

**RULES
OF
TENNESSEE STATE BOARD OF EQUALIZATION**

**CHAPTER 0600-12
MULTIPLE-USE SUBCLASSIFICATION**

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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). **Administrative History:** Original rules filed August 23, 2017; effective November 21, 2017.

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). **Administrative History:** Original rules filed August 23, 2017; effective November 21, 2017.

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 any movable structure and appurtenance that is attached to real property by virtue of being on a foundation, or being underpinned, or connected with any one (1) utility service, such as electricity, natural gas, water, or telephone.
- (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).

(Rule 0600-12-.03, continued)

- (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). **Administrative History:** Original rules filed August 23, 2017; effective November 21, 2017.

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) Multiple-use subclassification is appropriate only where each of the uses recognized for subclassification is distinct and ongoing. Where a parcel is used predominantly for one purpose and another use is sporadic and generates de minimis 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 as described above is sporadic but generates regular annual income that is not de minimis, the parcel should be assessed using multiple-parcel subclassification.
- (3) 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 (portion used in business to be subclassified commercial);
 - (b) A building with a retail store on the first floor and an owner-occupied residence on the second floor (portion used in business to be subclassified commercial);
 - (c) A manufacturing facility with excess land used for farming (portion farmed to be subclassified farm);
 - (d) Mobile home parks with on-site privately owned mobile homes (portions rented to be subclassified commercial, owner-occupied mobile home to be subclassified residential);
 - (e) Properties used in the commercial production of farm products and nursery stock but which also have uses not within the definition of "agriculture" otherwise provided by law. As used in the rules, "commercial production of farm products and nursery stock" means the production is consistent with a farm operating for profit for federal income tax purposes. Examples requiring a split subclassification of agricultural property would include portions of a farm that generate regular annual income (as opposed to sporadic and de minimis income) from regular rental of space set aside for parking or camping, or portions of a horse farm devoted to uses such as a shop engaged in the retail sale of tack. Boarding of animals integral to breeding, raising and development of horses and other livestock at the property is not considered a commercial use for purposes of these rules;
 - (f) Portions of farms with commercial activities unrelated to production of farm products or livestock, except commercial activities constituting "agriculture" as defined by law. Improvements and structures on, and land that is part of, a farm engaged in the commercial production of farm products or nursery stock that are used for "agriculture"

(Rule 0600-12-.04, continued)

may be classified as farm property, provided the land improvement or structure in question is used for one or more of the following: (1) recreational or educational activities; (2) retail sales of products produced on the farm, but only if a majority of the products sold are produced on the farm; or (3) entertainment activities conducted in conjunction with, but secondary to, the commercial production of farm products or nursery stock. Commercial subclassification of those portions of a farm used for events unrelated to agriculture shall be limited to the actual land and structures dedicated to the unrelated uses.

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

Authority: T.C.A. §§ 4-3-5103, 67-1-305, and 67-5-801(b). **Administrative History:** Original rules filed August 23, 2017; effective November 21, 2017.

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). **Administrative History:** Original rules filed August 23, 2017; effective November 21, 2017.

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.

(Rule 0600-12-.06, continued)

- (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). **Administrative History:** Original rules filed August 23, 2017; effective November 21, 2017.

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

(Rule 0600-12-.07, continued)

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).* **Administrative History:** *Original rules filed August 23, 2017; effective November 21, 2017.*

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.* **Administrative History:** *Original rules filed August 23, 2017; effective November 21, 2017.*