committee also identified education on property tax exemption as an issue to improve. There must be wider communication on why the exemption exists, how it operates and the resulting benefits to the citizens of Iowa. While the Department of Revenue has some very helpful materials, it is our hope that further guidelines can be developed and disseminated to assist nonprofits in applying for and maintaining their exemption from property tax.

In Defense of Iowa's Charitable Property Tax Exemption

Iowa's charities contribute significantly to the quality of life in Iowa. Using their resources wisely helps make that effort efficient and effective. Iowa's charities deserve the relief of property tax exemption so that their resources can be used more fully in resolving community problems. Property tax exemption was challenged in 2012 in Illinois taking property tax exemption from a good number of hospitals.¹

Property tax exemption is often seen as a kind of governmental subsidy for charities providing services that are beneficial to their communities. Charitable tax exemptions are generally justified as relieving "the burdens of government" by providing goods or services that otherwise would not be provided by government or society.² This raises the issue of whether a nonprofit's assets should even be seen as an important part of the tax base. Do we tax a church or low income housing so that the money can be used for education? Charities face budget problems if subject to property tax. A nonprofit with real estate, which is often not easily liquidated, must pay property tax if it did not apply for exemption or its application was denied. For-profit endeavors are usually able to use real estate to earn income through leasing or other earned income activities. However, if nonprofits engage in this earned income activity, under Iowa law they lose their property tax exemption. Consequently, nonprofits have to pay a property tax while also trying to use their revenues wisely to fulfill their charitable missions. They face the problem of either mortgaging the real estate to obtain some cash to pay real estate taxes or delivering fewer services to their beneficiaries.

Tax exemption is sometimes seen as an avenue for tax abuse. However, the way that the property tax exemption is structured in Iowa prevents abuse. Only charities that own real estate from which their services are administered can get the exemption. Charities that rent from for-profit landlords do not get a property tax exemption. Charities that own real estate not used for their charitable activities do not get an exemption from property tax on those pieces of property. For example, a charity cannot own an apartment complex operated at the going rate and get property tax exemption. If the charity owns a significantly large piece of real estate, exemption can only be taken for 320 acres.³ Charities that own real estate and use that real estate to earn money lose property tax exemption.⁴

There are a wide variety of forms of exemption from property tax in Iowa. Property tax exemption is based on a concept of allowing resources of social structures that aid communities to be used as much as possible for meeting community needs. Most forms of property tax exemption in Iowa are based on this rationale. For instance, governmentally owned real estate such as state universities, schools, drainage districts, national guard posts, etc. are exempt from property tax.⁵ Private colleges and schools in Iowa obtain property exemption to aid the same function as governmental schools and universities in the state of Iowa under

In Defense, continued next page

¹See http://www.washingtonmonthly.com/ten-miles-square/2011/08/some_illinois_hospitals_losing031596.php

²*Nonprofit Cases and Materials*, Fishman and Schwarz, 4th ed., Foundation Press 2010

³Iowa Code 427.1(8). Property must be used "solely for their appropriate objects."

⁴Iowa Code 427.1(8). Property must "not leased or otherwise used... with a view to pecuniary profit."

⁵ Iowa Code 427.1(1) and (2).

the general charitable provisions.⁶ A library, art gallery or museum owned by the government is exempt under one code section,⁷ but privately owned libraries etc. (while accomplishing the same function in the community) are exempt under another.⁸ We want to meet the needs of veterans of wars, and Iowa's statute allows veterans associations⁹ and homes for disabled soldiers¹⁰ to have property tax exemption on real estate owned by these groups. Other kinds of charities that meet needs of veterans (food, education, medical, etc.) get exemption under the general charitable provision. Any strategy to balance budgets by removing exemption for charities' real estate, but not other kinds of organizations working for community needs, is a lopsided deprivation of charitable resources, a strategy short-sighted and unfair. We should not deal with the problems of economically slow times by placing the burden solely on the backs of charities.

