

GENERAL ASSEMBLY OF NORTH CAROLINA
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SENATE BILL 1161
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Short Title: Amend Use Value Statutes and Other Tax Laws.

(Public)

Sponsors:

Referred to:

June 4, 2002

A BILL TO BE ENTITLED

AN ACT TO AMEND THE PRESENT-USE VALUE STATUTES, TO CREATE A PROPERTY TAX SUBCOMMITTEE OF THE REVENUE LAWS STUDY COMMITTEE, TO CLARIFY THE SALES AND USE TAX EXEMPTION REGARDING CERTAIN AGRICULTURAL SUBSTANCES, AND TO MAKE VARIOUS ADMINISTRATIVE CHANGES IN THE TAX LAWS.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 105-277.2 reads as rewritten:

"§ 105-277.2. **Agricultural, horticultural, and forestland – Definitions.**

The following definitions apply in G.S. 105-277.3 through G.S. 105-277.7:

- (1) Agricultural land. – Land that is a part of a farm unit that is actively engaged in the commercial production or growing of crops, plants, or animals under a sound management program. Agricultural land includes woodland and wasteland that is a part of the farm unit, but the woodland and wasteland included in the unit ~~shall~~must be appraised under the use-value schedules as woodland or wasteland. A farm unit may consist of more than one tract of agricultural land, but at least one of the tracts must meet the requirements in G.S. 105-277.3(a)(1), and each tract must be under a sound management program. If the agricultural land includes less than 20 acres of woodland, then the woodland portion is not required to be under a sound management program. Also, woodland is not required to be under a sound management program if it is determined that the highest and best use of the woodland is to diminish wind erosion of adjacent agricultural land, protect water quality of adjacent agricultural land, or serve as buffers for adjacent livestock or poultry operations.

- 1 (1a) Business entity. – A corporation, a general partnership, a limited
2 partnership, or a limited liability company.
- 3 (2) Forestland. – Land that is a part of a forest unit that is actively engaged
4 in the commercial growing of trees under a sound management
5 program. Forestland includes wasteland that is a part of the forest unit,
6 but the wasteland included in the unit ~~shall~~must be appraised under
7 the use-value schedules as wasteland. A forest unit may consist of
8 more than one tract of forestland, but at least one of the tracts must
9 meet the requirements in G.S. 105-277.3(a)(3), and each tract must be
10 under a sound management program.
- 11 (3) Horticultural land. – Land that is a part of a horticultural unit that is
12 actively engaged in the commercial production or growing of fruits or
13 vegetables or nursery or floral products under a sound management
14 program. Horticultural land includes woodland and wasteland that is a
15 part of the horticultural unit, but the woodland and wasteland included
16 in the unit ~~shall~~must be appraised under the use-value schedules as
17 woodland or wasteland. A horticultural unit may consist of more than
18 one tract of horticultural land, but at least one of the tracts must meet
19 the requirements in G.S. 105-277.3(a)(2), and each tract must be under
20 a sound management program. If the horticultural land includes less
21 than 20 acres of woodland, then the woodland portion is not required
22 to be under a sound management program. Also, woodland is not
23 required to be under a sound management program if it is determined
24 that the highest and best use of the woodland is to diminish wind
25 erosion of adjacent horticultural land or protect water quality of
26 adjacent horticultural land.
- 27 (4) Individually owned. – Owned by one of the following:
- 28 a. A natural person. For the purpose of this section, a natural
29 person who is an income beneficiary of a trust that owns land
30 may elect to treat the person's beneficial share of the land as
31 owned by that person. If the person's beneficial interest is not an
32 identifiable share of land but can be established as a
33 proportional interest in the trust income, the person's beneficial
34 share of land is a percentage of the land owned by the trust that
35 corresponds to the beneficiary's proportional interest in the trust
36 income. For the purpose of this section, a natural person who is
37 a member of a business entity, other than a corporation, that
38 owns land may elect to treat the person's share of the land as
39 owned by that person. The person's share is a percentage of the
40 land owned by the business entity that corresponds to the
41 person's percentage of ownership in the entity.
- 42 b. A business entity having as its principal business one of the
43 activities described in subdivisions (1), (2), and (3) and whose

