

Defining Tennessee Property Assessments

A Glossary of Property Assessment Terms

VOLUME I / 2018

Justin P. Wilson, Comptroller of the Treasury



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Preface

One of the important functions of the Comptroller's Office is ensuring effective administration of property assessments and property taxes. Our office carries out a host of responsibilities in this area, such as:

- helping local governments with their reappraisal programs and providing them with data processing and mapping services,
- ensuring the assessment of property for taxes is done in compliance with the state constitution and state law,
- conducting annual appraisals, assessments, and audits of public utility and transportation properties, and
- administering the state's Property Tax Relief Program.

The technical terms and language of property assessment can impede understanding, even among those who are experienced policy makers. In furtherance of our office's mission to make government work better, we have created this glossary with definitions of commonly-used terms and their relevance to property assessments conducted in the State of Tennessee.

The glossary contains over 230 entries covering many essential property assessment-related terms, from appraisal to tax increment financing to public utility.

We hope you find this publication to be a helpful resource when considering property assessment-related matters. An online version of this glossary is also available on our office's website.

Sincerely,



Justin P. Wilson
Comptroller of the Treasury



Jason E. Mumpower
Chief of Staff



Aa

accelerated amortization

Accelerated amortization refers to the accruing of greater depreciation expense for income tax purposes in the early years of a property's life and less in later years. Such authority stems from Defense Plant Certificates (see Section 168 of Internal Revenue Code) accounting depreciation.

accelerated depreciation

Accelerated depreciation is any method of calculating the decrease in value of an asset that allows for greater deductions in the earlier years of the life of an asset. (Compare this with straight line depreciation, which spreads the depreciation evenly over the life of an asset.) This method assumes that an asset will be used more during the early years and will therefore depreciate more during this time. As an asset ages, the assumption is that it will be used less and therefore will lose value more slowly. Two methods of accelerated depreciation are (1) sum of the years' digits and (2) double declining balance.

See also:

- *straight line depreciation*

accrual accounting

Accrual accounting refers to recording the revenues and expenses based on amounts due or owed during the report period, regardless of whether the payment was made or received. In accrual accounting, expenses and revenues are counted at the time of the transaction, not at the time of actual cash transfer. This method counts transactions during the report period when the transaction occurred, regardless of when the payment was made. This is the opposite of cash accounting, which counts a transaction only when there is an exchange of cash. Accrual accounting is a more complex method of accounting, but it provides a more accurate picture of current financial status.

acre

An acre is a unit of measurement for tracts of land. One acre is equal to 43,560 square feet of area, which may be in any shape. One acre is about three-fourths the size of a football field.

ad valorem tax

A tax levied in proportion to the value of taxable property.

administrative law judge

Administrative law judges are responsible for hearing and deciding initial contested case proceedings filed before the State Board of Equalization (contested case hearings are proceedings in which a taxpayer appeals a judgment by a county board of equalization). The judge performs independent, complex legal work in conducting contested case hearings pursuant to the Uniform Administrative Procedures Act and property tax code before the State Board of Equalization, and rules upon and decides

evidentiary and procedural law questions prior to and during contested cases.

Administrative law judges are employed by the Secretary of State's Administrative Procedures Division. They are professional administrative judges who resolve disputes between citizens and governmental agencies in an impartial manner.

See also:

- *appeal*
- *board of equalization*
- *contested case hearing*
- *county board of equalization*
- *State Board of Equalization*

advance payments for gas

Gas exploration and production companies may make cash payments to producers to finance exploration for gas. If any gas is discovered, the company making the advance payment has the right to bid on or buy all or part of the discovered gas. Repayment of the advance is taken in the form of delivered gas.

This definition is reproduced from Glossary of Terms Used in the Valuation of Centrally Assessed Property for Ad Valorem Tax Purposes (compiled by the National Tax Association and Wichita State University).

agricultural land

Agricultural land is one of three categories of land that may qualify for use value assessment under the Agricultural, Forest, and Open Space Land Act of 1976, known as greenbelt. In Tennessee, for purposes of greenbelt classification, agricultural land must be at least 15 acres, including woodlands and wastelands. In addition, the land must also meet one of two requirements: (1) the land is currently engaged in the production or growing of agricultural products, or (2) the land has been farmed by the owner, the owner's parent or the owner's spouse for at least 25 years, and is now used as the residence of the owner and not for any purpose inconsistent

with an agricultural use. If the land is both 15 acres and one of the two conditions is met, the assessor must determine whether the claimed farming activities represent the primary purpose for which the property is/was used.

Qualifying agricultural land is assessed for its value based on the current agricultural activities, not what a willing buyer would pay for the property if its use was not restricted and it could be developed for residential or commercial purposes. Agricultural property in Tennessee is commonly referred to as greenbelt property.

See also:

- *forest land*
- *greenbelt*
- *open space land*
- *use value*

allowance for funds used during construction (AFUDC)

Allowance for funds used during construction (AFUDC) is the process of capitalizing interest expense on funds used during the construction period. As property does not generate earnings during construction, the capitalized interest expense represents imputed earnings. The capitalized interest becomes part of the total cost of the project.

amortization

Amortization is the systematic allocation of the cost of an intangible asset (e.g., patent, trademark, or computer software) over its useful life. For example, if something valued at \$100 is to be amortized over 10 years, the financial reports will include an expense of \$10 for each of the 10 years.

annotation

An annotation is a note on a map that describes a specific item, such as the acreage on a parcel of land.

annuity

Annuity refers to regular payments over a fixed period of time (for example, payments every month or year for a defined number of years or for life).

anticipation

Anticipation is an appraisal principle which refers to the perception that value is created by the expectation of future benefits.

According to the principle of anticipation, a property's value is based on the value that is anticipated in the future. Any expectation of future benefits (for example, future rental income) can affect the appraisal of property in the present time.

antipollution controls

In general, antipollution controls are government regulations aimed at preventing the contamination of clean air and water supplies. Tennessee has enacted several statutes to regulate pollution within the state, including the Water Quality Control Act and the Air Quality Act.

appeal

The appeal process involves a disputed assessment on locally assessed (all property other than public utility and transportation property) and/or centrally assessed (public utility and transportation property) property, which can be initiated by a taxpayer, entity, attorney, representative of entity/taxpayer, or county official.

For locally assessed property, the review process begins in early spring at the local county assessor level. There are additional administrative appeal rights after this at the county board of equalization, the State Board of Equalization, and the Assessment Appeals Commission. After an appellant has exhausted these administrative appeal rights, they may seek further review before a Chancery Court.

For centrally assessed property, the informal review process begins May through June before the Office of State Assessed Properties. The additional administrative appeal rights begin within 10 days after the first Monday in August in which exceptions may be filed with the Comptroller's designee. On or before the first Monday in September, the Comptroller files with the State Board of Equalization the assessments made, and at this point appeals can be made to the State Board of Equalization for hearing before an administrative law judge. After the company has exhausted these administrative appeal rights, it may seek further review before the Court of Appeals.

See also:

- *administrative law judge*
- *county board of equalization*
- *Office of State Assessed Properties*
- *State Board of Equalization*

Appeals Handbook

The Comptroller's Office publishes an Appeals Handbook to provide assessors' offices with guidance in the handling of appeals before county boards of equalization and the State Board of Equalization.

The Appeals Handbook includes interpretations of law by legal staff with the Comptroller's office, discussions concerning valuation methodology prepared by both the Comptroller's legal staff and appraisers with the Division of Property Assessments, and guidance on common legal and appraisal issues faced by assessors in the appeals process.

apportionment to intrastate jurisdiction

Apportionment to intrastate jurisdiction refers to the process of assigning a portion of a state value, state statistic, or company statistic to geographical areas, usually tax levying districts or codes within the state.

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appraisal

An appraisal is the process by which the appraised value of property is determined. An appraised value is the estimate of the most probable selling price of a property. In the appraisal process, physical characteristics are listed (dimensions, construction type, age and condition of buildings, size and features of land) and computer resources are used to assist in the analyses and calculations required to determine the appraised value. An assessor's experience and appraisal judgment are a factor in any appraisal.

See also:

- *computer-assisted mass appraisal (CAMA)*

appraisal ratio

Appraisal ratio is a ratio based on a comparison of appraised values recorded for real property and recent sales and/or expert appraisals.

The appraisal ratio indicates generally what percent of market value is represented by the appraised value of a property.

The median appraisal ratio is used to achieve equalization. This ratio is an adjustment factor applied to appraised values of property already recorded at full fair market value.

The appraisal ratio is adopted by the State Board of Equalization for every county on an annual basis.

See also:

- *equalization*

appraisal ratio report

An appraisal ratio report outlines the difference between appraised value and market value. The Division of Property Assessments publishes an annual real estate appraisal ratio report, which provides the overall median ratios for all assessed real property by county. The division has a legal responsibility to conduct appraisal ratio studies in all counties in Tennessee at least once every two years. The division coordinates all phases of the study including data collection by assessors, sales data review by division field personnel, and analysis. Ratio studies are conducted primarily to determine the accuracy of assessments within each assessing jurisdiction, to disclose the full value of taxable property, to aid in the development of reliable measurement standards, to guide the equalization process, and to indicate any nonuniformity in assessment.

appraisal report

Appraisal reports are the oral or written communications of an appraiser's findings once an appraisal is complete. In Tennessee, taxpayers often use private appraisal reports when appealing property assessments to county boards of equalization and the State Board of Equalization.

appraised value

The appraised value for each taxable property in a county is determined by the county property assessor. This amount is an estimate of the most probable selling price of a property. The appraised value is multiplied by the assessment ratio to determine the assessed value.

See also:

- *assessed value*
- *assessment ratio*

arm's-length transaction

An arm's-length transaction is any sale between two unrelated parties (buyer and seller) who are seeking to maximize their benefits from the transaction and are not under any outside pressure or influences.

assess

To assess is to value property for the purpose of taxation.

assessed value

The value of a property for tax purposes is the assessed value. A property's assessed value is different from its appraised value.

See also:

- *appraised value*
- *assessment ratio*

assessment

An assessment is the process by which an assessed value is determined. The assessed value is the value of a property to which the adopted property tax levy or rate is applied to determine the amount of property taxes related to the property.

A property's assessment is distinct from its appraisal. The appraisal comes first and the assessment process follows. The assessment process starts by classifying the property (e.g., residential, farm, commercial and industrial, etc.). The assessed value is then calculated by taking the assessment percentage for that classification from the appraised value. The Tennessee assessment percentages are set out in state law:

Residential real property	25%
Farm real property	25%
Commercial and industrial real property	40%
Public utility real and personal property	55%
Business personal property	30%
Example: A residence appraised at \$100,000 would have an assessed value of \$25,000	

See also:

- *intangible personal property*
- *real property*
- *tangible personal property*

Assessment Appeals Commission

The Assessment Appeals Commission is a subsidiary board appointed by the State Board of Equalization. The Commission may hear and act on all complaints and appeals regarding the assessment, classification, and value of property for purposes of taxation. Actions taken by the Commission are considered equal to the actions of the State Board (i.e., both render final decisions); however, the State Board has the discretion to review decisions of the Appeals Commission within 45 days.