One of the kinds of charities that receives tax exemption for its real estate is religious organizations. Churches are not without assets; a compilation of Iowa exempt organization values for property tax purposes was done in 2011, with a total value of Iowa churches at \$2,755,504,122.¹¹ Some writers have cited Biblical sources for reasons not to tax churches.¹² The U.S. Congress early in our history exempted churches from taxation. And the U.S. Supreme Court has considered the constitutionality of taxation of churches.¹³ In one case, *Walz v. Tax Commissioner*, the Supreme Court noted that the church's "uninterrupted freedom from taxation" has "operated affirmatively to help guarantee the free exercise of all forms of religious belief." On the other hand, proponents of taxing churches say it violates the Constitution's Establishment Clause by singling out churches for freedom from taxation.¹⁴ Whichever way the constitutionality of taxing churches is decided, it is difficult to imagine that the people of Iowa will be comfortable with property taxation of churches. Given this dilemma, it puts an even greater burden on other kinds of charities if the property tax exemption is kept for churches and denied for other charities.

While all revenues are important to governmental entities in Iowa these days, the portion of real property held by charities is relatively small. The total assessed value of property subject to Iowa taxation in 2010 was \$218,992,539,370.¹⁵ The total assessed value of all property with exemption from property tax in the same tax year was \$9,570,779,595, with \$3,655,313,289 held by charities. In other words, nonprofits have a little less than 1.7% of the real property subject to property tax in Iowa.

⁶Iowa Code 427.1(8) (and (9))

⁷Iowa Code 427.1(2)

⁸Iowa Code 427.1(7) or (8)

⁹Iowa Code 427.1(5).

¹⁰Iowa Code 427.1(10).

¹¹See Iowa Department of Revenue website at <http://www.iowa.gov/tax/locgov/propreports.html>. Total value of all religious properties is \$3,758,486,585.

¹²See Genesis 47:26 (Pharaoh not taxing priests' lands) and Ezra 7:14.

¹³*Walz v. Tax Commission of the City of New York*, 397 U.S. 664 (1970).

¹⁴See <http://taxthechurches.org/>

¹⁵See Iowa Department of Revenue, Property Tax Division, "2010 Property Valuation Report" at <http://www.iowa.gov/tax/locgov/PropValReport2010.pdf> (Ag Land and Structures \$38,062,377,455; Ag Dwelling Realty \$10,374,686,921; Residential \$124,532,360,575; Commercial \$34,668,843,221; Industrial \$6,937,283,186; and Utilities \$4,416,988,012)

Before making changes to its property tax exemption structure, Iowa needs to study the economic impact of doing so. Iowa has done some review of its property tax practices. In 2004 the Iowa Property Tax Implementation Committee was created by House File 692.¹⁶ A 2007 study group looked to outside consultants to, among other things, “identify and review alternative sources of local government revenue by other states... [for] persons and entities who own property that is exempt from property taxation because the property is used for religious, educational, or charitable purposes.”¹⁷ The importance of these efforts is acknowledged, but there has not been a systematic study showing that increasing property tax on charities will have a significant impact on increasing Iowa’s economic outlook.

On the other hand, Iowa’s charities are clearly an important economic factor for stimulating Iowa’s economy. Increasing their property tax exemption will impede this economic force. A 2005 report from the Iowa Nonprofit Resource Center and Iowa Workforce Development stated that Iowa charities in 2004 had \$20.7 billion in assets, spent more than \$8.3 billion, and employed 8.9% of Iowa’s workforce.¹⁸ Imposing a property tax on Iowa nonprofits would impede the economic stimulus provided by its nonprofit sector.

¹⁶See Iowa Department of Revenue website at <http://www.iowa.gov/tax/taxlaw/PTCLegRep1.html>

¹⁷See Iowa Department of Revenue website at <http://www.legis.state.ia.us/Contracts/PropertyTaxStudy/RFP.pdf>

¹⁸See http://www.iowaeconomicdevelopment.com/downloads/char_giving_report_FINAL-02-01-2007.pdf

Changes in Property Tax Exemption in Surrounding States

There have been alterations in property tax exemption rules for nonprofits in two states neighboring Iowa, and these changes have made Iowa nonprofits quite concerned about the stability of their financial positions if such a change were made to the Iowa law of property tax exemption.

