

GENERAL ASSEMBLY OF NORTH CAROLINA
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SENATE BILL 1878*
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Short Title: Property Tax Modifications.

(Public)

Sponsors:

Referred to:

May 22, 2008

A BILL TO BE ENTITLED

AN ACT TO MODIFY THE SCHEDULE FOR GENERAL REAPPRAISALS OF REAL PROPERTY IN THE STATE TO REDUCE THE DISCREPANCY BETWEEN THE PROPERTY TAX VALUE OF PROPERTY AND ITS MARKET VALUE, TO MODIFY THE OWNERSHIP REQUIREMENTS OF PRESENT-USE VALUE PROPERTY TO REFLECT COMMON FORMS OF LAND OWNERSHIP, TO ALLOW PROPERTY TO REMAIN IN PRESENT-USE VALUE WHEN THE DEFERRED TAXES ARE PAID AT THE TIME OF TRANSFER AND THE NEW OWNER CONTINUES TO FARM THE PROPERTY, TO CLASSIFY LOW-INCOME HOUSING PROPERTY, TO EXCLUDE FROM PROPERTY TAX PRESCRIPTION DRUGS GIVEN AS FREE SAMPLES, TO EXCLUDE FROM PROPERTY TAX EIGHTY PERCENT OF THE APPRAISED VALUE OF A SOLAR ELECTRIC SYSTEM, AND TO DIRECT THE REVENUE LAWS STUDY COMMITTEE TO STUDY THE EFFECT THAT THIS ACT HAS ON STAFFING NEEDS OF THE DEPARTMENT OF REVENUE AND THE DEFINITION OF INCOME AS IT APPLIES TO THE HOMESTEAD EXCLUSION.

The General Assembly of North Carolina enacts:

PART I: REAPPRAISAL SCHEDULE

SECTION 1.1. G.S. 105-286 reads as rewritten:

"§ 105-286. Time for general reappraisal of real property.

(a) ~~Octennial Plan. Unless the date shall be advanced as provided in subdivision (a)(2), below, each county of the State, as of January 1 of the year prescribed in the schedule set out in subdivision (a)(1), below, and every eighth year thereafter, shall reappraise all real property in accordance with the provisions of~~

1 ~~G.S. 105-283 and 105-317.~~ Octennial Cycle. – Each county must reappraise all real
2 property in accordance with the provisions of G.S. 105-283 and G.S. 105-317 as of
3 January 1 of the year set out in the following schedule and every eighth year thereafter,
4 unless the county is required to advance the date under subdivision (2) of this section or
5 chooses to advance the date under subdivision (3) of this section.

6 (1) Schedule of Initial Reappraisals.

7 Division One – 1972: Avery, Camden, Cherokee, Cleveland,
8 Cumberland, Guilford, Harnett, Haywood, Lee, Montgomery,
9 Northampton, and Robeson.

10 Division Two – 1973: Caldwell, Carteret, Columbus, Currituck,
11 Davidson, Gaston, Greene, Hyde, Lenoir, Madison, Orange, Pamlico,
12 Pitt, Richmond, Swain, Transylvania, and Washington. Division Three
13 – 1974: Ashe, Buncombe, Chowan, Franklin, Henderson, Hoke, Jones,
14 Pasquotank, Rowan, and Stokes. Division Four – 1975: Alleghany,
15 Bladen, Brunswick, Cabarrus, Catawba, Dare, Halifax, Macon, New
16 Hanover, Surry, Tyrrell, and Yadkin. Division Five – 1976: Bertie,
17 Caswell, Forsyth, Iredell, Jackson, Lincoln, Onslow, Person,
18 Perquimans, Rutherford, Union, Vance, Wake, Wilson, and Yancey.

19 Division Six – 1977: Alamance, Durham, Edgecombe, Gates,
20 Martin, Mitchell, Nash, Polk, Randolph, Stanly, Warren, and Wilkes.

21 Division Seven – 1978: Alexander, Anson, Beaufort, Clay, Craven,
22 Davie, Duplin, and Granville.

23 Division Eight – 1979: Burke, Chatham, Graham, Hertford,
24 Johnston, McDowell, Mecklenburg, Moore, Pender, Rockingham,
25 Sampson, Scotland, Watauga, and Wayne.

