

This brief continues TACIR's comprehensive study on property tax in Tennessee. The first report in this study is *Greenbelt Revisited* which identifies several concerns with Tennessee's current greenbelt law. The next piece is a staff research brief *Property Tax Disparity Among Tennessee Counties* which analyzes the per capita property tax assessment base for each county.

Senator Mark Norris
Chairman

◆
Tom Rowland
Mayor of Cleveland
Vice-Chairman

◆
Harry A. Green
Executive Director

Tennessee Advisory Commission
on Intergovernmental Relations
(TACIR)

226 Capitol Boulevard Building
Suite 508

Nashville, TN 37243

Phone: 615.741.3012

Fax: 615.532.2443

E-mail: tacir@tn.gov

www.tn.gov/tacir

THE IMPORTANCE OF THE PROPERTY TAX AMONG TENNESSEE COUNTIES

by Stan Chervin, Ph.D.

A recent TACIR property tax update noted an increase in the importance of property taxes vis-à-vis local sales taxes in financing local government operations.¹ The increased importance of the property tax was predictable for several reasons:

1. The impact of the existing statutory maximum local sales tax rate cap of 2.75% is increasingly coming into play as more and more local governments reach or approach the cap.²
2. The tax base itself—both the state and local sales tax base—as shown in study after study, is inelastic over the long run, meaning it grows less than personal income.
3. Leakages in the sales tax base continue to negatively impact collections.³
4. The increase in state aid to local governments Basic Education Program funding has slowed

¹ Green, H. and Chervin, S. 2006. Local government property tax revisited: Good news and band news. Nashville: Tennessee Advisory Commission on Intergovernmental Relations..

² See LeAnn, L., Bruce, J.B., and Hawkins, R.R. 2007. Maxing out: An analysis of local option sales tax rate increases. *National Tax Journal* (March): 45-63.

³ See Sjoquist, David L., ed. 2003. *State and local finances under pressure*. Northampton: Edward Elgar Publishing, Inc.

down after an initial spurt when first introduced and funded.⁴

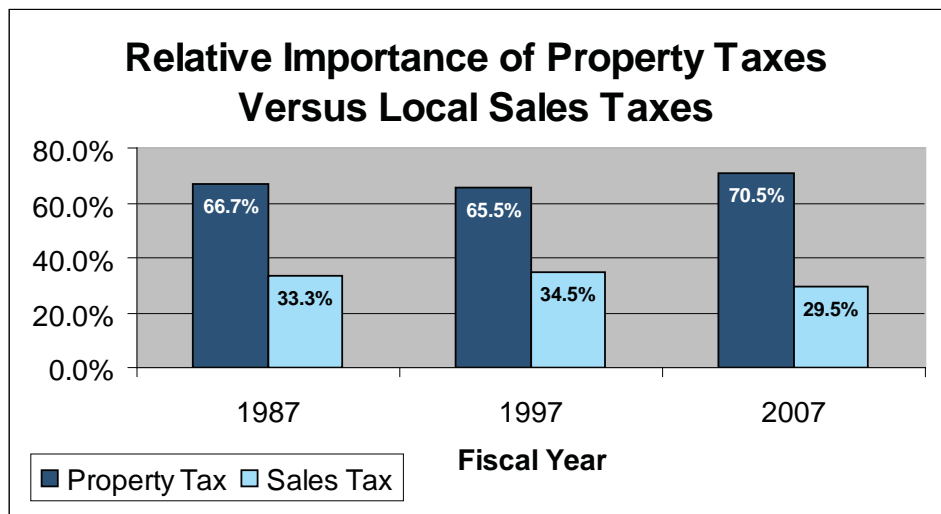
5. Local governments continue to have no other significant taxing authority to tap as an alternative to property taxes.⁵

While local sales tax growth and tax rate increases helped postpone and offset some growth in property taxes over the last 25 years, it appears they will not be able to continue to do so going forward. Data for 1987, 1997, and 2007 clearly show that there will continue to be a renewed and increased dependence on the local property tax in the years ahead.

