North Carolina

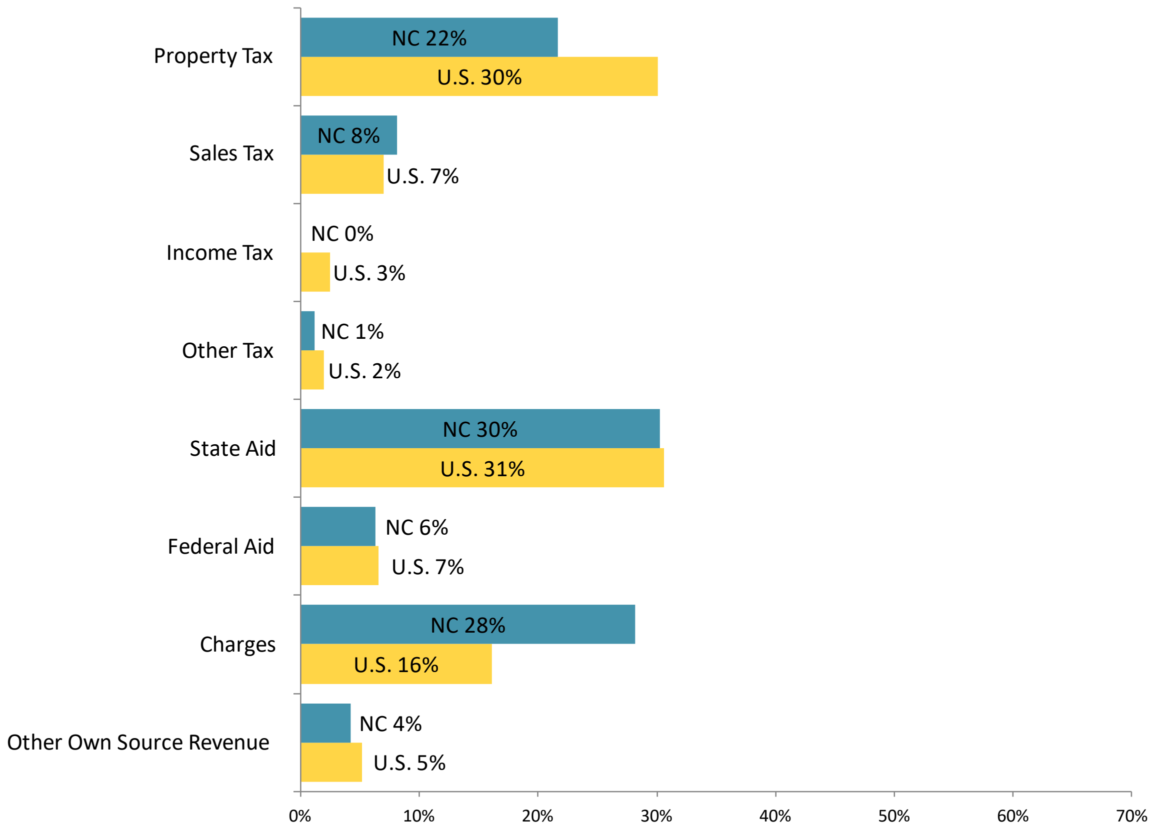
Highlights

North Carolina trends close to U.S. averages for most local revenue sources, but has much 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 2023, the average local sales tax rate in North Carolina was 2.24 percent on top of a state rate of 4.75 percent (Fritts 2023).

Since 2009, North Carolina has provided a property tax circuit breaker that is unique in that it partially defers rather than completely forgives property taxes for 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., 2021



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

Property Tax Reliance

In 2021, measures of property tax burden, and 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, 2021[1]

	North Carolina	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$1,123	$1,898	*41*
Property tax percentage of personal income	2.1%	3.1%	*43*
Total property tax as percentage of state-local revenue	10.6%	15.5%	*40*
Median owner-occupied home value[2]	$197,500	$244,900	*32*
Median real estate taxes paid for owner-occupied home[2]	$1,583	$2,690	*38*
Effective tax rate, median owner-occupied home[3]	0.8%	1.1%	*33*

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 are median owner-occupied home value and median real estate taxes paid for owner-occupied home five-year average statistics for years 2017–2021.

[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

North 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 courts, 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 $31,500 (2021 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 $31,500, taxes in excess of 4 percent of their income can be deferred. For taxpayers with income above $31,500 and below $47,250, 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, 2022

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	31

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.

In 1997, the North Carolina Supreme Court ruled in *Leandro v. State* (*Leandro I*) that the state must provide a "sound basic education" to every student in the state and remanded the case for trial. The plaintiffs argued their low-wealth districts could not support a sound basic education even with high property tax rates. A 2004 ruling known as *Leandro II* (*Hoke County v. State*) found the state's school finance system was inadequate and that the state must ensure adequate staffing and resources for each classroom and school. In the ensuing decades, the state has struggled to comply with the *Leandro* rulings and attempts by the court to enforce a funding plan developed by the parties in the case have not been successful (Public School Forum of North Carolina).

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 Lowe's value (Badgett 2018).