26 (2) ~~Advancing Scheduled Octennial Reappraisal. Any county desiring to~~
27 ~~conduct a reappraisal of real property earlier than required by this~~
28 ~~subsection (a) may do so upon adoption by the board of county~~
29 ~~commissioners of a resolution so providing. A copy of any such~~
30 ~~resolution shall be forwarded promptly to the Department of Revenue.~~
31 ~~If the scheduled date for reappraisal for any county is advanced as~~
32 ~~provided herein, real property in that county shall thereafter be~~
33 ~~reappraised every eighth year following the advanced date unless, in~~
34 ~~accordance with the provisions of this subdivision (a)(2), an earlier~~
35 ~~date shall be adopted by resolution of the board of county~~
36 ~~commissioners, in which event a new schedule of octennial~~
37 ~~reappraisals shall thereby be established for that county.~~ Mandatory
38 Advancement. – A county must conduct a reappraisal of real property
39 when the county's sales assessment ratio determined under
40 G.S. 105-289(h) is less than .70 or greater than 1.10, as indicated on
41 the notice the county receives under G.S. 105-284. A reappraisal
42 required under this subdivision must become effective no later than
43 January 1 of the earlier of the following years:

44 a. The third year following the year the county received the notice.

1 b. The eighth year following the year of the county's last
2 reappraisal.

3 (3) Optional Advancement. – A county may conduct a reappraisal of real
4 property earlier than required by subdivision (1) or (2) of this section if
5 the board of county commissioners adopts a resolution providing for
6 advancement of the reappraisal. The resolution must designate the
7 effective date of the advanced reappraisal and may designate a new
8 reappraisal cycle that is more frequent than the octennial cycle set in
9 subdivision (1) of this section. The board of county commissioners
10 must promptly forward a copy of the resolution adopted under this
11 subdivision to the Department of Revenue. A more frequent
12 reappraisal cycle designated in a resolution adopted under this
13 subdivision continues in effect after a mandatory reappraisal required
14 under subdivision (2) of this section unless the board of county
15 commissioners adopts another resolution that designates a different
16 date for the county's next reappraisal.

17 ~~(b) Fourth Year Horizontal Adjustments. — As of January 1 of the fourth year~~
18 ~~following a reappraisal of real property conducted under the provisions of subsection~~
19 ~~(a), above, each county shall review the appraised values of all real property and~~
20 ~~determine whether changes should be made to bring those values into line with then~~
21 ~~current true value. If it is determined that the appraised value of all real property or of~~
22 ~~defined types or categories of real property require such adjustment, the assessor shall~~
23 ~~revise the values accordingly by horizontal adjustments rather than by actual appraisal~~
24 ~~of individual properties: That is, by uniform application of percentages of increase or~~
25 ~~reduction to the appraised values of properties within defined types or categories or~~
26 ~~within defined geographic areas of the county.~~

27 ~~(c) Value to Be Assigned Real Property When Not Subject to Appraisal. — In~~
28 ~~years in which real property within a county is not subject to appraisal or reappraisal~~
29 ~~under subsections (a) or (b), above, or under G.S. 105-287, it shall be listed at the value~~
30 ~~assigned when last appraised under this section or under G.S. 105-287."~~

31 **SECTION 1.2.** G.S. 105-287 reads as rewritten:

32 **"§ 105-287. Changing appraised value of real property in years in which general**
33 **reappraisal ~~or horizontal adjustment~~ is not made.**

34 (a) In a year in which a general reappraisal ~~or horizontal adjustment~~ of real
35 property in the county is not ~~made,~~ made under G.S. 105-286, the property shall be listed
36 at the value assigned when last appraised unless the value is changed in accordance with
37 this section. ~~the~~ The assessor shall increase or decrease the appraised value of real
38 property, as determined under G.S. 105-286, to recognize a change in the property's
39 value resulting from one or more of the reasons ~~listed in this subsection.~~ The reason
40 ~~necessitating a change in the property's value need not be under the control of or at the~~
41 ~~request of the owner of the affected property.~~ following reasons:

42 (1) Correct a clerical or mathematical error.

