

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2007

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SENATE BILL 1878\*  
Finance Committee Substitute Adopted 6/10/08  
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Corrected Copy 7/3/08

Short Title: Property Tax Modifications.

(Public)

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Sponsors:

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Referred to:

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May 22, 2008

A BILL TO BE ENTITLED

1 AN ACT TO MODIFY THE SCHEDULE FOR GENERAL REAPPRAISALS OF  
2 REAL PROPERTY IN THE STATE TO REDUCE THE DISCREPANCY  
3 BETWEEN THE PROPERTY TAX VALUE OF PROPERTY AND ITS MARKET  
4 VALUE, TO MODIFY THE OWNERSHIP REQUIREMENTS OF PRESENT-USE  
5 VALUE PROPERTY TO REFLECT COMMON FORMS OF LAND  
6 OWNERSHIP, TO ALLOW PROPERTY TO REMAIN IN PRESENT-USE  
7 VALUE WHEN THE DEFERRED TAXES ARE PAID AT THE TIME OF  
8 TRANSFER AND THE NEW OWNER CONTINUES TO FARM THE  
9 PROPERTY, TO CLASSIFY LOW-INCOME HOUSING PROPERTY, TO  
10 EXCLUDE FROM PROPERTY TAX PRESCRIPTION DRUGS GIVEN AS FREE  
11 SAMPLES, TO EXCLUDE FROM PROPERTY TAX EIGHTY PERCENT OF  
12 THE APPRAISED VALUE OF A SOLAR ELECTRIC SYSTEM, AND TO  
13 DIRECT THE REVENUE LAWS STUDY COMMITTEE TO STUDY THE  
14 EFFECT THAT THIS ACT HAS ON STAFFING NEEDS OF THE  
15 DEPARTMENT OF REVENUE AND THE DEFINITION OF INCOME AS IT  
16 APPLIES TO THE HOMESTEAD EXCLUSION.  
17

18 The General Assembly of North Carolina enacts:

19  
20 **PART I: REAPPRAISAL SCHEDULE**

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

22 "**§ 105-286. Time for general reappraisal of real property.**

23 (a) ~~Octennial Plan. Unless the date shall be advanced as provided in~~  
24 ~~subdivision (a)(2), below, each county of the State, as of January 1 of the year~~  
25 ~~prescribed in the schedule set out in subdivision (a)(1), below, and every eighth year~~

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

7 (1) Schedule of Initial Reappraisals.

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

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

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

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

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

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

- 1           a.     The third year following the year the county received the notice.  
2           b.     The eighth year following the year of the county's last  
3                 reappraisal.

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

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

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

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

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

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

- 43            (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.