See also:

- *appeal*
- *State Board of Equalization*

assessment change notice

In Tennessee, a yearly assessment change notice is mailed to each property owner when there is a change in property classification or a change in the property's assessed value from the previous tax year. The change could be due to modifications like a new addition to a home, adding a driveway, or removing a run-down structure. The change could be permanent, as in the case of an addition, or temporary, for something like fire damage. Tennessee residents can contact someone in their property assessor's office about the change in assessed value.

assessment date

For tax purposes, the appraised values reflect the status of the property as of the assessment date. In Tennessee, the assessment date is January 1 unless otherwise provided for.

assessment ratio

The assessment ratio is the relationship of the property's assessed value to appraised value in the assessor's records. It reflects the constitutional assessment classification percentage. Tennessee calculates property taxes by first establishing the appraisal value of the property (this is the value of the property as determined by the county property assessor). Then, the appraisal value is multiplied by a percentage set by Tennessee law based on the property class. This statutory percentage is the assessment ratio.

For example, residential property has an assessment ratio of 25 percent. The appraisal value is multiplied by the assessment ratio to determine the assessed value. For a residential property with an appraised value of \$100,000, the assessment ratio is 25 percent, and the assessed value would be 25 percent of \$100,000, or \$25,000.

See also:

- *appraised value*
- *assessed value*

assessment roll

The assessment roll is an official list of properties that are assessed for property tax purposes within a given jurisdiction. The assessment roll normally includes a unique identifier for each property, the name and address of the owner of record, the appraised and assessed values of the land and improvements, the classification of the property, and the assessment level. It is the basis on which the property taxes are allocated among property owners.

assessor designations

Property assessors in Tennessee may receive a designation after completing necessary courses of study and training related to the field of appraisal and valuation. The following levels of

designations may be obtained by assessors or deputy assessors who have completed the necessary training:

- AAS (Assessment Administration Specialist), a professional assessment designation of the International Association of Assessing Officers
- CAE (Certified Assessment Evaluator), a professional assessment designation of the International Association of Assessing Officers
- Certified General Real Estate Appraiser, issued by the Tennessee Real Estate Appraisal Commission
- CMS (Cadastral Mapping Specialist), a professional assessment designation of the International Association of Assessing Officers
- MAS (Mass Appraisal Specialist), a professional assessment designation of the International Association of Assessing Officers
- PPS (Personal Property Specialist), a professional assessment designation of the International Association of Assessing Officers
- RES (Residential Evaluation Specialist), a professional assessment designation of the International Association of Assessing Officers
- TCA (Tennessee Certified Assessor), a designation issued by the State Board of Equalization
- TMA (Tennessee Master Assessor), a designation issued by the State Board of Equalization

assessor of property

As stated in the Tennessee Constitution, each county elects, for a four-year term, an assessor of property. His or her role is to accurately identify, list, appraise, and classify all taxable properties in preparation of the annual assessment roll. An assessor is also a resource to property owners regarding the appraisal and appeal processes.

asset

An asset is a resource with monetary value that an individual, corporation, or government owns (or has the rights to) that is expected to have future benefits. Assets can be tangible or intangible. A copyrighted idea or a patented process are examples of intangible assets.

Bb

band-of-investment technique

The band-of-investment technique is used to compute a capitalization rate. The respective rates for debt and equity are weighted by the portions of the capital structure represented by debt and equity. Mathematically, it produces the weighted average of the rate for debt and rate for equity.

See also:

- *capitalization rate*

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base-home approach

Base-home approach is a method of appraising single-family residential properties. The appraiser determines the value of the residence by judging it against another residence, called the base home, that has a known value and common characteristics. The appraiser compares the properties in terms of condition, size, number of garages, etc.

base-lot method

Base-lot method is a method of appraising land parcels in which each parcel to be appraised is compared with another parcel (the base lot) having common characteristics and a known value. The appraiser determines the value of the lot being appraised by judging it against the base lot in terms of size, shape, topography, etc.

base taxes

Base taxes are amounts of property taxes levied by a county or city the year prior to the date a tax increment plan becomes effective (base year) and limited to the specific parcels now subject to a tax increment plan (redevelopment plan or economic impact plan). Per state statute, base taxes cannot include any portion of taxes used to pay debt service, and for the duration of a redevelopment or economic impact plan, the respective governments will receive their set base tax amounts.

With a redevelopment plan, base taxes are calculated on base year assessed value of tax increment parcels and the current tax rate. With an economic impact plan, base taxes are calculated on base year taxes payable on tax increment parcels. In neither case could the base tax exceed the actual tax levied on tax increment parcels the year before the base year.

See also:

- *industrial development board (IDB)*
- *tax increment financing (TIF)*

board of equalization

A board of equalization is a public body (other than a court) with jurisdiction over property tax assessments to ensure constitutional and legal compliance.

All counties in Tennessee have a local board of equalization authorized by law to hear appeals of current year property tax assessments from taxpayers and local governmental entities.

At the state level, the State Board of Equalization hears appeals of decisions made by local boards of equalization and, among other duties, ensures property tax assessments comply specifically with the Tennessee Constitution and state law.

See also:

- *county board of equalization*
- *State Board of Equalization*

bundle of rights

The bundle of rights are the six basic rights linked to private ownership of property. They are the right to use, sell, rent or lease, enter or leave, give away, and refuse to do any of these.

See also:

- *ownership*





cadastral map

A map that displays property ownership boundaries is called a cadastral map. It includes the dimensions of each parcel, a parcel identifier, survey lines, and easements.

capital lease

Capital leases are typically long-term agreements for the use of an asset that has a long economic life, where ownership of the asset usually transfers to the lessee at the end of the lease term. In practice, capital leases are a way to purchase expensive assets over time, and lessees must count the item leased as an asset on their books. Machinery, equipment, and airplanes are examples of assets commonly leased using a capital lease because they are expensive and not likely to become obsolete during the lease term.

Capital leases are the opposite of operating leases, which are for shorter terms and do not transfer ownership to the lessee at the end of the lease term. Operating leases are more common for assets that tend to become obsolete quickly, such as computers or office equipment.

See also:

- *operating lease*

capitalization

Capitalization is a process in which future expected income and anticipated rate of return on an investment is used to estimate current value. This process is often used when determining the value of commercial property.

capitalization rate

Also called the cap rate, the capitalization rate describes the probable return on investment for properties that produce income, generally through renting and leasing.

Recently sold properties, with comparable characteristics to the property being evaluated, are used to determine the capitalization rate. The net operating income of those properties is divided by the relative selling prices.

For example, a comparable building purchased for \$1,000,000 that produces \$100,000 in positive net operating income (the amount left over after all costs are subtracted from the gross income) during one year would have a capitalization rate of 10 percent. The calculation is as follows:

$$\$100,000 / \$1,000,000 = 0.10 = 10\%$$

See also:

- *direct capitalization*
- *equity capitalization rate*

cartography

Illustrating the natural and social features of the earth through maps is called cartography.

cash flow

Cash flow is the difference between dollars coming in and dollars going out. Cash coming in would be the money from customers or clients who are buying or renting products or services. This would also include cash from collections of accounts receivable. Cash going out would include costs like rent or a mortgage, loan payments, or taxes.

certified tax rate law

The Tennessee certified tax rate law, sometimes called “truth-in-taxation,” requires local governments to conduct public hearings before adopting a property tax rate that generates more taxes overall in a reappraisal year than were billed the year before at the previous year’s lower values. The law requires counties and cities to determine a tax neutral rate using the new reappraisal values after adjusting for either new properties or properties removed from the tax base since the prior year.

Truth-in-taxation is intended to make sure higher reappraisal values do not automatically result in a tax increase. The certified tax rate law is the closest thing Tennessee has to a prohibition on property taxes being higher in a year of reappraisal.

chattel

A chattel is an item of tangible personal property that may be easily moved. Chattels are the opposite of fixtures, which are permanently attached to the structure (or too heavy to move) and cannot be easily removed.

The distinction between chattel and fixture is important when selling property; the seller typically removes all chattels but leaves all fixtures when moving out.

classification

Tennessee's Constitution was amended in 1972 to provide for a classified or fractional system of assessment that computes taxes at different levels of assessment based on current property use. As implemented in Tennessee law, classification is based on the current use of property and, if the property is vacant or unused, on the immediate most suitable use as determined by the county assessor.

The value of property, as opposed to its classification, is based on the appraisal concept of highest and best use, meaning that a property valuation may ignore the current use of property if a likely purchaser would put the property to a more intensive use to maximize its value.

In Tennessee, for purposes of taxation, all property is divided into three classes: (1) real property, (2) tangible personal property, and (3) intangible personal property.

The three classes are then subdivided into four main subclasses: (1) public utility property, (2) industrial and commercial property, (3) residential property, and (4) farm property.

coefficient of dispersion (COD)

The coefficient of dispersion (COD) is a measure of the uniformity of appraisals or assessments within a taxing jurisdiction – the lower the coefficient of dispersion, the higher the degree of uniformity in appraisals and assessments. Certain CODs are considered acceptable depending on the type of property. The COD is one of the many calculations used by the Division of Property Assessments to create the appraisal ratio studies.

See also:

- *appraisal ratio report*

common carrier

A common carrier is a business that transports people or freight for other people as the basis for its business. Examples of common carriers include trucking companies, airlines, railroads, FedEx, and the United States Postal Service. Non-exempt common carriers are examples of public utility property designated by Tennessee statute for central assessment by the Comptroller's Office of State Assessed Properties rather than county assessors of property.

See also:

- *Office of State Assessed Properties*

comparable

Properties that share the same physical, economic, or other characteristics are said to be comparable. Property assessments use comparable properties in the same locale to help determine value, as comparable properties should have comparable values.

computer-assisted mass appraisal (CAMA)

A computer-assisted mass appraisal (CAMA) system is any automated system used to maintain property data, value property, communicate with property owners, and ensure fairness in taxation.

In Tennessee, the Integrated Multi Processing of Administrative and CAMA Technology (IMPACT) system is the CAMA software used across the state. IMPACT allows authorized state and county users to manage property records in a consolidated, statewide system.

condemnation

Condemnation can mean one of two things:

- (1) Condemnation, also called eminent domain, is the right of governments to take private property for public use, with payment of compensation.
- (2) Condemnation can also be a declaration by an authority that a structure is unfit or dangerous to persons or other property. The authority often limits or prohibits occupancy of condemned property or can require demolition.

condition

To determine the condition of property, an assessor must make a judgment of the depreciation of an improvement. Forming this judgment is difficult because although the condition of the subject is known, it is difficult to know how differences in condition affect the selling prices of similar assets. Assessors may investigate the condition of comparable properties in determining a given property's condition.

conservation easement

A conservation easement is a legal agreement between a landowner and a qualified private land conservation organization (often called a "land trust") or government (municipal, county, state, or federal) in which the landowner can voluntarily restrict the use of a designated piece of land. Conservation easements are a tool to preserve scenic land, historic sites, cultural resources, or other types of property indefinitely or for a specific period of time. An easement "runs with the land," meaning it is applicable to both present and future owners of the land and becomes a part of the chain of title for the property.