- 1 (2) Correct an appraisal error resulting from a misapplication of the
2 schedules, standards, and rules used in the county's most recent general
3 ~~reappraisal or horizontal adjustment~~ reappraisal.
- 4 (2a) Recognize an increase or decrease in the value of the property
5 resulting from a conservation or preservation agreement subject to
6 Article 4 of Chapter 121 of the General Statutes, the Conservation and
7 Historic Preservation Agreements Act.
- 8 (2b) Recognize an increase or decrease in the value of the property
9 resulting from a physical change to the land or to the improvements on
10 the land, other than a change listed in subsection (b) of this section.
- 11 (2c) Recognize an increase or decrease in the value of the property
12 resulting from a change in the legally permitted use of the property.
- 13 (3) Recognize an increase or decrease in the value of the property
14 resulting from a factor other than one listed in subsection (b).
- 15 (b) In a year in which a general reappraisal ~~or horizontal adjustment~~ of real
16 property in the county is not made, the assessor may not increase or decrease the
17 appraised value of real property, as determined under G.S. 105-286, to recognize a
18 change in value caused by:
- 19 (1) Normal, physical depreciation of improvements;
- 20 (2) Inflation, deflation, or other economic changes affecting the county in
21 general; or
- 22 (3) Betterments to the property made by:
- 23 a. Repainting buildings or other structures;
- 24 b. Terracing or other methods of soil conservation;
- 25 c. Landscape gardening;
- 26 d. Protecting forests against fire; or
- 27 e. Impounding water on marshland for non-commercial purposes
28 to preserve or enhance the natural habitat of wildlife.
- 29 (c) An increase or decrease in the appraised value of real property authorized by
30 this section shall be made in accordance with the schedules, standards, and rules used in
31 the county's most recent general ~~reappraisal or horizontal adjustment~~ reappraisal. An
32 increase or decrease in appraised value made under this section is effective as of
33 January 1 of the year in which it is made and is not retroactive. The reason for an
34 increase or decrease in appraised value made under this section need not be under the
35 control of or at the request of the owner of the affected property. This section does not
36 modify or restrict the provisions of G.S. 105-312 concerning the appraisal of discovered
37 property.
- 38 (d) Notwithstanding subsection (a), if a tract of land has been subdivided into lots
39 and more than five acres of the tract remain unsold by the owner of the tract, the
40 assessor may appraise the unsold portion as land acreage rather than as lots. A tract is
41 considered subdivided into lots when the lots are located on streets laid out and open for
42 travel and the lots have been sold or offered for sale as lots since the last appraisal of the
43 property."
- 44 **SECTION 1.3.** G.S. 153A-150 reads as rewritten:

1 **"§ 153A-150. Reserve for ~~œtennial~~-reappraisal.**

2 Before the beginning of the fiscal year immediately following the effective date of
3 ~~an œtennial~~a reappraisal of real property conducted as required by G.S. 105-286, the
4 county budget officer shall present to the board of commissioners ~~an eight-year~~a budget
5 for financing the cost of the next ~~œtennial~~-reappraisal. The budget shall estimate the
6 cost of the reappraisal and shall propose a plan for raising the necessary funds in ~~eight~~
7 annual installments during the next fiscal years, intervening years between reappraisals,
8 with all installments as nearly uniform as practicable. The board shall consider this
9 budget, making any amendments to the budget it deems advisable, and shall adopt a
10 resolution establishing a special reserve fund for the next ~~œtennial~~-reappraisal. In the
11 budget ordinance of the first fiscal year of the plan, the board of commissioners shall
12 appropriate to the special reappraisal reserve fund the amount set out in the plan for the
13 first year's installment. When the county budget for each succeeding fiscal year is in
14 preparation, the board shall review the ~~eight-year~~-reappraisal budget with the budget
15 officer and shall amend it, if necessary, so that it will reflect the probable cost at that
16 time of the reappraisal and will produce the necessary funds at the end of the ~~eight-year~~
17 intervening period. In the budget ordinance for each succeeding fiscal year, the board
18 shall appropriate to the special reappraisal reserve fund the amount set out in the plan as
19 due in that year.

20 Moneys appropriated to the special reappraisal reserve fund shall not be available or
21 expended for any purpose other than the reappraisal of real property required by
22 G.S. 105-286, except that the funds may be deposited at interest or invested as permitted
23 by G.S. 159-30. If there is a fund balance in the reserve fund following payment for the
24 required reappraisal, it shall be retained in the fund for use in financing the next
25 required reappraisal.

26 Within 10 days after the adoption of each annual budget ordinance, the county
27 finance officer shall report to the Department of Revenue, on forms to be supplied by
28 the Department, the terms of the county's ~~eight-year~~-reappraisal budget, the current
29 condition of the special reappraisal reserve fund, and the amount appropriated to the
30 reserve fund in the current fiscal year."

