

# PROPERTY TAX EDUCATION PARTNERSHIP

## Exemptions, Exclusions, & Applications

North Carolina Department of Revenue  
Tax Administration Course  
Property Tax Section  
Local Government Division

# Exemptions and Exclusions

- Is there a difference between the two?
- Technically, Yes. They are created in different sections of the state constitution.
- Practically, in the tax office, No. Both exemptions/exclusions either remove all the value from the tax base , a portion of the value, or defer the value into the future.

# What property is taxable?

NCGS 105-274(a):

“All property, real and personal, within the jurisdiction of the State shall be subject to taxation unless it is:

- (1) **Excluded** from the tax base by a statute of statewide application enacted under the classification power accorded the General Assembly by Article V, § 2(2), of the North Carolina Constitution, or
- (2) **Exempted** from taxation by the Constitution or by a statute of statewide application enacted under the authority granted the General Assembly by Article V, § 2(3), of the North Carolina Constitution.”

# Basic Interpretation

- Property is presumed to be \_\_\_\_\_
- The burden of proof is on the \_\_\_\_\_

Braggs vs Cumberland County

# Taxability

- By default, everything is taxable under G.S. 105-274
- However, there are whole categories of personal property that receive special tax treatment under federal or state law.
  - For example, most motor vehicles are classified and treated separately under G.S. 105-330.1, *et. seq.*
  - Federal laws and regulations govern the taxation of property which is transported in and out of the state in interstate or foreign commerce

# Part 1: Exclusions

“Special Class of Property”

# Exclusions

- These are properties which are “classified” by the General Assembly as special properties
- They receive special tax treatment, ranging from total exclusion (like exemption) to partial exclusion
- Some receive the benefit of deferred taxes, at least part of which can be recaptured
- There are more of these than there are exemptions, and they’re scattered around a bit

# Exclusions

- Typically, the majority of exclusions are listed in the Machinery Act under NCGS 105-275 (1)-(48). However, some exclusions are listed under NCGS 105-277 and NCGS 105-278.
- Examples of Excluded Property in 105-275
  - Inventories
  - Non business personal property
- A complete list is included later in the presentation of properties excluded under 105-275.



# Some Exclusions Under G.S. 105-275

- Imports at seaport terminal (2)
- Property of non-profit water & sewer companies (3)
- Vehicles given by U.S. Govt. to certain D.A.V.'s (5)
- Special nuclear materials (6)
- **Pollution abatement equipment (8)(a)**
- **Recycling & resource recovery equipment (8)(b)**
- Cotton dust prevention equipment in textile plants (8)(c)
- **Standing timber (15)**

# (More) Exclusions Under G.S. 105-275

- **Most non-business personal property (16)**
- Cargo containers/container chassis in ocean commerce (24)
- Property in stock for repair & alterations (25)
- Personal property manufactured in this state for non-resident customer (26)
- **Most intangible property (31)**
- **Inventories owned by manufacturers (33)**
- **Inventories owned by retail & wholesale merchants (34)**
- Computer Software and documentation (see above) (40)

# 105-277.02 Builder's Inventory

- Real Property held for sale  
Commercial or Residential
- Owned by a “Builder”  
“taxpayer engaged in the business of buying real property, making improvements to it, and then reselling it.”
- Annual Application (G.S. 105-282.1)

# 105-277.02 Residential Property

- What is excluded?
- The taxes on the increase in value to the property held for sale attributable to:
  1. Subdivision
  2. Non-structural improvements (grading)
  3. Construction of 1 or 2 family houses
- How long is the exclusion?
  - 3 Years from the date the improved property was first listed.

# 105-277.02 Residential Property

- The exclusion ends when the property is;
- Sold
- Removed from the market
- Leased
- Used for commercial purposes (model home)
- 3 years of exclusion expire

# 105-277.02 Commercial Property

- What is excluded?
- Taxes on the increase in value of the property held for sale attributable to:
  1. Subdivision
  2. Non-structural improvements
- How long is the exclusion?

