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Real Property Transferred between Exempt and Nonexempt Persons

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We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other e-Li material.

Sincerely,

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Reference Number: CTAS-1526

When exempt real property is conveyed or transferred by sale, lease or otherwise to a person, firm or corporation, rendering the property nonexempt by reason of the transfer, the nonexempt grantee, lessor or other nonexempt taxpayer will be liable for the property taxes on the property from the date of the transfer to the end of the taxable year. The state, county or municipal collector of taxes will collect the property taxes due from the date of the transfer, on a pro rata basis for the current taxable year, notwithstanding the status of the property as of the assessment date of January 1 of each year. A tax lien attaches on the date of the transfer as otherwise provided by law. The nonexempt grantee remains personally liable for taxes resulting from the transfer of the property regardless of any subsequent transfer that may occur during that tax year.¹

An owner of tax-exempt property who sells or leases the property must promptly notify the assessor of property if the sale or lease renders the property as nonexempt.² This requirement applies to governmental entity owners and lessors as well as any other owners or lessors of the property.³ The person or entity buying or leasing tax-exempt property must also promptly notify the assessor of property of the change in the use or ownership of such property. The buyer or lessee of the real property is personally liable for all taxes, and penalties and interest, from the date of the transfer to the date the assessor is notified of the change in the use or ownership of property, and the collection of taxes against the buyer or lessee with respect to the property will not be barred. However, no tax lien arises against real property conveyed to a bona fide purchaser who records the deed for the property or notifies the assessor of the change in the use or ownership of the property. The burden of proving a bona fide sale is upon the owner of the property at the time of the recording or notification.⁴

In the event the ownership of real property that has heretofore been subject to assessment and taxation is conveyed or transferred to a person, firm or corporation that is exempt from property assessment and taxation and the real property is used for purposes that would render the status of the property as exempt from assessment and taxation under §§ 67-5-203, 67-5-204, 67-5-207, 67-5-208, and 67-5-211 — 67-5-217, the new owner of the property shall not be liable for the real property taxes thereon, from the date of transfer and change of use from a nonexempt ownership and use to an exempt ownership and use to the end of the taxable year, notwithstanding the status of the property as of the assessment date of January 1 of that year. The assessor of property will make an assessment of the property on the basis of its value and use to which it is put following its transfer; provided, that for the year in which the transfer of property occurred, the assessment will be prorated and the owner shall be liable only for the taxes for the portion of the year that the property was subject to assessment. The state, county and municipal tax collector will collect taxes on the basis of the assessment as prorated by the assessor of property.⁵

The grantor or lessor of nonexempt property must notify the assessor of any change in the use or ownership of the property that may affect its nonexempt status. This notice is required when the property is conveyed or transferred by sale, lease or otherwise to a person, firm, or corporation. The grantor or lessor of nonexempt property includes any person, firm, or corporation who is not otherwise exempt from property taxes. The nonexempt grantor's or lessor's notice of the change in ownership or use to the assessor is a prerequisite to the grantor or lessor seeking a refund of taxes paid related to exempt ownership or use of the property occurring after the date of transfer to the tax exempt grantee or lessee by sale or lease.⁶

¹T.C.A. § 67-5-201(a)(1) and (2).

²T.C.A. § 67-5-201(a)(3)(A).

³T.C.A. § 67-5-201(a)(3)(B).

⁴T.C.A. § 67-5-201(a)(3)(C).

⁵T.C.A. § 67-5-201(b)(1), (2) and (3). See *Senter School Foundation, Inc. v. Nobles*, 1990 WL 3983 (Tenn.Ct.App. 1990).

⁶T.C.A. § 67-5-201(b)(4)(A) and (B).

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