The qualified private land conservation organization or government is charged with monitoring the use of the property and ensuring that the property is being used according to the conservation easement's terms. In Tennessee, conservation easements are governed by the Conservation Easement Act of 1981.

consideration

In real estate, the consideration is what each party gives the other party as part of a deal. When buying a house, for example, buyers usually give an agreed-upon amount of money as their consideration, and sellers transfer ownership of the property as their consideration. The consideration, however, can be any other valuable goods or services on which a buyer and a seller agree.

consistent use

Property appraisals are based in part on the property's use, and the principle of consistent use states that a property must be appraised using a single use for the entire property.

contended value

A contended value is a figure or amount that is in dispute during a property tax appeal. If the parties disagree over the accuracy of an amount, percentage, rate, or any other value, it may be referred to as the contended value to identify that value as being in dispute.

contested case hearing

All property tax exemption and value appeals filed with the State Board of Equalization are considered contested cases and are subject to the hearing requirements of the Uniform Administrative Procedures Act. Generally, contested case hearings are held before an administrative law judge either employed by the Tennessee Secretary of State or the Executive Secretary to the State Board of Equalization acting as an administrative law judge.

See also:

- *administrative law judge*

contribution

The principle of contribution requires an appraiser to measure the value of any improvement to a property by the amount it contributes to market value, not by the cost of the improvement itself.

cost approach

The cost approach is one of the three approaches to valuation and is based on the principle of substitution. In other words, this method assumes that a buyer would pay only the amount it would cost to build a comparable replacement for a given property. Therefore, the cost of land plus construction (taking depreciation into account) is the main metric of market value in the cost approach.

See also:

- *income approach*
- *sales comparison approach*

county board of equalization

The county board of equalization is authorized by law to receive and hear appeals of current year property tax assessments as fixed by the county assessor of property. Generally, an assessment must be appealed to the county board of equalization to preserve the taxpayer's right to further appeal, and the county board meets as few as six days during an annual session.

See also:

- *board of equalization*
- *equalization*

current value updating

Current value updating in Tennessee resulted from legislation enacted in 1993, often called the "90 percent law." Current value updating is used to keep values current in areas where there is substantial growth in the real estate market and to correct any gross inequities in property appraisals. In the third year of a six-year reappraisal cycle, in accordance with Tennessee law, all real property values should be updated if the overall level of appraisal for the jurisdiction is less than 90 percent of fair market value as outlined in the annual appraisal ratio report.

See also:

- *appraisal ratio*
- *appraisal ratio studies*
- *reappraisal cycle*



Dd

date of sale (date of transfer)

The date on which the sale is finalized is the date of sale. This is most often the date the deed, or other instrument of transfer, is signed.

deed

A document (or written legal instrument) that transfers property rights between two parties.

deed of trust

A deed of trust is similar to a mortgage, and is a mechanism by which a third party puts a lien on a property so that if a borrower is unable to meet the requirements outlined by the loan agreement, the third party can use the sale of the property to recover funds for the lender. The home buying process typically starts with a buyer securing a loan, which the lender then protects with either a deed of trust or a mortgage. In Tennessee, lenders use deeds of trust. A lender using a deed of trust rather than a mortgage does not have to go through the court system to sell the home.

In the case of foreclosure, the third party, named as the trustee in the deed of trust, forecloses on the property without court involvement. In Tennessee, foreclosures must be advertised at least 30 days before the sale, held between the hours of 10:00 a.m. and 4:00 p.m., and sold to the highest cash bidder.

Deeds of trust are filed with a county's register of deeds, which is a constitutional office established by the Tennessee state legislature as the custodian of legal documents pertaining to real property.

A deed of trust is distinct from a warranty deed.

See also:

- *deed*
- *warranty deed*

depletion allowance

Depletion allowance refers to the reduction in federal taxes on property with natural resources, such as timber, mining, oil, or gas. As the natural resource is removed from the land (for example, cutting timber), the assessed value of the property goes down. Depletion allowance refers to the amount allowed by the IRS of the reduction in value from removing the natural resource.

depreciation

Depreciation is a loss in value of an object or resource. Depreciation is sometimes subdivided into three types: physical deterioration (wear and tear), functional obsolescence (not keeping up with current technologies or tastes), and economic obsolescence (changes in the neighborhood or economy outside of the owner's control).

depreciation schedules

Tables used in mass appraisal that show the typical loss in value at various ages or effective ages for different types of properties.

direct capitalization

Direct capitalization is a method of calculating the present value of a property based on anticipated income (such as rent) for the first year of ownership. In other words, direct capitalization is a method used to convert an estimate of a single year's income expectation (or annual average of several years of income estimates) into an indication of value in one step. This is accomplished by dividing the income estimate by an appropriate rate or by multiplying the income estimate by an appropriate factor. This method allows anticipated earning potential to determine the present value of a property. Direct capitalization is commonly used to evaluate whether a piece of property is a good investment at the current sales price.

This definition is reproduced from Glossary of Terms Used in the Valuation of Centrally Assessed Property for Ad Valorem Tax Purposes (compiled by the National Tax Association and Wichita State University).

discount rate

The discount rate is a rate of return on capital to convert future payments or receipts into present value. In other words, it is used by investors to calculate how much a series of future payments or receipts is worth as a current single lump sum value.

See also:

- *capitalization*
- *discounted cash flow analysis*

discounted cash flow analysis

A common method of estimating the present value of income-generating property, discounted cash flow analysis is a procedural process in which the appraiser analyzes the quality, variability, timing, and duration of periodic income, as well as the quality and timing of reversions and discounts of each to its present value at a specified yield rate. This method is based on the concept that \$100

in the future is worth less than \$100 today, so a future cash flow of \$100 must be discounted to the equivalent value today (something less than \$100). Investors use this valuation to determine if the sales price is a good investment.

See also:

- *discount rate*

discovery

In property assessment, discovery is the process in which an assessor identifies all taxable property in the jurisdiction and ensures that it is included on the assessment roll.

Ee

easement

An easement is a right given to a person or entity to cross or use land that is owned by someone else for specific purposes. Most residential properties have easements that are used generally for utility access. Another common example of an easement is the right of a property owner with no street access to use a segment of a neighbor's land to gain access to the road.

economic development agreement

An economic development agreement is an agreement between a private entity and a local government agency that permits the use of specified property owned by the local government (or its agencies) for business or commercial purposes of the private entity. Economic development agreements are designed to promote local economic development by reducing property taxes on such property below amounts that would be due if the property were owned by the private entity.

In Tennessee, economic development agreements include, but are not limited to, leases or other agreements with private entities under the industrial development program and redevelopment plans and agreements containing tax increment financing provisions (including development authorities created by private act).

See also:

- *industrial development board (IDB)*
- *tax increment financing (TIF)*

economic (external) obsolescence

Economic, or external, obsolescence is when an asset, on a given property, loses value due to factors outside the property's boundaries. An asset may experience economic obsolescence due to decreasing demand for a product, changes to the economy, a transformation of the surrounding neighborhood, instability in the labor market, or other factors.

economic life

For property assessment purposes, the economic life of a tangible asset is how long it is expected to contribute positively to the value of the total property. This period is typically shorter than its physical life, which is the period during which the asset could physically be left on the property. For example, an updated kitchen adds value to the home only until it becomes outdated again.

economic rent

Economic rent is generally used synonymously with the term market rent. Economic rent is the average amount of rent charged for a similar property found in a similar market. Economic rent may or may not be the same as the rent paid pursuant to lease terms, as an individual lessee may pay over or under the economic rent rate. Economic rent is the market value of rental income used to calculate a property's appraisal.

See also:

- *market rent*

effective age

Effective age of a structure is an appraisal measurement that determines the age of a structure relative to the amount of time until the structure no longer adds value to a property. The level of maintenance employed by owners or occupants can influence the effective age of a building. For example, if a building is better maintained than other buildings in its market area, the effective age of the building will be less than its actual age.

effective date for property tax exemptions

If the State Board of Equalization approves an application for property tax exemption before May 20, the exemption will be effective as of January 1 of the year of application, or as of the date the exempted use of the property began, whichever is later. If the application is made after May 20, the exemption may be approved for a portion of the year.

effective gross income (EGI)

The effective gross income is a measurement used to evaluate the value of investment properties. It is determined by taking the amount of income produced by the given property, plus any miscellaneous income and subtracting vacancy costs and collection losses.

See also:

- *vacancy and collection loss*

effective interest rate

The effective interest rate takes into account the frequency period for compounding interest and provides a more accurate calculation of the amount of interest to be paid over the life of an investment or debt.

effective tax rate

The effective tax rate shows what percent taxes are of the appraised value of property. Taxes are, however, levied using the assessed values of property and different subclasses of property are assessed at different levels: real property for farms and residential property is assessed at 25 percent of appraised value, and industrial and commercial property at 40 percent. The effective tax rate, therefore, is a calculation used to summarize the relationships among appraised value, the assessment level, and the tax rate.

For example, in a jurisdiction with an effective tax rate of 1.00 for a class of property, the annual taxes on that property are equal to 1 percent of its market value for the year it was appraised.

See also:

- *tax rate*

eminent domain

Eminent domain is the government's power to take private property and convert it for public use or public necessity. Acquiring property through eminent domain requires the government to go through a legal process to purchase the private property at fair market value.

encumbrances

Encumbrances are hindrances that could affect the value of real property because the rights of an owner to change, dispose of, or use the property is restricted. These restrictions are due to contractual obligations, such as easements, condominium controls, or subdivision restrictions.

enterprise GIS

An enterprise GIS is a geographic information system that is unified throughout an entire organization, or enterprise, and is used for a variety of purposes. A geographic information system is an assemblage of software and data used to view and manage geographic data.

entrepreneurial profit

In real estate appraisal, entrepreneurial profit is the difference between the cost of a property (purchase price plus cost of developments) and the market value of the property after any improvements or developments are finished. This difference represents the profit (or loss) to an entrepreneur for investing in a property development.

equalize

The equalization process is designed to ensure that all properties in a jurisdiction have been assessed fairly. An appraisal ratio is developed for each county by comparing appraised values recorded for real property to recent sales and/or appraisals. The median appraisal ratio is used to achieve equalization by serving as an adjustment factor to be applied to appraised values of property already recorded at full market value.

According to Tennessee law, an appraisal ratio study for every county is conducted at least every two years, primarily to determine the overall level of appraisal within each assessing jurisdiction in the state.

The basic principle of the sales ratio is measuring the difference between appraised value and market value. On the appraisal date, January 1 of the year of reappraisal, these values, market and appraised, should be similar. As time passes between reappraisals the disparity between these values may increase. This disparity is what creates an assessment ratio or sales ratio. The appraised value divided by the sales price produces the sales ratio.