5 years from the date the improved property was first listed

# 105-277.02 Commercial Property

- What terminates the exclusion?
- Building permit issued
- Sale
- Removal from the market

# G.S. 105-277.2 through 105-277.7

## Present-Use Value

- Deferral program, detailed in another section
- Property which qualifies is entitled to special assessment based on an estimate of the property's value in use
- The difference between taxes on market value and taxes on use value is deferred
- When property comes out of the program, full taxes for the current year, plus last 3 years of deferrals (plus interest) becomes due



# G.S. 105-277.1

## Elderly/Disabled Homestead Exclusion

- Partial exclusion program
- Permanent residence of the owner, who must be 65 or older, **or** totally and permanently disabled
- Maximum income for owner (and spouse) determined by statute (\$29,600 for 2018) adjusted annually based Social Security cost of living index
- For assessment purposes, the appraised value is reduced by either \$25,000 or  $\frac{1}{2}$  the appraised value of the residence, whichever is greater

# G.S. 105-277.1B

## Homestead Circuit Breaker

- Deferral program
- Permanent residence of the owner for at least five years; owner must be 65 or older, **or** totally and permanently disabled
- Maximum income for owner (and spouse) determined by statute (\$44,400 for 2018)
- Owner is only required to pay 4-5% of income in property taxes; balance is deferred.
- Upon death or other disqualifying event, deferred taxes for preceding three years become due, with interest

# G.S. 105-277.1C

## Disabled Veteran Homestead Exclusion

- Partial exclusion program
- Permanent residence of the owner, who must be a qualifying veteran (or unremarried surviving spouse)
- Qualifying veteran:
  - Separated from service honorably or under honorable conditions
  - Certified by the VA as having a service-connected, total and permanent disability as of January 1 of the year of application
  - If deceased, either died with the disability or as the result of a service-connected condition
- For assessment purposes, the appraised value is reduced by \$45,000

# Co-Ownership Issues (E/D, CB & DV)

- When spouses own and occupy the permanent residence, one full exclusion is available, even if only one spouse meets the requirements.
- When other co-owners occupy the permanent residence:
  - For the CB program, all must qualify and participate
  - For the E/D and DV programs, each qualifying owner may choose their program
  - If both E/D and DV are chosen, the maximum exclusion allowed for the property is the greater of the two
  - Each owner is entitled to the full exclusion amount, limited by the owner's proportionate share of the **property value**

# G.S. 105-277.1F

## Payment of Deferred Taxes

- Deferred taxes are due and payable on the day the property loses its eligibility for the deferral program as a result of a disqualifying event.
- If only a part of property for which taxes are deferred loses its eligibility for deferral, the assessor must determine the amount of deferred taxes that apply to that part and that amount is due and payable.
- Interest accrues on deferred taxes as if they had been payable on the dates on which they would have originally become due.

# G.S. 105-277.8

## Non-profit Homeowners' Associations

- **Not an exemption or exclusion program.**
- Value of property owned by the HOA is attributed to the properties owned by the members of the HOA
- Each member must have an equal and irrevocable right to use the HOA property

# G.S. 105-277.9

## Certain Roadway Corridors

- Applies only to vacant real property
- Involves only transportation corridors which are designated on an official map adopted (or amended) under the Transportation Corridor Official Map Act.
- Vacant property which:
  - lies within the corridor, and
  - has not been subdivided since it was included in the corridor,is assessed at 20% of appraised value

# G.S. 105-277.9A

## Certain Roadway Corridors

- Applies only to improved real property
- Involves only transportation corridors which are designated on an official map adopted (or amended) under the Transportation Corridor Official Map Act.
- Improved property which:
  - lies within the corridor, and
  - has not been subdivided since it was included in the corridor, is assessed at 50% of appraised value
- Sunset provision – June 30, 2021



# G.S. 105-277.10

## Precious Metals Used as Machinery

- Applies to metals like rhodium or platinum which are directly used (or held for use) as a part of industrial machinery
- Assessed at the lower of:
  - true value, or
  - indexed cost less depreciation
- Use same index & depreciation applied to the machinery in which the metal is used
- Maximum residual value of 25%

# G.S. 105-277.11

## Certain Development Districts

- In 2004, NC voters approved a constitutional amendment which led to special financing laws
- Under the laws, local governments can finance certain public improvements within a development district without voter approval, as long as:
  - the financing is secured solely by the added tax value resulting from the improvements, and
  - the owners of property in the district are permitted to agree in advance on a minimum tax value for their property
- This property is assessed at true value or the agreed value, whichever is greater

# G.S. 105-277.12

## Antique Airplanes

- Applies to airplanes which are:
  - registered with the FAA,
  - model year 1954 or older,
  - maintained primarily for exhibitions, club activities, air show, and other public interest functions,
  - only occasionally used for other purposes, and
  - is not used by the owner for the purpose of producing income
- Qualifying planes are assessed at true value or \$5,000, whichever is lower.

