

**Property Tax – Policy**

Responsible Administrator: Vice Chancellor for Finance and Chief Financial Officer  
 Responsible Office: Controller’s Office / Tax Department  
 Policy Contact: Director of Tax

**Contents**

1. Policy Statement ..... 1  
 2. Scope ..... 1  
 3. Definitions..... 1  
 4. Policy ..... 2  
 5. Property Tax Reporting & Payment Responsibility Matrix ..... 3  
 6. Appendix A: Property Tax FAQ’s ..... 5

**1. Policy Statement**

This document defines the policies that ensure property tax filings related to the non-exempt use of exempt Vanderbilt property and the resulting tax payments are properly prepared, reviewed, approved, filed, paid, and confirmed in accordance with the requirements of Metro Government of Nashville & Davidson County, Tennessee.

All Vanderbilt employees responsible for reporting income transactions from third parties must be knowledgeable of Vanderbilt’s property tax reporting requirements. In addition, university Business Entity Approvers and Financial Unit Managers, must possess an appropriate level of Vanderbilt financial knowledge, including knowledge of all leases to or other use of real property by third parties for their respective areas.

**2. Scope**

This policy applies to all Vanderbilt employees responsible for the financial reporting of transactions involving third parties. This policy also applies to all Vanderbilt employees in the Vanderbilt University Real Estate Office, who are responsible for paying property taxes.

**3. Definitions**

Annual Leasehold Report of Income – This is the reporting format used to report calendar year non-exempt commercial income generated on Vanderbilt exempt properties used by third parties. The purpose of the report is to assess a taxable value on portions of Vanderbilt’s real property that are not used for Vanderbilt’s exempt purposes. This report must be completed and emailed to the Assessor of Property prior to March 1, with an extended due date of April 2.

Assessment Value – The value of Vanderbilt’s taxable personal property is based on the Tax Schedule “B” submitted to the Metropolitan Assessor of Property. For properties reported on the Annual Leasehold Report of Income, Vanderbilt’s real property assessment value will be based on the report submitted to the Office of the Trustee for Metropolitan Nashville. For property that is fully taxable, the assessment value will be calculated using the appraisal value method and Metro will issue separate tax bills to Vanderbilt.

Audits of Tax Schedule “B” - Every business location is subject to selection for an audit of Tax Schedule “B”. Audit methods vary based on the size and type of business involved. An inspection of the business premises may be required, or a detailed examination of records of purchases may be needed.

Business Tangible Personal Property - Movable, touchable property used in a business, including furniture, computers, machinery, tools, supplies, raw materials, vehicles, scrap, billboards, tanks, pipelines and other property not listed as real estate.

Exempt Property Status – Exemptions from property tax are available for religious, charitable, scientific, and nonprofit educational uses, governmental property, and cemeteries. Most nongovernmental exemptions require a one-time application and approval by the State Board of Equalization with a May 20 application deadline.

Frequently Asked Questions (“FAQ’s”) – The FAQ document is updated annually and distributed by the Tax Department to the Business Entity and Financial Unit Managers to assist in gathering data for the calendar year income reporting required each January. It contains the answers to the most commonly asked questions and includes a detail explanation of how the tax on the reported income is calculated.

Property Tax Bill – Bills are mailed out annually in September for calendar year taxes assessed on both personal and real property. The bills are due no later than February 28 of the following year. Vanderbilt receives tax bills for both personal tax and for real property tax. The personal tax is assessed based on the filing of a Tax Schedule “B”. The real property tax is assessed on commercial use of exempt property using the “Leasehold report of income”, and non-exempt properties owned by Vanderbilt receive separate tax bills based on Appraised Property Values.

Tax Schedule “B” – This is the reporting form used to report taxable values of business tangible personal property owned or leased by a business for purposes of determining the ad valorem tax under Tennessee law. This form must be completed, signed and filed with the Assessor of Property prior to March 1. If it is not filed by that time, the Assessor is required by law to place a value on Vanderbilt’s applicable property using the best information available at the time, and Vanderbilt will also be subject to penalty under the law.