Illinois' Property Tax Reform and Relief Task Force completed a report to the Illinois General Assembly on the property tax exemption in 2009.¹⁹ In 2010, the Illinois Supreme Court ruled that Provena Covenant Medical Center in Urbana must pay local property taxes.²⁰ As a result of this decision, a number of other Illinois hospitals' property tax exemptions were denied. By summer of 2012, Illinois' legislature had enacted a new law setting standards for hospitals seeking property tax exemption (SB2194).

Minnesota's constitution has provisions about private charities not being subject to property tax.²¹ What constitutes a "charity" for purposes of this constitutional provision has been debated, and a 2007 appellate decision, *Under the Rainbow Childcare Ctr.*, interpreted it broadly.²² But this was followed by an amendment to the property tax statute in 2011, setting forth six factors needed to establish charitable status for the purpose of the exemption from property tax.²³

Iowa charities believe that the current statutory provisions in Iowa allowing charitable property tax exemption ought to remain unchanged.

¹⁹Illinois Property Tax Reform and Relief Task Force, Report to the General Assembly (2009)

²⁰*Provena Covenant Medical Center v. Illinois Department of Revenue*, 236 Ill. 2d 368 (Ill. Sup. Ct. 2010).

²¹Minn. Const. art. X, sec. 1.

²²*Under the Rainbow Childcare Ctr. V, City of Goodhue*, 741 N.W.2d 880 (Minn. 2007)

²³Minn. Stat. sec. 272.02(7). For an in-depth account of the statutory changes, see Minnesota Council of Nonprofits at <http://www.minnesotanonprofits.org/mcn-at-the-capitol/past-successes/charitable-property-tax-exemption-redefined>

Educating Iowa on Property Tax Exemption

It is important for Iowa's citizens, and nonprofits especially, to have access to information about the charitable property tax exemption. There are currently some good sources, but even more are needed.

Iowa Department of Revenue

There is currently a substantial amount of information on the property tax exemption in Iowa. Iowa's statute on property tax exemption for nonprofits is available both in print and online.²⁴ The Iowa Department of Revenue has numerous helpful resources which include "An Introduction to Iowa Property Tax,"²⁵ "Property Tax Credits and Exemptions,"²⁶ and the "Application for Property Tax Exemption for Certain Nonprofit and Charitable Organizations."²⁷ Going beyond the exemption, there are other helpful pieces on property tax on the DOR website, such as several years of property tax newsletters,²⁸ property tax opinions,²⁹ and contact information for staff at the Property Tax Division.³⁰

The DOR's Property Tax Division is involved in continuing education for county assessors. One of its listed tested courses is "Credit and Exemption workshop (T-0154-15)."

Iowa County Assessor's Offices

Another source for guidance on property tax exemption is county assessor's offices. It is at the county assessor's office where the property is located that the application for exemption is originally filed. For example, the Madison County Assessor's office has a brief portion of its website on property tax credits and exemptions that begins:

Iowa law provides for a number of credits and exemptions. It is the property owner's responsibility to apply for these as provided by law. It is also the property owner's responsibility to report to the Assessor when they are no longer eligible for any credit or exemption they have applied for. Following is a list of several credits and exemptions available in Iowa.³¹

Often the assessor's office focuses on exemptions for private landowners – Homestead Tax Credit, Military Service Exemption and Family Farm Credits. But there is usually a link to the application for charitable exemption on county assessors' webpages. Other examples of county assessors that provide helpful information on some property tax exemptions are Henry County,³² Greene County,³³ and Emmet County.³⁴

²⁴See <http://coolice.legis.iowa.gov/Cool-ICE/default.asp?category=billinfo&service=iowaCode&ga=83&input=427>.

²⁵See <http://www.iowa.gov/tax/educate/78573.html>.

