

ADMINISTERING PROPERTY TAX EXEMPTIONS

Best Practices Discussion with the Tennessee State Board of Equalization

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PROPERTY TAX EXEMPTIONS

Discussion Topics

- 🌐 Why Exemptions Matter
- 🌐 The Cost of Exemptions
- 🌐 Source & Authority
- 🌐 Administering Exemptions
- 🌐 Returning to the Tax Roll
- 🌐 On the Horizon



WHY EXEMPTIONS MATTER:

Direct impact on your tax rate

- 🌐 Tax rate typically equals the amount of revenue to be derived from property taxes divided by the total assessed value of taxable property.

➤ $\text{Tax Rate} = \text{Budget} / \text{Assessed Value}$

- 🌐 Property exemptions reduce the total assessed value of property in the subject jurisdiction.



WHY EXEMPTIONS MATTER:

Exemptions can take many different

forms: Governmental, state and local

- 🇺🇸 Religious, scientific, literary, educational, charitable nonprofit organizations
- 🇺🇸 Tax Incentives: Payment in Lieu of Taxes and/or industry specific exemptions
- 🇺🇸 Personal Property Exemptions/Exceptions
- 🇺🇸 Household & Homestead Exemptions



WHY EXEMPTIONS MATTER:

Exemptions can be relatively minor

- 🇺🇸 Church of God:
- 🇺🇸 Total Appraised Value (2018):
 - \$183,800
- 🇺🇸 Total Assessment (2018):
 - \$0



WHY EXEMPTIONS MATTER:

Exemptions can be quite valuable

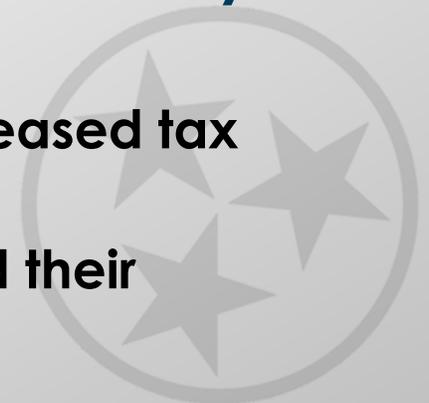
- 🇺🇸 Vanderbilt University Children's Hospital:
- 🇺🇸 Total Appraised Value (2018):
 - \$885,908,100
- 🇺🇸 Total Assessment (2018):
 - \$0



THE COST OF EXEMPTIONS:

Is it worth it?

- ❶ **Difficult to estimate true value.**
 - Requires Data and Assumptions
- ❷ **A form of state economic incentive for private companies and assistance to nonprofit organizations.**
 - “revenue neutral,” but increases the tax rate.
- ❸ **Assumes tax savings are conferred to community supporting the exempt property.**
 - Incentives to companies may result in an increased tax base.
 - Recognizes nonprofit organizations who spend their resources on community projects.



SOURCE & AUTHORITY

Constitution

- Typically broad authority to tax or exempt property from taxation.
- Can identify assessment framework.
- Vests authority in taxation to governing bodies.

Statute

- Identifies specifics related to administration in taxation.
- Cannot exceed a state constitutional directive.
- Expands upon constitutional taxation framework.



SOURCE & AUTHORITY

Identifying Exempt Property

- 🌐 Is all property taxable unless specifically exempted?
- 🌐 What is considered “all property” for purposes of taxation?
- 🌐 Who is responsible for the identification and assessment of property?



SOURCE & AUTHORITY

Identifying Exempt Property

- 🇺🇸 Tennessee – Art. II, Section 28 “all property real, personal or mixed shall be subject to taxation . . .”
- 🇺🇸 Virginia – Art. X, Section 1 “All property, except as hereinafter provided, shall be taxed.”
- 🇺🇸 Florida – Art. VII, Section 9 “Counties, school districts, and municipalities shall, and special districts may, be authorized by law to levy ad valorem taxes . . . except ad valorem taxes on intangible personal property and taxes prohibited by this constitution.”



SUBJECT TO TAXATION?