See also:

- *county board of equalization*
- *State Board of Equalization*

equity

Equity is the market value of a property minus any debt the owner has against the property, such as a mortgage or lien. As a property owner pays down the debt on a property, the equity increases. If a property owner has no debt against the property, then the equity is equal to the market value of the property. Equity may also increase or decrease as the value of the property appreciates or depreciates over time due to market changes.

In property assessments, the term equity may also refer to fairness in taxation.

equity capitalization rate

Equity capitalization rate reflects the relationship between a single year's pre-tax cash flow expectation (or an average of several years' pre-tax cash flow expectancies) and the equity investment. The equity cap rate, as it is commonly called, incorporates debt (such as a mortgage or other types of financing) and property expenses to provide an accurate estimate of how much profit an investor can expect per year.

See also:

- *capitalization rate*
- *direct capitalization rate*

equity yield rate

The equity portion of a property value is the market value minus any debt the owner has against the property, such as a mortgage. The equity yield rate represents the return on investment a buyer would have based on the value of the equity.

See also:

- *equity*

escheat

Property escheats (reverts) to the state when there is no rightful owner and the title automatically reverts to the state. For example, when a property owner dies, and no heir is identified or located, the title may automatically revert to the state. This is a different process than foreclosure, which reverts property to another party other than the state (for example, a bank).

Executive Secretary (State Board of Equalization)

Under the direction of the State Board of Equalization, the Executive Secretary has the following statutorily enumerated powers and duties:

- (1) Keep written minutes of all meetings of the State Board setting forth all actions of the state board, which shall be open to public inspection during regular office hours;

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- (2) Conduct preliminary hearings and make investigations for the State Board regarding any appeals before the board from assessments of property, other than assessments made by the Comptroller of the Treasury;
 - (3) Obtain evidence, information, and statistics relative to the value, classification, and assessment of property for assistance to the State Board in its duties of equalization;
 - (4) Require assessors of property to furnish reports under oath, giving specific information relating to assessments and other facts concerning properties and such other information as may be required by the state board;
 - (5) Prepare an annual report, approved by the State Board, which shall be made available to the General Assembly with an appropriate summary of information regarding assessments of property in each county of the state;
 - (6) Conduct such studies of the relationship between existing assessments and the value as set out in state law of such property or classes of property as may be directed by the State Board;
 - (7) Study and investigate the tax laws of other states and policies of federal and state agencies relating to assessments of property;
 - (8) Approve applications for exemption from property taxation, subject to review by the State Board;
 - (9) Give assistance to local boards of equalization on matters affecting the equalization of assessments and the interpretation of laws relating to assessment, classification, and valuation of property; and
 - (10) Carry out all policies, rules, and regulations that are adopted by the State Board.

See also:

- *State Board of Equalization*

exempt property

The Tennessee Constitution states that all property is subject to taxation, but allows the Tennessee General Assembly to make an exception for, among other things, government-owned property and religious, charitable, scientific, literary, or educational institutions.

The State Board of Equalization is responsible for making exemption determinations related to all religious, charitable, scientific, and nonprofit educational property.



Ff

fair market value

Fair market value is the likely selling price for an item of value (for example, property) that would be agreed on by well-informed buyers and sellers who are not under duress.

See also:

- *market value*

fee appraisal (single property appraisal)

A fee appraisal, or single property appraisal, is an appraisal done by a professional appraiser for a fee, usually for individuals or investors who are considering purchasing a property.

fee simple

There are different types of property ownership with different rights and restrictions. Fee simple ownership is when the holder of a title has full rights to occupy and use the property, now and in the future, for an infinite duration. There are no deed restrictions on how the property may be used (although zoning laws or subdivision restrictions may still apply). Property owned in fee simple may be sold or inherited without limitation. Fee simple ownership accords the owner with the greatest amount of rights, and fee simple is the most common (and preferred) type of property ownership.

field review

A field review is when a property assessor views properties in question, sometimes by examining the inside of structures, but more often by simply looking at the exterior. Changes to the property discovered during review may be added to, or subtracted from, the property value. The assessor's office performs a systematic field review of a portion of the county each year so that during a reappraisal cycle all parcels of property are reviewed.

See also:

- *appraisal cycle*

final decision and order

Once an administrative law judge issues an initial decision and order in a contested case hearing, either party may appeal the initial decision and order to the Assessment Appeals Commission. If neither party files an appeal before the deadline, then the initial decision and order will become a final decision and order.

See also:

- *administrative law judge*
- *Assessment Appeals Commission*
- *contested case hearing*
- *initial decision and order*

forest land

Forest land is one type of greenbelt land. Greenbelt is the common term for the properties outlined in the Agricultural, Forest, and Open Space Land Act of 1976. Forest land must be at least 15 acres and have tree growth in such quantity and quality that it constitutes a forest. The assessor may request the advice of the state forester in determining whether the tree growth is sufficient to meet this requirement. In addition, a forest management plan is required for land to qualify as a forest.

Forest lands are assessed at use value (i.e., the property's current use) as opposed to market value. In other words, a property that qualifies as a forest would be assessed for its value assuming it remains a forest. This assessment would likely be less than the price of the property if it could be developed as commercial or residential property.

Land that qualifies as forest land but also contains a home site can still qualify as forest land. The assessor would simply value the home site at market value and the remaining acreage would be classified and valued as forest land.

See also:

- *agricultural land*
- *greenbelt*
- *open space land*
- *use value*

Form 10-K report

Required by the Securities and Exchange Commission (SEC), the annual report on Form 10-K provides a comprehensive overview of a company's business and financial condition, and includes audited financial statements. Form 10-K is distinct from the annual report to shareholders, which a company must send to shareholders when it holds an annual meeting to elect directors.

Form No.1 and No. 2 reports

Required by the Federal Energy Regulatory Commission (FERC), Form No. 1 is a comprehensive financial and operating report submitted annually for electric rate regulation, market oversight analysis, and financial audits by major electric utilities, licensees, and others.

Form No. 2 is a compilation of financial and operational information from major interstate natural gas pipelines subject to FERC jurisdiction. The form contains data for a calendar year.

Forms R-1 and R-2

Required by the Surface Transportation Board, Forms R-1 and R-2 are annual filings for business operations of certain classes of railroads.

fractional assessments

Fractional assessments are when properties are, by law or by practice, assessed at less than 100 percent of their market value. In Tennessee, properties are assessed at a percentage of their appraised value based on preset assessment percentages. The Tennessee Constitution provides for the following preset assessment percentages:

Residential property	25%
Farm property	25%
Commercial and industrial property	40%
Public utility property	55%
Business personal property	30%
Example: A residence appraised at \$100,000 would have an assessed value of \$25,000	

fractional method

The fractional method of property assessment is the valuation of the parts of a whole operating property independently of the whole property's value.

frontage

The frontage of a given parcel of land is the section that is along a street, road, river, or other traffic artery on which the parcel is said to face.

functional obsolescence

Functional obsolescence is when a loss in value of a property is caused by an outdated feature that usually is not easily updated. As there are changes in tastes, preferences, technical innovations, or market standards, certain features can become undesirable and negatively affect the value of a property. For example, if a property cannot easily connect to new technologies, it will encounter the effects of functional obsolescence.





geocoding

Geocoding is the process of converting a description of a place, such as a name or address, into a geographic location. This allows information to have both a descriptive element and a corresponding map location. Geocoding is commonly used to place multiple pieces of data into a single map for easy reference; for example, geocoded customer addresses can show a company where its customers are distributed throughout the state.

geodatabase

A geodatabase is a database used to store, query, and manipulate spatial data, created through geocoding. Geodatabases store geometry, a spatial reference system, attributes, and behavioral rules for data.

geographic information system (GIS)

GIS, or geographic information system, is an assemblage of software and data used to view and manage geographic data.

greenbelt

Greenbelt is the common term for the Agricultural, Forest, and Open Space Land Act of 1976. Greenbelt properties are assessed at use value (i.e., the property's current use) as opposed to market value. For example, a family farm would be assessed based on the use of the property as a farm, not based on the higher price the property would sell for if purchased for commercial development.

See also:

- *agricultural land*
- *forest land*
- *open space land*
- *recapture*

gross income

Gross income is the total amount of income generated by a property or services before anything is subtracted (such as operating costs). Gross income, gross earning, and gross revenues are frequently used interchangeably.

gross income multiplier

A gross income multiplier is a quick way to estimate the appraisal value of commercial property. To calculate the gross income multiplier, divide the property's sale price by its gross annual rental income. This method is more simplistic than other methods of estimating the value of commercial property, such as the capitalization rate or discounted cash flow methods, but it is also much simpler and therefore easier to calculate.

Hh

health, education, and housing facility board (HEHB)

Health, education, and housing facility boards (HEHBs) are similar in structure to industrial development boards (IDBs), but have different goals. The goal of health, education, and housing facility boards, also called corporations, is to encourage and promote the improvement and maintenance of health and living conditions in a locality. HEHBs are public, nonprofit corporations organized under the laws of Tennessee.

These boards use revenue bonds and other financing to fund the acquisition, construction, development, rehabilitation, and improvement of health, educational, and multifamily housing facilities. Examples of eligible projects under state law include hospitals, universities, nonprofit schools, and multifamily housing developers.

Like industrial development boards, the boards can also enter into payment in lieu of tax (PILOT) agreements that would reduce the property tax burden for organizations and businesses. Only organizations or businesses that provide health, education, or housing benefits to the municipality are eligible to enter into PILOT agreements with HEHBs.

Tennessee law requires businesses, such as hospitals, that are leasing property from HEHBs to report annually to the State Board of Equalization concerning the leased properties by October 1 each year.

See also:

- *industrial development board (IDB)*
- *payments in lieu of taxes (PILOT)*
- *tax increment financing (TIF)*

highest and best use

Highest and best use is a principle of appraisal and assessment that requires each property to be appraised as though it were being put to its most profitable use (highest possible present net worth), given probable legal, physical, and financial constraints. The principle involves identifying the most appropriate market and use within that market. The concept is most commonly used when discussing underutilized land.

homebelt assessment

Tennessee law allows long-term owners of residential properties that have significantly increased in value and are zoned for commercial use (and subject to the correspondingly higher tax rate for commercial properties) to apply for a homebelt assessment. The homebelt assessment is designed to prevent long-term owners of residential property from having to sell their residence because they cannot afford their current tax assessment.

improvement

An improvement is anything done to raw land with the intention of increasing its value. Building a structure, for example, is one common type of improvement. Other improvements may include paving, adding fences, or improving drainage.

income approach

Income approach is one of the three approaches to value. The income approach uses capitalization to convert the anticipated benefits of the ownership of property into an estimate of present value.

See also:

- *capitalization*
- *cost approach*
- *sales comparison approach*

industrial and commercial property (tax classification)

Industrial and commercial property is a tax assessment classification that includes all property of every kind used, directly or indirectly, for any commercial, mining, industrial, manufacturing, trade, professional, club (whether public or private), business, or similar purpose. Industrial and commercial

property may be conducted for profit or not. All real property that is used for dwelling purposes that contains two or more rental units is also classified as industrial and commercial property.