²⁶See <http://www.iowa.gov/tax/taxlaw/PropertyTaxCredits.html>

²⁷See <http://www.iowa.gov/tax/forms/54269.pdf>

²⁸See <http://www.iowa.gov/tax/locgov/propnews.html>

²⁹See <http://www.iowa.gov/tax/locgov/proppolicies.html>

³⁰See <http://www.iowa.gov/tax/contact/propdiv.html>

³¹See <http://www.madisoncoia.us/offices/assessor/assessortaxes.htm>

³²See <http://www.henrycountyiowa.us/offices/assessor/index.htm>

³³See <http://www.co.greene.ia.us/assessor/assessor.htm>

³⁴See <http://www.emmetcountyyia.com/assessor.html>

Finding Information About a Nonprofit's Tax Exemption

It is not easy to find significant amounts of information about a nonprofit's real estate and whether it is exempt from property tax. Sources to consider are the Form 990, the DOR Property Tax Exemption databases, and the county assessor's office website.

A. Form 990

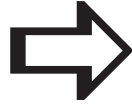
Any nonprofit that has a Form 990 filing is listed on guidestar.org's website. Nonprofits that own real estate must report the asset on the balance sheet on Part X of the Form 990, line 10. (For smaller nonprofits using Form 990-EZ, this is completed on Part II, line 23.) Line 10 includes both investment real estate (which cannot get property tax exemption) and real estate used for the exempt purposes (which can get property tax exemption).

Form 990 (2012)

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Part X Balance Sheet

Check if Schedule O contains a response to any question in this Part X

		(A) Beginning of year	(B) End of year
Assets 	1 Cash—non-interest-bearing	1	
	2 Savings and temporary cash investments	2	
	3 Pledges and grants receivable, net	3	
	4 Accounts receivable, net	4	
	5 Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L	5	
	6 Loans and other receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions). Complete Part II of Schedule L	6	
	7 Notes and loans receivable, net	7	
	8 Inventories for sale or use	8	
	9 Prepaid expenses and deferred charges	9	
	10a Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D	10a	
	b Less: accumulated depreciation	10b	10c
11 Investments—publicly traded securities		11	

This information must also be reported on Form 990, Schedule D, Part VI. Schedule D allows you to break out the land owned from other assets reported on the core Form 990, part X, line 10.

Part VI Land, Buildings, and Equipment. See Form 990, Part X, line 10.				
Description of property	(a) Cost or other basis (investment)	(b) Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land				
b Buildings				
c Leasehold improvements				
d Equipment				
e Other				
Total. Add lines 1a through 1e. (Column (d) must equal Form 990, Part X, column (B), line 10(c).) ▶				

Schedule D (Form 990) 2012

If the nonprofit pays real estate taxes that amount would be reported on line 24 of Part IX of the core Form 990.

B. Iowa Department of Revenue

The Iowa Department of Revenue has a Property Tax Division. Property tax treatment of individual nonprofit properties is not available from this source, but reports on exemption by county are available on this division's website at <http://www.iowa.gov/tax/locgov/propreports.html>

The screenshot shows the Iowa Department of Revenue website. At the top, there is a header with the logo "Department of IOWA REVENUE" and a search bar. Below the header is a navigation menu with links for Home, Businesses, Individuals, Tax Professionals, and Local Government. The main content area is titled "Property Tax - Reports" and lists various reports and studies, including 2012-2007 Property Valuation Reports (pdf), 2012-2008 Exempt Property Reports (Excel), and Summary of Real Estate Assessment Sales Ratio Studies for 2010, 2009, and 2008 (pdf). A "Property Tax Main Menu" link is located at the bottom right of the content area. At the very bottom, there is a footer with links for "Subscribe to e-mail news", "Translate", "Privacy", "Taxpayer Rights", "Links", "PDF Reader", "Excel Viewer", and "Power Point Viewer".

Home	Property Tax - Reports	
Businesses		
Individuals	2012 Property Valuation Report (pdf)	2012 Exempt Property Report (Excel)
Tax Professionals	2010 Property Valuation Report (pdf)	2011 Exempt Property Report (Excel)
Local Government	2009 Property Valuation Report (pdf)	2010 Exempt Property Report (Excel)
	2008 Property Valuation Report (pdf)	2009 Exempt Property Report (Excel)
	2007 Property Valuation Report (pdf)	2008 Exempt Property Report (Excel)
	Summary of Real Estate Assessment 2010 Sales Ratio Study (pdf)	2008 Partial Exemptions (pdf)
	Summary of Real Estate Assessment 2009 Sales Ratio Study (pdf)	
	Summary of Real Estate Assessment 2008 Sales Ratio Study (pdf)	

