

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 1427 HCS

SHORT TITLE: Amend Use Value Statutes

SPONSOR(S):

FISCAL IMPACT

Yes (X) **No ()** **No Estimate Available (X)**

(Millions)

FY 2001-02 **FY 2002-03** **FY 2003-04** **FY 2004-05** **FY 2005-06**

REVENUES

General Fund

* No General Fund Impact *

Local Governments

* See Assumptions and Methodology

PRINCIPAL DEPARTMENT(S) &

PROGRAM(S) AFFECTED: North Carolina Department of Revenue, Property Tax Division, and Local Governments.

EFFECTIVE DATE: Sections 1 through 3 are effective for taxable years beginning on or after January 1, 2002. The remainder is effective when it becomes law.

BILL SUMMARY: The bill makes several changes to the use value statutes for property tax. Section 1 makes several definitional changes. First, it expands the definitions of agricultural and horticultural land to include all agricultural and woodland that is in the farm unit. It also clarifies in the definition of a “sound management program” that no minimum profitability level is required. Section 2 of the bill redefines the ownership requires of use value. Currently property must generally meet use and ownership requirements to qualify for special tax treatment. However, the land can continue to qualify without meeting the ownership requirements, upon transfer, if the land was already in the use value program and the new owner already owns land that qualifies. Section 2 of the bill effectively removes the second requirement and allows the land to stay in the program if the new owner purchases the land with the intent to continue farming and actually uses that land for its previous purpose. Section 3 of the bill allows the prepayment of deferred taxes. Section 4 creates a Use Value and Land Taxation Study Commission, and defines its members, mission, duties, reporting requirements, and addresses various administrative issues (staffing, funding, chairs, etc.).

ASSUMPTIONS AND METHODOLOGY: Because the bill impacts only local revenues there is no General Fund impact.

The primary local impact is a result of the definitional and ownership requirement changes in sections 1 and 2.

Section 1 of the bill alters the definitions of agricultural land and horticultural land to clarify that the definition includes all woodland and wasteland in the unit. While no formal estimate is available it appears that this change will have no impact in some counties and a significant impact on others, depending on how the county is interpreting existing law. For the most part, counties in the eastern portion of the state will have very little impact as a result of the bill, while some of the mountain counties expect significant losses, although there are exceptions. However, on a statewide average the loss is expected to be relatively small.

Section 2 changes the ownership requirement to effectively eliminate the 3-year wait to return to the use value program when land transfers, if it is purchased and continues to be used for agricultural, horticultural, or forestland purposes. From a fiscal perspective, the only impact of this section is the loss of three years of taxes on the increased value of the property (market vs. use value) while the new owner is waiting to return to the use value program. Rollback payments could also be impacted. While this will create a revenue loss for the counties, Fiscal Research cannot determine the exact fiscal impact. The assessors believe the overall loss will be fairly small.

Section 3 has the potential to offset some of fiscal impact of deferred taxes. However, because Fiscal Research cannot estimate how many farmers will take advantage of this change, no fiscal estimate is possible on this portion of the bill.

Section 4 only requires a study and therefore has no significant fiscal impact.

FISCAL RESEARCH DIVISION 733-4910

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