# G.S. 105-277.13

## Improvements on Brownfields

- Brownfields are properties which are not used to their full potential because of actual or suspected environmental contamination, and which are eligible for certain cleanup programs
- If the owner first enters into a brownfields agreement with DENR, then **improvements** made to the property are assessed at a reduced rate for five years:

|   | <u>Year</u> | <u>Reduction</u> (from appraised value) |
|---|-------------|---|
| 1 | 90%         |   |
| 2 | 75%         |   |
| 3 | 50%         |   |
| 4 | 30%         |   |
| 5 | 10%         |   |

# G.S. 105-277.14

## Working Waterfront Property

- Applies to:
  - Pay-to-fish piers at the coast, or
  - Real property used in a commercial fishing or fish processing operation (“fish” includes marine mammals, crustaceans, and shellfish)
- Average \$1,000 in gross income over last 3 years
- Taxed at “present use” value rather than true value **(but not a part of the PUV program)**
- Difference is deferred, with three-year “rollback” upon disqualification

# G.S. 105-277.15

## Wildlife Conservation Land

- Applies to property which is:
  - owned (generally for at least five years) by an individual, or certain family business entities, or certain family trusts;
  - 20 contiguous acres or more in size (limited to 100 acres per owner, per county); and
  - managed under a written agreement with NC Wildlife Resources Commission
- Taxed at agricultural PUV program value rather than true value (**but not a part of the PUV program**)
- Difference is deferred, with three-year “rollback” upon disqualification, with some exceptions

# G.S. 105-277.16

## IRC Sec. 42 Property

- Low-income housing property which has been allocated a federal tax credit under Sec. 42 of the Internal Revenue code
- Must be appraised and assessed using the income approach
- Rent restrictions must be considered, but the income tax credits cannot be considered

# G.S. 105-277.17

## Community Land Trust Property

- These are properties owned by certain home ownership programs geared toward providing housing to lower-income residents
- The properties are not actually sold, but are conveyed to the homeowner by a long-term (99+ years) lease
- The leases generally only permit the properties to be “sold” back to the CLT, at a pre-determined rate of annual property value appreciation
- Both the terms of the lease and the terms of certain special financing will limit the assessed value



# G.S. 105-278

## Historic Properties

- This program applies only to **certain** historic properties
- There must be a certain type of municipal ordinance which designates the property as historic
- For properties which qualify, taxes on 50% of the value are deferred
- Current plus 3 years of deferred taxes are due upon a disqualifying event, which can include a change in the ordinance (but does not include fire or natural disaster)

# G.S. 105-278.6A

## Qualified Retirement Facility

- Must be licensed Continuing Care Retirement Community, designed for elderly residents, with independent living units and a skilled nursing or adult care facility
- Must also:
  - be exempt from state income tax
  - provide no benefit to private shareholders from its operations
  - provide for assets to go to another qualifying entity on dissolution
  - actively raise funds to assist in serving lower-income residents

# G.S. 105-278.6A

## Qualified Retirement Facility

- A facility which meets all the prior qualifications can be 100% exempt as to buildings, personal property, and some or all of its land, if it either:
  - a. serves all residents, regardless of ability to pay, or
  - b. uses at least 5% of revenues received from residents to provide charity care to its residents, and/or to provide benefits to the community
- A facility which meets all the prior qualifications, but uses less than 5% of revenues in this way can still receive partial exclusion on the property:

| <u>% of Revenues</u> | <u>Exclusion</u> |
|----------------------|------------------|
| 4%                   | 80%              |
| 3%                   | 60%              |
| 2%                   | 40%              |
| 1%                   | 20%              |

# Part 2: Exemptions

# Exemptions

- G.S. 105-278.1 through 105-278.8 (except 278.6A, which is an out-of-place exclusion)
- 278.1: Property owned by federal, state, or local government (except for some situations in which the federal government agrees to be liable for property taxes)
- 278.2 Burial property, unless held for sale/rent, or for the sale of burial rights

# Certain Leasehold Interests in Exempt Real Property

- What if government-owned property is leased for commercial use at below-market rates?
- The lease rights plus bargain rent create a valuable property interest for the tenant.
- Most intangible property is excluded from taxation under G.S. 105-275(31), but there is a specific exception for this situation. See also 31(e) for an exception to the exception.