The chart to the right shows that sales tax collections increased slightly as a share of combined property and sales taxes between fiscal years 1987 and 1997, but then reversed direction between 1997 and 2007. By 2007, property taxes represented more than 70% of the combined total. Given that a majority of local governments already impose either the maximum local option sales tax rate of 2.75% (38 as of August 2007) or a 2.5% rate (13 as of Au-

gust 2007), it is unlikely that the sales tax will ever again gain relative ground on the property tax.⁶

While the data show that property taxes statewide have increased in importance relative to local option sales taxes, the relative importance of property taxes versus sales taxes in each county over the same period of time varied extensively. A new analysis of detailed county property and sales tax data formed the basis for the results displayed in Table 1. The data developed for the analysis reflect all local sales taxes and property taxes collected within a county, regardless of whether levied by a county government or by individual cities within a county.⁷



⁴ The BEP was fully funded by 1997.

⁵ See Chervin, S. 2007. Local taxing authority. Nashville: Tennessee Advisory Commission on Intergovernmental Relations.

⁶ Unless local governments are given new meaningful taxing authority, or the state dramatically increases the flow of intergovernmental aid.

⁷ Property tax collections are estimated from assessment and tax rate data. Data on actual local tax collections remain unavailable since no single state agency collects such data. Some cities levy a higher sales tax rate than their respective county government; 16 cities impose the maximum 2.75% rate (in counties with less than a 2.75% rate), and two cities impose a 2.5% rate in counties with a lower rate.

FISCAL YEAR 1987

With the exception of two counties, Benton and Sevier, property tax revenue exceeded sales tax revenue during fiscal year 1987. The variation in the relative importance of property taxes was dramatic, from a low of only 37.9% in Sevier County to a high of 89.5% in Moore County.⁸ Property taxes represented over 70% of combined property plus sales tax revenue in 46 counties.

FISCAL YEAR 1997

The only county that depended more on sales taxes than property taxes during fiscal year 1997 was Sevier County. The statewide importance of property taxes dropped slightly from 66.7% to 65.5% of the combined total and is reflected in a drop in the importance of property taxes relative to their importance in fiscal year 1987 in slightly more than half of the counties. The importance was lower in 50 counties and higher in 45 counties. This shift in many counties is explained by healthy growth in local sales tax collections that averaged over 7.3% statewide during the period 1993 through 1997.

In fiscal year 1997, the property tax share varied from a low of 34.2% in Sevier County to 86.3% in Clay County. The sales tax share varied from a low of

13.7% in Clay County to a high of 65.8% in Sevier County. Thirty-nine counties depended on property taxes for 70% or more of combined property plus sales tax revenue.

FISCAL YEAR 2007

Sevier County continued to be the only county in the state with a higher dependence on sales taxes versus property taxes in fiscal year 2007. Even in Sevier County, the importance of sales taxes declined, from a 65.8% share in 1997 to 60.4% in 2007. The property tax share of combined taxes (sales and property) increased from a statewide figure of 65.5% in 1997 to 70.5% and was reflected in an increase in the property tax share in 61 counties. The number of counties that depended on property taxes for 70% or more of combined taxes climbed to 44.

⁸ The sales tax portion of the total was only 53.2% in Benton County. Sevier County's ability to generate extremely high levels of per capita sales and property taxes is well-documented. The tourism related sales and economic activity have allowed the county to enjoy the lowest or near lowest property tax rates for many years.