- 1 members are all natural persons who meet one or more of the
2 following conditions:
- 3 1. The member is actively engaged in the business of the
4 entity.
 - 5 2. The member is a relative of a member who is actively
6 engaged in the business of the entity.
 - 7 3. The member is a relative of, and inherited the
8 membership interest from, a decedent who met one or
9 both of the preceding conditions after the land qualified
10 for classification in the hands of the business entity.
- 11 c. A trust that was created by a natural person who transferred the
12 land to the trust and each of whose beneficiaries who is
13 currently entitled to receive income or principal meets one of
14 the following conditions:
- 15 1. Is the creator of the trust or the creator's relative.
 - 16 2. Is a second trust whose beneficiaries who are currently
17 entitled to receive income or principal are all either the
18 creator of the first trust or the creator's relatives.
- 19 d. A testamentary trust that meets all of the following conditions:
- 20 1. It was created by a natural person who transferred to the
21 trust land that qualified in that person's hands for
22 classification under G.S. 105-277.3.
 - 23 2. At the time of the creator's death, the creator had no
24 relatives as defined in this section as of the date of death.
 - 25 3. The trust income, less reasonable administrative
26 expenses, is used exclusively for educational, scientific,
27 literary, cultural, charitable, or religious purposes as
28 defined in G.S. 105-278.3(d).
- 29 e. Tenants in common, if each tenant is either a natural person or a
30 business entity described in sub-subdivision b. of this
31 subdivision. Tenants in common may elect to treat their
32 individual shares as owned by them individually in accordance
33 with G.S. 105-302(c)(9). The ownership requirements of G.S.
34 105-277.3(b) apply to each tenant in common who is a natural
35 person, and the ownership requirements of G.S. 105-277.3(b1)
36 apply to each tenant in common who is a business entity.
- 37 (4a) Member. – A shareholder of a corporation, a partner of a general or
38 limited partnership, or a member of a limited liability company.
- 39 (5) Present-use value. – The value of land in its current use as agricultural
40 land, horticultural land, or forestland, based solely on its ability to
41 produce ~~income, using a rate of nine percent (9%) to capitalize the~~
42 ~~expected net income of the property and assuming an average level of~~
43 ~~management. income and assuming an average level of management.~~
44 A rate of nine percent (9%) shall be used to capitalize the expected net

1 income of forestland. The capitalization rate for agricultural land and
2 horticultural land is to be determined by the Use-Value Advisory
3 Board as provided in G.S. 105-277.7.

4 (5a) Relative. – Any of the following:

- 5 a. A spouse or the spouse's lineal ancestor or descendant.
6 b. A lineal ancestor or a lineal descendant.
7 c. A brother or sister, or the lineal descendant of a brother or
8 sister. For the purposes of this sub-subdivision, the term brother
9 or sister includes stepbrother or stepsister.
10 d. An aunt or an uncle.
11 e. A spouse of a person listed in paragraphs a. through d.

12 For the purpose of this subdivision, an adoptive or adopted relative
13 is a relative and the term "spouse" includes a surviving spouse.

14 (6) Sound management program. – A program of production designed to
15 obtain the greatest net return from the land consistent with its
16 conservation and long-term improvement.

17 (7) Unit. – One or more tracts of agricultural land, horticultural land, or
18 forestland. Multiple tracts must be under the same ownership. If the
19 multiple tracts are located within different counties, they must be
20 within 50 miles of a tract qualifying under G.S. 105-277.3(a) and share
21 one of the following characteristics:

- 22 a. Type of classification.
23 b. Use of the same equipment or labor force."

24 **SECTION 2.** G.S. 105-277.3 reads as rewritten:

25 **"§ 105-277.3. Agricultural, horticultural, and forestland – Classifications.**

26 (a) Classes Defined. – The following classes of property are designated special
27 classes of property under authority of Section 2(2) of Article V of the North Carolina
28 Constitution and ~~shall~~must be appraised, assessed, and taxed as provided in
29 G.S. 105-277.2 through G.S. 105-277.7.

30 (1) Agricultural land. – Individually owned agricultural land consisting of
31 one or more tracts, one of which consists of at least 10 acres that are in
32 actual production and that, for the three years preceding January 1 of
33 the year for which the benefit of this section is claimed, have produced
34 an average gross income of at least one thousand dollars (\$1,000).
35 Gross income includes income from the sale of the agricultural
36 products produced from the land and any payments received under a
37 governmental soil conservation or land retirement program. Land in
38 actual production includes land under improvements used in the
39 commercial production or growing of crops, plants, or animals.

40 (2) Horticultural land. – Individually owned horticultural land consisting
41 of one or more tracts, one of which consists of at least five acres that
42 are in actual production and that, for the three years preceding January
43 1 of the year for which the benefit of this section is claimed, have met
44 the applicable minimum gross income requirement. Land in actual

1 production includes land under improvements used in the commercial
2 production or growing of fruits or vegetables or nursery or floral
3 products. Land that has been used to produce evergreens intended for
4 use as Christmas trees must have met the minimum gross income
5 requirements established by the Department of Revenue for the land.
6 All other horticultural land must have produced an average gross
7 income of at least one thousand dollars (\$1,000). Gross income
8 includes income from the sale of the horticultural products produced
9 from the land and any payments received under a governmental soil
10 conservation or land retirement program.

