SUPREME COURT OF OHIO

Chagrin Realty, Inc. v. Testa

114 N.E.3d 204 (Ohio 2018) · Decided November 30, 2018

SUMMARY

The Ohio Supreme Court affirmed the Board of Tax Appeals' denial of a charitable-use property-tax exemption for property owned and leased by Chagrin Realty, a nonprofit corporation. The court held that Chagrin Realty's exclusive activity of owning and leasing property did not qualify as charitable use under Ohio law, and that its federal 501(c)(2) status and relationship to charitable entities did not establish eligibility for the exemption.

CASE DETAILS

COURT	Supreme Court of Ohio
WRITING FOR THE COURT	Maureen O'Connor, Chief Justice; Judith L. French, Justice; Terrence O'Donnell, Justice; William M. O'Neill, Justice; Pat DeWine, Justice; Mary DeGenaro, Justice; Jennifer Brunner, Justice
JURISDICTION	Ohio
DECIDED	November 30, 2018
DISPOSITION	affirmed
PROCEDURAL POSTURE	Appeal by a property owner from a Board of Tax Appeals decision affirming the tax commissioner's denial of a charitable-use real-property-tax exemption, with a cross-appeal by the tax commissioner challenging the BTA's authority to reissue its decision.
STANDARD OF REVIEW	The court determines whether the BTA's decision is reasonable and lawful. It defers to factual findings supported by reliable and probative evidence and to the BTA's credibility determinations and weighing of evidence, subject to abuse-of-discretion review, but reverses decisions based on incorrect legal conclusions.
PRECEDENTIAL VALUE	Published Ohio Supreme Court opinion; precedential.
PARTIES	Chagrin Realty, Inc. v. Tax Commissioner Testa

TOPICS

property tax · tax exempt organizations · administrative law · statutory interpretation · appellate procedure

PRACTICE AREAS

property tax · tax-exempt organizations · administrative law · statutory interpretation

QUESTIONS PRESENTED

1. Whether a nonprofit corporation that qualifies under Internal Revenue Code section 501(c)(2), owns and leases property to a related nonprofit tenant, and distributes net rental income to a related section 501(c)(3) organization qualifies as a charitable institution or makes charitable use of the property under Ohio Revised Code sections 5709.12(B) and 5709.121(A).
2. Whether the BTA reasonably and lawfully denied Chagrin Realty's charitable-use property-tax exemption based on Chagrin Realty's own activities rather than the activities of its related entities.
3. Whether the BTA had authority to reissue its earlier decision after it had been sent to an incorrect address.

HOLDINGS

1. An entity whose sole use of property is leasing it does not qualify for the charitable-use exemption under R.C. 5709.12(B), because leasing has not been found to constitute use exclusively for charitable purposes.
2. A property owner must establish its charitable status based on its own core activities and use of the property; it cannot rely on the activities of a lessee, parent, or other related institution to obtain a vicarious charitable exemption.
3. Federal tax-exempt status under section 501(c)(2) does not establish entitlement to Ohio's charitable-use property-tax exemption because Ohio law applies its own standards for charitable use.

KEY QUOTATIONS

> *"an owner cannot establish its status as a charitable institution by relying on the activities of a lessee or another related institution."* (¶ 13)

> *"It is only the use of property in charitable pursuits that qualifies for tax exemption, not the utilization of receipts or proceeds that does so"* (¶ 18)

> *"a reading of R.C. 5709.121 that essentially substitutes [the] more lenient federal-law standards for the well-developed Ohio law of charitable use."* (¶ 23)

FACTUAL BACKGROUND

Chagrin Realty is an Ohio nonprofit corporation recognized as tax-exempt under Internal Revenue Code section 501(c)(2), organized to hold title to property, collect rental income, and transfer the net income to the Leonard C. Rosenberg Foundation, a section 501(c)(3) organization. It leased the subject property to Community Dialysis Center, a nonprofit entity that operated a hemodialysis facility there. Chagrin Realty's admitted sole activity was owning and leasing the property and distributing the rental proceeds to the Foundation.

PROCEDURAL HISTORY

Chagrin Realty applied for a real-property-tax exemption for tax years 2003 through 2005. The tax commissioner denied the application, and the BTA affirmed. After the BTA reissued its decision at Chagrin Realty's request because the original decision had allegedly been sent to an incorrect address, Chagrin Realty appealed and the tax commissioner cross-appealed. The Supreme Court of Ohio previously resolved the jurisdictional issue concerning the reissued decision and in this opinion affirmed the BTA's denial of the exemption.

DISPOSITION

affirmed

CASES CITED

- HealthSouth Corp. v. Testa, 132 Ohio St. 3d 55, 2012-Ohio-1871, 969 N.E.2d 232
- Rural Health Collaborative of S. Ohio, Inc. v. Testa, 145 Ohio St. 3d 430, 2016-Ohio-508, 50 N.E.3d 486
- Dialysis Clinic, Inc. v. Levin, 127 Ohio St. 3d 215, 2010-Ohio-5071, 938 N.E.2d 329
- Gahanna-Jefferson Local School Dist. Bd. of Edn. v. Zaino, 93 Ohio St. 3d 231, 754 N.E.2d 789 (2001)
- Cincinnati Community Kollel v. Testa, 135 Ohio St. 3d 219, 2013-Ohio-396, 985 N.E.2d 1236
- ShadoArt Prods., Inc. v. Testa, 146 Ohio St. 3d 263, 2016-Ohio-511, 55 N.E.3d 1065
- Northeast Ohio Psychiatric Institute v. Levin, 121 Ohio St. 3d 292, 2009-Ohio-583, 903 N.E.2d 1188
- First Baptist Church of Milford, Inc. v. Wilkins, 110 Ohio St. 3d 496, 2006-Ohio-4966, 854 N.E.2d 494
- Community Health Professionals, Inc. v. Levin, 113 Ohio St. 3d 432, 2007-Ohio-2336, 866 N.E.2d 478
- OCLC Online Computer Library Ctr., Inc. v. Kinney, 11 Ohio St. 3d 198, 464 N.E.2d 572 (1984)
- Agley v. Tracy, 87 Ohio St. 3d 265, 719 N.E.2d 951 (1999)
- Hubbard Press v. Tracy, 67 Ohio St. 3d 564, 621 N.E.2d 396 (1993)
- Akron Golf Charities, Inc. v. Limbach, 34 Ohio St. 3d 11, 516 N.E.2d 222 (1987)
- Church of God in N. Ohio, Inc. v. Levin, 124 Ohio St. 3d 36, 2009-Ohio-5939, 918 N.E.2d 981
- Vick v. Cleveland Mem. Med. Found., 2 Ohio St. 2d 30, 206 N.E.2d 2 (1965)
- NBC-USA Hous., Inc.-Five v. Levin, 125 Ohio St. 3d 394, 2010-Ohio-1553, 928 N.E.2d 715

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