**Table 1. Relative Importance of Sales Versus Property Taxes
Percent of Combined Sales and Property Taxes**

County	Fiscal 1987		Fiscal 1997		Fiscal 2007		Increase/ Decrease in Property Tax as % of Combined Total 1987-2007
	Sales Tax	Property Tax	Sales Tax	Property Tax	Sales Tax	Property Tax	
Anderson	26.10%	73.90%	33.10%	66.90%	30.70%	69.30%	-4.60%
Bedford	30.30%	69.70%	24.60%	75.40%	31.60%	68.40%	-1.30%
Benton	53.20%	46.80%	42.30%	57.70%	37.80%	62.20%	15.40%
Bledsoe	24.30%	75.70%	30.20%	69.80%	19.30%	80.70%	5.00%
Blount	39.10%	60.90%	36.40%	63.60%	29.50%	70.50%	9.60%
Bradley	38.70%	61.30%	38.80%	61.20%	31.10%	68.90%	7.60%
Campbell	35.00%	65.00%	36.10%	63.90%	34.60%	65.40%	0.40%
Cannon	21.30%	78.70%	18.80%	81.20%	16.40%	83.60%	4.90%
Carroll	33.10%	66.90%	32.40%	67.60%	33.10%	66.90%	0.00%
Carter	30.10%	69.90%	31.50%	68.50%	32.10%	67.90%	-2.00%
Cheatham	25.00%	75.00%	24.00%	76.00%	25.20%	74.80%	-0.20%
Chester	32.30%	67.70%	37.70%	62.30%	36.50%	63.50%	-4.20%
Claiborne	33.00%	67.00%	32.70%	67.30%	25.50%	74.50%	7.50%
Clay	14.50%	85.50%	13.70%	86.30%	29.30%	70.70%	-14.80%
Cocke	35.40%	64.60%	43.70%	56.30%	37.30%	62.70%	-1.90%
Coffee	39.50%	60.50%	35.90%	64.10%	31.20%	68.80%	8.30%
Crockett	23.50%	76.50%	26.90%	73.10%	18.20%	81.80%	5.30%
Cumberland	46.20%	53.80%	48.60%	51.40%	49.90%	50.10%	-3.70%
Davidson	39.90%	60.10%	38.80%	61.20%	29.00%	71.00%	10.90%
Decatur	33.50%	66.50%	38.80%	61.20%	42.80%	57.20%	-9.30%
DeKalb	29.80%	70.20%	24.60%	75.40%	18.00%	82.00%	11.80%
Dickson	46.70%	53.30%	38.40%	61.60%	36.00%	64.00%	10.70%
Dyer	46.60%	53.40%	40.80%	59.20%	35.80%	64.20%	10.80%
Fayette	25.50%	74.50%	21.60%	78.40%	22.40%	77.60%	3.10%
Fentress	39.40%	60.60%	41.60%	58.40%	44.40%	55.60%	-5.00%
Franklin	44.90%	55.10%	28.00%	72.00%	25.50%	74.50%	19.40%
Gibson	39.00%	61.00%	36.50%	63.50%	31.00%	69.00%	8.00%
Giles	27.30%	72.70%	21.60%	78.40%	29.40%	70.60%	-2.10%
Grainger	20.20%	79.80%	31.30%	68.70%	24.10%	75.90%	-3.90%
Greene	27.40%	72.60%	36.90%	63.10%	37.70%	62.30%	-10.30%
Grundy	24.90%	75.10%	24.30%	75.70%	23.90%	76.10%	1.00%
Hamblen	33.90%	66.10%	42.70%	57.30%	40.90%	59.10%	-7.00%
Hamilton	26.20%	73.80%	28.10%	71.90%	27.60%	72.40%	-1.40%
Hancock	27.40%	72.60%	20.60%	79.40%	17.60%	82.40%	9.80%
Hardeman	39.90%	60.10%	30.70%	69.30%	30.70%	69.30%	9.20%
Hardin	29.80%	70.20%	31.10%	68.90%	41.70%	58.30%	-11.90%
Hawkins	20.00%	80.00%	28.00%	72.00%	25.40%	74.60%	-5.40%
Haywood	22.80%	77.20%	23.60%	76.40%	22.30%	77.70%	0.50%
Henderson	48.60%	51.40%	48.30%	51.70%	40.80%	59.20%	7.80%
Henry	39.30%	60.70%	39.80%	60.20%	38.00%	62.00%	1.30%

Table 1. Relative Importance of Sales Versus Property Taxes (continued)
Percent of Combined Sales and Property Taxes

