Comptroller of the Treasury

Quarterly Fiscal Affairs Report

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Tennessee's Property Tax ☆☆☆

State Law directs the Comptroller to make quarterly reports to the Fiscal Review Committee concerning the state's fiscal affairs. This report concentrates on the ad valorem property tax system in Tennessee and contains information about the following:

- The constitutional basis for the property tax
- State and local roles in property tax assessment and administration
- Periodic reappraisal methodology and trends, including the effects of the 2008 recession on property values
- Factors that impact the property tax base

Constitutional Basis for the Property Tax

Tennessee's property tax is one of the oldest and most significant sources of revenue for local governments. Article II, Section 28 of the Tennessee Constitution is the basic constitutional authorization to tax; it provides that counties and municipalities are authorized to levy a property tax on all property — real, personal, or mixed — based on the value of the property. Pursuant to this constitutional authorization, the General Assembly enacted T.C.A. § 67-5-101, which provides that all property, real and personal, shall be assessed for taxation for state, county, and municipal purposes, except for the property declared exempt. In addition, the General Assembly has enacted legislation to enforce the power to tax and to determine various methods of ascertaining "fair market value." Counties and municipalities are authorized by the General Assembly to levy taxes on all property within their boundaries.

State and local roles in property tax assessment and administration

Several state and local agencies play a role in property tax assessment and administration. While the County Assessor of Property may immediately come to mind as the key player in establishing value for property subject to taxation, the other involved parties also fulfill important responsibilities:

State Level

- The **General Assembly** provides statutory guidance to the property assessment process.
- The **State Board of Equalization** establishes rules, policies, manuals and guidelines for property assessments and reviews and acts on applications for property tax exemptions. The SBOE hears property owner appeals at the state level.
- The **Division of Property Assessments (DPA)** provides oversight and technical assistance on a wide range of assessment areas including reappraisal programs, assessment training, and appeal assistance. The Division also provides Computer Assisted Mass Appraisal (CAMA) systems for use by counties and administers the state's property tax relief program for low income elderly, disabled, and disabled veteran homeowners and their surviving spouses.
- The **Office of Local Government** provides assistance to counties with maintenance of property ownership maps.
- The **Office of State Assessed Properties (OSAP)** appraises and assesses public utility and transportation company properties, certifying their assessments to local collectors for billing and collection.

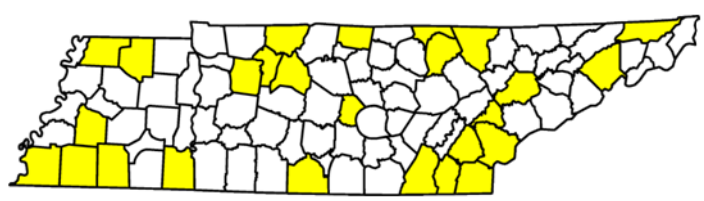
Local Level

- The County **Assessor of Property** appraises and assesses all taxable property in the jurisdiction, conducts periodic reappraisals, and develops and delivers the annual tax roll to city and county collecting officials.
- The **County Board of Equalization** certifies the Assessor's assessments and hears taxpayer complaints.
- County and City **Legislative Bodies** adopt property tax rates based on their jurisdictions' budgetary requirements.
- County and City **Collectors** (Trustee and City Recorders) bill and collect property taxes based on the assessments provided by the Assessor of Property and the tax rates set by their commissions and councils.

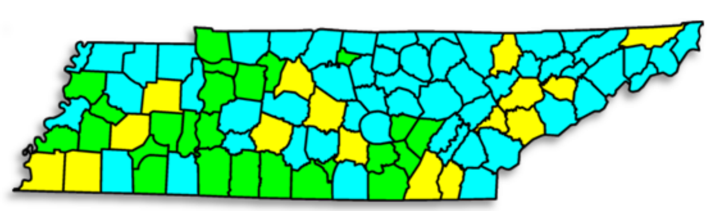
Periodic Reappraisal Methodology and Trends

Reappraisal of property for tax purposes is required on a periodic basis to update appraisals to reflect current market value and to ensure equity of appraisals throughout a given jurisdiction. Pursuant to T.C.A. § 67-5-1601, every county in Tennessee is on a four, five, or six year reappraisal cycle. The State Board of Equalization may approve reappraisal cycles of less than four years, though the logistics and administrative costs associated with a more frequent cycle make this difficult for most counties to seriously consider.