#### 4. Policy

- a) Financial Units transacting non-exempt commercial business activities with third parties are responsible for developing, implementing, and maintaining departmental processes and procedures that support compliance with all applicable income reporting rules for valuing real property using the “Leasehold Report of Income” method.
- b) Financial Units are responsible for budgeting funds required for making payments for property tax generated by their respective financial unit commercial activities.
- c) Amounts reportable on Vanderbilt’s Annual Leasehold Report of Income must be provided to the tax department using the approved tax format no later than mid-January following the calendar year.
  - Requests for extensions of time must be approved by the tax department prior to this deadline.
  - While use of the standard template is suggested, requests for use of a different submission form will be considered and must be approved by the tax department.
  - Templates must be submitted with financial unit manager approval.
- d) Amendments are not allowable for subsequent discovery of an error.
  - The annual reporting of non-exempt commercial business activities establishes a valuation of Vanderbilt property for purposes of property tax. Once the report of income is submitted to Metro, the financial unit’s reporting cannot be changed. At that point, the value is established and the agreed upon procedures with the Appraiser’s office do not allow for amendments to the submission.
- e) The Tax Department files and processes the “Annual Leasehold Report of Income” with Metro Government utilizing the data provided by the Financial Units described above.
- f) The Tax Department manages the payment of the property tax bill generated by the Annual Leasehold Report of Income by obtaining approvals from the Business Entity Approvers and consolidating all approvals into a single payment.

**5. Property Tax Reporting & Payment Responsibility Matrix**

<b>Activity</b>	<b>Tax Department</b>	<b>VURE/Financial Units</b>
Provide training and answer questions, working to ensure Financial Units understand the income method of property valuation.	✓	
Compile all income generated by the non-exempt commercial use of Vanderbilt exempt property, as provided by Business Entity Approvers and Financial Unit Managers, for the purpose of assessing a property tax appraisal.	✓	
File the Annual Leasehold Report of Income with Metro Government.	✓	
Distribute preliminary tax estimate reports to financial units, allowing the financial unit to record property tax accruals as needed for year-end.	✓	
Distribute final tax bill reports to financial units, obtaining Unit Approval for payment.	✓	
Prepare payment of annual property tax bill generated by the Annual Leasehold Report of Income Submission.	✓	
Track and report all applicable income received from commercial sources for non-exempt use of Vanderbilt property.		✓
Process real estate tax bills for payment related to property under management of financial unit.		✓
Prepare and File Schedule B reports for taxable personal property under management of financial unit.		✓
Process personalty tax bills for payment related to property under management of financial unit.		✓

## Appendix A: Frequently Asked Questions: (EXAMPLE)

1. Q: The template I received has 2016 and 2017 data included. What is that for?

A: The template you are receiving is your last year's report. The 2016 data on that template was reported to Metro last year. You will need to prepare this year's report using an excel template which we will provide. With the conversion to Oracle, we no longer have a prewritten, preformatted query for you to use. You should complete reports that look just like last year's reports in format. You should have the same number of reports that you had last year, plus any new reports you may need to create for any new streams of revenue. A reconciliation is required at the bottom of the template if the revenue you are reporting is different from the total posted to the GL.

2. Q: Why do you have to send my income numbers to Metro for property tax purposes?

A: Several years ago, Vanderbilt and Metro negotiated that the tax would be assessed based on the income method. That is, Vanderbilt reports the income to Metro and they apply a formula to convert this income to a property value which then is taxed.

3. Q: What types of activity do I need to report?

A: If you receive income from a third party (any individual or company that is not Vanderbilt related) for use of space in a Vanderbilt building or on Vanderbilt land you should consider the income. Unless the underlying activity is serving Vanderbilt's mission, there is a good chance you will need to report this income. There are some exceptions if you are receiving the income from another non-profit entity if they are using Vanderbilt's property for their exempt mission. If you have any question at all about whether or not the income should be reported, please contact the Tax Department.

4. Q: I already have to provide the Tax Department with my unrelated business income. Can I use the same activities for property tax?

A: No. While some items may be subject to both property tax and unrelated business tax, the rules are quite different and you cannot rely on one analysis to cover both taxing areas.

5. Q: Ok, so I have to provide the Tax Department with income for unrelated business income, and now property tax related income, but I also report income for sales tax purposes and then annually I pay business taxes, too. Can I use the same information for any of these taxes?

A: Not exactly. While there is some overlap in the four taxes administered by the Tax Department, the rules for each tax are quite different. You must therefore analyze your income streams separately for each of these types of taxes. If you have any questions about this, please contact the Tax Department, who is always available to help you make the appropriate determinations.

6. Q: Ok, then please clarify, what do you mean by "income" that I must report for property tax?

A: Income to be reported is the amount of money Vanderbilt receives as a result of the third party's activity. It is not how much the third party collects in their revenue. Many times, Vanderbilt will receive a commission, fee, rent, or other compensation from the payor for allowing them to use our building or land. This is the income you must report for property tax purposes.

