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Tax Court Places Burden of Proof on Princeton University in Tax Exemption Case

The Tax Court of New Jersey issued a precedent-setting decision which will have far-ranging impacts in that it clarifies which party has the burden of proof in challenging a real property tax exemption. In 2011, a number of residents of the Borough of Princeton filed a complaint in the Tax Court of New Jersey challenging the tax-exempt status for real property taxation purposes of Princeton University. Typically in property tax matters, the original assessment is entitled to a presumption of correctness, and the taxpayer challenging an assessment has the burden of overcoming that presumption. Princeton University sought a declaration in the case as to which party has the burden of proof, in this case the residents who filed the complaint, or the university. A burden also attaches to exempt status: A property owner seeking exempt status has the burden of proof to establish eligibility to an exemption. The Tax Court described the burden to establish a property tax exemption as "stringent" because the "fundamental approach...is that ordinarily all property shall bear its just and equal share of the public burden of taxation." The court went on to say, "Statutes granting exemption from taxation represent a departure, and consequently they are most strongly construed against those claiming exemption."

The university argued that placing the burden on it to defend its exemption erroneously burdens the municipal defendant and abolishes the presumption of validity. The Tax Court concluded that the university's arguments "defy firmly established precedent." The court noted that there is a clear difference between the process for valuation assessments and that for exemption determinations. An exemption determination, it reasoned, "is an evaluation based...on the reliability of representations made by the applicant in the paperwork submitted in support of the application for exemption, and of the actual use of the property for which a tax exemption is claimed." The exemption determination is "one of statutory and case law" rather than one requiring any special expertise of the assessor. Statutory construction, the court reasoned, is ultimately a judicial function. Therefore, the presumption of correctness of assessments does not apply to exemption determinations.

The court went on to say the burden of proof does not shift from the university to the residents challenging the exemption status. It concluded that the burden is always on the entity claiming the exemption. It found that "more compelling public policy concerns rest squarely on the side of the taxpayer's right to challenge the exemption, and for Princeton [University] to prove it meets the criteria for the exemption."

The Tax Court's decision clearly places the burden on those claiming an exemption, arguably making exemption challenges by residents easier to prosecute.

The case is *Estate of Lewis v. Trustees of Princeton University*, 2015 N.J. Tax Lexis 17 (Tax Ct. Nov. 15, 2015) (approved for publication).

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