Tennessee assesses industrial and commercial property at 40 percent of appraisal value.

industrial development board (IDB)

In Tennessee, industrial development boards (IDBs) have broad statutory rights to finance, acquire, own, lease, or dispose of properties so that corporations may maintain and increase employment opportunities, increase the production of agricultural commodities, or increase the quantity of housing available in affected municipalities. IDBs also have a role in controlling and eliminating pollution that results from commerce and industry that is essential to the economic growth of the state.

A city, county, or coalition of local governments can create an IDB. Two common tools used by IDBs to promote industry are tax increment financing (TIF) and payments in lieu of taxes (PILOT).

Tennessee law requires businesses leasing property from IDBs to report annually to the State Board of Equalization concerning the leased properties by October 1 each year.

See also:

- *payments in lieu of taxes (PILOT)*
- *tax increment financing (TIF)*

initial decision and order

If an administrative judge or hearing officer hears a case alone, the administrative judge or hearing officer must render an initial order (ruling), which becomes a final order unless reviewed by the State Board of Equalization.

A final order and an initial order or decision must include conclusions of law, the policy reasons for those conclusions, and findings of fact for all aspects of the order, including the remedy prescribed and, if applicable, the action taken on a petition for stay of effectiveness. Findings of fact, if set forth in language that is no more than mere repetition or paraphrase of the relevant provision of law, shall be accompanied by a concise and explicit statement of the underlying facts of record to support the findings.

The final order, initial order, or decision must also include a statement of the available procedures and time limits for seeking reconsideration or other administrative relief and the time limits for seeking judicial review of the final order. An initial order or decision shall include a statement of any circumstances under which the initial order or decision may, without further notice, become a final order.

See also:

- *administrative law judge*
- *contested case hearing*
- *county board of equalization*
- *final decision and order*

initial determination

An initial determination is the approval or denial of exemption by the State Board of Equalization for religious, charitable, scientific, and nonprofit educational property.

An approval will identify what is exempt and when the exemption begins. The approval will be sent to the applicant, county assessor, and county trustee and include a copy of the original application. An approval does not transfer or expire, and it can be revoked.

Only property or parts of property used for the qualifying purpose are exempt. Property owners, therefore, receive property tax exemption approvals for the specific properties being used for the qualifying purpose, not all properties they own. In addition, an exemption can be partial based on the assessor's review and information from the applicant on how much of the property is being used for the qualifying purpose.

instrument

An instrument, when referred to in property assessments and real estate, is a formal legal document that outlines an exchange of assets and/or rights. These documents are usually deeds, contracts, wills, or leases.

intangible personal property

There are two types of personal property: tangible and intangible. While tangible property can be physically touched, intangible personal property cannot. Examples of intangible property include ownership in a business and debts.

The current assessment level for intangible personal property is 40 percent, but Tennessee only assesses the intangible personal property of certain insurance companies. (Bank-owned intangible property is not taxed using property assessments.)

See also:

- *classification*
- *property class*
- *tangible personal property*

International Association of Assessing Officers (IAAO)

The International Association of Assessing Officers (IAAO) is a professional membership organization of government assessment officials and others interested in the administration of the property tax. IAAO grants assessor designations to members who complete required training and examinations.

See also:

- *assessor designations*

investment tax credit

The investment tax credit is a federal program that encourages private sector investment in the rehabilitation and reuse of historic buildings and is intended to stimulate economic development. The tax credit reduces the cost of restoration and rehabilitation to the owner in the form of a federal income tax credit, and the credit is equal to a percentage of what the owner spends on rehabilitating the building. There are two types of investment tax credits:

- 20 percent for a certified historic structure, and
- 10 percent for a non-historic structure (which must have been built before 1936 and not deemed historic, and also must be used for five years as income producing but not for housing).

Both types of investment tax credits require the project to meet the substantial rehabilitation test, which means the cost of the restoration and rehabilitation project must spend the adjusted value of the building or \$5,000, whichever is greater.





jurisdiction

Jurisdiction has two meanings, both related to scope of authority.

- (1) The jurisdiction of a legal or political entity is the extent to which that entity has authority regarding interpreting and applying the law, taxing, and governing. For example, the State Board of Equalization often must establish that the board has jurisdiction over a case before it may hear the case.
- (2) Jurisdiction can also mean the territorial range of one's authority or control. In this case a jurisdiction would be the physical area within certain borders where a legal or political entity has authority.



Ll

lease

Leases are written contracts in which the lessor (owner) transfers the rights to occupy and use real or personal property to another (lessee) for a specified time in return for a specified payment (rent).

leasehold estate

A leasehold estate is created when a landowner agrees to give temporary property rights to a second party in exchange for rent or other compensation. Both parties would enter into a lease agreement that would outline the length of the lease as well as any restrictions in use, maintenance, or alterations. A holder of a leasehold estate can sell the lease and may profit if the market value of the lease is higher than the price originally paid.

Leasehold estates differ from typical rentals that are paid and leased on shorter periods, such as weekly or monthly, and can be terminated or renewed often.

legal description

A legal description of property includes the delineation of dimensions, boundaries, and relevant attributes of a real property parcel that serve to identify the parcel for all purposes of law. The description may be in words or codes, such as coordinates. For a subdivided lot, the legal description would probably include lot and block numbers and subdivision name.

liens

A lien is a legal right to take or hold property of a debtor as payment or security for a debt. In Tennessee, liens are given to a third party in a deed of trust, which outlines the agreement between lender and borrower. If the borrower is unable to fulfill his or her obligations (usually in the form of mortgage payments), the third party is able, through the lien, to use the sale of the property to recover the funds.

life estate

A life estate is when a landowner (grantor) gives the right to possess and use property to a specified person (tenant) only during the life of that tenant. The tenant's rights to the property end at death, when ownership of the property may revert to the original owner or to another person. For example, a daughter may buy her parent's home but, through a life estate deed, allow her parents to continue to live there for the remainder of their lives. Upon the parents' deaths, the right to possess and use the property would then return to the daughter or another specified person.

locally assessed property

Locally assessed properties are all properties assessed by an official of the local jurisdiction where the property is located. In Tennessee, all property, other than public utility company property, is assessed by elected county assessors of property.

See also:

- *state assessed property*

lot

A lot is a parcel of land owned or intended to be owned. A tract of land is divided into lots during platting (or mapping). In Tennessee, no plat, which maps the subdivision of an area into lots, may be recorded until it is approved by a local planning commission.

See also:

- *plat*

low-income housing tax credit (LIHTC) property

Low-income housing tax credit (LIHTC) property is any housing property restricted under federal government regulations pursuant to the low-income housing tax credit program. The State Board of Equalization has adopted rules specifying acceptable methods of valuing these and other types of affordable housing. The taxable value of LIHTC property consists of a restricted use component (a portion of the rental units must be available to low-income tenants) and a component representing the economic benefit of the subsidy to the property owner (usually the property developer).



Mm

market analysis

A market analysis is the study of real estate market conditions for a specific type of property.

market approach

The market approach is a valuation term with a broad meaning. In the broadest use of the term, a market approach would be any valuation procedure intended to produce an estimate of a property's current market value. In a narrower use of the term, it could be synonymous with the sales comparison approach.

See also:

- *sales comparison approach*

market rent

Market rent is used to determine the value of properties (usually rental properties) in the income approach. When a given property is being valued using the income approach, the market rent is established by gauging the rents of similar properties.

See also:

- *income approach*

market value

Market value is the amount of money a well-informed buyer would pay and a well-informed seller would accept for property in an open and competitive market, without any outside influence. Tennessee statute provides what is regarded as a legally equivalent definition of value for Tennessee property taxes.

mass appraisal

Mass appraisal is the systematic process of valuing a group of properties by using market data, standardized methods, and statistical modeling. Assessors of property often rely on valuation equations, tables, and schedules developed through mathematical analysis of market data. Mass appraisal is one step in developing the assessment roll, the official list of properties that are assessed for property tax purposes within a given jurisdiction. In Tennessee, the assessment roll must be complete by May 20.

mass appraisal model

Using market data during a mass appraisal, a mass appraisal model is developed. It is a mathematical expression of how supply and demand factors interact in a market to affect property values.

metes and bounds

Property descriptions can be expressed in metes and bounds. Metes are the measures of angles and distances between points along the boundary of a parcel. Bounds describe any boundary not drawn using metes, such as an existing road or waterfront. Together metes and bounds describe the boundary of a given parcel of land. The angles are described by reference to points of the compass, and the distances are described in feet or chains; curves are treated as arcs on a circle.

mineral rights

Mineral rights are rights to extract ore, petroleum, or other minerals from a property.

mixed-use property

Mixed-use property combines two or more categories of use, such as commercial and residential. A common example of mixed-use property is a single building with a retail store on the street level and residential units above.

multiple-use subclassifications

Multiple-use subclassifications are a type of property where a single parcel of land is used for more than one purpose, which results in different subclassifications and different assessment percentages. In these situations, it is necessary to assign different subclassification and assessment percentages to each use. The assessor determines the appropriate assessment percentage by determining the share of the total market value attributable to each subclass.



Nn

neighborhood

A neighborhood is the environment around a property that has a direct and immediate effect on the property's value.

neighborhood analysis

A neighborhood analysis is used to identify, analyze, and discuss the various market forces influencing properties within that neighborhood.

net operating income (NOI)

Net operating income (NOI) for public utilities is gross income minus all operating expenses including depreciation and all taxes, but before the deduction of interest. Some Tennessee laws have been revised to change the assessment levels for highly competitive companies to the commercial and industrial assessment level.

See also:

- *capitalization rate*
- *income approach*

This definition is reproduced from Glossary of Terms Used in the Valuation of Centrally Assessed Property for Ad Valorem Tax Purposes (compiled by the National Tax Association and Wichita State University).

nonoperating property

Nonoperating property refers to property not used in the operation of the primary business. It may be capital invested in temporary investments, subsidiary companies, or other properties which are not a part of the utility operations.

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obsolescence

Obsolescence is a decrease in property value because of changes in demand for similar properties. Common reasons properties lose value due to obsolescence include aesthetic changes/trends, new technology, regulatory changes, and shifts in consumer demand.

See also:

- *depreciation*
- *economic (external) obsolescence*
- *functional obsolescence*

Office of State Assessed Properties (OSAP)

The Office of State Assessed Properties (OSAP), part of the Office of the Comptroller of the Treasury, is responsible for assessing public utilities.

See also:

- *state assessed property*

open space land

Open space land is one type of greenbelt land. Greenbelt is the common term for the properties outlined in the Agricultural, Forest, and Open Space Land Act of 1976. Open space land is land containing at least three acres characterized principally by an open or a natural condition, the preservation of which would tend to provide the public with one or more of the following benefits:

- The use, enjoyment, and economic value of surrounding residential, commercial, industrial, or public use lands;
- The conservation of natural resources, water, air, and wildlife;
- The planning and preservation of land in an open condition for the general welfare;
- A relief from the monotony of continued urban sprawl; or
- An opportunity for the study and enjoyment of natural areas by urban and suburban residents who might not otherwise have access to such amenities.

