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 File Date: 8/22/16

Notice of Rulemaking Hearing

Hearings will be conducted in the manner prescribed by the Uniform Administrative Procedures Act, T.C.A. § 4-5-204. For questions and copies of the notice, contact the person listed below.

Agency/Board/Commission:	State Board of Equalization
Division:	
Contact Person:	Kelsie Jones, Executive Secretary
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Any Individuals with disabilities who wish to participate in these proceedings (to review these filings) and may require aid to facilitate such participation should contact the following at least 10 days prior to the hearing:

ADA Contact:	Amber Velotta
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Hearing Location(s) (for additional locations, copy and paste table)

Address 1:	Legislative Plaza, Room 31		
Address 2:			
City:	Nashville, TN		
Zip:	37219		
Hearing Date :	10/17/2016		
Hearing Time:	10 a.m.	<input checked="" type="checkbox"/> CST/CDT	<input type="checkbox"/> EST/EDT

Additional Hearing Information:

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Revision Type (check all that apply):

- Amendment
- New
- Repeal

Rule(s) (ALL chapters and rules contained in filing must be listed. If needed, copy and paste additional tables to accommodate more than one chapter. Please enter only **ONE** Rule Number/Rule Title per row.)

Chapter Number	Chapter Title
0600-12	Multiple-Use Subclassification
Rule Number	Rule Title
0600-12-.01	Purpose
0600-12-.02	Applicability

0600-12-.03	Definitions
0600-12-.04	Determining When Multiple-Use Subclassification is Appropriate
0600-12-.05	Apportioning Assessment Percentages Among Subclasses
0600-12-.06	Apportioning Value Among Multiple Subclasses
0600-12-.07	Examples of Apportioning Among Subclasses
0600-12-.08	Assessor's Records
0600-12-.09	Effective Date

Substance of proposed rules:

Chapter 0600-12
Multiple-Use Subclassification

0600-12-.01 PURPOSE

The purpose of these rules is to implement the provision of T.C.A. § 67-5-801(b) concerning the establishment of guidelines for apportionment among subclasses where a parcel of real property is used for more than one (1) purpose, which would result in different subclassifications and different assessment percentages.

Authority: T.C.A. §§ 4-3-5103, 67-1-305 and 67-5-801(b).

0600-12-.02 APPLICABILITY

These 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.

Authority: T.C.A. §§ 4-3-5103, 67-1-305 and 67-5-801(b).

0600-12-.03 DEFINITIONS

As used in these rules, unless the context otherwise requires:

- (1) "Assessment percentage" means the rate of assessment set forth in T.C.A. § 67-5-801(a) for 'public utility property,' 'industrial and commercial property,' 'residential property,' and 'farm property.'
- (2) "Farm property" is defined as in T.C.A. § 67-5-501(3).
- (3) "Industrial and commercial property" is defined as in T.C.A. § 67-5-501(4).
- (4) "Mobile home" is a movable structure as defined in T.C.A. § 67-5-802.
- (5) "Multiple-use subclassification" means the apportionment of different assessment percentages among subclasses when a parcel of real property is used for more than one purpose which would result in different subclassifications.
- (6) "Public utility property" is defined as in T.C.A. § 67-5-501(8).
- (7) "Residential property" is defined as in T.C.A. § 67-5-501(10).
- (8) "Subclass" and "Subclassification" mean the classification of real property as public utility property, industrial and commercial property, residential property or farm property in accordance with T.C.A. §§ 67-5-501 and 67-5-801(a).

Authority: T.C.A. §§ 4-3-5103, 67-1-305 and 67-5-801(b).

