Community and Economic Development in North Carolina and Beyond Blog: Property Tax Exemptions and Community Economic Development

By CED Guest Author

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North Carolina property tax law, nicknamed the Machinery Act, contains over 60 full or partial exemptions for property as diverse as free drug samples, uranium 233, and Loyal Order of the Moose clubhouses.

A number of these exemptions are aimed at property that might be part of a local government's community economic development plans. This blog attempts to identify these economic development exemptions and summarize their key statutory provisions. If you think we've missed any relevant exemptions, please don't be shy—that's what the comment section is for!

First, some context and a few general observations.

Remember that only the General Assembly has the authority to create exemptions from property taxes. Local governments may not create their own custom exemptions; they all need to play by the uniform, statewide rules created by the General Assembly.

The terms "exemption" and "exclusion" both refer to provisions that exempt some or all of the value of a particular property from taxation. Exemptions reduce the taxable value of property to zero. Exclusions can do the same, or they can reduce the taxable value by a certain percentage or by a flat dollar value.

Two examples: property owned by a non-profit and used for charitable purposes is entirely exempt from property taxes under the exemption created by G.S. 105-278.7. In contrast, property designated as a historic landmark qualifies for a 50% reduction in taxable value under the exclusion created by G.S. 105-278.

With the exception of the provision for government property, all exemptions create requirements for both ownership and use of the property in question. To be exempt, property (other than that owned by a government) must be owned by a qualifying organization **and** used by that organization for a qualifying purpose. See this blog post for more details.

Some exclusions create deferred tax obligations on the difference in value between the full taxable value of the property and its reduced taxable value. For example, assume that the site infrastructure exclusion in G.S. 105-277.15A reduces the taxable value of Parcel A from $100,000 to $75,000. Under that exclusion, property taxes on the $25,000 reduction in value are deferred rather than eliminated.

These deferred taxes are not immediately due and payable but they are a lien on the property. If a disqualifying event occurs, a certain number of years of deferred taxes will become due.   The definition of a disqualifying event varies from exclusion to exclusion, but is usually based on a change in ownership or a change in use of the property. G.S. 105-277.1F creates several uniform provisions governing deferred taxes.

Exemptions and exclusions affect the taxable value of property, not the tax rate levied on that property. Every jurisdiction that levies property taxes must choose **one** tax rate that applies to all property located in that jurisdiction. A local government may not choose different tax rates for different types of property; the one tax rate adopted by a local government will apply uniformly to land, buildings, cars, business equipment, and every other type of property located within that local government's boundaries.

The only exception to the "one-jurisdiction, one-tax-rate" rule is a special service district, which allows a local government to levy an additional property tax on a particular area of its jurisdiction to fund additional services in that area. But even then uniformity is required, as all property in the special service district must be subject to one uniform additional property tax rate.

For example, assume Blue Devil City's "regular" property tax rate is 65 cents and that it levies an additional 8 cents of property tax in a "downtown revitalization district" (sometimes referred to as a "business improvement district" or "BID") created under the special service district provisions. All property—land, buildings, equipment, vehicles—that lies in the special service district will be subject to a combined tax rate of 73 cents, while property sited elsewhere in the city will pay only the 65-cent tax rate.

For more on property taxes in special service districts, see this post.

Now, on to the list of exemptions and exclusions that could be related to community economic development efforts.

Agricultural, horticultural, or forestry land (G.S. 105-277.3): a present-use value ("PUV") exclusion that creates deferred taxes for qualifying farms and forestry operations. See this post for more details.

Brownfields (G.S. 105-277.13): excludes a decreasing annual percentage of the taxable value of improvements to qualified brownfields. The exclusion starts at 90% for the first year and then decreases to 75%, 50%, 30%, and 10% respectively in years two through five. The property must be subject to a brownfields agreement between the owner and the N.C. Department of Environment and Natural Resources.

Charitable hospitals (G.S. 105-278.8): a full exemption for non-profit charitable hospitals.

Charitable property (G.S. 105-278.6): a full exemption discussed here.

Circuit breaker residential exclusion: (G.S. 105-277.1B): a tax deferral for elderly homeowners with incomes below $42,900. Depending on the taxpayers' income, property taxes are capped at either 4% or 5% of their income with the rest of annual property tax bills deferred. The most recent three years of deferred taxes are due when the home is transferred or no longer used as the taxpayer's legal residence.

Community land trust property appraisal (G.S. 105-277.17): mandates a special appraisal method for community land trust property. Among other requirements, assessors must take into consideration any resale restrictions that apply to the property.

Development financing district agreement property appraisal (G.S. 105-277.11): mandates that property subject to a financing arrangement commonly known as "tax increment financing" be appraised at the greater of its true value or the minimum value as established in the financing agreement.

Elderly or disabled homestead exclusion (G.S. 105-277.1): allows elderly or disabled homeowners with incomes below $28,600 to reduce the taxable value of their homes by the greater of $25,000 or 50%.

Educational, scientific, literary, or charitable property (G.S. 105-278.7): a full exemption discussed here.

Future sites of historic structures (G.S. 105-275(29a)): applies to land that lies within in a historic district, is owned by a historic preservation non-profit, and intended to be the future site of a historic structure that will be moved from another site. This exclusion removes the entire value of the site from taxation but creates a deferred tax obligation on that value. The deferred taxes are forgiven if a historic structure is moved to the site within five years of the property first receiving the exclusion. If that does not occur, all five years of deferred taxes are due and payable.

Historic property (G.S. 105-278): another deferred tax exclusion, this one aimed at property designated as a historic landmark by a local government. The exclusion reduces the taxable value of the property by 50%, with the taxes on the difference in value deferred. If the property loses its "historical significance" either due to a change in the applicable landmark ordinance or a change in the property, then three years of deferred taxes become payable. No deferred taxes are due if the property suffers a fire or other natural disaster. For more details on the historic preservation commissions, click here and here. For details on the historic landmark designation process, see this post.

Low-income housing appraisal (G.S. 105-277.16): mandates a special appraisal method for property used for low-income housing. Assessors must use the income appraisal approach, must take into consideration any applicable rent restrictions that affect the property's income, and must not consider any income tax credits received by the owners of the property.

Public parks (G.S. 105-275(7)): a complete exemption for real and personal property owned by a non-profit and "appropriated exclusively" for public parks and drives. I'm not sure what it means for property to be "appropriated exclusively," but it might require a restrictive deed covenant.

Retirement facilities (G.S. 105-278.6A): creates both full and partial exclusions for certain charitable retirement homes.

Site infrastructure land (G.S. 105-277.15A): a new (2013) deferred tax exclusion aimed at farmland ripe for development that is summarized in this blog post.

Solar energy G.S. 105-277(g): exempts the increase in a building's taxable value attributable to a solar energy heating or cooling system as compared to building's taxable value if it had a conventional HVAC system.

Working waterfront property (G.S. 105-277.14): similar to the "present-use-value" exclusion available for farmland, this exclusion allows qualifying property to be valued for taxes at its present use for commercial fishing activities rather than its true value for development or other uses. The taxes on the difference in value are deferred, with three years of deferred taxes becoming due if the property is no longer used for fishing activities.

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