For land to qualify as open space, the planning commission for the county or municipality must designate the area for preservation as open space land. Once the planning commission adopts an area, then land within that area may be classified as open space. If the planning commission has not designated an area, then this classification is not available. While open space land may include lands primarily devoted to recreational use, it does not apply to golf courses.

See also:

- *agricultural land*
- *greenbelt*
- *forest land*
- *use value*

operating expenses

Operating expenses are the costs required to run a business. For a public utility, typically the operating expenses include all categories of expenses from regulated operations, including annual depreciation and amortization expenses and all taxes. The deduction of operating expenses from gross income leaves only the income available to pay the cost of debt and equity (typically called net operating income).

This definition is reproduced from Glossary of Terms Used in the Valuation of Centrally Assessed Property for Ad Valorem Tax Purposes (compiled by the National Tax Association and Wichita State University).

operating lease

Operating leases are sometimes called “service leases” because they are short-term leases for the use of assets that become obsolete quickly (such as computers or office equipment). Operating leases generally do not transfer ownership of the asset at the end of the lease term, and the lease payments are considered an operating expense for the lessee. Operating leases do not have to be recorded on a business’s balance sheet because the lessee is not acquiring an asset at the end of the term. Businesses frequently rent vehicles using an operating lease, because vehicles become obsolete quickly (especially with heavy use) and the company leasing them does not want to own the vehicle at the end of the lease term.

Operating leases are different from capital leases, which are longer term leases that transfer ownership of the asset at the end of the lease term.

See also:

- *capital leases*

opportunity cost

In real estate investing, opportunity cost is the rate of return on investing the same amount of money in an alternative investment opportunity with similar risk. Opportunity cost is a way of measuring the highest potential return on investment between two or more investment opportunities.

original cost

Original cost is the total amount of money required to purchase and acquire an asset. In addition to the purchase price, the original cost includes any taxes, fees, delivery charges, installation expenses, or other costs ancillary to the purchase of an asset. Original cost (and not purchase price) is used to determine the tax basis of an asset.

overall rate (OAR)

An overall rate (OAR) is a measure that converts future benefits into current value. The overall rate is calculated by dividing net operating income by the property's purchase price. This measure is often used in assessing the value of commercial property.

See also:

- *capitalization*

ownership

Ownership is the exclusive right to the use of property. Individuals, groups of people, and other entities can all own property. Property can have a sole owner, or ownership can be split between multiple parties.

Pp

parcel

A parcel is land, including the resources in and on it, and the buildings and permanent fixtures attached to it. It can be a contiguous area of land or one of a number of lots on a plat; separately owned, either publicly or privately; and capable of being separately conveyed. A parcel is assigned a numeric or alpha numeric description that identifies it uniquely in each jurisdiction.

See also:

- *lot*
- *plat*

parcel identification number

A numeric or alphanumeric description of a parcel that identifies it uniquely. In Tennessee, this identification number consists of the map, group, control map, parcel, property identifier, and special interest.

payments in lieu of taxes (PILOT)

Payments in lieu of taxes (PILOT) are payments made by private taxpayers, often businesses, to a local government to help offset losses in property taxes due to special tax treatment.

APILOT is used when a local government provides tax incentives for a private company to relocate to or expand in the area. To that end, an agreement is made that allows real and personal property to be transferred for a specified period of time to an industrial development board (IDB) or health, education, and housing facility board (HEHB). The effect of this transfer is that the company's assets, now in the hands of a governmental entity, are exempt from taxation. In exchange for favorable tax treatment, the entity agrees to pay the local government payments in lieu of taxes. At the conclusion of the agreement period, the property is transferred back to the private company and placed on the property tax roll at full value. PILOT payment calculations vary, but are most often an incremental percentage of what the actual taxes would have been otherwise.

See also:

- *health, education, and housing facility board (HEHB)*
- *industrial development board (IDB)*

percent good

Percent good is an estimate of the value of a property that is expressed as a percentage of its replacement cost after depreciation of any kind has been deducted. For example, a structure that is estimated to be 40 percent depreciated has a percent good of 60 percent. This 60 percent can then be applied to the new replacement cost to find the current value.

personal property

Personal property is an asset owned or leased by a taxpayer and used for business or a profession. This excludes real estate and any fixtures, which are considered real property.

There are two types of personal property: tangible and intangible. While tangible property can be physically touched, intangible personal property cannot. Examples of intangible property include ownership in a business and debts.

In Tennessee, all tangible personal property must be reported by March 1. This reporting includes any personal property acquired or disposed of, which is used to create or update a list of tangible personal property for each taxpayer. The value of the property is determined using depreciation schedules in Tennessee law. Thus, taxpayers update their lists of assets and the assessors of property assess the cost of the assets less depreciation.

In Tennessee, tangible personal property is assessed at 30 percent of its value for commercial and industrial property and 55 percent of its value for public utility property, per the classifications set out in the Tennessee Constitution.

The current assessment level for intangible personal property is 40 percent, but Tennessee only assesses the intangible personal property of certain insurance companies. (Bank-owned intangible property is not taxed using property assessments.)

See also:

- *intangible personal property*
- *tangible personal property*

physical deterioration

Physical deterioration causes a loss in value due to ordinary wear and tear and the forces of nature.

plat

A plat is an official map that is intended to show the division of land into lots or parcels. After recording a plat with the appropriate authorities, that land can then be described for legal purposes by reference to the plat, without additional description. In Tennessee, local planning commissions must approve any plat that has been subdivided into lots before it is recorded.

See also:

- *lot*

possessory interest

A possessory interest in a piece of real estate is the right to occupy the property and exclude others from the property without owning the property. Leasehold estates are the most common form of possessory interest.

For example, a property owner could sign a 55-year lease, giving the possessory interest of the property to the tenant for 55 years. In other words, for 55 years the leaseholder is allowed to live in or use the property exclusively. After 55 years, the right to live and use the property returns to the property owner.

When a government owns land that is then leased to a nongovernment entity, the lessee has a possessory interest, and that possessory interest may be taxable (although the government land itself is not).

potential gross income

Potential gross income is the amount of money that would be collected if a property is fully occupied and all rents are collected. Potential gross income does not deduct specific costs like vacancy costs, collection losses, and normal operating expenses.

price-related differential (PRD)

Price-related differential (PRD) is used as a measure of assessment bias and is one of the calculations used by the Comptroller's Division of Property Assessments to create the appraisal ratio studies. The purpose of this measurement is to show whether higher-priced properties are being either overvalued or undervalued in comparison to their lower-priced counterparts.

Before PRD can be calculated, the ratio of appraised value to the actual sales prices for each recently sold property is determined. This ratio is meant to show how closely appraised values are to market values. Then, PRD is calculated by dividing the mean of

these ratios by the weighted mean of the ratios, which puts more weight on higher-priced properties.

If the price-related differential is above 1.03, it indicates that high-value properties are appraised lower than low-value properties in relation to market value. This is called assessment regressivity.

If the price-related differential is below 0.98, it indicates that high-value properties are appraised higher than low-value properties in relation to market value. This is called assessment progressivity.

See also:

- *appraisal ratio report*
- *ratio study*

property class

In Tennessee, for purposes of taxation, all property is divided into three classes: (1) real property, (2) tangible personal property, and (3) intangible personal property.

See also:

- *classification*

property line

A property line is the boundary line that defines a lot or parcel of land.

property tax

Tennessee's property tax is one of the oldest and most significant sources of revenue for local governments. Tennessee's Constitution authorizes counties and municipalities to levy a tax on three classes of property – real, tangible personal property, and intangible personal property – based on the value of the property.

Counties in Tennessee are authorized to levy a property tax, based on the value of the property within the county's boundaries. The county assessor of property is responsible for regularly determining the assessed value of properties for tax purposes.

Not all municipalities in Tennessee levy a property tax.

See also:

- *appraisal*
- *assessment*
- *reappraisal cycle*

property tax freeze

Property tax freeze is a local option program administered jointly by the assessor of property and the collecting official of the applicable jurisdiction. Qualifying taxpayers in the program may see lower property taxes over time relative to those not in the program due to the property taxes owed being "frozen" at a set amount.

The Tennessee Constitution gives the General Assembly the authority by general law to authorize counties and/or municipalities to implement a local option property tax freeze for taxpayers 65 years of age or older. As a result, the General Assembly enacted the Property Tax Freeze Act in 2007, which establishes the tax freeze with specific requirements for age and income, and authorizes the legislative body of any county and/or municipality to adopt the property tax freeze program.

See also:

- *Property Tax Relief Program*

property tax notice

Property tax notices, or property tax bills, are written notices sent to listed property owners that detail the amount of property taxes due. In Tennessee, no jurisdiction is required to send property tax notices; it is the responsibility of property owners to ensure taxes are paid. However, jurisdictions are often able to collect a higher percent of their tax levy when notices are sent out and therefore usually do.

See also:

- *assessment change notice*
- *tax bill*

Property Tax Relief Program

The Comptroller's Division of Property Assessments administers the state-funded Property Tax Relief Program, which can reduce the property tax bill for qualifying taxpayers.

The Tennessee Constitution provides for property tax relief for qualifying elderly and disabled homeowners who meet income requirements, as well as certain service-disabled veterans and their surviving spouses. Property tax relief reduces an eligible homeowner's property tax bill because the state, rather than the homeowner, pays all or a portion of the local property tax.

See also:

- *property tax freeze*

public property

Public property is any government-owned property, and is exempt from taxation. This includes 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.

public utilities

Public utilities include railroads, private cars, buses, airlines, trucks, barge lines, electric companies and cooperatives, telephone (including cell phone) and telegraph companies, pipeline and gas companies, water and sewerage companies, and power transmission companies.

Federal laws prohibiting tax discrimination against certain kinds of public utility property have effectively lowered assessment rates for railroad, airline, and motor carrier property from 55 percent (the assessed value for public utility properties) to 40 percent, the same rate as industrial and commercial property.

Q9

quality class

Quality class is a subjective classification of a structure by an appraiser, intended to describe structures with high quality building materials, workmanship, architectural attractiveness, and design. Quality class, or grade, is the key variable in most cost schedules. Cost schedule refers to charts or tables constructed to assist in estimating the replacement cost new (RCN) of a structure based on factors such as quality class and size.

See also:

- *replacement cost new (RCN)*



Rr

ratio study

A ratio study is a study of the relationship between appraised or assessed values and market values. The goal in ratio studies is to determine the level and uniformity of the appraisals or assessments for a given jurisdiction.

In Tennessee, ratio studies are compiled and analyzed to create the appraisal ratio report, which is published by the Comptroller's Division of Property Assessments.

See also:

- *appraisal ratio report*

real estate

Real estate is the physical parcel of land and all improvements permanently attached or fixed to the land.

real property

Real property is one of the three classes of property subject to taxation in Tennessee, as specified by Article II of the Tennessee Constitution.