26 Tennessee Counties completed Reappraisal in 2013



State law requires that reappraisals be conducted in accordance with generally accepted appraisal principles. The state's Division of Property Assessments directs, monitors, and recommends the new values to the State Board of Equalization, which conducts the final review and grants final approval. Twenty-six counties, including Davidson, Hamilton, Knox, and Shelby, completed reappraisals in 2013. The inclusion of the state's four largest cities meant that approximately half of the over three million parcels of real property in the state were reappraised in a single year.

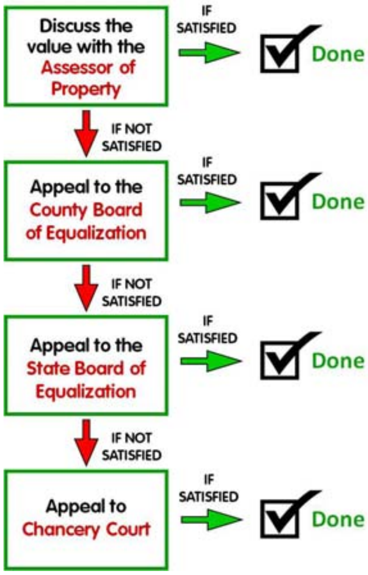


Current County Reappraisal Cycles

4 Year Cycle (16)
5 Year Cycle (54)
6 Year Cycle (25)

Appeals Process

The assessment appeal process in Tennessee begins at the county level, followed by appeal to the state and ultimately the courts.



Effects of the 2008 Recession on Property Values

The results of the most recent county reappraisals are the clearest evidence of how the bursting of the real estate bubble and recent mortgage crisis affected property values across the state. Though Tennessee did not experience the tremendous value losses and foreclosure rates seen in states such as California, Arizona, Nevada, and Florida, we did not escape unharmed. In a pre-2008 market, the 26 counties that conducted reappraisals in 2013 would most likely have seen double digit appreciation of property values over the last four or five years. Instead, property values in these counties were little changed from their previous appraisal: approximately half of the counties had minor decreases in the value of their countywide assessment, while the remainder showed a very modest increase. Other factors behind the weak growth in property values include sluggish new housing and new business construction, decreased sales of existing housing stock, and a tightening of mortgage lending practices.

Factors that Impact the Property Tax Base

Several classifications, programs, and initiatives serve to limit the property tax base, including:

Public property and some 501(c)(3) organizations

All property of the United States, the state of Tennessee, any county, or any incorporated town, city, or taxing district in the state that is used exclusively for public, county, or municipal purposes is exempt from taxation. Additionally, property owned by religious, charitable, scientific, or educational institutions is exempt from taxation if it is occupied and used by the institution exclusively for carrying out one or more of the exempt purposes for which the institution was created or exists. These exemptions can add up to a significant amount of the possible tax base in counties that contain national or state parks, universities, or large military installations.

Greenbelt

In 1976, the Tennessee General Assembly enacted the "Agricultural, Forest, and Open Space Land Act of 1976," commonly known as the Greenbelt Program. The program's purpose was to help preserve agricultural, forest, and open space land from early development, prevent urban sprawl, and help save family farms that were threatened by high property tax rates. Greenbelt-covered property is assessed based on its current use as agricultural land rather than according to speculative market values. The assessed value of Greenbelt property is generally 60 to 80 percent lower than typical market values, though the difference varies by county. Around 50 percent of the land acreage in the state is now enrolled in the Greenbelt program. This percentage is higher in some areas, such as the rural farming areas of West Tennessee. Property owners are limited to a maximum of 1,500 acres per county.