31 **SECTION 1.4.** This section becomes effective July 1, 2009, and mandatory
32 advancements in G.S. 105-286(a)(2), as amended by this section, apply to notices sent
33 under G.S. 105-284(c) on or after that date.

34
35 **PART II: PRESENT-USE VALUE PROPERTY CHANGES**

36 **SECTION 2.1.** G.S. 105-277.2 reads as rewritten:

37 **"§ 105-277.2. Agricultural, horticultural, and forestland – Definitions.**

38 The following definitions apply in G.S. 105-277.3 through G.S. 105-277.7:

- 39 (1) **Agricultural land.** – Land that is a part of a farm unit that is actively
40 engaged in the commercial production or growing of crops, plants, or
41 animals under a sound management program. Agricultural land
42 includes woodland and wasteland that is a part of the farm unit, but the
43 woodland and wasteland included in the unit must be appraised under
44 the use-value schedules as woodland or wasteland. A farm unit may

1 consist of more than one tract of agricultural land, but at least one of
2 the tracts must meet the requirements in G.S. 105-277.3(a)(1), and
3 each tract must be under a sound management program. If the
4 agricultural land includes less than 20 acres of woodland, then the
5 woodland portion is not required to be under a sound management
6 program. Also, woodland is not required to be under a sound
7 management program if it is determined that the highest and best use
8 of the woodland is to diminish wind erosion of adjacent agricultural
9 land, protect water quality of adjacent agricultural land, or serve as
10 buffers for adjacent livestock or poultry operations.

11 (1a) Business entity. – A corporation, a general partnership, a limited
12 partnership, or a limited liability company.

13 (2) Forestland. – Land that is a part of a forest unit that is actively engaged
14 in the commercial growing of trees under a sound management
15 program. Forestland includes wasteland that is a part of the forest unit,
16 but the wasteland included in the unit must be appraised under the
17 use-value schedules as wasteland. A forest unit may consist of more
18 than one tract of forestland, but at least one of the tracts must meet the
19 requirements in G.S. 105-277.3(a)(3), and each tract must be under a
20 sound management program.

21 (3) Horticultural land. – Land that is a part of a horticultural unit that is
22 actively engaged in the commercial production or growing of fruits or
23 vegetables or nursery or floral products under a sound management
24 program. Horticultural land includes woodland and wasteland that is a
25 part of the horticultural unit, but the woodland and wasteland included
26 in the unit must be appraised under the use-value schedules as
27 woodland or wasteland. A horticultural unit may consist of more than
28 one tract of horticultural land, but at least one of the tracts must meet
29 the requirements in G.S. 105-277.3(a)(2), and each tract must be under
30 a sound management program. If the horticultural land includes less
31 than 20 acres of woodland, then the woodland portion is not required
32 to be under a sound management program. Also, woodland is not
33 required to be under a sound management program if it is determined
34 that the highest and best use of the woodland is to diminish wind
35 erosion of adjacent horticultural land or protect water quality of
36 adjacent horticultural land. Land used to grow horticultural and
37 agricultural crops on a rotating basis or where the horticultural crop is
38 set out or planted and harvested within one growing season, may be
39 treated as agricultural land as described in subdivision (1) of this
40 section when there is determined to be no significant difference in the
41 cash rental rates for the land.

42 (4) Individually owned. – Owned by one of the following:

43 a. ~~A natural person. For the purpose of this section, a natural~~
44 ~~person who is an income beneficiary of a trust that owns land~~

1 may elect to treat the person's beneficial share of the land as
2 owned by that person. If the person's beneficial interest is not an
3 identifiable share of land but can be established as a
4 proportional interest in the trust income, the person's beneficial
5 share of land is a percentage of the land owned by the trust that
6 corresponds to the beneficiary's proportional interest in the trust
7 income. For the purpose of this section, a natural person who is
8 a member of a business entity, other than a corporation, that
9 owns land may elect to treat the person's share of the land as
10 owned by that person. The person's share is a percentage of the
11 land owned by the business entity that corresponds to the
12 person's percentage of ownership in the entity. An individual.