11 (3) Forestland. – Individually owned forestland consisting of one or more
12 tracts, one of which consists of at least 20 acres that are in actual
13 production and are not included in a farm unit.

14 (b) Natural Person Ownership Requirements. – In order to come within a
15 classification described in subsection (a) of this section, the land must, if owned by a
16 natural person, also satisfy one of the following conditions:

17 (1) It is the owner's place of residence.

18 (2) It has been owned by the current owner or a relative of the current
19 owner for the four years preceding January 1 of the year for which the
20 benefit of this section is claimed.

21 (3) At the time of transfer to the current owner, it qualified for
22 classification in the hands of a business entity or trust that transferred
23 the land to the current owner who was a member of the business entity
24 or a beneficiary of the trust, as appropriate.

25 (b1) Entity Ownership Requirements. – In order to come within a classification
26 described in subsection (a) of this section, the land must, if owned by a business entity
27 or trust, have been owned by the business entity or trust or by one or more of its
28 members or creators, respectively, for the four years immediately preceding January 1
29 of the year for which the benefit of this section is claimed.

30 (b2) Exception to Ownership Requirements. – ~~G.S. 105-277.4(e) provides that~~
31 ~~deferred taxes are payable if land fails to meet any condition or requirement for~~
32 ~~classification. Accordingly, if land fails to meet an ownership requirement due to a~~
33 ~~change of ownership, G.S. 105-277.4(e) applies. Despite this failure and the resulting~~
34 ~~liability for taxes under G.S. 105-277.4(e), the~~Notwithstanding the provisions of
35 subsections (b) and (b1) of this section, land may qualify for classification in the hands
36 of the new owner if ~~both~~all of the conditions listed in this subsection are met, even if
37 the new owner does not meet all of the ownership requirements of subsections (b) and
38 (b1) of this section with respect to the land. If the land qualifies for classification in the
39 hands of the new owner under the provisions of this subsection, then the deferred taxes
40 remain a lien on the land under G.S. 105-277.4(c), the new owner becomes liable for the
41 deferred taxes, and the deferred taxes become payable if the land fails to meet any other
42 condition or requirement for classification.

1 (1) The land was appraised at its present use value or was eligible for
2 appraisal at its present use value at the time title to the land passed to
3 the new owner.

4 (2) At the time title to the land passed to the new owner, the new owner
5 acquires the land for the purposes of and continues to use the land for
6 the purposes it was classified under subsection (a) of this section while
7 under previous ownership.

8 (3) The new owner has timely filed an application as required by
9 G.S. 105-277.4(a) and has certified that the new owner accepts liability
10 for the deferred taxes and intends to continue the present use of the
11 land.

12 (c) Repealed by Session Laws 1995, c. 454, s. 2.

13 (d) Exception for Conservation Reserve Program. – Land enrolled in the federal
14 Conservation Reserve Program authorized by 16 U.S.C. ~~§ 1384~~ Chapter 58 is considered
15 to be in actual production, and income derived from participation in the federal
16 Conservation Reserve Program may be used in meeting the minimum gross income
17 requirements of this section either separately or in combination with income from actual
18 production. Land enrolled in the federal Conservation Reserve Program ~~shall~~ must be
19 assessed as agricultural land if it is planted in vegetation other than trees, or as
20 forestland if it is planted in trees.

21 (d1) Exception for Easements on Qualified Conservation Lands Previously
22 Appraised at Use Value. – Property that is appraised at its present-use value under G.S.
23 105-277.4(b) shall continue to qualify for appraisal, assessment, and taxation as
24 provided in G.S. 105-277.2 through G.S. 105-277.7 as long as the property is subject to
25 an enforceable conservation easement that would qualify for the conservation tax credit
26 provided in G.S. 105-130.34 and G.S. 105-151.12, without regard to actual production
27 or income requirements of this section. Notwithstanding G.S. 105-277.3(b) and (b1),
28 subsequent transfer of the property does not extinguish its present-use value eligibility
29 as long as the property remains subject to an enforceable conservation easement that
30 qualifies for the conservation tax credit provided in G.S. 105-130.34 and G.S. 105-
31 151.12. The exception provided in this subsection applies only to that part of the
32 property that is subject to the easement.