# Case: *In Re* University of North Carolina

- Background– Orange County assessed taxes on a commercial hotel owned by the University of North Carolina and used for commercial not educational purposes.
- The Supreme Court sided with the university and put it simply, “state owned property is exempt from ad valorem taxation solely by reason of State ownership, regardless of use.”
- *In Re* University of North Carolina, Id. at 577, 268 S.E.2d at 481

# Case: In re Appalachian Student Housing Corp.

- Background -Watauga County assessed taxes on a student housing complex owned and managed by a nonprofit corporation, ASHC pursuant to a trust agreement with ASU. The trust agreement provided in part: “All funds and property received by ASHC shall be held in trust for the benefit of ASU.”
- *In Re Appalachian Student Housing Corp.* 165 N.C. App. 379, 598 S.E.2d 701(2004)



# Exemptions-Case law

- ASHC had legal title, ASU had equitable title based on the trust agreement.
- Court of Appeals determined that property held in an active trust is owned by both the trustee and the beneficiary. Thus, ASU's equitable interest in the property was sufficient to establish ownership by the state and exempt from ad valorem taxation.

# Exemptions, cont'd.

- 278.3: Property used for religious purposes
- 278.4: Property used for educational purposes
- 278.5: Property of religious educational assemblies, used for religious and educational purposes
- 278.6: Property used for charitable purposes
- 278.7: Property used for educational, scientific, literary, or charitable purposes
- 278.8: Property used for charitable hospital purposes

# Exemptions, cont'd.

- Except for government and burial property (105-278.1 and 278.2), these exemptions have two-part requirements:

**Qualifying Owner**  
**+ Qualifying Exclusive Use**  
**= Tax Exclusion**

# Exemptions, cont'd.

- For properties seeking an exemption under 105-278.3 -105.278.8 there is a “sticks” and “bricks” requirement underlying the exemption to qualify real property used for religious, educational, scientific, literary, or charitable purposes.
- Land and adjacent land may qualify, but the land must be “adjacent” or “reasonably necessary for the convenient use” of a building owned by the landowner and exempted under these provisions.

# Case: *In Re* Harrison v. Guilford County

- *Harrison v. Guilford County*, the State Supreme Court determined a six acre unimproved parcel four or five blocks away from the existing church building was both adjacent to the building and reasonably necessary for its use.
- *In Re* Harrison v. Guilford County, 218 N.C. 718, 12 S.E.2d 269 (1940)

# Religious: 105-278.3

## OWNER

- A congregation, parish, mission, or similar local unit of a church or religious body; or
- A conference, association, presbytery, diocese, district, synod, or similar unit comprising local units of a church or religious body.

## USE

- Wholly and exclusively used by its owner for religious purposes; or
- Gratuitously made available to one other than the owner and wholly and exclusively used by the possessor for religious, charitable, or nonprofit educational, literary, scientific, or cultural purposes.

# Case: *In Re Worley*

- *In re Worley* – Court of Appeals determined that a 5-acre parcel owned by a church consisting of wood land and natural area was “wholly and exclusively” used for a religious purpose and qualified for exemption since the property was used as a spiritual retreat and for recreational activities for the church. Also, the court determined that if property served as a “buffer” to protect the church from encroaching development also entitled the property to a religious exemption.
- *In Re Worley* , 93 N.C.App.191,377 S.E.2d 270 (1989)

# Additional Exemption Court Cases for Future Reference

- *In Re* Appeal of Southeastern Baptist Theological Seminary, Inc.
- *In Re* Master's Mission
- *In Re* North Carolina Forestry Foundation



# Educational: 105-278.4

## OWNER

- An educational institution; or
- A nonprofit entity for the sole benefit of a constituent or affiliated institution of The University of North Carolina, an institution as defined in G.S. 116-22, a North Carolina community college, or a combination of these;
- The owner is not organized or operated for profit and...

## USE

- Wholly and exclusively used for educational purposes by the owner or occupied gratuitously by another nonprofit educational institution and wholly and exclusively used by the occupant for nonprofit educational purposes.

# Case: Rockingham v. Elon College

- The Supreme Court determined that “ buildings owned by a private college and rented for business purposes were taxable, regardless of the college’s use of all profits for educational purposes. Use of the property, not the use of the income, controls.”
- A Guide to the Listing, Assessment, and Taxation of Property in North Carolina, Shea Rigsbee Denning, UNC School of Government
- Rockingham v. Elon College 219 N.C.342, 13 S.E.2d 618 (1941)

# Religious Educational Assemblies: 105-278.4

## OWNER

- a religious educational assembly, retreat, or similar organization;
- No officer, shareholder, member, or employee of the owner, or any other person is entitled to receive pecuniary profit from the owner's operations except reasonable compensation for services...

