

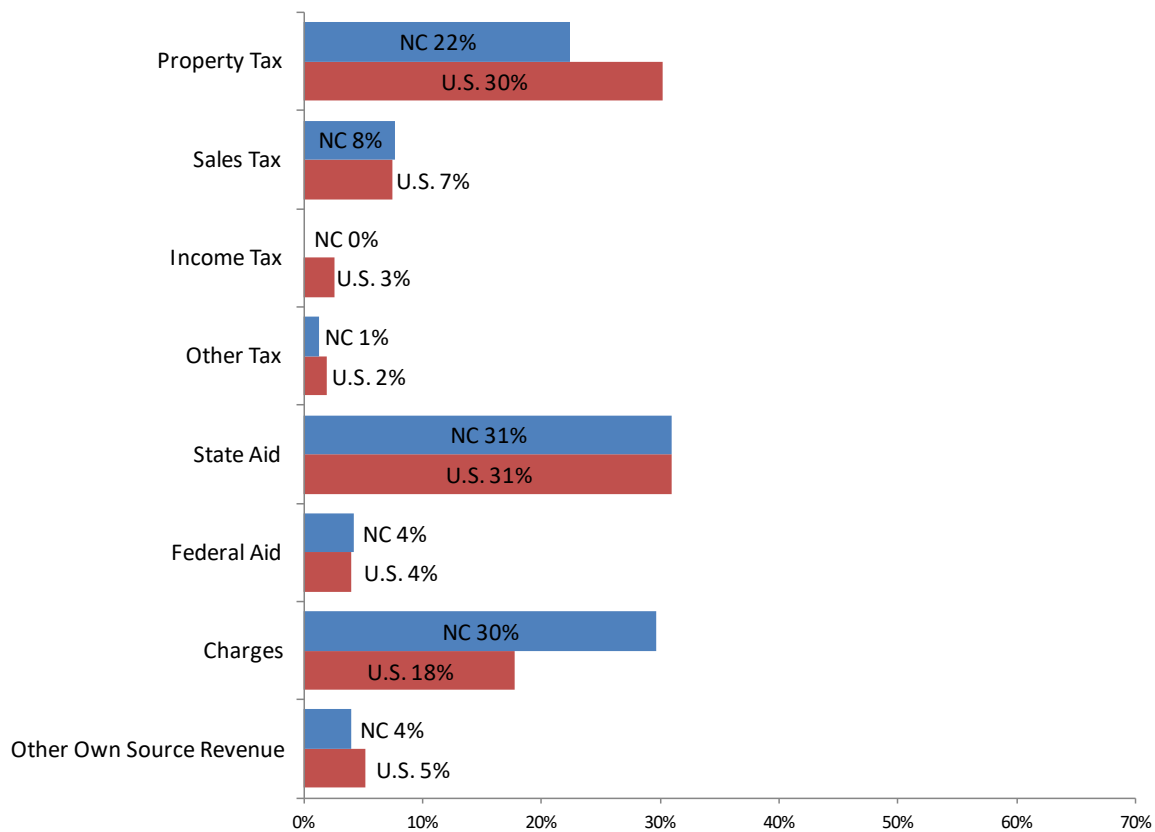
North Carolina

Highlights

North Carolina trends close to U.S. averages for most revenue sources, with somewhat higher use of charges and below-average reliance on property tax revenue (figure NC-1). Since 1971, local governments have been able to levy local sales taxes. In 2019, the average local sales tax rate in North Carolina was 2.22 percent on top of a state rate of 4.75 percent (Cammenga 2019).

Since 2009, North Carolina has provided a property tax circuit breaker that is unique in that it defers rather than forgives property taxes for those eligible taxpayers whose property tax burden exceeds a certain percentage of their income.

Figure NC-1
Sources of Local General Revenue, North Carolina and U.S., 2018



Source: U.S. Census via Significant Features of the Property Tax

Property Tax Reliance

In 2018, property tax amounts, as well as the effective tax rate on a median-value owner-occupied home in North Carolina, were below average and at times ranked in the bottom quartile of U.S. states (table NC-1).

Table NC-1
Selected North Carolina Property Tax Statistics, 2018¹

	North Carolina	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$983	\$1,667	42
Property tax percentage of personal income	2.2%	3.1%	42
Total property tax as percentage of state-local revenue	11.7%	16.6%	40
Median owner-occupied home value ²	\$172,500	\$217,500	32
Median real estate taxes paid for owner-occupied home ²	\$1,454	\$2,471	38
Effective tax rate, median owner-occupied home ³	0.8%	1.1%	31

Sources: [U.S. Census via Significant Features of the Property Tax](#), American Community Survey

¹ All revenue numbers in this table include the state government as well as local governments.

² The statistics for [median owner-occupied home value](#) and [median real estate taxes paid for owner-occupied home](#) are five-year average statistics for years 2015-2019.

³ Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

In North Carolina, all property tax administration is guided by the 1971 Machinery Act. The act derives its name from its stated purpose “to provide the machinery for the listing, appraisal, and assessment of property and the levy and collection of taxes on property by counties and municipalities.”

Assessments are conducted at the county level (table NC-2), and property value reappraisals must occur at least once every eight years, but state law does not require physical re-inspection (Significant Features of the Property Tax).