Real property is defined by state law to include land, structures, and improvements on land, certain mobile homes, and machinery and equipment affixed to the land.

Real property is subdivided into four subclasses, also specified in the Tennessee Constitution. Properties are assessed at a percentage of their appraised value based on preset assessment percentages for each subclass. The Tennessee Constitution provides for the following preset assessment percentages:

Residential real property	25%
Farm real property	25%
Commercial and industrial real property	40%
Public utility real property	55%
Example: A residence appraised at \$ 100,000 would have an assessed value of \$25,000	

See also:

- *intangible personal property*
- *public utilities*
- *tangible personal property*

reappraisal

Reappraisal is the mass appraisal of all property within a jurisdiction completed at the end of a reappraisal cycle. Not all properties are reappraised each year, but all properties in a jurisdiction must be appraised or reappraised once within a reappraisal cycle. Between reappraisals, a property's appraisal amount remains constant, with the exception of properties that have changed significantly due to new buildings, additions, demolitions, etc.

reappraisal cycle

A reappraisal cycle is the period of time necessary for a jurisdiction to have a complete reappraisal of all eligible property. In Tennessee, reappraisal cycles are four, five, or six years.

recapture

Recapture, in general, is the recovery of a capital investment. More specifically, it is the portion of the net operating income or the cash flow that provides for the periodic repayment of invested capital. Recapture may also be achieved, wholly or in part, through resale of the property. The words depreciation and amortization are sometimes used as synonyms for recapture. However, depreciation is also both an accounting term and a word that means a loss from original value, and amortization is commonly used to signify debt retirement. Recapture has no such multiple meanings, and is therefore more desirable for use in income appraisal.

See also:

- *greenbelt*
- *rollback tax*

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registered agent

Tennessee law requires that persons representing taxpayers in property tax appeals before the State Board of Equalization must qualify on the basis of being an attorney for the taxpayer or occupying a particular relationship to the taxpayer, or on the basis of demonstrating specific appraisal or assessment related qualifications and registering with the SBOE. Prospective agents may register by submitting an application and the required fee.

The three general areas of qualification as a registered agent are as follows:

- Education (120 hours of appraisal or assessment courses), appraisal/assessment experience (four years), and examination (Tennessee Certified Assessor exam).

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- An agent may also qualify on the basis of an appraisal or assessment designation, but the only designations currently recognized are the Certified Member designation of the Institute of Professionals in Taxation (IPT) and the Accredited Senior Appraiser (ASA) designation of the American Society of Appraisers. Rules of the board presently require organizations conferring professional designations to apply to the board for recognition of a particular designation, and, to date, only the IPT and ASA have followed this process.
 - Applicants may also qualify by reciprocity if they are currently registered as taxpayer agents in another state with comparable requirements to Tennessee. Agents registered with the board must renew registration every two years, and they are subject to disciplinary standards adopted as rules of the board.

remaining economic life (REL)

The remaining economic life of an asset is the number of future years for which the operation of an asset is expected to add value to the total property. REL is often expressed as a percentage of the total economic life (REL percent).

For example, a structure's total economic life may be 50 years, at which time it would likely be dilapidated and no longer have positive value. Twenty years after construction of the structure, its remaining economic life would be 30 years, or 60 percent, of the total economic life.

replacement cost

Replacement cost represents the cost of replacing an asset with something that is equivalent. For example, the replacement cost of a house is the cost of building a replacement house of the same size and type of construction. It does not include the price of the land, as that would not need replacing in the event of a loss.

Replacement cost is not the same as market value, which is the amount it would take to purchase another property of similar size and type of construction, including the land.

See also:

- *market value*

replacement cost new less depreciation (RCNLD)

The replacement cost new less depreciation is a calculated value of an asset used in the cost approach. The first step to calculate the RCNLD of an asset is to determine what a similar replacement, with the same utility to its owner, would cost to build using current techniques and materials. This is the replacement cost. The depreciation of the asset is then subtracted from the replacement cost because the asset is not as new as its replacement would be. Depreciation would include any reduction in value due to factors such as not having the newest techniques and materials, not being as functional as the asset once was, and having a shorter useful life than a new version would.

See also:

- *cost approach*
- *depreciation*

replacement cost new (RCN)

Replacement cost new (RCN) is the value of an asset based on the cost – including material, labor, and overhead – that would be incurred in constructing a replacement without necessarily reproducing exactly any particular characteristic of the original asset. Materials, design, and building techniques could be up to current standards, but must have the same utility to the owner.

residual value

Residual value refers to the value of an asset after the term of a lease expires. As an asset is used, its value depreciates. At the end of the lease term, the asset has a residual value that represents what it would cost to buy the asset at that point. Estimates of residual value may be used in calculations to determine rental payments and lease terms.

See also:

- *asset*
- *capital lease*
- *operating lease*

revocation

Tennessee law allows property held and used purely for religious, charitable, scientific, literary, or educational purposes to be exempt from property taxes. The property owner must file for a property tax exemption from the State Board of Equalization. The SBOE may revoke an exemption on its own or following a concern or complaint brought by a county official, including the assessor, or other person regarding an exempt property.

Grounds for revocation are fraud, misrepresentation, erroneous information, change in use, and abandonment of property. The revocation process can be initiated by the SBOE or a county assessor, or once a concern or complaint regarding an exempt property is received.

The review begins when SBOE attempts to contact the property owner in response to a complaint. Upon completion of the review, all relevant parties (complainant, property owner, assessor, trustee) are notified whether there is probable cause to revoke. If there is probable cause to revoke, the SBOE will inform the owner of their right to request a hearing before an administrative law judge (ALJ). The SBOE will then advise the assessor that the property should not be returned to the tax roll until SBOE receives an order from the ALJ and forwards the file to the Administrative Procedures Division of the Tennessee Secretary of State's Office for final disposition. If a hearing is not requested within 90 days, the ALJ issues an order of revocation, but if a hearing is requested, the ALJ issues an appropriate order after holding a hearing.

right-of-way

Right-of-way is the right of passage through property. The term can have two specific meanings:

- (1) A right-of-way can be an easement that allows passage through a property that benefits owners of other lots or other specific parties because it connects them to roads or other points of interest.
- (2) Land crossed by a railroad or public utility, whether owned by the railroad or utility company or used under an easement agreement, is also called a right-of-way.

rollback tax

A rollback tax, or rollback assessment, is charged to a greenbelt property owner when the property no longer qualifies as greenbelt, and thus is no longer eligible for a reduced assessment. In the greenbelt program, the value of land is based on its current use as agricultural, forest, or open space land rather than the current market value for similar properties. Use value is determined by a statutory formula that blends farm income and market data. This calculation is performed by the Division of Property Assessments.

If property is disqualified and removed from the greenbelt program, it usually triggers rollback or recapture of some of the taxes saved. The rollback tax in most cases is the difference in the taxes under greenbelt versus what they would have been at market value for the previous three years. Greenbelt property is unique in that it is valued based only on the amount it would be sold for if it were required to remain as agricultural land instead of being based on how much a buyer would pay if the property could be developed in any other way.

See also:

- *agricultural land*
- *greenbelt*



Ss

sales comparison approach

One of three approaches to value, the sales comparison approach estimates the value of a property or improvement in reference to comparable sales. This method entails comparing the property being appraised to similar properties that have sold for known prices to estimate value. The appraiser identifies comparable properties sold recently that also have relatively similar size, quality, use, and amenities. Some adjustments can be made to account for differences between the property being appraised and the homes used as comparison.

See also:

- *cost approach*
- *income approach*
- *market approach*

sales ratio

Sales ratio measures the difference between appraised value and market value. It is calculated by dividing the appraised value of a property by the sales price of that property. In Tennessee, on the appraisal date (January 1 of the year of reappraisal), market and appraised values should be similar. As time passes between reappraisals, the disparity between these values may increase. This disparity is what creates a sales ratio other than 1.00 (100 percent). These ratios are used to develop the appraisal ratio report.

See also:

- *appraisal ratio report*
- *appraised value*
- *market value*

situs

The situs is the actual or assumed location of a property for purposes of taxation. In personal property, situs may be the physical location of the property or, in the instance of highly mobile property, the more or less permanent location of the property owner.

special purpose property

Special purpose properties have unique features in their design, materials, construction, or use. These special qualities affect a property's assessment because they limit the available uses for the property.

split classification rules

Split classification rules apply to those situations where a parcel of real property is used for more than one purpose and it is necessary to assign different subclassifications and assessment percentages to each use. Split classification rules address the classification of, for example, agritourism properties, mobile homes within mobile home parks, and commercial businesses on residential property.

state assessed property

State assessed property is a term most often applied to utility property or property with special characteristics that prompts a state, instead of local governments, to perform the assessment to ensure uniformity.

In Tennessee, state assessed properties are public utility and transportation properties. The Office of State Assessed Properties (OSAP), within the Tennessee Office of the Comptroller, conducts annual appraisals, assessments, and audits of such properties. These assessments are given to counties, cities, and other taxing jurisdictions for billing and collection of property taxes.

OSAP assesses 18 types of public utility and transportation companies with a presence in Tennessee, including airlines, motor carrier, railroads, and wireless management, among others.

See also:

- *Office of State Assessed Properties (OSAP)*

State Board of Equalization

The State Board of Equalization is responsible for ensuring constitutional and statutory compliance in assessments of property for ad valorem taxes. This responsibility is carried out through establishment of policies, rules, manuals, and training; hearing of appeals from county boards of equalization; direct review and hearing of appeals regarding state assessed property; review of application of tax exemptions; and review of certified tax rate calculations. The State Board is part of the Tennessee's Office of the Comptroller of the Treasury.

See also:

- *board of equalization*
- *county board of equalization*

stipulated value

The stipulated value of a property is an amount that all parties to a dispute (such as a tax appeal) agree is the accurate amount. Stipulating a value removes that element from the contested facts in a case.

straight line depreciation

Straight line depreciation of real property calculates the amount of depreciation equally per year over the life of the property. This regular and equal reduction in value is a relatively simple and common method for calculating the loss in value over time for a property.

stratification

Stratification refers to the division of samples of observations into two or more subsets according to some criterion or set of criteria. Such a division may be made to analyze different property types, locations, or characteristics to better understand how these differences affect values. This type of data analysis can help develop appraisal models that assist with mass appraisals.

structure

A structure is any man-made improvement that rises above ground level on a parcel or lot of land.

subclass

A subclass refers to a group of properties within a class. In Tennessee, the three classes are subdivided into four main subclasses: (1) public utility property, (2) industrial and commercial property, (3) residential property, and (4) farm property.

See also:

- *classification*

subject property

The property being appraised is sometimes referred to as the subject property; this is another way of saying which property is the subject of the appraisal.

substitution

The substitution principle states that a potential owner will pay no more for a property than the price for a property of similar usefulness. In other words, a property's value tends to be set by the cost of acquiring an equally desirable substitute. The substitution principle is the basis for the cost approach to valuation.