13 b. A business entity ~~having as its principal business one of the~~
14 ~~activities described in subdivisions (1), (2), and (3) and whose~~
15 ~~members are all natural persons who meet one or more of the~~
16 ~~conditions listed in this sub-subdivision. For the purpose of this~~
17 ~~sub-subdivision, the terms "having as its principal business" and~~
18 ~~"actively engaged in the business of the entity" include the~~
19 ~~leasing of the land for one of the activities described in~~
20 ~~subdivisions (1), (2), and (3) only if all members of the business~~
21 ~~entity are relatives.~~

22 1. ~~The member is actively engaged in the business of the~~
23 ~~entity.~~

24 2. ~~The member is a relative of a member who is actively~~
25 ~~engaged in the business of the entity.~~

26 3. ~~The member is a relative of, and inherited the~~
27 ~~membership interest from, a decedent who met one or~~
28 ~~both of the preceding conditions after the land qualified~~
29 ~~for classification in the hands of the business entity.~~ that
30 meets all of the following conditions:

31 1. Its principal business is farming agricultural land,
32 horticultural land, or forestland.

33 2. All of its members are, directly or indirectly, individuals
34 who are actively engaged in farming agricultural land,
35 horticultural land, or forestland or a relative of one of the
36 individuals who is actively engaged. An individual is
37 indirectly a member of a business entity that owns the
38 land if the individual is a member of a business entity or
39 a beneficiary of a trust that is part of the ownership
40 structure of the business entity that owns the land.

41 3. It is not a corporation whose shares are publicly traded,
42 and none of its members are corporations whose shares
43 are publicly traded.

- 1 4. ~~If it leases the land, all of its members are individuals~~
2 ~~and are relatives. Under this condition, 'principal~~
3 ~~business' and 'actively engaged' include leasing.~~
- 4 c. ~~A trust that was created by a natural person who transferred the~~
5 ~~land to the trust and each of whose beneficiaries who is~~
6 ~~currently entitled to receive income or principal meets one~~all
7 ~~of the following conditions:~~
- 8 1. ~~Is the creator of the trust or the creator's relative.~~It was
9 ~~created by an individual who owned the land and~~
10 ~~transferred the land to the trust.~~
- 11 2. ~~Is a second trust whose beneficiaries who are currently~~
12 ~~entitled to receive income or principal are all either the~~
13 ~~creator of the first trust or the creator's relatives.~~All of its
14 ~~beneficiaries are, directly or indirectly, individuals who~~
15 ~~are the creator of the trust or a relative of the creator. An~~
16 ~~individual is indirectly a beneficiary of a trust that owns~~
17 ~~the land if the individual is a beneficiary of another trust~~
18 ~~or a member of a business entity that has a beneficial~~
19 ~~interest in the trust that owns the land.~~
- 20 d. A testamentary trust that meets all of the following conditions:
- 21 1. It was created by ~~a natural person~~an individual who
22 transferred to the trust land that qualified in that ~~person's~~
23 ~~individual's~~ hands for classification under
24 G.S. 105-277.3.
- 25 2. At the ~~time~~ date of the creator's death, the creator had no
26 ~~relatives as defined in this section as of the date of~~
27 ~~death.~~relatives.
- 28 3. The trust income, less reasonable administrative
29 expenses, is used exclusively for educational, scientific,
30 literary, cultural, charitable, or religious purposes as
31 defined in G.S. 105-278.3(d).
- 32 e. Tenants in common, if each tenant ~~is either a natural person or a~~
33 ~~business entity described in sub-subdivision b. of this~~
34 ~~subdivision.~~would qualify as an owner if the tenant were the
35 ~~sole owner.~~ Tenants in common may elect to treat their
36 individual shares as owned by them individually in accordance
37 with G.S. 105-302(c)(9). The ownership requirements of
38 G.S. 105-277.3(b) apply to each tenant in common who is a
39 ~~natural person,~~an individual, and the ownership requirements of
40 G.S. 105-277.3(b1) apply to each tenant in common who is a
41 ~~business entity.~~entity or a trust.
- 42 (4a) Member. – A shareholder of a corporation, a partner of a general or
43 limited partnership, or a member of a limited liability company.

