



TACIR

The Tennessee Advisory Commission
on Intergovernmental Relations



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MEMORANDUM

TO: Commission Members

FROM: Cliff Lippard
Executive Director

DATE: 16 December 2022

SUBJECT: Tangible Personal Property Tax in Tennessee—Final Report for Approval

The attached Commission report is submitted for your approval. It was prepared in response to a request by Senator Lundberg that the Commission study the personal property tax in Tennessee. Since the draft report was presented at the last meeting, staff have added information regarding the cost to administer and collect the tax and the cost of compliance for small businesses. The changes are highlighted in yellow in the report.

The report's recommendations remain unchanged:

- Tennessee businesses can forgo itemizing their property if they certify that they have \$1,000 or less of personal property. But this is an option currently available only for the very smallest businesses, or approximately 13% of all businesses in the state, meaning that most must still itemize. **To give more businesses a means to reduce the time and cost of filing personal property taxes without decreasing local tax revenue, the Commission recommends that the General Assembly add one or more tiers at greater dollar amounts.**
- With businesses filing by mail, it may take weeks for the assessor's office to open thousands of envelopes and then enter the reported data manually into the records system. Although e-filing is freely available to county assessors through the Tennessee Comptroller of the Treasury's computer-assisted mass appraisal system known as IMPACT, counties are not required or otherwise incentivized to adopt e-filing, and most county assessors in the state have not. Rather, about two-thirds of Tennessee's counties continue to rely on paper filings, while only a third offer e-filing. **To encourage increased compliance with the tax, streamline**

the reporting process for businesses, reduce labor and costs for assessors, encourage consistency in filing requirements across jurisdictions, and modernize the filing process, the Commission recommends that county assessors adopt e-filing and that the state continue to encourage them to do so.

- Many newer businesses only first learn of the tax when they receive notice in January and do not understand either what the tax is or how to perform the assessment, and the information on state websites regarding personal property taxes could be easy to overlook. **To better inform taxpayers of their tax obligations and enhance compliance, the Commission recommends that new businesses receive an email upon registration of their business licenses that outlines all of the taxes they might owe, including local taxes.**
- In 1997, the Standard Industrial Classification (SIC) system was replaced with the North American Industrial Classification System (NAICS). Tennessee's business tax continues to use SIC. In contrast, personal property tax account data use NAICS. **To ensure that business tax records across different governmental databases are consistent and updated, the Commission recommends that the General Assembly update the industry classifications used for the business tax from the Standard Industrial Classification (SIC) system to the North American Industry Classification System (NAICS).**