Recent Developments

In 2018, North Carolina Superior Court Judge David Lee ordered the parties in the state's *Leandro* school funding case to develop an eight-year plan to comply with the court rulings in *Leandro I* and *II*. In 2021, Judge Lee ordered the legislature to appropriate funds according to the Leandro Comprehensive Remedial Plan (Leandro Plan), a ruling stayed by the Court of Appeals. The North Carolina Supreme Court heard arguments in the case in March 2022 and sent the case back to the superior court, assigning a new judge, for a review of school funding in the state's approved 2021–2022 budget. Judge Michael Robinson, Lee's predecessor, found that funding in the state's 2021–2022 budget was $785 lower than called for in the plan. The North Carolina Supreme Court took up the case again in August 2022, and in November 2022, upheld the order to transfer funds. However, in the state's 2022 elections, the state elected two Republican justices to fill seats previously held by Democratic justices. In March 2023, the North Carolina Supreme Court lifted the stay on the Appeals Court order halting the transfer of funds (Public School Forum of North Carolina; Robertson 2023).

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. 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).

North Carolina's legislature enacted changes to its use value policies in its 2022 short session. One new law expands the definition of "growing of animals" to include the boarding of horses. This new law considers horse boarding to be commercial production and the related land use as agricultural land, thus qualifying the land for use value assessment. Another law made changes to the wildlife conservation land program under which wildlife conservation land is assessed based on use value. The law clarifies that contiguous acreage must be in the same county, raises the maximum acreage from 100 acres to 200, reduces the length of the ownership requirement from five years to four years with exceptions for a primary residence acquired by inheritance, and makes other changes (Nelson and Anderson 2022).

Resources

Avrette, Cindy. 2011. “Key Events in NC State and Local Tax History.” North Carolina General Assembly. https://webservices.ncleg.gov/ViewDocSiteFile/43149.

Badgett, Rebecca. 2018. “The State of Dark Store Theory.” Chapel Hill, NC: UNC School of Government. (May 8). https://canons.sog.unc.edu/the-state-of-the-dark-store-theory/.

Boraks, David. 2021. “North Carolina Municipal Budgets Rebound from COVID-19 Slump That Could Have Been Worse.” Blue Ridge Public Radio. April 5. https://www.bpr.org/post/north-carolina-municipial-budgets-rebound-covid-19-slump-could-have-been-worse#stream/0.

Fisher, Glenn. 2002. “History of Property Taxes in the United States.” *EH.net*. September 30. https://eh.net/encyclopedia/history-of-property-taxes-in-the-united-states/.

Fritts, Janelle. 2023. “State and Local Sales Tax Rates, Midyear 2023.” Tax Foundation. (February 7). https://taxfoundation.org/data/all/state/2023-sales-tax-rates-midyear/.

McLaughlin, Christopher B. 2008. Property Tax Bulletin No. 145. “The Homestead Circuit Breaker: Implications for Local Tax Offices.” Chapel Hill, NC: UNC School of Government. (October). www.sog.unc.edu/sites/www.sog.unc.edu/files/reports/ptb145.pdf.

———. 2012. *The Property Tax in North Carolina*. Chapel Hill, NC: University of North Carolina School of Government. www.sog.unc.edu/publications/books/property-tax-north-carolina#!#overview.

Nelson, William, and Smith Anderson. 2022. “North Carolina Tax Legislation Enacted in the 2022 Short Session.” *JD Supra*. July 8. https://www.jdsupra.com/legalnews/north-carolina-tax-legislation-enacted-1593846/#g.

North Carolina Department of Natural and Cultural Resources. 2021. "Historic Tax Credits." https://www.hpo.nc.gov/restoration-services/historic-tax-credits.

North Carolina Department of Revenue. "Types of Property to Be Taxed." www.dor.state.nc.us/taxes/property/types.html.

North Carolina General Assembly. "Chapter 105." www.ncleg.net/EnactedLegislation/Statutes/HTML/ByChapter/Chapter_105.html.

———. "North Carolina G.S. 153A-149." www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter_153A/GS_153A-149.html.

North Carolina State Historic Preservation Office. "North Carolina G.S. 160A 400.1-400.14." https://www.rhdc.org/sites/default/files/NCGS%20160A,%20Article%2019.pdf.

Public School Forum of North Carolina. “Leandro v. State of NC: Background & Resources.” https://www.ncforum.org/leandro/.

———. 2023. "Local School Finance Study: 2023." https://www.ncforum.org/lsfs/.

Robertson, Gary D. 2023. "North Carolina Supreme Court to Revisit School Funding." *Associated Press*. March 4. https://apnews.com/article/business-education-north-carolina-state-courts-33ba050382310ae22e51c6918e67c742.

Sawyers, Ruby. 2006. "The History of State and Local Taxes in North Carolina—Changes in Sources and Burdens." Working paper. Raleigh, NC: North Carolina State University. https://webservices.ncleg.gov/ViewDocSiteFile/31291.

Significant Features of the Property Tax. www.lincolninst.edu/research-data/data-toolkits/significant-features-property-tax. Lincoln Institute of Land Policy and George Washington Institute of Public Policy.

White, Dan, Emily Mandel, and Colin Seitz. 2021. "Stress-Testing States: Covid-19–A Year Later." Moody Analytics. (February 22). https://www.economy.com/economicview/analysis/383216/StressTesting-States-COVID19A-Year-Later.

Publication Date

October 2023, data updated March 2024