County	Fiscal 1987		Fiscal 1997		Fiscal 2007		Increase/ Decrease in Property Tax as % of Combined Total 1987-2007
	Sales Tax	Property Tax	Sales Tax	Property Tax	Sales Tax	Property Tax	
Hickman	25.10%	74.90%	24.70%	75.30%	21.60%	78.40%	3.50%
Houston	31.80%	68.20%	28.60%	71.40%	22.70%	77.30%	9.10%
Humphreys	28.70%	71.30%	29.10%	70.90%	32.00%	68.00%	-3.30%
Jackson	23.10%	76.90%	19.90%	80.10%	19.50%	80.50%	3.60%
Jefferson	33.70%	66.30%	33.00%	67.00%	30.10%	69.90%	3.60%
Johnson	16.00%	84.00%	18.80%	81.20%	19.30%	80.70%	-3.30%
Knox	29.40%	70.60%	38.20%	61.80%	36.00%	64.00%	-6.60%
Lake	25.50%	74.50%	26.50%	73.50%	27.20%	72.80%	-1.70%
Lauderdale	34.40%	65.60%	36.20%	63.80%	27.40%	72.60%	7.00%
Lawrence	33.10%	66.90%	39.80%	60.20%	33.50%	66.50%	-0.40%
Lewis	36.50%	63.50%	34.10%	65.90%	35.60%	64.40%	0.90%
Lincoln	30.80%	69.20%	36.60%	63.40%	37.40%	62.60%	-6.60%
Loudon	17.50%	82.50%	24.70%	75.30%	25.10%	74.90%	-7.60%
McMinn	27.20%	72.80%	31.20%	68.80%	30.60%	69.40%	-3.40%
McNairy	38.90%	61.10%	31.70%	68.30%	29.70%	70.30%	9.20%
Macon	37.10%	62.90%	33.80%	66.20%	31.20%	68.80%	5.90%
Madison	31.90%	68.10%	45.20%	54.80%	41.80%	58.20%	-9.90%
Marion	41.90%	58.10%	39.40%	60.60%	42.30%	57.70%	-0.40%
Marshall	29.30%	70.70%	25.20%	74.80%	23.50%	76.50%	5.80%
Maury	42.70%	57.30%	39.50%	60.50%	31.70%	68.30%	11.00%
Meigs	23.40%	76.60%	26.40%	73.60%	15.90%	84.10%	7.50%
Monroe	42.90%	57.10%	38.40%	61.60%	34.00%	66.00%	8.90%
Montgomery	40.20%	59.80%	38.00%	62.00%	33.00%	67.00%	7.20%
Moore	10.50%	89.50%	14.40%	85.60%	14.40%	85.60%	-3.90%
Morgan	12.80%	87.20%	15.70%	84.30%	15.30%	84.70%	-2.50%
Obion	33.20%	66.80%	39.50%	60.50%	39.60%	60.40%	-6.40%
Overton	27.20%	72.80%	29.50%	70.50%	32.50%	67.50%	-5.30%
Perry	18.20%	81.80%	19.10%	80.90%	20.40%	79.60%	-2.20%
Pickett	19.20%	80.80%	21.80%	78.20%	32.90%	67.10%	-13.70%
Polk	20.20%	79.80%	24.60%	75.40%	19.10%	80.90%	1.10%
Putnam	49.10%	50.90%	44.80%	55.20%	46.30%	53.70%	2.80%
Rhea	32.10%	67.90%	35.30%	64.70%	33.90%	66.10%	-1.80%
Roane	35.10%	64.90%	36.40%	63.60%	32.20%	67.80%	2.90%
Robertson	28.60%	71.40%	27.70%	72.30%	28.90%	71.10%	-0.30%
Rutherford	40.80%	59.20%	31.30%	68.70%	35.90%	64.10%	4.90%
Scott	28.60%	71.40%	32.20%	67.80%	32.50%	67.50%	-3.90%
Sequatchie	33.60%	66.40%	31.10%	68.90%	26.70%	73.30%	6.90%
Sevier	62.10%	37.90%	65.80%	34.20%	60.40%	39.60%	1.70%
Shelby	31.60%	68.40%	30.50%	69.50%	19.50%	80.50%	12.10%
Smith	29.80%	70.20%	35.70%	64.30%	29.70%	70.30%	0.10%

Table 1. Relative Importance of Sales Versus Property Taxes (continued)
Percent of Combined Sales and Property Taxes