33 (e) Exception for Turkey Disease. – Agricultural land that meets all of the
34 following conditions is considered to be in actual production and to meet the minimum
35 gross income requirements:

36 (1) The land was in actual production in turkey growing within the
37 preceding two years and qualified for present use value treatment
38 while it was in actual production.

39 (2) The land was taken out of actual production in turkey growing solely
40 for health and safety considerations due to the presence of Poulter
41 Enteritis Mortality Syndrome among turkeys in the same county or a
42 neighboring county.

43 (3) The land is otherwise eligible for present use value treatment.

1 (f) Sound Management Program for Agricultural Land and Horticultural Land. –
2 If the property owner demonstrates any one of the following factors with respect to
3 agricultural land or horticultural land, then the land is operated under a sound
4 management program:

- 5 (1) Enrollment in and compliance with an agency-administered and
6 approved farm management plan.
7 (2) Compliance with a set of best management practices.
8 (3) Compliance with a minimum gross income per acre test.
9 (4) Evidence of net income from the farm operation.
10 (5) Evidence that farming is the farm operator's principal source of
11 income.
12 (6) Certification by a recognized agricultural or horticultural agency
13 within the county that the land is operated under a sound management
14 program.

15 Operation under a sound management program may also be demonstrated by evidence
16 of other similar factors. As long as a farm operator meets the sound management
17 requirements, it is irrelevant whether the property owner received income or rent from
18 the farm operator.

19 (g) Sound Management Program for Forestland. – If the owner of forestland
20 demonstrates that the forestland complies with a written sound forest management plan
21 for the production and sale of forest products, then the forestland is operated under a
22 sound management program."

23 **SECTION 3.** G.S. 105-277.4 reads as rewritten:

24 **"§ 105-277.4. Agricultural, horticultural and forestland – Application; appraisal at**
25 **use value; appeal; deferred taxes.**

26 (a) Application. – Property coming within one of the classes defined in
27 G.S. 105-277.3 ~~shall be~~ is eligible for taxation on the basis of the value of the property
28 in its present use if a timely and proper application is filed with the assessor of the
29 county in which the property is located. The application ~~shall~~ must clearly show that the
30 property comes within one of the classes and ~~shall~~ must also contain any other relevant
31 information required by the assessor to properly appraise the property at its present-use
32 value. An initial application ~~shall~~ must be filed during the regular listing period of the
33 year for which the benefit of this classification is first claimed, or within 30 days of the
34 date shown on a notice of a change in valuation made pursuant to G.S. 105-286 or G.S.
35 105-287. A new application is not required to be submitted unless the property is
36 transferred or becomes ineligible for use-value appraisal because of a change in use or
37 acreage. An application required due to transfer of the land may be submitted at any
38 time during the calendar year but must be submitted within 60 days of the date of the
39 property's transfer.

40 (b) Appraisal at Present-use Value. – Upon receipt of a properly executed
41 application, the assessor ~~shall~~ must appraise the property at its present-use value as
42 established in the schedule prepared pursuant to G.S. 105-317. In appraising the
43 property at its present-use value, the assessor ~~shall~~ must appraise the improvements
44 located on qualifying land according to the schedules and standards used in appraising

1 other similar improvements in the county. If all or any part of a qualifying tract of land
2 is located within the limits of an incorporated city or town, or is property annexed
3 subject to G.S. 160A-37(f1) or G.S. 160A-49(f1), the assessor ~~shall~~must furnish a copy
4 of the property record showing both the present-use appraisal and the valuation upon
5 which the property would have been taxed in the absence of this classification to the
6 collector of the city or town. ~~He shall~~The assessor must also notify the tax collector of
7 any changes in the appraisals or in the eligibility of the property for the benefit of this
8 classification. Upon a request for a certification pursuant to G.S. 160A-37(f1) or
9 G.S.160A-49(f1), or any change in the certification, the assessor for the county where
10 the land subject to the annexation is located ~~shall~~, must, within 30 days, determine if the
11 land meets the requirements of G.S. 160A-37(f1)(2) or G.S. 160A-49(f1)(2) and report
12 the results of its findings to the city.

13 (b1) Appeal. – Decisions of the assessor regarding the qualification or appraisal of
14 property under this section may be appealed to the county board of equalization and
15 review or, if that board is not in session, to the board of county commissioners.
16 Decisions of the county board may be appealed to the Property Tax Commission.

