



# TACIR INSIGHT

TENNESSEE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS  
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## **BOTH BUSINESSES AND LOCAL GOVERNMENTS COULD BENEFIT FROM IMPROVEMENTS TO TENNESSEE'S PERSONAL PROPERTY TAX**

### **Background**

Tennessee is one of 43 states with a tax on businesses' personal property. Local governments rely on personal property tax revenue (potentially \$450 million in 2020) to fund schools and other essential services. Because of the time it takes to track their property, some business representatives say that filing to pay the tax is burdensome. Property assessors say that, for small tax bills, it is possible that they spend more on the work of assessing their personal property than businesses ultimately pay on the tax itself; however, Tennessee's constitution requires that local governments with a property tax apply it uniformly to all commercial, industrial, and public utility personal property. With these issues in mind, in January 2022, Senator Lundberg asked TACIR to study the personal property tax in Tennessee, and the Commission agreed to the study.

### **Recommendations**

The state constitution would have to be amended to exempt businesses from personal property taxes, and equitably replacing personal property tax revenue would prove challenging. Short of amending the constitution, the Commission has identified several alternatives that would potentially address stakeholder concerns about the personal property tax, including those that would ease administrative burdens of the tax and those that would otherwise encourage compliance.

- Tennessee businesses can forgo itemizing their property if they certify that they have \$1,000 or less of personal property. **The Commission recommends that the General Assembly add one or more tiers at greater dollar amounts.**
- About two-thirds of Tennessee's counties continue to rely on paper filings, and processing the thousands of paper forms that they receive can be time-consuming. Only a third offer electronic filing (e-filing). **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 information on state websites regarding personal property taxes could be easy to overlook. **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. **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).**

See TACIR's full report at the following link for additional information: <https://www.tn.gov/tacir/tacir-publications/publications-by-date.html>.