7. Q: I incur a lot of expenses because of this vendor relationship. Can I deduct those expenses before I give you my income number?

A: No. We do not deduct actual expenses from the revenue that Vanderbilt reports for property taxes. This can be complicated and involve subjective allocations. Instead Metro has agreed to give Vanderbilt an expense allowance based on the type of arrangement we have with the vendor. The expense allowance is a percentage of the revenue and is based on the expected level of service provided or costs incurred by Vanderbilt. For example, the rental of a cell tower located on Vanderbilt property is a fairly low cost activity for Vanderbilt. Thus, that revenue is given a 5% expense allowance. However, the rental of apartments to third party residential tenants requires greater time and costs on the part of Vanderbilt. On this type of transaction, Metro provides a 40% expense allowance against the revenue. Primarily commission based food vendors and some commercial

tenants fall in the 20% expense allowance range. Most commercial tenants where Vanderbilt incurs higher costs to provide landlord services generally will receive a 30% allowance.

**8. Q: What time period does this reporting cover?**

A: You must report the income that you receive in a calendar year. For the report due in January 2019, you must report income received from January, 2018 through December, 2018. The income reported should be reflected in the Vanderbilt General Ledger during these months.

**9. Q: How much property tax will I have to pay?**

A: The amount of tax you have to pay will depend on the type of arrangement you have. As described in question 7 above, you will be allowed an expense allowance based on your revenue type. If you have any questions about your expense allowance percentage, please contact the Tax Department. The tax you will have to pay can be estimated based on the table below, but the final tax cannot be determined until Metro accepts and approves Vanderbilt's report and finalizes any tax rate changes that may occur. The rate shown below is arrived at by applying a formula to the rental income, less the expense allowance. The net rental income is divided by a capitalization rate, currently 9.5% (10.55% for years 2014-2016 and 10.86% for 2013), to determine a business valuation. That result is then multiplied by a 40% assessment factor, to determine the assessed value of the property. The resulting assessed value is then multiplied by Metro's tax rate which is currently 3.155% (4.516% for 2013-2016). The application of this formula results in the following effective rates which can be applied to the gross income you report to us to estimate your property tax.

<u>Expense % allowed</u>	<u>Examples</u>	<u>Tax Rate on Gross Income</u>
0% expense	Certain Housing	13.28% tax
5% expense	Cell Towers, Parking, ATM's (including vending machines)	12.62% tax
20% expense	Primarily Commission Based Income and Some Commercial Tenants	10.63% tax
30% expense	Most Commercial Tenants	9.30% tax
40% expense	Residential Tenants	7.985% tax

**10. Q: When will I get a tax bill for this tax?**

A: The Tax Department will send you a "Preliminary Tax Statement" in the spring of 2019. This report will summarize the income you reported and the resulting estimated tax, using certain assumptions such as prior year rates. You will be able to use this for adjusting your year-end property tax liability.

When the actual Metro tax bill is generated in the fall of 2019 the Tax Department will send you a "Final Tax Statement" with the amount your area will be charged. Your Business Entity Approver will be required to sign off on this form, providing payment authorization and check request coding, and return the form to the Tax Department. The Tax Department will then process the payment to Metro, using the approval and posting information you provided.

**11. Q: What tax was paid in November 2018?**

A: This year, we paid the annual tax bill in November, 2018. This is your 2018 tax bill based on 2017 income; it covers the income you reported to us last year, in January, 2018, for the calendar 2017 activity.

**12. Q: How will you code my tax bill?**

A: Your Business Entity Approver will direct and authorize the "coding" of the tax bill.

When the actual Metro tax bill is generated in the fall of 2019 the Tax Department will send you a "Final Tax Statement" with the amount your area will be charged. Your Business Entity Approver will

be required to sign off on this form, providing payment authorization and check request coding, and return the form to the Tax Department. The Tax Department will then process the payment to Metro, using the approval and posting information you provided.

**13. Q: Will you be accruing for the tax that will be due on the income?**

A: No. Each Business Entity/ Financial Unit is responsible for monitoring their property tax payable account #2022. Tax is due and payable no later than the following February a full year later, but the expense is incurred evenly throughout the calendar year. At any June 30<sup>th</sup>, 6 months of the property tax expense has been incurred, but not paid.

The Tax Department will send you a "Preliminary Tax Statement" in the spring of 2019. This report will summarize the income you reported and the resulting annual estimated tax, using certain assumptions such as prior year rates. You will be able to use this for adjusting your year-end property tax liability.