17 (c) Deferred Taxes. – Land meeting the conditions for classification under
18 G.S. 105-277.3 ~~shall~~must be taxed on the basis of the value of the land for its present
19 use. The difference between the taxes due on the present-use basis and the taxes that
20 would have been payable in the absence of this classification, together with any interest,
21 penalties, or costs that may accrue thereon, are a lien on the real property of the
22 taxpayer as provided in G.S. 105-355(a). The difference in taxes ~~shall~~must be carried
23 forward in the records of the taxing unit or units as deferred taxes. The taxes become
24 due and payable when the land fails to meet any condition or requirement for
25 classification. Failure to have an application approved is ground for disqualification.
26 The tax for the fiscal year that opens in the calendar year in which deferred taxes
27 become due is computed as if the land had not been classified for that year, and taxes
28 for the preceding three fiscal years that have been deferred are immediately payable,
29 together with interest as provided in G.S. 105-360 for unpaid taxes. Interest accrues on
30 the deferred taxes due as if they had been payable on the dates on which they originally
31 became due. If only a part of the qualifying tract of land fails to meet a condition or
32 requirement for classification, ~~a determination shall be made of the assessor must~~
33 determine the amount of deferred taxes applicable to that part and that amount becomes
34 payable with interest as provided above. Upon the payment of any taxes deferred in
35 accordance with this section for the three years immediately preceding a
36 disqualification, all liens arising under this subsection are extinguished. The deferred
37 taxes for any given year may be paid in that year without the qualifying tract of land
38 becoming ineligible for deferred status.

39 (d) Exceptions. – Notwithstanding the provisions of subsection (c) of this section,
40 if property loses its eligibility for present use value classification solely due to one of
41 the following reasons, no deferred taxes are due and the lien for the deferred taxes is
42 extinguished:

- 1 (1) There is a change in income caused by enrollment of the property in
 2 the federal conservation reserve program established under 16 U.S.C.
 3 Chapter 58.
- 4 (2) The property is conveyed by gift to a nonprofit organization and
 5 qualifies for exclusion from the tax base pursuant to G.S. 105-275(12)
 6 or G.S. 105-275(29).
- 7 (3) The property is conveyed by gift to the State, a political subdivision of
 8 the State, or the United States.

9 (e) Repealed by Session Laws 1997-270, s. 3, effective July 3, 1997."

10 **SECTION 4.** G.S. 105-277.7 reads as rewritten:

11 "**§ 105-277.7. Use-Value Advisory Board.**

12 (a) Creation and Membership. – The Use-Value Advisory Board is established
 13 under the supervision of the Agricultural Extension Service of North Carolina State
 14 University. ~~The Board shall annually submit to the Department of Revenue a~~
 15 ~~recommended use value manual developed in accordance with the guidelines in G.S.~~
 16 ~~105-289(a)(5). In developing the manual, the Board may consult with federal and State~~
 17 ~~agencies as needed. The Board shall submit to the Department of Revenue~~
 18 ~~recommendations concerning requirements for horticultural land used to produce~~
 19 ~~evergreens intended for use as Christmas trees when requested to do so by the~~
 20 ~~Department.~~

21 ~~The Board shall be chaired by the Director of the Agricultural Extension Service of~~
 22 ~~North Carolina State University shall serve as the chair of the Board. The Board and~~
 23 ~~shall consist of the following additional members; members, to serve ex officio:~~

- 24 (1) A a representative of the Department of Agriculture and Consumer
 25 Services, designated by the Commissioner of ~~Agriculture; Agriculture.~~
- 26 (2) A a representative of the Forest Resources Division of the Department
 27 of Environment and Natural Resources, designated by the Director of
 28 that ~~Division; and a~~ Division.
- 29 (3) A representative of the Agricultural Extension Service at North
 30 Carolina Agricultural and Technical State University, designated by
 31 the Director of the Extension Service.
- 32 (4) A representative of the North Carolina Farm Bureau, designated by the
 33 President of the Bureau.
- 34 (5) A representative of the North Carolina Association of Assessing
 35 Officers, designated by the President of the Association.
- 36 (6) The Director of the Property Tax Division of the North Carolina
 37 Department of Revenue or the Director's designee.
- 38 (7) A representative of the North Carolina Association of County
 39 Commissioners, designated by the President of the Association.
- 40 (8) A representative of the North Carolina Forestry Association,
 41 designated by the President of the Association.

42 (b) Staff. – ~~All members shall serve ex officio.~~ The Agricultural Extension
 43 Service at North Carolina State University ~~shall~~ must provide clerical assistance to the
 44 Board.