Words to look out for:

- 🇺🇸 Shall
- 🇺🇸 May
- 🇺🇸 As determined
- 🇺🇸 By (general) Law
- 🇺🇸 As the Legislature . . .
- 🇺🇸 Any county/governing body/municipality



SUBJECT TO TAXATION?

Tennessee Constitution

🇺🇸 Art. II, Section 28:

- 🇺🇸 “**the Legislature . . . shall except** the direct product of the soil in the hands of the producer, and his immediate vendee, and the entire amount of money deposited in an individual’s personal or family checking or savings accounts.”
- 🇺🇸 (c) All other Tangible Personal Property, to be assessed at five (5%) percent of its value; provided, however, that **the Legislature shall exempt** seven thousand five hundred (\$7,500) dollars worth of such Tangible Personal Property which shall cover personal household goods and furnishings, wearing apparel and other such tangible property in the hands of a taxpayer.
- 🇺🇸 **Section 30.** No article manufactured of the produce of this state, **shall be taxed** otherwise than to pay inspection fees.

SUBJECT TO TAXATION?

Virginia Constitution

🇺🇸 Art. X, Section 6:

- 🇺🇸 (a)(5) Intangible personal property, or any class or classes thereof, as **may be** exempted in whole or in part by general law.
- 🇺🇸 (c) Except as to property of the Commonwealth, the **General Assembly** by **general law** may restrict or condition, in whole or in part, but not extend, any or all of the above exemptions.
- 🇺🇸 (e) The **General Assembly may** define as a separate subject of taxation household goods, personal effects and tangible farm property and products, and **by general law may** allow the governing body of any county, city, town, or regional government to exempt or partially exempt such property from taxation, or by general law may directly exempt or partially exempt such property from taxation.

SUBJECT TO TAXATION?

Florida Constitution

🌟 Art. VII, Section 3.

- 🌟 (a) All property owned by a municipality and used exclusively by it for municipal or public purposes **shall be** exempt from taxation. A municipality, owning property outside the municipality, **may be** required **by general law** to make payment to the taxing unit in which the property is located. Such portions of property as are used predominantly for educational, literary, scientific, religious or charitable purposes **may be** exempted **by general law** from taxation.
- 🌟 (b) There **shall be** exempt from taxation, cumulatively, to every head of a family residing in this state, household goods and personal effects to the value fixed **by general law**, not less than one thousand dollars, and to every widow or widower or person who is blind or totally and permanently disabled, property to the value fixed **by general law** not less than five hundred dollars.
- 🌟 (c) Any **county or municipality may**, for the purpose of its respective tax levy and subject to the provisions of this subsection **and general law**, grant community and economic development ad valorem tax exemptions to new businesses and expansions of existing businesses, as defined **by general law**.

SUBJECT TO TAXATION?

Who has the authority?

- 🌐 Is the power to assess specified in your state constitution?
- 🌐 Is the assessor's role defined in the statutory framework?
- 🌐 How are exemptions incorporated into your state's statutory scheme?
 - Do they simply repeat the constitutional language?
 - Do they task any official with carrying out the exemptions?



HYPOTHETICAL:

Manufactured?

- 🇺🇸 **Tenn. Const. Article II, Section 30.** No article manufactured of the produce of this state, **shall be taxed** otherwise than to pay inspection fees.



HYPOTHETICAL:

Manufactured?

Hatch Show Print:

- Started by the Hatch Family in 1879.
- Letterpress shop, creating handbills, posters, and advertisements.
- Located in the lobby of the Country Music Hall of Fame and Museum building.



HYPOTHETICAL:

Manufactured?



(photos supplied by local artist, Brandie Lee)

HYPOTHETICAL:

Manufactured?

🌐 Carved Reliefs:

- Used to manufacture specific prints.
- The manufacturing process treated the wood increasing its value. Today the relief carvings can become art pieces of independent value.
- Hatch Family used treated wood in furniture and fixtures.
- Relief carvings may become part of a collection capable of sale and value as an art collectible.