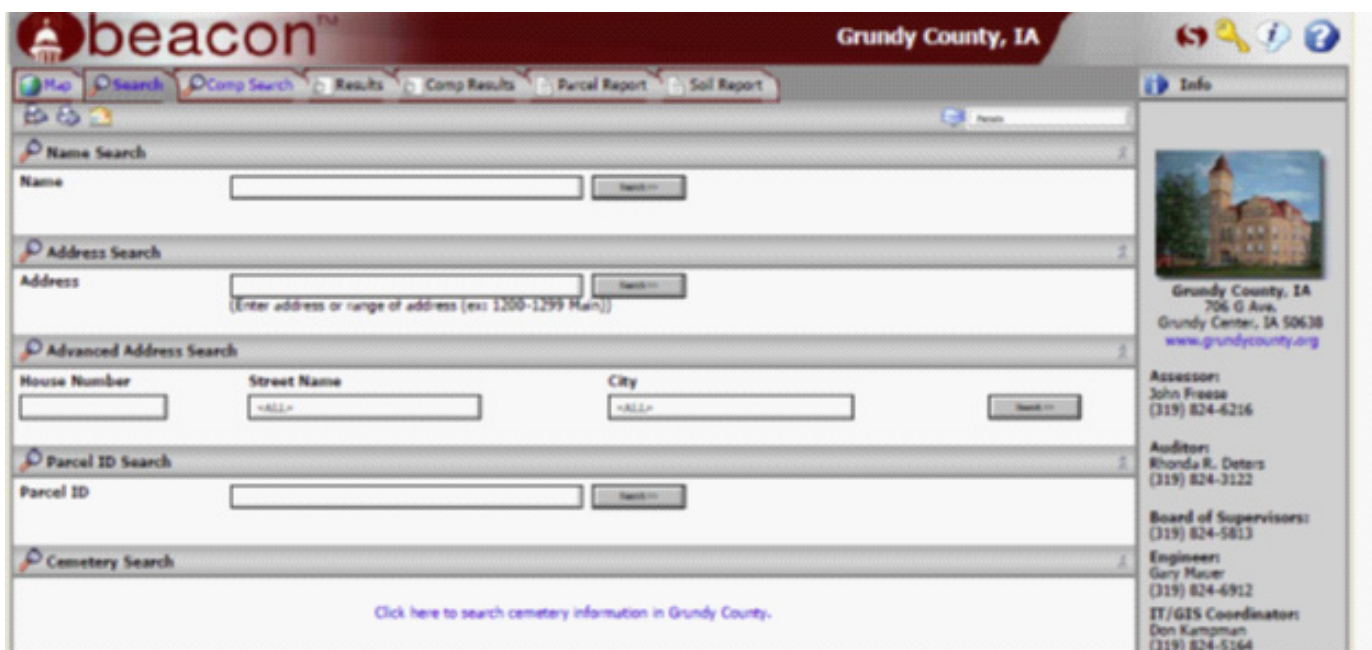
[Property Tax Main Menu](#)

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C. Iowa County Assessors' Offices

Iowa Property Tax Exemption is primarily administered through the county assessor's office of the county where the real estate is located. Most if not all assessors' offices have a parcel-by- parcel search function on their home pages to see which parcels are exempt. A list of county assessors' websites and property search links can be found at the Iowa Assessor and Property Tax Records Directory online at <http://publicrecords.onlinesearches.com/lowa-Assessor-and-Property-Tax-Records.htm>

An example of this is the Grundy County Assessor's Office. Below is the Grundy County Assessor's office search tool for properties located there. You reach the search page by going to the primary Grundy County Assessor's Office page at <http://www.grundycounty.org/DEPARTMENTS/ASSESSOR/tabid/244/Default.aspx> and then clicking on the "Property Search" tab on the right of the screen.



Finding Information, continued

Below is the Grundy County Assessor's office record for the Methodist Church of Conrad. It shows a Gross Assessed Value of \$270,959, and an Exempt Value for the same amount. It is given a "class" of Ex – Exempt Parcels.