## USE

- Wholly and exclusively used for religious worship or
- Purposes of instruction in religious education.

# Charitable: 105-278.6

## OWNER

- A YMCA or similar organization;
- A home for the aged, sick, or infirm;
- An orphanage or similar home;
- An SPCA;
- A reformatory or correctional institution;
- A monastery, convent, or nunnery;
- A nonprofit, life-saving, first aid, or rescue squad organization;
- A nonprofit organization providing housing for individuals or families with low or moderate incomes

## USE

- The owner is not organized or operated for profit, **and**
- As to real property, it is actually and exclusively occupied and used, and as to personal property, it is entirely and completely used, by the owner for charitable purposes

# (Other) Educational, Scientific, Literary, or Charitable Purposes: 105-278.7

## OWNER

- A charitable association/institution
- An historical association/institution
- A veterans' organization/association
- A scientific association/institution
- A literary association/institution
- A benevolent association/institution
- A nonprofit community/neighborhood organization

## USE

- Wholly and exclusively used by its owner for nonprofit e/s/l/c purposes; or
- Used gratuitously by an agency listed at left, other than the owner, and wholly and exclusively used by that agency for nonprofit e/s/l/c purposes.

# Common Themes for Exemptions

- Property can be incidentally used by the public or for other purposes without defeating the “Exclusive” use requirement
- If part of a property qualifies and part doesn’t, the part that qualifies is still usually exempted
- Each of the allowed purposes is defined in the statutes

# Common Themes for Exemptions

- The real property exemption *typically*\* only applies to “buildings, the land they actually occupy, and additional adjacent land reasonably necessary for the convenient use of any such building.”
- \*But not 278.6. There’s no limit on the amount of land, and the statute contemplates holding unimproved land for future development for low-income housing.

# 105-275 Property Classified and Excluded from the Tax Base

- The following classes of property are designated special classes under Article V, Sec.2(2), of the North Carolina Constitution and are excluded from tax.



# G.S. 105-275

- (2) Tangible personal property that has been imported from a foreign country through a North Carolina seaport terminal and which is stored at such a terminal while awaiting further shipment for the first 12 months of such storage.
- (3) Real and personal property owned by nonprofit water or nonprofit sewer associations or corporations.

# G.S. 105-275

- (5) Vehicles that the United States government gives to veterans on account of disabilities they suffered in World War II, the Korean Conflict, or the Vietnam Era so long as they are owned by:
- a. A person to whom a vehicle has been given by the United States government or
  - b. Another person who is entitled to receive such a gift under Title 38, section 252, United States Code Annotated.

# G.S. 105-275

- (5a) A motor vehicle owned by a disabled veteran that is altered with special equipment to accommodate a service-connected disability. As used in this section, disabled veteran means a person as defined in 38 U.S.C. § 101(2) who is entitled to special automotive equipment for a service-connected disability, as provided in 38 U.S.C. § 3901.

# G.S. 105-275

- (7) Real and personal property that is:
  - a. Owned either by a nonprofit corporation formed under the provisions of Chapter 55A of the General Statutes or by a bona fide charitable organization, and either operated by such owning organization or leased to another such nonprofit corporation or charitable organization, **and**
  - b. Appropriated exclusively for public parks and drives.

# G.S. 105-275

- (7a) **(...expiring for taxes imposed for taxable years beginning on or after July 1, 2016)** Real and personal property that meets each of the following requirements:
- a. It is a contiguous tract of land previously (i) used primarily for commercial or industrial purposes and (ii) damaged significantly as a result of a fire or explosion.
  - b. It was donated to a nonprofit corporation formed under the provisions of Chapter 55A of the General Statutes by an entity other than an affiliate, as defined in G.S. 105-163.010.
  - c. No portion is or has been leased or sold by the nonprofit corporation.

# G.S. 105-275

- (8)a. Real and personal property that is used or, if under construction, is to be used exclusively for air cleaning or waste disposal or to abate, reduce, or prevent the pollution of air or water..., if the Department of Environment and Natural Resources...furnishes a certificate to the tax [assessor]...

