Adjusting Reappraisal Cycles

BACKGROUND

Every county in Tennessee undergoes a countywide reappraisal of real property every 4, 5, or 6 years. The reappraisal process allows appraised values to be adjusted, up or down, to reflect the current real estate market. In theory, once a reappraisal has been completed, property appraisals should represent what a property would sell for on the open market—at least for a short while.

Even though the market value of property is ever-changing, the county property appraisals typically do not change between reappraisals. And as long as the county or city tax rates do not increase, a real property owner may temporarily pay taxes on an appraised value that is less than the current market value –at least until the next reappraisal.

Tangible personal property and public utilities do not receive the same benefit of having an appraisal that does not change between reappraisals. These property types are reassessed on an annual basis. To ensure that these property owners are treated fairly and are not paying more tax because their appraisals are updated more frequently, the state legislature and board of equalization have addressed this issue by requiring ratio studies and equalization. A sales ratio study measures the relationship between appraised value and market value of real property.

Generally, a property that is appraised annually is going to more accurately reflect the true market value than a property that was last appraised 4 years ago. As a result, the properties appraised more regularly often have higher assessed values. This can create a discrepancy in the tax treatment of properties that can result in inequity.

Next, there is an effort to bring the tax treatment of properties appraised at varying intervals into better alignment. This process is called equalization.

Because properties owned by corporations and utilities are appraised annually while homes and businesses are appraised less frequently, equalization usually results in lowering the appraised value of corporate and utility properties to bring them into alignment with home appraisals. The effect of this alignment is to reduce the assessed value of corporate and utility properties, which reduces the tax base on which local property taxes are levied.

PROBLEM

Equalizing properties on significantly different appraisal cycles results in a reduction in the property tax base and loss of potential revenues. In order to offset the reduction and to ensure that collections remain constant, local governments are under pressure to raise property tax rates.

REMEDY

The Tennessee State Comptroller of the Treasury has proposed allowing a county to shorten their respective reappraisal cycles to either 1, 2, 3, or 4-year cycles, which should significantly mitigate the effects of the sales ratio.

The TML Board of Directors voted to support this legislation and seek agreement on the sharing of costs that is fair and equitable.

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As a result of this calculation and alignment process, the property tax yields less in collections than it would otherwise. In some cities, this reduction equates to tens of thousands of dollars. In others, it equates to hundreds of thousands. And in some cities, it means the property tax yields millions less in collections than it would have without the reduction in the base. As a consequence, local governments are under pressure to raise property tax rates in order to offset the reduction and to ensure that collections remain constant

Sales ratio calculations are accompanied by tangible personal property and public utility appraisals being equalized by the median ratio for each county. The point of this exercise is to ensure tangible personal and public utility properties are in line with real property. Typically, this process results in a reduction in appraised value and assessments. Thus, moving to annual sales ratio calculations would likely result in annual reductions in appraised value and assessments. It is possible an individual jurisdiction may realize enough new construction of real property to counteract the effects of equalization. If not, then the governing body would be obligated to act to ensure the property tax base generates the same revenue as the year before.