- 1 (5) Present-use value. – The value of land in its current use as agricultural
2 land, horticultural land, or forestland, based solely on its ability to
3 produce income and assuming an average level of management. A rate
4 of nine percent (9%) shall be used to capitalize the expected net
5 income of forestland. The capitalization rate for agricultural land and
6 horticultural land is to be determined by the Use-Value Advisory
7 Board as provided in G.S. 105-277.7.
- 8 (5a) Relative. – Any of the following:
9 a. A spouse or the spouse's lineal ancestor or descendant.
10 b. A lineal ancestor or a lineal descendant.
11 c. A brother or sister, or the lineal descendant of a brother or
12 sister. For the purposes of this sub-subdivision, the term brother
13 or sister includes stepbrother or stepsister.
14 d. An aunt or an uncle.
15 e. A spouse of ~~a person~~ an individual listed in paragraphs a.
16 through d. For the purpose of this subdivision, an adoptive or
17 adopted relative is a relative and the term "spouse" includes a
18 surviving spouse.
- 19 (6) Sound management program. – A program of production designed to
20 obtain the greatest net return from the land consistent with its
21 conservation and long-term improvement.
- 22 (7) Unit. – One or more tracts of agricultural land, horticultural land, or
23 forestland. Multiple tracts must be under the same ownership and be of
24 the same type of classification. If the multiple tracts are located within
25 different counties, they must be within 50 miles of a tract qualifying
26 under G.S. 105-277.3(a)."

27 **SECTION 2.2.** G.S. 105-277.3 reads as rewritten:

28 **"§ 105-277.3. Agricultural, horticultural, and forestland – Classifications.**

29 (a) Classes Defined. – The following classes of property are designated special
30 classes of property under authority of Section 2(2) of Article V of the North Carolina
31 Constitution and must be appraised, assessed, and taxed as provided in G.S. 105-277.2
32 through G.S. 105-277.7.

- 33 (1) Agricultural land. – Individually owned agricultural land consisting of
34 one or more tracts, one of which satisfies the requirements of this
35 subdivision. For agricultural land used as a farm for aquatic species, as
36 defined in G.S. 106-758, the tract must meet the income requirement
37 for agricultural land and must consist of at least five acres in actual
38 production or produce at least 20,000 pounds of aquatic species for
39 commercial sale annually, regardless of acreage. For all other
40 agricultural land, the tract must meet the income requirement for
41 agricultural land and must consist of at least 10 acres that are in actual
42 production. Land in actual production includes land under
43 improvements used in the commercial production or growing of crops,
44 plants, or animals.

1 To meet the income requirement, agricultural land must, for the
2 three years preceding January 1 of the year for which the benefit of
3 this section is claimed, have produced an average gross income of at
4 least one thousand dollars (\$1,000). Gross income includes income
5 from the sale of the agricultural products produced from the land, any
6 payments received under a governmental soil conservation or land
7 retirement program, and the amount paid to the taxpayer during the
8 taxable year pursuant to P.L. 108-357, Title VI, Fair and Equitable
9 Tobacco Reform Act of 2004.

10 (2) Horticultural land. – Individually owned horticultural land consisting
11 of one or more tracts, one of which consists of at least five acres that
12 are in actual production and that, for the three years preceding January
13 1 of the year for which the benefit of this section is claimed, have met
14 the applicable minimum gross income requirement. Land in actual
15 production includes land under improvements used in the commercial
16 production or growing of fruits or vegetables or nursery or floral
17 products. Land that has been used to produce evergreens intended for
18 use as Christmas trees must have met the minimum gross income
19 requirements established by the Department of Revenue for the land.
20 All other horticultural land must have produced an average gross
21 income of at least one thousand dollars (\$1,000). Gross income
22 includes income from the sale of the horticultural products produced
23 from the land and any payments received under a governmental soil
24 conservation or land retirement program.

25 (3) Forestland. – Individually owned forestland consisting of one or more
26 tracts, one of which consists of at least 20 acres that are in actual
27 production and are not included in a farm unit.

28 (b) ~~Natural Person~~Individual Ownership Requirements. – In order to come within
29 a classification described in subsection (a) of this section, ~~the land must, if~~ owned by a
30 ~~natural person,~~an individual must also satisfy one of the following conditions:

31 (1) It is the owner's place of residence.

32 (2) It has been owned by the current owner or a relative of the current
33 owner for the four years preceding January 1 of the year for which the
34 benefit of this section is claimed.

35 (3) At the time of transfer to the current owner, it qualified for
36 classification in the hands of a business entity or trust that transferred
37 the land to the current owner who was a member of the business entity
38 or a beneficiary of the trust, as appropriate.

