



March 27, 2024

SUMMARY OF BILL AS AMENDED (017538): Removes present use valuation for certain residential property. Authorizes a county to create a program by which an owner of real property in the county may apply for a present use property tax credit. Authorizes a county legislative body (CLB), upon changing a zoning classification, to appropriate increased revenue resulting from the change to provide property tax credits to offset all or a portion of the increased tax payment.

FISCAL IMPACT OF BILL AS AMENDED:

Increase State Expenditures – \$92,500/FY24-25/Comptroller of the Treasury

Other Fiscal Impact – The proposed legislation will result in a recurring increase in forgone local revenue and increase in local expenditures, both of which cannot be quantified with reasonable certainty but are considered permissive.

Assumptions for the bill as amended:

- Tennessee Code Annotated § 67-5-601(c) authorizes an owner of residential property, which is occupied by the owner for at least 25 years and is zoned for commercial use, to apply to the county assessor of property (Assessor) for the property to be assessed based on its market value for residential purposes.
- The proposed legislation deletes Tenn. Code Ann. § 67-5-601(c), which may result in an increase in property tax revenue for properties that would no longer be assessed based on present use value.
- The Comptroller of the Treasury (COT) administers the state computer-assisted mass appraisal system known as IMPACT, which is used by 86 of Tennessee's 95 Assessors.
- Based on information provided by the COT, deleting the above provision would affect 63 properties within those 86 counties; given the limited number of properties impacted, it is estimated that any increase in local revenue would be not significant.
- The proposed legislation authorizes a county to create a program by which a property owner may apply for a present use property tax credit by filing an application with the Assessor.
- The application will be created by the State Board of Equalization (SBE) within the COT utilizing existing staff and resources, resulting in no significant increase in state expenditures.

- According to the COT, the proposed legislation would require modifications to the IMPACT system to allow Assessors to manage, value, and assess the present use of properties. It is estimated that the modifications will require 500 hours of work at \$185 per hour.
- The one-time increase in state expenditures is estimated to be \$92,500 (500 x \$185).
- Nine counties operate independent appraisal systems. If those counties choose to create the proposed program, those counties would need to update their systems. Any permissive increase in local expenditures cannot be estimated.
- The proposed legislation authorizes a CLB, upon changing a zoning classification, to appropriate a portion of increased tax revenues resulting from the change in zoning classification for the provision of present use property tax credits to offset all or a portion of increased tax payments attributable to the change in zoning classification.
- Assuming the proposed legislation applies to zoning changes going forward, and a CLB appropriates property tax revenue to provide tax credits in an amount that would offset all or a portion of the increased tax amount, there will be a recurring increase in forgone property tax revenue.
- Denials of applications for classification would be appealed to the Assessor or SBE in the same manner as other property tax appeals. Any increase in appeals to the office of the Assessor or the SBE is estimated to be not significant and will be absorbed utilizing existing staff and resources.
- If a property that has been subject to a present use property tax credit changes such that it no longer qualifies, the Assessor must compute the amount of taxes saved, and the owner of the property is liable for three years of rollback taxes.
- To the extent that counties elect to create the proposed program, there will be a recurring increase in forgone local revenue; however, any permissive, recurring increase in forgone local revenue cannot be precisely quantified.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

/bh