Most real property is assessed based on a property’s market value as if sold in an arm’s length transaction. However, as in most states, certain property is exempt from property taxation. In addition, real property designated as historic property by local ordinance is assessed at 50 percent of market value.

Tangible personal property owned by business, except for inventories, is subject to property taxation.

Limits on Property Taxation

New Carolina places a statutory limit of 1.5 percent (15 mills) on the combined property tax rate for county and municipal general administration and public services; but the state allows for exceptions for schools and jails, and voters may approve tax rates in excess of 1.5 percent (Significant Features of the Property Tax). In practice, no county or municipality has met or exceeded this limit.

Property Tax Relief and Incentives

There are three residential property tax relief programs, the most popular of which is the homestead exemption. Taxpayers can participate in only one of these three programs.

The homestead exemption reduces the taxable value of a residence by up to 50 percent (or \$25,000, whichever is greater) for elderly or disabled owners with income of \$30,200 (2019 application year) or less. Another exemption includes a reduction to the first \$45,000 in the taxable value of homes for disabled veterans. The final property tax relief program is the circuit breaker deferred tax, which permits seniors or disabled taxpayers to cap current taxes as a percentage of their income and defer the excess. For taxpayers who earn less than \$30,200, taxes in excess of 4 percent of their income can be deferred. For taxpayers with income above \$30,200 and below \$45,300, taxes in excess of 5 percent of their income can be deferred. The last three years of deferred taxes become payable with interest if a disqualifying event, such as transfer of the property, occurs.

The Machinery Act includes tax reductions for certain properties. Counties assess buildings equipped with solar energy heating or cooling systems the same way they would assess 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” (North Carolina General Assembly, Chapter 105). Since solar energy heating and cooling systems are more expensive than conventional equipment, maintaining the same value for tax purposes should be appealing to residents and businesses that want to be more environmentally conscious. The Machinery Act also classifies farm products as a special class of property, and the valuation of these products for tax purposes will “be reduced by the amount of any unpaid loan or advance made or granted” (North Carolina General Assembly, Chapter 105). This reduction in property value decreases tax bills and is a way the state of North Carolina incentivizes agricultural investment.

North Carolina employs tax increment finance, and the districts are called development financing districts.

Table NC-2
North Carolina Property Tax Features, 2019

Feature	North Carolina	Count for 50 states plus DC
Statewide classification of real property	Yes	25
Assessment of property primarily by county	Yes	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	No	18
Circuit breaker property tax relief program	Yes	34

Sources: Significant Features of the Property Tax

Key Property Tax History

In colonial times, North Carolina taxed property by quantity rather than by value. However, in 1868, North Carolina changed its property tax laws so that property taxation was based on value. Through the Revenue Act of 1921, the North Carolina General Assembly replaced its statewide property tax with state-administered personal and corporation income taxes. Since 1921, the state of North Carolina has authorized local jurisdictions to levy and administrate property taxes (Sawyers 2006). Until 1972, the property tax represented over 90 percent of total local-level taxes collected in North Carolina. In 1971, the state legislature allowed local governments to levy a local sales tax (Sawyers 2006).

In 1971, the North Carolina General Assembly established the Machinery Act, which set the rules for the taxation of real and personal property. It formally gives the counties of North Carolina the power to tax properties. The Machinery Act also made it very difficult to change the property tax.

Recent Developments

North Carolina is one state in which big box stores have appealed property assessments based on “dark stores” assessment theory, which argues that vacant or abandoned big box stores are the best comparable properties for determining value. In one prominent case, Lowe’s Home Centers, LLC challenged the assessment of a property in Kernersville, North Carolina. In 2013, using the cost approach to value, Forsyth County assessed the property at \$16 million; the home improvement giant argued that the assessment should be \$6 million using an income and sales comparison approach to value. The Property Tax Commission upheld the county’s assessment and objected to Lowe’s use of dark stores with deed restrictions as comparable properties. On appeal, in 2018, the North Carolina Court of Appeals reversed the decision based on the county’s failure to consider the income approach to value in determining the assessed value (Matter of Lowe’s Home Centers LLC, COA17-220, (N.C. Ct. App. 2018)).

The case was remanded but the county and Lowe's reached a settlement under which the assessment would fall about midway between the county value and the Lowe's value (Badgett 2019).

The effects of the Covid-19 pandemic on local revenues in North Carolina were uneven, but in most cases short-lived. Property taxes fared well, especially compared to sales tax revenues. In Charlotte, the collections rate (percent of property taxes due that were collected) was down .6 percentage points from 99.5 percent to 98.9 percent. Sales tax revenues plunged but recovered faster than anticipated. Most local officials expect growth in property taxes in 2021 and expect sales tax revenues to be level or higher than in 2020. According to the state treasurer, rural areas face the toughest sales tax revenue recovery. Food and tourism industries saw the largest declines. Utility revenue took a hit when the state prohibited utilities from shutting off service for delinquent utility customers. Federal stimulus funds to individuals aided the recovery of sales tax revenues and state and local relief funds aided local governments in their recovery (Broraks 2021). Federal aid more than offset the initial fiscal shock to North Carolina state general fund revenues. An analysis by Moody Analytics placed North Carolina among the 10 states with the lowest magnitude of fiscal stress after accounting for federal aid and reserves (White, Mandel, and Seitz 2021).

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