39 (b1) Entity Ownership Requirements. – In order to come within a classification
40 described in subsection (a) of this section, ~~the land must, if~~ owned by a business entity
41 or ~~trust,~~trust must have been owned by the business entity or trust or by one or more of
42 its members or creators, respectively, for the four years immediately preceding January
43 1 of the year for which the benefit of this section is claimed.

1 (b2) ~~Exception~~Exceptions to Ownership Requirements. – Notwithstanding the
2 provisions of subsections (b) and (b1) of this section, land may qualify for classification
3 in the hands of the new owner if all of the conditions listed in either subdivision of this
4 subsection are met, even if the new owner does not meet all of the ownership
5 requirements of subsections (b) and (b1) of this section with respect to the land.

6 (1) ~~Exception for assumption of deferred liability.~~Continued use. – If the
7 land qualifies for classification in the hands of the new owner under
8 the provisions of this subdivision, then ~~the any~~ deferred taxes remain a
9 lien on the land under G.S. 105-277.4(c), the new owner becomes
10 liable for the deferred taxes, and the deferred taxes become payable if
11 the land fails to meet any other condition or requirement for
12 classification. Land qualifies for classification in the hands of the new
13 owner if all of the following conditions are met:

14 a. The land was appraised at its present use value at the time title
15 to the land passed to the new owner.

16 b. ~~At the time title to the land passed to the new owner, the~~The
17 new owner acquires the land ~~for the purposes of~~ and continues
18 to use the land for the ~~purposes~~purpose for which it was
19 classified under subsection (a) of this section while under
20 previous ownership.

21 c. The new owner has timely filed an application as required by
22 G.S. 105-277.4(a) and has certified that the new owner accepts
23 liability for ~~the any~~ deferred taxes and intends to continue the
24 present use of the land.

25 (2) ~~Exception for expansion~~Expansion of existing unit. – ~~If deferred~~
26 ~~liability is not assumed under subdivision (1) of this subsection, the~~
27 ~~land~~Land qualifies for classification in the hands of the new owner if,
28 at the time title passed to the new owner, the land was not appraised at
29 its present-use value but was being used for the same purpose and was
30 eligible for appraisal at its present-use value as other land already
31 owned by the new owner and classified under subsection (a) of this
32 section. The new owner must timely file an application as required by
33 G.S. 105-277.4(a).

34 (c) Repealed by Session Laws 1995, c. 454, s. 2.

35 (d) Exception for Conservation Reserve Program. – Land enrolled in the federal
36 Conservation Reserve Program authorized by 16 U.S.C. Chapter 58 is considered to be
37 in actual production, and income derived from participation in the federal Conservation
38 Reserve Program may be used in meeting the minimum gross income requirements of
39 this section either separately or in combination with income from actual production.
40 Land enrolled in the federal Conservation Reserve Program must be assessed as
41 agricultural land if it is planted in vegetation other than trees, or as forestland if it
42 is planted in trees.

43 (d1) Exception for Easements on Qualified Conservation Lands Previously
44 Appraised at Use Value. – Property that is appraised at its present-use value under

1 G.S. 105-277.4(b) shall continue to qualify for appraisal, assessment, and taxation as
2 provided in G.S. 105-277.2 through G.S. 105-277.7 as long as the property is subject to
3 an enforceable conservation easement that would qualify for the conservation tax credit
4 provided in G.S. 105-130.34 and G.S. 105-151.12, without regard to actual production
5 or income requirements of this section. Notwithstanding G.S. 105-277.3(b) and (b1),
6 subsequent transfer of the property does not extinguish its present-use value eligibility
7 as long as the property remains subject to an enforceable conservation easement that
8 qualifies for the conservation tax credit provided in G.S. 105-130.34 and
9 G.S. 105-151.12. The exception provided in this subsection applies only to that part of
10 the property that is subject to the easement.

11 (e) Exception for Turkey Disease. – Agricultural land that meets all of the
12 following conditions is considered to be in actual production and to meet the minimum
13 gross income requirements:

- 14 (1) The land was in actual production in turkey growing within the
15 preceding two years and qualified for present use value treatment
16 while it was in actual production.
- 17 (2) The land was taken out of actual production in turkey growing solely
18 for health and safety considerations due to the presence of Poult
19 Enteritis Mortality Syndrome among turkeys in the same county or a
20 neighboring county.
- 21 (3) The land is otherwise eligible for present use value treatment.