0600-12-.04 DETERMINING WHEN MULTIPLE-USE SUBCLASSIFICATION IS APPROPRIATE

- (1) Many properties are used for more than one purpose simultaneously. Where the uses of a property fall into two (2) or more subclasses, the assessor shall determine the share of the market value of the property attributable to each subclass and assess the property according to the proportion each share constitutes of the total market value.
- (2) Below are examples of when multiple-use subclassification is appropriate:
 - (a) Home businesses run from a residential property to carry on a trade or business such as a beauty salon, small day care or car repair service;
 - (b) Agricultural properties primarily devoted to farming activities which also have commercial enterprises such as produce stores and/or retail greenhouses;
 - (c) Mobile home parks with on-site privately owned mobile homes;
 - (d) Working farms (to include greenbelt properties) with agritourist activities such as winery tasting rooms/stores/gift shops, wedding facilities, bed and breakfasts, and/or music venues;
 - (e) A building with a retail store on the first floor and an owner-occupied residence on the second floor;
 - (f) A manufacturing facility with excess land used for farming;
 - (g) A horse farm which also devotes certain areas for uses such as a tack shop, or other services typically sold by the hour or day such as trail rides, hay rides, riding lessons and/or boarding; or
 - (h) A parcel used for farming that also generates regular annual income by renting some of the acreage for commercial purposes such as parking or camping.

The foregoing are only examples and do not represent all situations where multiple-use subclassification is appropriate.

- (3) Multiple-use subclassification requires that each use of the property be distinct and ongoing. Where a parcel is used predominantly for one purpose and another use is sporadic and generates insignificant annual income, the parcel should be assessed in accordance with the predominant use. Where a parcel is used predominantly for one purpose and another use is sporadic but generates regular annual income that is not insignificant, the parcel should be assessed using multiple-parcel subclassification.

Authority: T.C.A. §§ 4-3-5103, 67-1-305 and 67-5-801(b).

0600-12-.05 APPORTIONING ASSESSMENT PERCENTAGES AMONG SUBCLASSES

Where the uses of a property include two (2) or more subclasses, the assessor shall apply the appropriate assessment percentage to each subclass. In order to determine the appropriate assessment percentage for each subclass, the assessor shall first determine the share of the total market value attributable to each subclass.

Authority: T.C.A. §§ 4-3-5103, 67-1-305 and 67-5-801(b).

0600-12-.06 APPORTIONING VALUE AMONG MULTIPLE SUBCLASSES

- (1) Where the uses of a property include two (2) or more subclasses, the assessor shall determine the share of the market value of the property attributable to each subclass and value the property according to the proportion each share constitutes of the total market value.
- (2) In determining the market value of the property, the assessor shall determine the highest and best use of the property.

- (a) In certain instances, the predominant use of the property constitutes the highest and best use and the assessor must apportion the total value of the property among the subclasses based upon the predominant use. An example of such a situation is a residence with a home business that does not increase the overall market value of the property, such as a small hair salon. In this example, the assessor should value the property as a single family residence and apportion the total value between the residential and commercial uses.
 - (b) In certain instances, the highest and best use of the property is for multiple purposes. An example of such a situation is a manufacturing facility with excess acreage utilized for farming. In this example, the highest and best use of the acreage is for two distinct purposes: farming and manufacturing. The assessor must value the acreage and buildings used for farming separately from the acreage and buildings utilized in conjunction with manufacturing. The two resulting values would then be added together to determine the total value of the property.
- (3) The assessor shall apportion the total market value of the property by assigning separate values to each subclass. The apportionment shall reflect the land and improvement values assigned to each subclass. In those instances where the land or improvements has insignificant value for one of the uses, the assessor may properly assign a separate value to only the component having a measurable value.
 - (4) The assessor may utilize whatever appraisal methodology appears most appropriate in a particular situation so long as it is reasonably designed to arrive at the market value of the respective subclasses and/or total value of the parcel.

Authority: T.C.A. §§ 4-3-5103, 67-1-305 and 67-5-801(b).

0600-12-.07 EXAMPLES OF APPORTIONING AMONG SUBCLASSES

EXAMPLE A

The Taxpayer owns a 2,000-square-foot single residence situated on a one (1) acre lot with a total market value of \$110,000. The assessor has appraised the home at \$100,000 and the land at \$10,000. The Taxpayer utilizes 500 square feet of her home as a hair salon. Customers park in her gravel driveway. The market value of the Taxpayer's parcel is \$110,000 with or without the hair salon. The assessor should value the property at \$110,000 since the predominant use of the property as a residence constitutes the highest and best use and the hair salon does not increase the overall value of the property. The assessor should subclassify the 500 square feet used for the hair salon as "industrial and commercial property." The assessor would subclassify the remaining 1,500 square feet as "residential property." Since there is no dedicated parking area and the use of the driveway by customers is insignificant, there is no need to assess any of the land as "industrial and commercial property."

