

# Tennessee

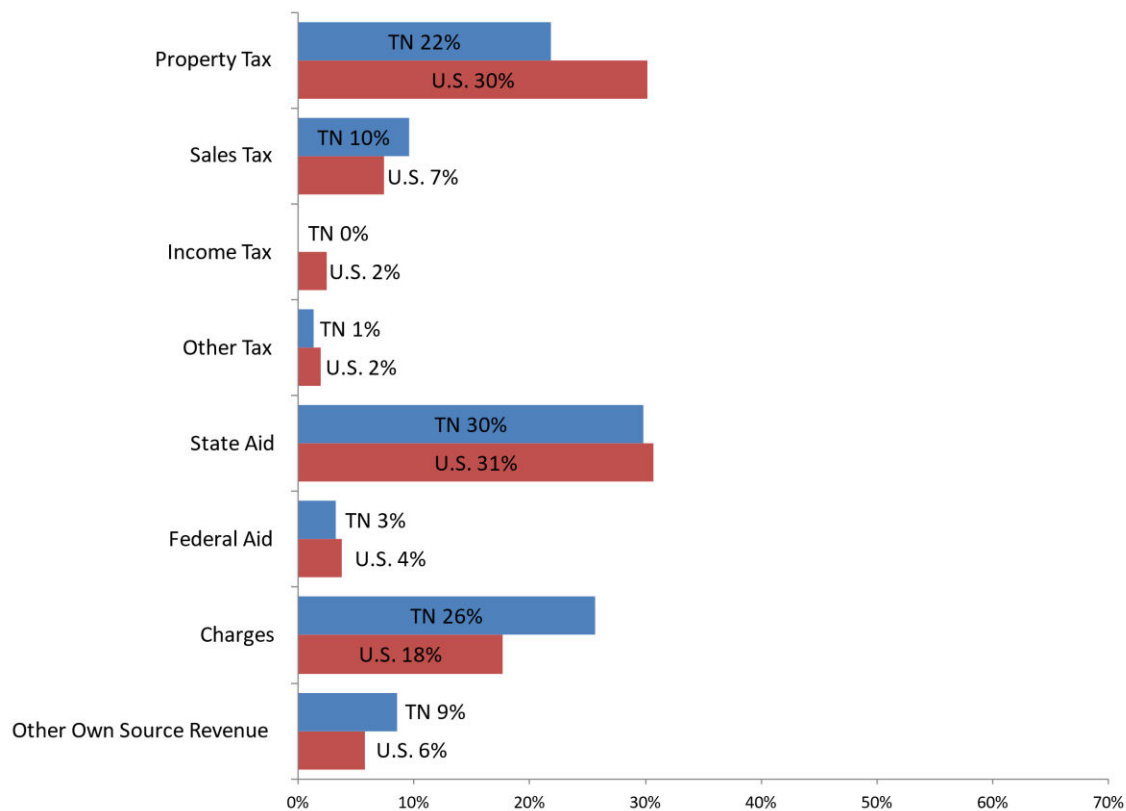
## Highlights

Tennessee relies less on the property tax than do most other states, partly because sub-state governments have the authority to enact local option sales taxes, which many localities have done. Tennessee local governments also rely much more heavily on charges than do local governments in other states (figure TN-1).

The state is one of only four others with no state-imposed limitation on property tax rates, levies, or assessments (Paquin 2015; Significant Features of the Property Tax). Although Tennessee does not place constraints on property taxation, it does have a truth-in-taxation requirement.

In 1973, Tennessee adopted a system of property tax classification. Assessment ratios for the five property classes range from 30 percent for business personal property to 55 percent for real and personal property of public utilities.

**Figure TN-1**  
**Sources of Local General Revenue, Tennessee and U.S., 2019**



Source: U.S. Census via Significant Features of the Property Tax

## Property Tax Reliance

In 2019, Tennessee’s reliance on the property tax was low compared to other U.S. states, whether measured as property tax per capita, property tax as a percentage of personal income, property tax as a percentage of state-local revenue, or the effective property tax rate on the median-value owner-occupied home (table TN-1).

**Table TN-1**  
**Selected Tennessee Property Tax Statistics, 2019<sup>1</sup>**

	Tennessee	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$834	\$1,758	48
Property tax percentage of personal income	1.7%	3.1%	50
Total property tax as percentage of state-local revenue	11.6%	16.6%	41
Median owner-occupied home value <sup>2</sup>	\$167,200	\$217,500	35
Median real estate taxes paid for owner-occupied home <sup>2</sup>	\$1,190	\$2,471	45
Effective tax rate, median owner-occupied home <sup>3</sup>	0.7%	1.1%	37

Sources: [U.S. Census via Significant Features of the Property Tax](#), American Community Survey

<sup>1</sup> All revenue numbers in this table include the state government as well as local governments.

<sup>2</sup> The statistics for [median owner-occupied home value](#) and [median real estate taxes paid for owner-occupied home](#) are five-year average statistics for years 2015-2019.

<sup>3</sup> Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

## Administration and Assessment

Assessment of most property is performed by Tennessee’s 95 counties (table TN-2). State law requires that property be reappraised every four to six years, depending on the county, with physical reinspection every three to five years. Tennessee’s property tax administration system is highly transparent, with county assessment data centralized in an easily accessible online database. The International Association of Assessing Officers awarded Tennessee the Distinguished Assessment Jurisdiction Award for the online system (Paquin 2020).