22 (f) Sound Management Program for Agricultural Land and Horticultural Land. –
23 If the property owner demonstrates any one of the following factors with respect to
24 agricultural land or horticultural land, then the land is operated under a sound
25 management program:

- 26 (1) Enrollment in and compliance with an agency-administered and
27 approved farm management plan.
- 28 (2) Compliance with a set of best management practices.
- 29 (3) Compliance with a minimum gross income per acre test.
- 30 (4) Evidence of net income from the farm operation.
- 31 (5) Evidence that farming is the farm operator's principal source of
32 income.
- 33 (6) Certification by a recognized agricultural or horticultural agency
34 within the county that the land is operated under a sound management
35 program.

36 Operation under a sound management program may also be demonstrated by evidence
37 of other similar factors. As long as a farm operator meets the sound management
38 requirements, it is irrelevant whether the property owner received income or rent from
39 the farm operator.

40 (g) Sound Management Program for Forestland. – If the owner of forestland
41 demonstrates that the forestland complies with a written sound forest management plan
42 for the production and sale of forest products, then the forestland is operated under a
43 sound management program."

1 **SECTION 2.3.** This section is effective for taxes imposed for taxable years
2 beginning on or after July 1, 2008.

3
4 **PART III: LOW-INCOME HOUSING PROPERTY**

5 **SECTION 3.1.** Article 12 of Subchapter II of Chapter 105 of the General
6 Statutes is amended by adding a new section to read:

7 **"§ 105-277.15. Taxation of low-income housing property.**

8 A North Carolina low-income housing development to which the North Carolina
9 Housing Finance Agency allocated a federal tax credit under section 42 of the Code is
10 designated a special class of property under Article V, Section 2(2) of the North
11 Carolina Constitution and must be appraised, assessed, and taxed in accordance with
12 this section. The assessor must use the income approach as the method of valuation for
13 property classified under this section and must take rent restrictions that apply to the
14 property into consideration in determining the income attributable to the property. The
15 assessor may not consider income tax credits received under section 42 of the Code or
16 under G.S. 105-129.42 in determining the income attributable to the property."

17 **SECTION 3.2.** This section is effective for taxes imposed for taxable years
18 beginning on or after July 1, 2009.

19
20 **PART IV: PRESCRIPTION DRUGS GIVEN AS FREE SAMPLES**

21 **SECTION 4.1.** G.S. 105-275 is amended by adding a new subdivision to
22 read:

23 **"§ 105-275. Property classified and excluded from the tax base.**

24 The following classes of property are hereby designated special classes under
25 authority of Article V, Sec. 2(2), of the North Carolina Constitution and shall not be
26 listed, appraised, assessed, or taxed:

27 ...

28 (44) Free samples of drugs that are required by federal law to be dispensed
29 only on prescription and are given to physicians and other medical
30 practitioners to dispense free of charge in the course of their practice."

31 **SECTION 4.2.** This section is effective for taxable years beginning on or
32 after July 1, 2008.

33
34 **PART V: SOLAR ENERGY ELECTRIC SYSTEMS**

35 **SECTION 5.1.** G.S. 105-275 is amended by adding a new subdivision to
36 read:

37 **"§ 105-275. Property classified and excluded from the tax base.**

38 The following classes of property are hereby designated special classes under
39 authority of Article V, Sec. 2(2), of the North Carolina Constitution and shall not be
40 listed, appraised, assessed, or taxed:

41 ...

42 (45) Eighty percent (80%) of the appraised value of a solar energy electric
43 system. For purposes of this subdivision, the term 'solar energy electric

1 system' means all equipment used directly and exclusively for the
2 conversion of solar energy to electricity."

3 **SECTION 5.2.** This section is effective for taxable years beginning on or
4 after July 1, 2008.

5

6 **PART VI: STUDY**

7 **SECTION 6.** The Revenue Laws Study Committee must study the
8 following:

9 (1) The effect of PART I of this act and determine whether new positions
10 are needed to perform sales assessment ratio studies in additional
11 counties each year and to perform other functions related to this act.

12 (2) The definition of income as it applies to the homestead exclusion.

13

14 **PART VII: EFFECTIVE DATE**

15 **SECTION 7.** Except as otherwise provided in this act, this act is effective
16 when it becomes law.