# G.S. 105-275

- (8)a1. [the previous] subdivision shall not apply to an animal waste management system..., unless the Environmental Management Commission determines that the...system will accomplish all of the following:
1. Eliminate the discharge of animal waste to surface waters and groundwater through direct discharge, seepage, or runoff.
  2. Substantially eliminate atmospheric emissions of ammonia.
  3. Substantially eliminate the emission of odor that is detectable beyond the boundaries of the parcel or tract of land on which the farm is located.
  4. Substantially eliminate the release of disease-transmitting vectors and airborne pathogens.

# G.S. 105-275

- (8)b. Real or personal property that is used or, if under construction, is to be used exclusively for recycling or resource recovering of or from solid waste, if the Department of Environment and Natural Resources furnishes a certificate to the tax [assessor]



# G.S. 105-275

- (8)c. Tangible personal property that is used exclusively, or if being installed, is to be used exclusively, for the prevention or reduction of cotton dust inside a textile plant for the protection of the health of the employees of the plant, in accordance with occupational safety and health standards adopted by the State of North Carolina

# G.S. 105-275

- (8)d. Real or personal property that is used or, if under construction, is to be used by a major recycling facility as defined in G.S. 105-129.25 predominantly for recycling or resource recovering of or from solid waste, if the Department of Environment and Natural Resources furnishes a certificate to the tax [assessor]

# G.S. 105-275

## (12) Real property that

- (i) is owned by a nonprofit corporation or association organized to receive and administer lands for conservation purposes,
- (ii) is exclusively held and used for one or more of the purposes listed in this subdivision, **and**
- (iii) produces no income or produces income that is incidental to and not inconsistent with the purpose or purposes for which the land is held and used. (cont'd)

# G.S. 105-275

## (12) (cont'd)

The taxes that would otherwise be due on land classified under this subdivision shall be a lien on the real property of the taxpayer as provided in G.S. 105-355(a). The taxes shall be carried forward in the records of the taxing unit or units as deferred taxes. The deferred taxes for the preceding five fiscal years are due and payable in accordance with G.S. 105-277.1F when the property loses its eligibility for deferral as a result of a disqualifying event.

# G.S. 105-275

## (12) (cont'd)

A disqualifying event occurs when the property

- (i) is no longer exclusively held and used for one or more of the purposes listed in this subdivision,
- (ii) produces income that is not incidental to and consistent with the purpose or purposes for which the land is held and used, or
- (iii) is sold or transferred without an easement recorded at the time of sale that requires perpetual use of the land for one or more of the purposes listed in this subdivision and that prohibits any use of the land that would generate income that is not incidental to and consistent with the purpose or purposes for which the land is held and used.

# G.S. 105-275

## (12) (cont'd)

In addition to the provisions in G.S. 105-277.1F, all liens arising under this subdivision are extinguished upon the real property being sold or transferred to a local, state, or federal government unit for conservation purposes or subject to an easement recorded at the time of sale that requires perpetual use of the land for one or more of the purposes listed in this subdivision.

# G.S. 105-275

(12) (cont'd)

The purposes allowed under this subdivision are any of the following:

- a. Used for an educational or scientific purpose as a nature reserve or park in which wild nature, flora and fauna, and biotic communities are preserved for observation and study. For purposes of this sub-subdivision, the terms "educational purpose" and "scientific purpose" are defined in G.S. 105-278.7(f).
- b. Managed under a written wildlife habitat conservation agreement with the North Carolina Wildlife Resources Commission.

# G.S. 105-275

(12) (cont'd)

- c. Managed under a forest stewardship plan developed by the Forest Stewardship Program.
- d. Used for public access to public waters or trails.
- e. Used for protection of water quality and subject to a conservation agreement under the provision of the Conservation and Historic Preservation Agreements Act, Article 4, Chapter 121 of the General Statutes.
- f. Held by a nonprofit land conservation organization for sale or transfer to a local, state, or federal government unit for conservation purposes.



# G.S. 105-275

- (14) Motor vehicles chassis belonging to nonresidents, which chassis temporarily enters the State for the purpose of having a body mounted thereon.
- (15) Upon the date on which each county's next general reappraisal of real property under the provisions of G.S. 105-286(a) becomes effective, standing timber, pulpwood, seedlings, saplings, and other forest growth. (The purpose of this classification is to encourage proper forest management practices and to develop and maintain the forest resources of the State.)

# G.S. 105-275

(16) Non-business Property. – As used in this subdivision, the term "non-business property" means personal property that is used by the owner of the property for a purpose other than the production of income and is not used in connection with a business. The term includes household furnishings, clothing, pets, lawn tools, and lawn equipment. The term does not include motor vehicles, mobile homes, aircraft, watercraft, or engines for watercraft.