Tennessee has six separate classifications for property, each with a corresponding assessment percentage: (1) public utility real and personal property (55 percent); (2) industrial and commercial real property (40 percent); (3) residential real property that contains no more than one rental unit (25 percent); (4) farm real property (25 percent); and (5) business personal property (30 percent) (Tennessee Department of Revenue).

## Limits on Property Taxation

Tennessee's truth-in-taxation requirement ensures that higher taxable values after a reappraisal do not automatically result in a tax increase. After a general reappraisal, counties and municipalities must advertise intent in the newspaper and hold a public hearing before they adopt a resolution or ordinance establishing a tax rate that would generate greater overall tax revenues than were billed in the year before the reappraisal (Tennessee Comptroller of the Treasury).

## Property Tax Relief and Incentives

Tennessee has an incentive that promotes improvements of historic structures in counties with populations greater than 200,000 or in incorporated municipalities. Subject to various criteria, the value of any improvement is exempt from property taxation for 10 to 15 years. The state also promotes economic development through tax increment financing.

A local option property tax freeze act has currently been adopted by 23 counties and 33 cities in the state as of 2019 (Tennessee Comptroller of the Treasury 2019). Under this program, property taxes are held at the lesser of the value recorded in the year the property owner became eligible for the program, or the current value. To qualify for the program, individuals must be at least 65 years of age, use the property as their primary residence, and meet income requirements.

Tennessee does not have a circuit breaker but has property tax credits that provide property tax relief for homeowners who are low-income elderly, disabled, or disabled veterans.

**Table TN-2**  
**Property Tax Features of State Governments, United States, 2020**

Feature	Tennessee	Count for 50 states plus DC
<a href="#">Statewide classification of real property</a>	Yes	25
<a href="#">Assessment of property primarily by county</a>	Yes	31
<a href="#">Limits on property tax rates or levies</a>	No	45
<a href="#">Limits on the rate of growth of assessed value</a>	No	18
<a href="#">Circuit breaker property tax relief program</a>	No	31

Sources: Significant Features of the Property Tax

## Key Property Tax History

When Tennessee became a state in 1796, both the state and local governments levied property taxes, but the property tax did not become an ad valorem tax until the second state constitution was ratified in 1835. The state government continued levying a property tax until 1949 (Green, Chervin, and Lippard 2002).

Authorization of the local option sales tax in 1963 reduced local government reliance on property tax revenue.

Litigation brought by railroad companies in 1965 led to the adoption of a property tax classification system in 1973 whereby different types of property are taxed at different rates. In 1976, Tennessee adopted use value for agriculture, forest, and open space (Green, Chervin, and Lippard 2002).

In the 1980s, Tennessee reformed its property tax assessment system. The Division of Property Assessments developed a statewide computer-assisted tax billing system in 1985 and in 1989, the state enacted Chapter 495 of the Public Acts of 1989 which implemented systematic revaluation cycles of four to six years with physical re-inspection phased in over the term of the cycle (Stein, Allen, and Lippard 2003; Paquin 2020, 112).

Significant disparities in property tax bases among counties over time led to substantial differences in education funding across counties. The Basic Education Program (BEP) was enacted in 1992 as a result of litigation that determined that the state's previous school district funding mechanism was unconstitutional. The effect was a subsidy for low property tax revenue counties that allowed them to postpone needed tax rate increases (Chervin 2009). Litigation ensued a year after enactment of BEP. In just over 25 years, the BEP has been the subject of five lawsuits (SchoolFunding.Info).

The assessment ratios of the classification system—that is, how the relative property tax burden differs by land use—continue to be an important political issue in Tennessee. There is tension concerning the relative distribution of the property tax burden between residential versus commercial/industrial sectors, with households shouldering an increasing burden over the last two decades.

## Recent Developments

The structure of the Basic Education Program is still the object of litigation. In March 2015, *Hamilton County Board of Education v. Haslam* became the fourth lawsuit concerning education funding against the state in less than 25 years. The suit claims the state has failed to adequately and equitably fund K-12 schools. In 2020, the Davidson County Chancery Court dismissed the Hamilton County lawsuit citing school funding reforms in recent years.

In September 2015, school boards in Memphis and Nashville filed a lawsuit, *Shelby Co. Bd of Educ. v. Haslam*, which claims that the state has denied an adequate and equal education for low income and minority students (SchoolFunding.Info). The Davidson County chancellor denied a motion by the state to dismiss the Shelby County Schools case in July 2018 and again on appeals in September 2018 and

January 2019 (Aldrich 2018, 2019). Metro Nashville Public Schools joined the lawsuit in 2017 and a coalition of 84 small districts joined the lawsuit in April 2021 (SchoolFunding.Info). The case is pending trial ([Shelby Co. Bd of Educ. v. Haslam](#)).

After experiencing record property value growth from 2013 to 2017, Nashville property assessments skyrocketed in the city's 2017 revaluation, increasing on average 37 percent above the 2013 revaluation. Higher assessments triggered a 45 percent increase in appeals and an unusually high appeal success rate. The tax rate had been adjusted down as state law requires revenue-neutral reappraisals. As a result of appeals and lower-than-expected growth, property tax revenues were down between \$20–25 million, leaving a hole in the city's \$2.2 billion 2018–2019 budget. Mayor David Briley vowed not to raise the tax rate (Wharton 2018). In 2020, the city council approved a budget that increased property taxes 34 percent with increased funding for police and schools. In response, a Nashville taxpayers group petitioned to repeal the increase via referendum. In November 2020, Chancellor Ellen Hobbs invalidated the measure, blocking it from the special election ballot (Jones 2020).

## Resources

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