County	Fiscal 1987		Fiscal 1997		Fiscal 2007		Increase/ Decrease in Property Tax as % of Combined Total 1987-2007
	Sales Tax	Property Tax	Sales Tax	Property Tax	Sales Tax	Property Tax	
Stewart	40.60%	59.40%	36.30%	63.70%	22.40%	77.60%	18.20%
Sullivan	27.30%	72.70%	33.30%	66.70%	30.40%	69.60%	-3.10%
Sumner	33.00%	67.00%	26.30%	73.70%	25.30%	74.70%	7.70%
Tipton	27.50%	72.50%	25.90%	74.10%	24.90%	75.10%	2.60%
Trousdale	22.00%	78.00%	19.30%	80.70%	18.00%	82.00%	4.00%
Unicoi	27.30%	72.70%	27.10%	72.90%	29.20%	70.80%	-1.90%
Union	20.00%	80.00%	23.80%	76.20%	26.10%	73.90%	-6.10%
Van Buren	18.20%	81.80%	26.40%	73.60%	22.20%	77.80%	-4.00%
Warren	42.10%	57.90%	35.90%	64.10%	38.90%	61.10%	3.20%
Washington	39.50%	60.50%	39.60%	60.40%	38.90%	61.10%	0.60%
Wayne	21.50%	78.50%	22.70%	77.30%	26.90%	73.10%	-5.40%
Weakley	36.40%	63.60%	33.80%	66.20%	34.00%	66.00%	2.40%
White	28.10%	71.90%	36.30%	63.70%	33.90%	66.10%	-5.80%
Williamson	21.70%	78.30%	28.50%	71.50%	30.00%	70.00%	-8.30%
Wilson	25.60%	74.40%	29.90%	70.10%	31.00%	69.00%	-5.40%
Statewide	33.30%	66.70%	34.50%	65.50%	29.50%	70.50%	3.80%
Minimum	10.50%	37.90%	13.70%	34.20%	14.40%	39.60%	-14.80%
Maximum	62.10%	89.50%	65.80%	86.30%	60.40%	85.60%	19.40%

Source: Local option sales tax data from Department of Revenue; local property taxes estimated from data in 2006, 1996, and 1986 "tax Aggregate Report of Tennessee" published by the State Board of Equalization.

Tennessee Advisory Commission on Intergovernmental Relations (TACIR)

The Commission was established by the General Assembly in 1978 to

- Monitor the operation of federal-state-local relations,
- Analyze allocation of state and local fiscal resources,
- Analyze the functions of local governments and their fiscal powers,
- Analyze the pattern of local governmental structure and its viability,
- Analyze laws relating to the assessment and taxation of property,
- Publish reports, findings and recommendations, and draft legislation needed to address a particular public policy issue, and
- Provide a neutral forum for discussion and education about critical and sensitive public policy issues.

TACIR Members

Legislative

Senator Douglas Henry
Senator James Kyle
Senator Mark Norris, Chairman
Senator Jim Tracy
Representative Jason Mumpower
Speaker Emeritus Jimmy Naifeh
Representative Gary Odom
Representative Curry Todd

Statutory

Senator Randy McNally
Representative Craig Fitzhugh
Comptroller Justin Wilson

Executive Branch

Paula Davis, Deputy Commissioner,
Economic & Community Development
Leslie Newman, Commissioner,
Department of Commerce & Insurance

Municipal

Tommy Bragg, Mayor of Murfreesboro
Bob Kirk, Alderman, City of Dyersburg
Keith McDonald, Mayor of Bartlett
Tom Rowland, Mayor of Cleveland, Vice-Chairman

County

Rogers Anderson, Williamson County Mayor
Jeff Huffman, Tipton County Executive
Kenny McBride, Carroll County Mayor
Larry Waters, Sevier County Mayor

Other Local Officials

Brent Greer, TN Development Dist. Assn.
Charles Cardwell, County Officials Assn. of TN

Private Citizens

John Johnson, Morristown
Tommy Schumpert, Knoxville

TACIR Publication Policy

Staff Information Reports, Staff Briefs, Staff Technical Reports, Staff Working Papers and TACIR Fast Facts are issued to promote the mission and objectives of the Commission. These reports are intended to share information and research findings relevant to important public policy issues to promote wider understanding and discussion of important policy concerns facing the citizens of Tennessee.

Only reports clearly labeled "Commission Reports" represent the official position of the Commission. Others are informational.



Tennessee Advisory Commission on Intergovernmental Relations, Authorization No. 316391, 275 copies, April 2009. This document was promulgated at a cost of \$.83 per copy.