# G.S. 105-275

- (17) Real and personal property belonging to the American Legion, Veterans of Foreign Wars, Disabled American Veterans, or to any similar veterans organizations chartered by the Congress of the United States or organized and operated on a statewide or nationwide basis, and any post or local organization thereof, when used exclusively for meeting or lodge purposes by said organization, together with such additional adjacent real property as may be necessary for the convenient and normal use of the buildings thereon.

# G.S. 105-275

- (18) Real and personal property belonging to the Grand Lodge of Ancient, Free and Accepted Masons of North Carolina, the Prince Hall Masonic Grand Lodge of North Carolina, their subordinate lodges and appendant bodies including the Ancient and Arabic Order Nobles of the Mystic Shrine, and the Ancient Egyptian Order Nobles of the Mystic Shrine, when used exclusively for meeting or lodge purposes by said organization, together with such additional adjacent real property as may be necessary for the convenient normal use of the buildings thereon.

# G.S. 105-275

- (19) Real and personal property belonging to the Loyal Order of Moose, the Benevolent and Protective Order of Elks, the Knights of Pythias, the Odd Fellows, the Woodmen of the World, and similar fraternal or civic orders and organizations operated for nonprofit benevolent, patriotic, historical, charitable, or civic purposes, when used exclusively for meeting or lodge purposes by the organization, together with as much additional adjacent real property as may be necessary for the convenient normal use of the buildings.

# G.S. 105-275

- (20) Real and personal property belonging to Goodwill Industries and other charitable organizations organized for the training and rehabilitation of disabled persons when used exclusively for training and rehabilitation, including commercial activities directly related to such training and rehabilitation.

# G.S. 105-275

- (23) Tangible personal property imported from outside the United States and held in a Foreign Trade Zone for the purpose of sale, manufacture, processing, assembly, grading, cleaning, mixing or display and tangible personal property produced in the United States and held in a Foreign Trade Zone for exportation, either in its original form or as altered by any of the above processes.
- (24) Cargo containers and container chassis used for the transportation of cargo by vessels in ocean commerce.

# G.S. 105-275

(24a) Aircraft that is owned or leased by an interstate air courier, is apportioned under G.S. 105-337 to the air courier's hub in this State, and is used in the air courier's operations in this State. For the purpose of this subdivision, the terms "interstate air courier" and "hub" have the meanings provided in G.S. 105-164.3.



# G.S. 105-275

- (25) Tangible personal property shipped into this State for the purpose of repair, alteration, maintenance or servicing and reshipment to the owner outside this State.
- (26) For the tax year immediately following transfer of title, tangible personal property manufactured in this State for the account of a nonresident customer and held by the manufacturer for shipment. For the purpose of this subdivision, the term "nonresident" means a taxpayer having no place of business in North Carolina.

# G.S. 105-275

- (29) Real property and easements wholly and exclusively held and used for nonprofit historic preservation purposes by a nonprofit historical association or institution, including real property owned by a nonprofit corporation organized for historic preservation purposes and held by its owner exclusively for sale under an historic preservation agreement to be prepared and recorded, at the time of sale, under the provisions of the Conservation and Historic Preservation Agreements Act, Article 4, Chapter 121 of the General Statutes of North Carolina. having no place of business in North Carolina.

# G.S. 105-275

- (29a) Land that is within an historic district and is held by a nonprofit corporation organized for historic preservation purposes for use as a future site for an historic structure that is to be moved to the site from another location. Property may be classified under this subdivision for no more than five years. ...The taxes shall be carried forward in the records of the taxing unit or units as deferred taxes. The deferred taxes are due and payable in accordance with G.S. 105-277.1F when the property loses its eligibility for deferral as a result of a disqualifying event.

# G.S. 105-275

## (29a) (cont'd)

A disqualifying event occurs when an historic structure is not moved to the property within five years from the first day of the fiscal year the property was classified under this subdivision. In addition to the provisions in G.S. 105-277.1F, all liens arising under this subdivision are extinguished upon the location of an historic structure on the site within the time period allowed under this subdivision.

# G.S. 105-275

- (31) Intangible personal property other than a leasehold interest that is in exempted real property and is not excluded under subdivision (31e) of this section. This subdivision does not affect the taxation of software not otherwise excluded by subdivision (40) of this section.
  
- (31e) A leasehold interest in real property that is exempt under G.S. 105-278.1 and is used to provide affordable housing for employees of the unit of government that owns the property.