Grundy County, IA

[Map](#) [Search](#) [Comp Search](#) [Results](#) [Comp Results](#) [Parcel Report](#) [Soil Report](#)

[Map](#) [Search](#) [Comp Search](#) [Results](#) [Comp Results](#) [Parcel Report](#) [Soil Report](#)

Parcels

Info

Summary

Parcel ID 861730452003

Alternate ID

Property Address 206 E MAPLE

Sec/Twp/Rng N/A

Brief Tax Description BLOCK 1 O P, LOTS 4 & 5 LOT 3
(Note: Not to be used on legal documents)

Deed Book/Page

Contract Book/Page N/A

Gross Acres 0.00

Net Acres 0.00

Class EX - EXEMPT PARCELS
(Note: This is for tax purposes only. Not to be used for zoning.)

District CRBC - CONRAD CITY/BCLUW SCH

School District BCLUW SCHOOL

Owner

Deed Holder	Contract Holder	Mailing Address
Methodist Church Of Conrad		Methodist Church Of Conrad

Valuation

	2012	2011	2010	2009	2008
+ Assessed Building Value	\$194,629	\$194,629	\$0	\$0	\$0
+ Assessed Dwelling Value	\$76,330	\$0	\$0	\$0	\$0
+ Assessed Land Value	\$0	\$0	\$0	\$0	\$0
= Gross Assessed Value	\$270,959	\$194,629	\$0	\$0	\$0
- Exempt Value	(\$270,959)	(\$194,629)	\$0	\$0	\$0
= Net Assessed Value	\$0	\$0	\$0	\$0	\$0

Grundy County, IA
 706 G Ave.
 Grundy Center, IA 50638
<http://www.grundycounty.org>

Assessor:
 John Freese
 (319) 824-6216

Auditor:
 Rhonda R. Deters
 (319) 824-3122

Board of Supervisors:
 (319) 824-5813

Engineer:
 Gary Mauer
 (319) 824-6912

IT/GIS Coordinator:
 Don Kampman
 (319) 824-5164

Recorder:
 Charles E. Kruse
 (319) 824-3234

Sheriff:
 Rick D. Penning
 (319) 824-6933

Treasurer:
 Brenda J. Noteboom
 (319) 824-3108

Zoning & Sanitarian:

The Iowa State Association of County Auditors is working on a Real Estate Statewide Search that would consolidate the counties' information into one search engine.³⁵

³⁵ See http://www.iowaauditors.org/real_estate_search/index.html

Property Tax Exemption Appeals

When property tax exemption is denied by the county, the decision can be appealed first to the board of review (Iowa Code 441.31), and then to the District Court (Iowa Code 441.38). Finally there can be an appeal to the appellate court.

While these sources provide some information about property tax exemption of nonprofits, a more consolidated system would help. For larger nonprofits that administer services in multiple counties, and own real estate in multiple counties, there is not a single source to bring together the records of real estate exempt in these various counties. In addition, nonprofits could use more assistance in understanding the exemption application process, in remaining in compliance with the law during the period of exemption.

Property Tax Exemption Committee Recommendations

Recommendation: There should be a long-standing Iowa Nonprofit Committee that continues to review issues central to the complex nonprofit world, including those of property tax exemption. The committee would cooperate with state government by providing helpful information from the nonprofit sector, proposed solutions to nonprofits on issues, and advice on proposed legislation concerning nonprofits.

Recommendation: The current structure for property tax exemption for nonprofit charities in Iowa is fair and reasonable and should not be altered.

Recommendation: There should be broader and more readily available educational resources on property tax exemption. If the Department of Revenue's Property Tax Division could do an annual training for nonprofits, it would be a significant step forward. This could be a workshop that is part of the Iowa Nonprofit Summit. In addition, the Property Tax Division and the Iowa Nonprofit Collaborative and/or Iowa Nonprofit Resource Center, could collaborate on a guidebook for Iowa nonprofits on applying for and/or sustaining their property tax exemption. It would also be extremely helpful if county assessors had a fuller explanation of charitable property tax exemption on their websites.

For more information contact:

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 THE UNIVERSITY OF IOWA