1 (c) Duties. – The Board must annually submit to the Department of Revenue a
2 recommended use-value manual. In developing the manual, the Board may consult with
3 federal and State agencies as needed. The manual must contain all of the following:

4 (1) The estimated cash rental rates for agricultural lands and horticultural
5 lands for the various classes of soils found in the State. The rental rates
6 must recognize the productivity levels by class of soil or geographic
7 area. The rental rates must be based on the rental value of the land to
8 be used for agricultural or horticultural purposes when those uses are
9 presumed to be the highest and best use of the land. The recommended
10 rental rates may be established from individual county studies or from
11 contracts with federal or State agencies as needed.

12 (2) The recommended net income ranges for forestland furnished to the
13 Board by the Forestry Section of the North Carolina Cooperative
14 Extension Service. These net income ranges may be based on up to six
15 classes of land within each Major Land Resource Area designated by
16 the United States Soil Conservation Service. In developing these
17 ranges, the Forestry Section must consider the soil productivity and
18 indicator tree species or stand type, the average stand establishment
19 and annual management costs, the average rotation length and timber
20 yield, and the average timber stumpage prices.

21 (3) The capitalization rates adopted by the Board prior to February 1 for
22 use in capitalizing incomes into values. The capitalization rate for
23 forestland shall be nine percent (9%). The capitalization rate for
24 agricultural land and horticultural land must be no less than six percent
25 (6%) and no more than seven percent (7%). The incomes must be in
26 the form of cash rents for agricultural lands and horticultural lands and
27 net incomes for forestlands.

28 (4) The value per acre adopted by the Board for the best agricultural land.
29 The value may not exceed one thousand two hundred dollars (\$1,200).

30 (5) Recommendations concerning any changes to the capitalization rate
31 for agricultural land and horticultural land and to the maximum value
32 per acre for the best agricultural land based on a calculation to be
33 determined by the Board. The Board shall annually report these
34 recommendations to the Revenue Laws Study Committee and to the
35 President Pro Tempore of the Senate and the Speaker of the House of
36 Representatives.

37 (6) Recommendations concerning requirements for horticultural land used
38 to produce evergreens intended for use as Christmas trees when
39 requested to do so by the Department."

40 **SECTION 5.** G.S. 105-289(a) reads as rewritten:

41 "(a) ~~It shall be~~ the duty of the Department of Revenue:

42 (1) To discharge the duties prescribed by law and to enforce the provisions
43 of this Subchapter.

- 1 (2) To exercise general and specific supervision over the valuation and
2 taxation of property by taxing units throughout the State.
3 (3) To appraise the property of public service companies.
4 (4) To keep full and accurate records of the Commission's official
5 proceedings.
6 (5) To prepare and distribute annually to each assessor ~~a~~the manual
7 developed by the Use-Value Advisory Board under G.S. 105-277.7
8 ~~that establishes five expected net income per acre ranges for~~
9 ~~agricultural land, horticultural land, and forestland, and establishes a~~
10 ~~method for appraising nonproductive land as a percentage of the~~
11 ~~lowest use-value established for productive land. The high and low net~~
12 ~~income amount in each range may differ by no more than fifteen~~
13 ~~dollars (\$15.00). The basis for establishing each range shall be soil~~
14 ~~productivity.~~

15 For agricultural land, the expected net income per acre ranges
16 shall be based on the actual yields and prices of corn and soybeans
17 over a period of at least the five previous years, and the actual fixed
18 and variable costs, including an imputed management cost, incurred in
19 growing corn and soybeans over the same period of time. The manual
20 shall contain recommended adjustments to the net income per acre
21 ranges for the growing of crops subject to acreage or poundage
22 allotments.

23 Expected net income per acre ranges shall be similarly
24 established for horticultural land and forestland, using typical
25 horticultural or forest products in various growing regions of the State
26 ~~instead of corn and soybeans.~~ the cash rental rates for agricultural
27 lands and horticultural lands and the net income ranges for forestland.

- 28 (6) To establish requirements for horticultural land, used to produce
29 evergreens intended for use as Christmas trees, in lieu of a gross
30 income requirement until evergreens are harvested from the land, and
31 to establish a gross income requirement for this type horticultural land,
32 that differs from the income requirement for other horticultural land,
33 when evergreens are harvested from the land.
34 (7) To conduct studies of the cash rents for agricultural lands on a county
35 or a regional basis, such as the Major Land Resource Area map
36 designated and developed by the U.S. Department of Agriculture. The
37 results of the studies must be furnished to the North Carolina Use-
38 Value Advisory Board. The studies may be conducted on any
39 reasonable basis and timetable that will be reflective of rents and
40 values for each local area based on the productivity of the land."

