GENERAL ASSEMBLY OF NORTH CAROLINA

Session

Legislative Fiscal Note

BILL NUMBER: House Bill 852 (Third Edition)

SHORT TITLE: Defer Tax on Builders' Inventory.

SPONSOR(S): Representatives Dickson, Brubaker, Holliman, and Wainwright

FISCAL IMPACT

	Yes (x)	No ( )	No Estimate Available ( )		
	FY 2009-10	**FY 2010-11**	**FY 2011-12**	**FY 2012-13**	**FY 2013-14**
REVENUES:					
Local Governments	**Estimated revenue deferral of \$30-\$35 million in FY 2010-11. Estimated revenue deferral of \$7-\$12 million in FY 2011-12. Minimal or positive impact in subsequent years as program sunsets and deferred taxes are paid.**				

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue; NC Local Governments

EFFECTIVE DATE: Effective for tax years beginning on or after July 1, 2010.

BILL SUMMARY:
This act would create a property tax deferral program to defer for a maximum of three years the portion of taxes on an unoccupied, unsold residence attributable to the construction of the residence by a builder. The program sunsets for taxable years beginning July 1, 2013.

ASSUMPTIONS AND METHODOLOGY:
The bill would allow builders to defer property taxes on new construction inventory that has been issued a certificate of occupancy, but remains unoccupied. The North Carolina Association of Assessing Officers surveyed counties to determine the value of property and associated tax deferral that would result from the bill. County assessors were asked to identify the value of property that would qualify for deferral in 2009.

A total of 45 counties responded indicating a total value of \$3.1 billion that would qualify for deferral and an associated tax deferral of \$19.8 million. To estimate the tax deferral for non-responding counties, the value of property eligible for deferral is assumed to be the same proportion of total county property value as for the responding counties. The ratio of property eligible for deferral to total real property value for all responding counties is 0.89%. Therefore, this percentage is applied to the property values of the non-responding counties to determine a statewide estimate. Based on this methodology, the additional property value that would qualify for deferral in non-responding counties is $1.9 billion. Applying the weighted average statewide county property tax rate results in an additional tax deferral of $13.2 million, or a total county deferral of $33 million. To account for variability in the estimates for non-responding counties, a range estimate of $30 - $35 million is used.

Because the survey only applies to county property, the next step is to estimate the municipal impact. The value of eligible property situated within municipal boundaries is unknown. Assuming that all of the eligible property is within municipal boundaries, the tax impact would be obtained by multiplying the statewide value of eligible property by the weighted average tax rate for property within municipal boundaries. This results in a tax deferral of $22.3 million for municipalities. For purposes of this estimate, half of the property is assumed to be within municipal boundaries, resulting in a municipal tax deferral of approximately $10 million. Thus, the total first-year municipal and county tax deferral if the program were implemented in the 2009 tax year would be $40-$45 million.

Because the bill is effective for tax years beginning July 1, 2010, the initial impact of the bill will be in FY 2010-11. The impact of the bill in that year depends on how quickly the housing market recovers and the amount of time that housing inventory remains on the market. According to Moody's Economy.com, housing inventory is expected to rise by 6% in 2010 and another 10% in 2011. The increase in inventory indicates more homes on the market, but also indicates that housing starts are increasing, a sign of an improving housing market. As a result, the tax deferral for the first year of the program is expected to be less than the 2009 year. For purposes of this memo, the amount of tax deferral is estimated to decline by 25% from 2009 to 2010 to a range of $30-$35 million.

As the housing market continues to improve, new homes are expected to remain on the market for fewer days. In addition, in the second and third years of the program, counties will receive tax payments from properties that qualified in previous years and have become ineligible for deferral. The second year impact (FY 11-12) assumes another 25% drop in eligible properties and payment of prior year taxes for half of the properties eligible in the first year. This results in an estimated tax deferral for FY 11-12 of $7-$12 million.

The program sunsets after the third year. Properties qualifying in that year would remain eligible for deferral through tax year 2015. Beginning in FY 2012-13, the program is expected to have a minimal impact and then a positive impact as the housing market recovers and past deferrals are paid.

SOURCES OF DATA: Moody's Economy.com; NC Association of Assessing Officers; NC Department of Revenue

TECHNICAL CONSIDERATIONS: None

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