🌐 Are the reliefs taxable equipment?

🌐 Or are they manufactured articles?

🌐 Who decides the assessment?



IS THE POWER OUT OR IS NO ONE HOME?

Issues related to poor administration: (Taxing Authority)

🌐 Set it and forget it mentality

- An exemption doesn't always last forever.
- A lack of taxes does not equate to lack of value.

🌐 Parcel vs. Person driven

- Exemptions are typically associated with a specific parcel of land, but the owner is also a key element.

🌐 Is the Taxpayer honoring the terms of the exemption?



IS THE POWER OUT OR IS NO ONE HOME?

Issues related to poor administration: (Taxpayer)

- ❁ **Who owns the property?**
 - Ownership documentation may need to be updated.
 - What effect will that have on your exemption?
- ❁ **Can you sell/buy the property?**
 - Are there rollback taxes?
 - Will the exemption transfer or is it automatic?
- ❁ **Are you following the terms of the exemption?**



EXEMPTING PERSONAL PROPERTY

To assess or not to assess, that is the question:

- 🌐 **If you do not apply personal property assessments adequately you are exempting property.**
 - **Apply a square footage assessment from comparable property. (as permitted in your state)**
- 🌐 **Personal property exemptions, do you value?**
 - **It depends, residential or commercial?**



RETURNING TO THE TAX ROLL

Taxes shouldn't be a surprise ending.

- 🌐 **How does your exemption end?**
 - On Transfer to a new owner?
 - Does the exemption expire?
 - Was it a legislative change?
- 🌐 **Both the governing body and the taxpayer should know the estimated taxes at the end of the exemption.**



ON THE HORIZON

Recent Tennessee Legislation:

🌐 Public Ch. No. 1064 –New PILOT Requirements for Retail Projects

- Prohibited from entering into a PILOT for a retail project for longer than 10 years plus a reasonable construction period not to exceed 3 years unless one of the following requirements is met:
- Joint IDB with representation of all affected taxing jurisdictions within the county
- IDB has entered into an interlocal agreement with other taxing jurisdictions to establish criteria for any PILOT agreements that might affect shared tax bases
- IDB has received written approval from each affected local governmental entity
- IDB pays the other affected local government the amount of ad valorem taxes would otherwise receive for the affected property based on assessed value after the initial 10 years of the agreement

ON THE HORIZON

Recent Tennessee Legislation:

Public Chapter No. 971

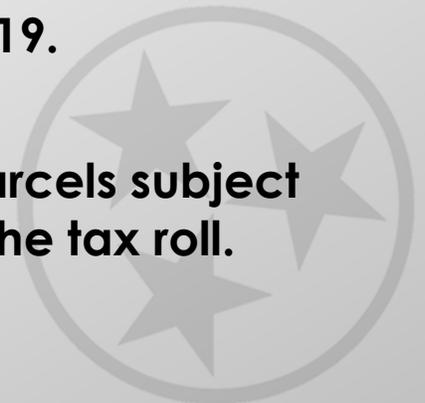
- “Articles manufactured from the produce of this state, or any other state of the union, in the hands of the manufacturer” include and have always included aged whiskey barrels during the time in which such barrels are owned or leased by a person that produces or manufactures whiskey in those barrels.

Public Chapter No. 1735

- TACIR to perform a study of, and determine the amounts of, nontax-producing properties held by state and local governments. Report is due to FWM on March 1, 2019.

Public Chapter No. 911

- For purposes of calculating the certified tax rate, parcels subject to tax increment financing shall be excluded from the tax roll.



ON THE HORIZON

An eye on exempt properties:

- 🌐 **Local governments facing limited funding and higher demand for services.**
- 🌐 **Infrastructure funding issues.**
- 🌐 **Disappearance of faith communities & places of worship.**



CLOSING & THANK YOU

Questions:

- 🇺🇸 Who?
- 🇺🇸 What?
- 🇺🇸 Where?
- 🇺🇸 When?
- 🇺🇸 Why?
- 🇺🇸 Huh?

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