41 **SECTION 6.** G.S. 105-296(j) reads as rewritten:

42 "(j) The assessor ~~shall~~must annually review at least one eighth of the parcels in
43 the county classified for taxation at present-use value to verify that these parcels qualify
44 for the classification. By this method, the assessor ~~shall~~must review the eligibility of all

1 parcels classified for taxation at present-use value in an eight-year period. The period of
2 the review process is based on the average of the preceding three years' data. The
3 assessor may request assistance from the Farm Service Agency, the Cooperative
4 Extension Service, the Forest Resources Division of the Department of Environment
5 and Natural Resources, or other similar organizations.

6 The assessor may require the owner of classified property to submit any ~~information~~
7 information, including sound management plans for forestland, needed by the assessor
8 to verify that the property continues to qualify for present-use value taxation. The owner
9 has 60 days from the date a written request for the information is made to submit the
10 information to the assessor. If the assessor determines the owner failed to make the
11 information requested available in the time required without good cause, the property
12 loses its present-use value classification and the property's deferred taxes become due
13 and payable as provided in G.S. 105-277.4(c). The assessor must reinstate the property's
14 use-value classification when the owner submits the requested information unless the
15 information discloses that the property no longer qualifies for present-use value
16 classification. When a property's present-use value classification is reinstated, it is
17 reinstated retroactive to the date the classification was revoked and any deferred taxes
18 that were paid as a result of the revocation must be refunded to the property owner.

19 In determining whether property is operating under a sound management program,
20 the assessor must consider any weather conditions or other acts of nature that prevent
21 the growing or harvesting of crops or the realization of income from cattle, swine, or
22 poultry operations. The assessor must also allow the property owner to submit
23 additional information before making this determination."

24 **SECTION 7.** G.S. 105-299 reads as rewritten:

25 **"§ 105-299. Employment of experts.**

26 The board of county commissioners may employ appraisal firms, mapping firms or
27 other persons or firms having expertise in one or more of the duties of the assessor to
28 assist ~~him or her~~ the assessor in the performance of ~~such~~ these duties. The county may
29 also assign to county agencies, or contract with State or federal agencies, for any duties
30 involved with the approval or auditing of use-value accounts. The county may make
31 available to ~~such~~ these persons any information it has that will facilitate the
32 performance of a contract entered into pursuant to this section. Persons receiving ~~such~~
33 this information ~~shall be~~ are subject to the provisions of G.S. 105-289(e) and
34 G.S. 105-259 regarding the use and disclosure of information provided to them by the
35 county. Any person employed by an appraisal firm whose duties include the appraisal of
36 property for the county ~~shall~~ must be required to demonstrate that he or she is qualified
37 to carry out ~~such~~ these duties by achieving a passing grade on a comprehensive
38 examination in the appraisal of property administered by the Department of Revenue. In
39 the employment of ~~such~~ these firms, primary consideration ~~shall~~ must be given to the
40 firms registered with the Department of Revenue pursuant to ~~the provisions of~~
41 G.S. 105-289(i). A copy of the specifications to be submitted to potential bidders and a
42 copy of the proposed contract may be sent by the board to the Department of Revenue
43 for review before the invitation or acceptance of any bids. Contracts for the employment
44 of these ~~such~~ firms or persons ~~shall be deemed to be~~ are contracts for personal services

1 and ~~shall not be~~ not subject to the provisions of Article 8, Chapter 143, of the
2 General Statutes."

3 **SECTION 8.** Article 12L of Chapter 120 of the General Statutes is amended
4 by adding a new section to read:

5 "**§ 120-70.108. Property Tax Subcommittee.**

6 (a) The Revenue Laws Study Committee shall establish a Property Tax
7 Subcommittee consisting of six members. The Senate cochair of the Committee shall
8 designate three members appointed by the President Pro Tempore of the Senate to serve
9 on the Subcommittee and shall name one of those members a cochair of the
10 Subcommittee. The House cochair of the Committee shall designate three members
11 appointed by the Speaker of the House of Representatives to serve on the Subcommittee
12 and shall name one of those members a cochair of the Subcommittee. The
13 Subcommittee shall meet upon the call of the Subcommittee cochairs.