# G.S. 105-275

- (32a) Inventories owned by contractors.
- (33) Inventories owned by manufacturers.
- (34) Inventories owned by retail and wholesale merchants.
- (35) Severable development rights, as defined in G.S. 136-66.11(a), when severed and evidenced by a deed recorded in the office of the register of deeds pursuant to G.S. 136-66.11(c).
- (37) Poultry and livestock and feed used in the production of poultry and livestock.

# G.S. 105-275

- (39) Real and personal property that is: (i) owned by a nonprofit corporation organized upon the request of a State or local government unit for the sole purpose of financing projects for public use, (ii) leased to a unit of State or local government whose property is exempt from taxation under G.S. 105-278.1, and (iii) used in whole or in part for a public purpose by the unit of State or local government. If only part of the property is used for a public purpose, only that part is excluded from the tax. This subdivision does not apply if any distributions are made to members, officers, or directors of the nonprofit corporation.

# G.S. 105-275

(39a) A correctional facility, including construction in progress, that is located on land owned by the State and is constructed pursuant to a contract with the State, and any leasehold interest in the land owned by the State upon which the correctional facility is located.



# G.S. 105-275

- (40) Computer software and any documentation related to the computer software[, unless]:
- a. It is embedded software. "Embedded software" means computer instructions...that reside permanently in the internal memory of a computer system or other equipment....
  - b. It is purchased or licensed from a person who is unrelated to the taxpayer and it is capitalized on the books of the taxpayer in accordance with generally accepted accounting principles....

# G.S. 105-275

- (41) Objects of art held by the North Carolina State Art Society, Incorporated.
- (42) A vehicle that is offered at retail for short-term lease or rental and is owned or leased by an entity engaged in the business of leasing or renting vehicles to the general public for short-term lease or rental. ...A gross receipts tax as set forth by G.S. 153A-156 and G.S. 160A-215.1 is substituted for and replaces the ad valorem tax previously levied on these vehicles.
- (42a) Heavy equipment on which a gross receipts tax may be imposed under G.S. 153A-156.1 and G.S. 160A-215.2.

# G.S. 105-275

- (44) Free samples of drugs that are required by federal law to be dispensed only on prescription and are given to physicians and other medical practitioners to dispense free of charge in the course of their practice.
- (45) Eighty percent (80%) of the appraised value of a solar energy electric system. For purposes of this subdivision, the term "solar energy electric system" means all equipment used directly and exclusively for the conversion of solar energy to electricity.

# G.S. 105-275

- (46) Real Property that is occupied by a charter school and is wholly and exclusively used for educational purposes as defined in G.S. 105-278.4(f) regardless of ownership of the property.
- (47) Energy mineral interest in property for which a permit has not been issued under G.S.113-395.
- (48) Real and personal property located on lands held in trust by the US for the Eastern Band of Cherokees.

# G.S. 105-277(g)

Buildings equipped with a solar energy heating or cooling system, or both, are hereby designated a special class of property .... Such buildings shall be assessed for taxation in accordance with each county's schedules of value for buildings equipped with conventional heating or cooling systems and **no additional value shall be assigned for the difference in cost between a solar energy heating or cooling system and a conventional system typically found in the county.**

# Part 3: Application

# G.S. 105-282.1 Application

- The default rule is that all claims for exemptions and exclusions require annual application.
- Some require no application-for example, government owned property, burial property, and non-business personal property.

# G.S. 105-282.1: Application, cont'd.

- Others require a one-time application—PUV, E/D, DV, and the various charitable, religious, educational, literary & scientific exclusions
- Notable exceptions include the Circuit Breaker and Builders' Exemption programs—annual application is required by default



# G.S. 105-282.1:

## When is the Application Due?

- Applications are normally due during the listing period, including extensions
- Some programs have longer application periods and/or special situations where a taxpayer can make timely application outside of the listing period. Elderly/Disabled allows applications to be filed timely up until June 1.

# G.S. 105-282.1: Appeal Process

- Appeals from an assessor's denial of exemption/exclusion are made to the Board of Equalization & Review prior to its adjournment
- If the Board of E&R is not in session, or has adjourned, appeal is to the board of county commissioners
- Appeals from the local board go to the Property Tax Commission

# Assessor Housekeeping

- G.S. 105-282.1 also requires the assessor to maintain a roster of exempt and excluded property
- G.S. 105-296 also requires the assessor to audit one-eighth of these properties annually to verify their continued qualification