Economic Development Agreements

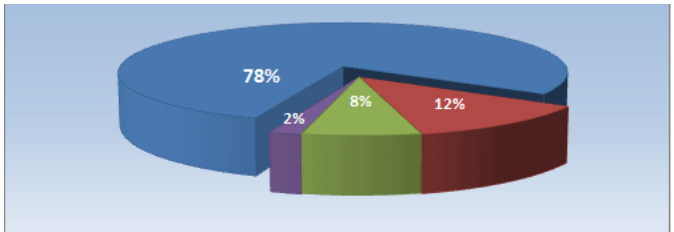
Property tax abatements have become a popular tool used by local governments to recruit industry. Industrial development agreements between a local government and a private company may include a provision that transfers the private company's real and personal property to the public Industrial Development Board, which is exempt from taxation. In exchange for favorable tax treatment, the private company agrees to pay the local government a negotiated amount, referred to as a "Payment In Lieu Of Tax," or PILOT. At the end of the agreement period, the property is transferred back to the company and is placed on the tax roll at full value. PILOT payments calculations vary, but are most often an incremental percentage of what the actual taxes would have been otherwise.

Tax Increment Financing

Tax Increment Financing (TIF) is a financing method used by local governments to subsidize the cost of new development projects through expected future gains in tax collections. The current tax rate for a TIF property is frozen at its predevelopment level and any increase in assessment or tax collections in future years is directed to pay off the project. TIF has primarily been used for housing and redevelopment in the past, though its use for economic development is growing. http://www.comptroller.tn.gov/repository/NR/4_PageRoadmap.pdf

Tax Relief

Percentage of Tax Year 2012 Tax Relief Claims by Classification



	Elderly	Disabled	Disabled Veterens	Widow(er) of Disabled Veteran
Number of Claims*	110,618	17,333	10,454	2,825
Average Payment Per Claim	$149.00	$142.00	$713.00	$713.00
Total Amount of Payments	$16,500,029	$2,478,761	$7,473,230	$2,017,203

*This chart represents claims. An applicant may have both a county and city claim.

Several programs provide property tax assistance to certain classes of homeowners. The largest program is the state's property tax relief program for low income elderly, disabled, and disabled veteran homeowners and their surviving spouses. Some local governments have created their own tax relief programs. Local programs typically match all or a portion of the tax relief payments made by the state.

Tax Freeze

In 2007, the General Assembly enacted the Property Tax Freeze Act, which authorizes the legislative body of any county or municipality to adopt a program to freeze the property taxes of qualifying low income, elderly homeowners. This program has been adopted by 22 counties and 25 cities across the state.

Special Valuation Properties

As new technologies emerge, many new industries are requesting legislative relief from property taxation at traditional levels of value. The most recent examples are in the area of green energy production such as solar and wind power. Special assessment procedures have been developed and codified to encourage the growth of such industries as alternative energy sources.

Conclusion ☆☆☆

In almost every public poll conducted regarding which taxes are the least popular among taxpayers, the property tax is always by consensus the "most hated tax." Most of this animosity comes from property owners' feelings about paying an annual tax on something they already own, with the government also determining the amount of tax owed as well as the property value. While it's unpopular, the property tax is seen as basically a fair tax that is applied to all properties based on procedures provided by law with the opportunity for citizens to examine and appeal the resulting values. The property tax includes some well-intentioned and accepted exemptions and relief programs, but it does not allow the perceived loopholes of the federal income tax with the myriad of deductions and shelters that can effectively reduce the amounts owed. It is difficult to hide property from assessment and, in this age of easy access to public records, impossible to keep the tax liability of that property from public knowledge.

Local governments in Tennessee have historically relied heavily on property tax revenue as a steady stream of income from a base of assessments that increased annually through appreciation and growth. Such growth allowed many local governments to avoid significant tax increases for several years. The lean economic times of recent years coupled with declining property values have forced many jurisdictions to face the difficult choice of whether to raise property tax rates or reduce spending and the level of services that can be provided to citizens.

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