

North Carolina

Highlights

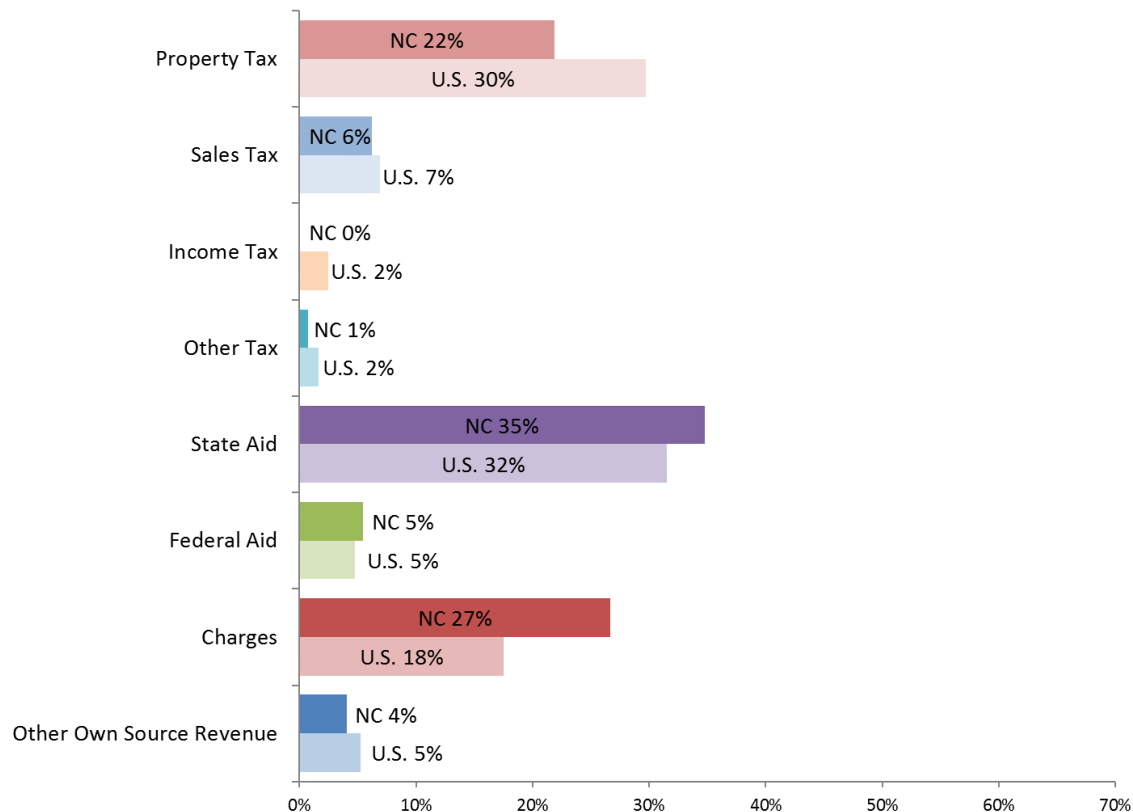
North Carolina trends close to U.S. averages for most revenue sources, with slightly higher use of charges and below-average property tax revenue (figure NC-1). Since 1971, local governments have been able to levy local sales taxes. As of 2016, the average local sales tax rate in North Carolina was 2.15 percent on top of a state rate of 4.75 percent (Drenkard and Kaeding 2016).

The official title of the statutes governing property taxes in North Carolina is the Machinery Act, enacted in 1971.

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., 2013



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

Property Tax Reliance

In 2013, 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, 2013¹

	North Carolina	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$903	\$1,441	40
Property tax percentage of personal income	2.4%	3.2%	40
Total property tax as percentage of state-local revenue	12.1%	16.9%	39
Median owner-occupied home value ²	\$153,600	\$176,700	31
Median real estate taxes paid for owner-occupied home ²	\$1,296	\$2,107	36
Effective tax rate, median owner-occupied home ³	0.8%	1.2%	32

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 2009–2013.

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.”

Property taxes are levied by 973 local taxing districts, including county governments, municipalities, and special districts (Census of Governments 2012). Assessments are conducted at the county level (table NC-2), and property value reappraisals must occur at least once every eight years (McLaughlin 2012).

Most real property is assessed based on a property’s market value as if sold at 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 on the property tax rate for each individual jurisdiction; but the state allows for exceptions for schools and jails, and voters may approve tax rates in excess of 1.5 percent (McLaughlin 2012). 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 for elderly or disabled owners with income of \$28,100 or less. Another exemption includes a reduction of up to \$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 \$28,100, taxes in excess of 4 percent of their income can be deferred. For taxpayers with income above \$28,100 and below \$42,150, 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, 2013

Feature	North Carolina	Count for 50 states plus DC
Statewide classification of real property	Yes	25
Assessment of property primarily by county	Yes	30
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	No	19
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 (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

In 2015, the North Carolina General Assembly passed legislation that created a special class for existing real property. An increase in value of real property that is held for sale by a builder, including both residential and commercial, is exempt from property tax. This increase in value can be from improvements by a builder or from the surrounding subdivision, and these improvements need to be specified by the appraiser. This new tax exemption is effective starting July 1, 2016 but will be made available to all real properties that experienced an increase in value after July 1, 2015.

Resources

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