EXAMPLE B

Suppose the facts are the same as in Example A except that the Taxpayer has gone ahead and created a designated parking area by paving and setting aside a 0.1 acre portion of the driveway. In this example, the assessor would subclassify the 0.1 acre portion of the driveway designated for customer parking as "industrial and commercial property" because the predominant use of that portion of the driveway is for customer parking.

EXAMPLE C

A Corporation purchased a 100-acre parcel of land and constructed a manufacturing facility. Although the manufacturing operation only requires 25 acres of land, the corporation purchased 100 acres in the event it ever decides to expand. Presently, the corporation has no use for 75 acres and leases it to a farmer who raises soybeans. In this example, the assessor should

subclassify 25 acres and the associated buildings and improvements as "industrial and commercial property." The remaining 75 acres is properly subclassified as "farm property."

EXAMPLE D

A farmer has been operating a 100-acre horse farm which the assessor has historically subclassified as "farm property." The farmer decides to open a tack shop and utilizes two (2) acres for a retail store and associated parking. In addition, the farmer accepted the local public utility's offer to lease five (5) acres for its operations. In this example, the assessor should subclassify the 93 acres and associated buildings and improvements used for the horse farm as "farm property." The two (2) acres and building used for the tack shop should be subclassified as "industrial and commercial property." The five (5) acres leased to the public utility should be subclassified as "public utility property."

EXAMPLE E

A mobile home park owner owns the land and multiple homes located on the land within the mobile home park, and he leases out the mobile homes to tenants. All of the property (land, improvements, and mobile homes) should be subclassified as "industrial and commercial property". On the other hand, if a mobile home park owner owns the land within the mobile home park but leases the land out to multiple tenants who own their own mobile homes situated on the land, then the land and any improvements rented with the land should be subclassified as "industrial and commercial property" but each mobile home that is used for residential purposes by the mobile home owner or owner's lessee should be subclassified as "residential property" unless it is part of multiple rental units under common ownership.

Authority: Tennessee Constitution, Article II, § 28; T.C.A. §§ 4-3-5103, 67-1-305, 67-5-502(a)(1), 67-5-501, 67-5-502(a)(1), 67-5-801(b), and 67-5-802(a)(1).

0600-12-.08 ASSESSOR'S RECORDS

The assessor shall note on the property record card all instances wherein multiple-use subclassification has been used. Although no particular format must be utilized due to the various assessment systems employed throughout Tennessee, two acceptable formats are the creation of special interest cards or listing the multiple subclasses on different pages of the property record cards. Regardless of the format used, the property record card shall reflect both the value and assessment percentage assigned to each subclass.

Authority: T.C.A. §§ 4-3-5103, 67-1-305, 67-5-801(b) and 67-5-804.

0600-12-.09 EFFECTIVE DATE

After this chapter takes effect, these rules shall apply to the tax period beginning January 1, 2017 and all subsequent tax periods.

Authority: T.C.A. §§ 4-3-5103, 67-1-305 and 67-5-504(a).

I certify that the information included in this filing is an accurate and complete representation of the intent and scope of rulemaking proposed by the agency.

Date: 8-22-16

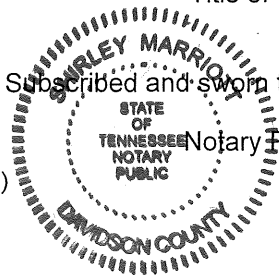
Signature: Kelsie Jones

Name of Officer: Kelsie Jones

Title of Officer: Executive Secretary

Subscribed and sworn to before me on: 22 August 2016


Notary Public Signature: James Marnett



My commission expires on: 08 MAY 2018

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Tre Hargett
Secretary of State

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