14 (b) The Property Tax Subcommittee shall study, examine, and, if necessary,
15 recommend changes to the property tax system. The Subcommittee shall include in its
16 study an examination of all classes of property, including exemptions and exclusions of
17 property from the property tax base. The Subcommittee shall also study the present-use
18 value system, including the following:

- 19 (1) Examine the implementation and application of the current present-use
20 value statutes.
- 21 (2) Evaluate other tax credits, including adjustments to and credits for ad
22 valorem taxes, to encourage agricultural, forestry, horticultural, and
23 conservation use of land.
- 24 (3) Evaluate the treatment of undeveloped land in ad valorem tax.
- 25 (4) Evaluate the possibility of amending the present-use value system and
26 developing other tax incentives to encourage conservation and
27 environmental protection of land. The study shall include the
28 feasibility of allowing lands managed for conservation and the
29 preservation of water quality, wildlife habitats, and other conservation
30 purposes to be taxed at their present-use value.
- 31 (5) Evaluate the possibility of adding more specific land and resource
32 management criteria to the sound management programs required for
33 all lands enrolled in the present-use value system.
- 34 (6) Review other issues related to the taxation of agricultural land,
35 horticultural land, and forestland, including reducing the acreage
36 requirement for land to qualify as forestland.

37 (c) The Subcommittee shall report any recommendations to the Revenue Laws
38 Study Committee."

39 **SECTION 9.** G.S. 105-164.13(2a) reads as rewritten:

40 "(2a) Any of the following substances when purchased for use on animals or
41 plants, as appropriate, held or produced for commercial
42 ~~purposes:~~ purposes. This exemption does not apply to any equipment or
43 devices used to administer, release, apply, or otherwise dispense these
44 substances:

- 1 a. Remedies, vaccines, medications, litter materials, and feeds for
- 2 animals.
- 3 b. Rodenticides, insecticides, herbicides, fungicides, and
- 4 pesticides.
- 5 c. Defoliants for use on cotton or other crops.
- 6 d. Plant growth inhibitors, regulators, or stimulators, including
- 7 systemic and contact or other sucker control agents for tobacco
- 8 and other crops."

9 **SECTION 10.** G.S. 105-164.16(b) reads as rewritten:

10 "(b) Quarterly. – A taxpayer who is consistently liable for less than one hundred
11 dollars (\$100.00) a month in State and local sales and use taxes must file a return and
12 pay the taxes due on a quarterly basis. A quarterly return covers a calendar quarter and
13 is due by the 15th last day of the month following the end of the quarter."

14 **SECTION 11.** G.S. 105-164.16(b2) reads as rewritten:

15 "(b2) Semimonthly. – A taxpayer who is consistently liable for at least ten thousand
16 dollars (\$10,000) a month in State and local sales and use taxes must pay the tax twice a
17 month and must file a return on a monthly basis. One semimonthly payment covers the
18 period from the first day of the month through the 15th day of the month. The other
19 semimonthly payment covers the period from the 16th day of the month through the last
20 day of the month. The semimonthly payment for the period that ends on the 15th day of
21 the month is due by the 25th day of that month. The semimonthly payment for the period
22 that ends on the last day of the month is due by the 10th day of the following month.

23 A return covers both semimonthly payment periods. The return is due by the 20th
24 day of the month following the month of the payment periods covered by the return. A
25 taxpayer is not subject to interest on or penalties for an underpayment for a
26 semimonthly payment period if the taxpayer timely pays at least ninety-five percent
27 (95%) of the ~~amount due for each semimonthly payment period~~ lesser of the following
28 and includes the underpayment with the monthly return for those semimonthly payment
29 ~~periods~~ periods:

30 (1) The amount due for each semimonthly payment period.

31 (2) The average semimonthly payment for the prior calendar year."

32 **SECTION 12.** Part 5 of Article 5 of Chapter 105 of the General Statutes is
33 amended by adding a new section to read:

34 "**§ 105-164.28A. Other exemption certificates.**

35 (a) Authorization. – The Secretary may require a person who purchases tangible
36 personal property that is exempt from tax or is subject to a preferential rate of tax
37 depending on the status of the purchaser or the intended use of the property to obtain an
38 exemption certificate from the Department to receive the exemption or preferential rate.
39 An exemption certificate authorizes a retailer to sell tangible personal property to the
40 holder of the certificate and either collect tax at a preferential rate or not collect tax on
41 the sale, as appropriate. A person who purchases tangible personal property under an
42 exemption certificate is liable for any tax due on the sale if the Department determines
43 that the person is not eligible for the certificate or the property was not used as intended.

1 (b) Scope. – This section does not apply to a direct pay permit or a certificate of
2 resale. G.S. 105-164.27A addresses a direct pay permit, and G.S. 105-164.28 addresses
3 a certificate of resale."

4 **SECTION 13.** Sections 1 through 7 of this act are effective for taxes
5 imposed for taxable years beginning on or after July 1, 2003. Section 10 becomes
6 effective October 1, 2002, and applies to taxes levied on or after that date. Section 11
7 becomes effective October 1, 2002, and applies to payments due on or after that date.
8 Sections 8, 9, 12, and 13 are effective when they become law.