See also:

- *cost approach*



Tt

tangible personal property

Tangible personal property is a subcategory of personal property. Personal property is an asset owned or leased by a taxpayer and used for business or a profession. Generally, personal property can be moved and taken out of a space, whereas real property is affixed to the land or structures. Tangible personal property can be furniture, equipment, vehicles, or anything that is concrete, other than real estate or a fixture. It is the opposite of intangible personal property, which is personal property, like business ownership and patents, that is not concrete and cannot physically be touched.

In Tennessee, tangible personal property is assessed at 30 percent of its value for commercial and industrial property and 55 percent of its value for public utility property.

See also:

- *classification*
- *intangible personal property*
- *property class*
- *real estate*

Tax Aggregate Report

The Tax Aggregate Report is an annual publication of the State Board of Equalization that is required by law. Data for this report are analyzed and compiled by the Comptroller's Division of Property Assessments. The report contains property tax information for cities and counties and, in some instances, statewide totals.

The report includes select data and information, such as:

- estimated current property values;
- total local assessments for each county, municipality, and special school district, by property class (real, tangible personal, and intangible personal) and subclass (residential, farm, industrial and commercial, and public utility);
- public utility assessments;
- changes in assessments between the current year and prior year;
- tax rates; and
- year of last revaluation, parcels (both taxable and exempt), and population.

tax base

The tax base is the total asset value to which the tax rate or rates are applied to determine the taxes owed by a person or a group of persons. The tax base for property taxes, for example, is the total assessed value of all properties subject to taxation.

tax bill

A homeowner's tax bill is that amount of money he or she must pay in property taxes. In Tennessee, homeowners can calculate their tax bill by multiplying the assessed value of property by the tax rate in the property's city and county. Assessed values can be found by multiplying the appraised value of the property (which is public record) by the assessment ratios for Tennessee.

See also:

- *assessment*
- *assessment ratio*
- *tax rate*

tax increment financing (TIF)

Tax increment financing (TIF) is a tool used by local governments to encourage development in targeted areas. Local industrial development boards or local housing authorities can invest in a project using the future expected increases in tax revenue for the financing. For example, a blighted neighborhood might have dilapidated buildings worth only \$50,000 in property value. Using a TIF, the local development board or housing authority could replace the run-down buildings with new ones to increase total property values in the area to \$750,000. The \$700,000 difference in property value would increase property tax collections. The increased property tax revenue is used to recover the cost of the TIF improvements. In short, TIF is a way to allow new development to pay for itself.

State law requires the Comptroller of the Treasury and the Commissioner of Economic and Community Development to review certain TIF plans to determine whether the financings are in the best interest of the State of Tennessee.

See also:

- *industrial development board (IDB)*

tax levy

Tax levy can have two related meanings:

- (1) The act approved by a legislative body that sets either the amount of tax on a specific good or asset or the tax rate to be applied to a predefined tax base.
- (2) The total amount of taxes authorized by a legislative body. With property taxes, for example, the tax levy is the amount collected from homeowners. The total taxes due are calculated by applying the tax rate to the properties' assessed values.

tax rate

The tax rate describes the amount of taxes paid per \$100 of assessed value. The assessed value is a portion of the appraised value as outlined by state law. It is distinct from the effective tax rate, which shows what percent taxes are of the appraised value of property.

In some counties, the basic county tax rate is distinct from any additional tax rate set by cities or special school districts within the county. The total tax rate combines all applicable tax rates for the jurisdiction.

See also:

- *effective tax rate*

tax roll

A tax roll is an official list showing the amount of taxes charged against each taxpayer and/or each property within a jurisdiction.

tax sale

A tax sale occurs when a taxpayer's property is sold by a public authority so that delinquent, or unpaid, taxes may be collected from the proceeds. Taxpayers can pay delinquent taxes prior to a scheduled tax sale, and they have a specified time period after the sale in which they can redeem the property from the purchaser.

title

A title is the legal instrument that serves as evidence of ownership.

See also:

- *deed*
- *instrument*

topography

Topography is the contour of the land's surface. A land's topography may be, for example, gently rolling, mountainous, or flat.

topology

Topology is a set of rules in mapping technology (such as geographic information systems, or GIS) that when coupled with editing tools and techniques, enables a geodatabase to accurately model geometric relationships. Topology helps determine how different types of geographical data interact and share a geographic space. For example, one rule may be that all parcel boundaries should be covered by a parcel line.

See also:

- *geocoding*
- *geodatabase*

total economic life

Total economic life of a tangible asset is the period of time, or the number of units produced, over which the asset is expected to add value to the total property, or to be economically feasible. This is distinct from the physical life of an asset. Tangible assets could be buildings or improvements to the property.

tourist development zone (TDZ)

Tourist development zones (TDZs) are high tourism areas in which improvements would likely bring more industry and increased revenue. While state government is generally entitled to 75 percent of all sales tax revenue generated in Tennessee's municipalities, the state foregoes its portion of the sales tax in a designated TDZ so that the area can be developed.

In Tennessee, municipalities with a TDZ must annually document any costs of development or improvement projects to ensure that the state's share of the sales tax is being used appropriately. The Commissioner of Revenue reviews the documentation, confirms TDZ expenditures, and then notifies the Department of Economic and Community Development.

trust

In property terms, a trust is an agreement in which the owner of property (the settlor) transfers legal title to a second party (the trustee), with later benefits to either the settlor or a third party (the beneficiary). The trust agreement outlines how the trustee handles, manages, and disposes of the property. Usually a trust for property is in place so that after the settlor dies, the trustee transfers ownership to the beneficiary without having to go through the longer probate process.

Uu

undivided interest

An undivided interest in ownership exists when there are multiple parties, corporations, partnerships, or tenancy-in-common owning assets or property. Such co-owners with an undivided interest have unrestricted rights to the entire common asset or property, and no co-owner has exclusive rights to any asset or part of the property.

Uniform Standards of Professional Appraisal Practice (USPAP)

USPAP is an annual publication from the Appraisal Standards Board of The Appraisal Foundation. Its description is as follows: “These Standards deal with the procedures to be followed in performing an appraisal, review or consulting service and the manner in which an appraisal, review or consulting service is communicated. Standard 6 sets forth criteria for the development and reporting of mass appraisals for ad valorem tax purposes or any other universe of properties.”

uniformity

Uniformity in taxation refers to the equal sharing of the tax burden so that all similar property is taxed at the same rate. Uniformity in taxation requires:

- a standard property assessment process,
- a standard rate of taxation, and
- all property be subject to taxation, so that all similar property may be taxed the same.

In Tennessee, the State Board of Equalization ensures that property tax assessments meet state constitutional standards of uniformity through the board's administrative policies and appeals process.

unit of comparison

A unit of comparison is a measurement that breaks down the price of a whole into smaller uniform units so it can be compared to another property that can also be broken down into those same units. For example, a home's price could be broken down by square feet. This unit of comparison would allow properties to be compared based on their price per square foot. Units of comparison are also used to estimate the value of a given property in comparison to other properties for sale or recently sold.

unit value

Unit value has two possible definitions:

- (1) The value of a section of property if it were to be split into similar parts. For example, value per square foot is one type of unit value; or
- (2) An appraisal of an integrated property as a whole without any reference to the value of its component parts.

unit method of evaluation

The unit method of valuation is the technique of valuing a collection of property as a single, whole item.

use value

Use value has two similar definitions:

- (1) The value of property based on a specific use, which is not necessarily the same as the value of the property if it could be developed or used in the most profitable way. For example, the use value of land when it can only be used as farm land may be less than the highest and best use value of the land if it could be developed into multi-use apartment complexes; or
- (2) Can refer to property that is entitled to a different assessment than similar properties in the area, based on its use. Examples of properties that may be assessed at use value under state law include agricultural land, open space land, and forest land.

See also:

- *agricultural land*
- *greenbelt*
- *highest and best use*



V_v

vacancy and collection loss

Vacancy and collection loss is the amount of money deducted from potential annual gross income to reflect expected vacancy and turnover, or nonpayment of rent by tenants. Vacancy and collection loss is commonly expressed as a percentage of potential annual gross income, and is based on market research, not actual rental history of a property.

For example, market research may show that each month there is turnover or other factors that cause one out of 10 apartments to be vacant and one out of the same 10 to not pay rent. If all the apartments cost the same, then the vacancy and collection cost would be 20 percent because two of the 10 apartments did not bring in rent revenue.

See also:

- *effective gross income (EGI)*

value

Value can have several meanings relative to property assessment:

- (1) The relationship between an object desired and a potential owner is the object's value. The characteristics of scarcity, utility, desirability, and transferability create value for the desired object.
- (2) The present worth of future benefits arising from the ownership of real or personal property.
- (3) The estimate sought in a valuation.

value in exchange

Value in exchange has multiple meanings:

- (1) The amount an informed purchaser would offer for property under given market conditions.
- (2) The concept that states value is based on the ability of property to elicit the exchange of another asset, such as money, in trade.

value in use

Value in use is the value of property when assessed based on a specific use. This is distinct from the highest and best use principle, which looks at property values if the property were put to its most profitable use. Value in use is most often used in Tennessee for the valuation of greenbelt land.

See also:

- *agricultural land*

Ww

warranty deed

The most common type of property deed, a warranty deed is an instrument for conveying property that has good and marketable title. When a property owner sells his property using a warranty deed, he warrants that he owns the property and has the right to convey it to the buyer.

Other types of deeds transfer property without providing a warranty that the seller owns the property and has the right to sell or transfer the property.

See also:

- *deed*



Zz

zoning

Zoning is the regulation by a governing body to restrict landowners' use of their land. Zoning regulations can also restrict the type, size, and location of structures to be erected on the land.

Acronyms

Assessment Related Acronyms

CALP: Computer Assisted Land Pricing

CAMA: Computer Assisted Mass Appraisal

CTR: Certified Tax Rate

CVU: Current Value Update

EYB: Effective Year Built

GIS: Geographic information System

IMPACT: Integrated Multi-Processing of Administrative
and CAMA Technology

NOI: Net Operating Income

OBY: Out Buildings and Yard items

PRC: Property Record Card

RP: Real Property

SFLA: Square Feet of Living Area

TPP: Tangible Personal Property

Assessment Related Organizations

AI: Appraisal Institute

CBOE: County Board of Equalization

CTAS: County Technical Assistance Service

DPA: Division of Property Assessments

IAAO: International Association of Assessing Officers

TIAAO: Tennessee Chapter of the International
Association of Assessing Officers

TNAAO: Tennessee Association of Assessing Officers

OSAP: Office of State Assessed Properties

SBOE: State Board of Equalization



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parcel identification number

classification personal property

common carrier

computer-assisted

condition discount rate

mass appraisal

public utility

ad valorem (CAMA)

cost approach

state assessed properties

condition appeal

unit method

depreciation

appraisal greenbelt

Administrative Law Judge

arm's-length transaction

contested case hearing

improvement

assessment

equalization

certified tax rate

classification

income approach

tax increment financing

commission

assessor of property

agreements

cost approach

Assessment Appeals Commission