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REPORT
OF THE
PROPERTY TAX SYSTEM STUDY COMMITTEE
TO THE
1983 SESSION
OF THE
NORTH CAROLINA GENERAL ASSEMBLY

REP. ROBERT L. McALISTER, CHAIRMAN

SEN. DALLAS L. ALFORD, JR., VICE-CHAIRMAN

STATE OF NORTH CAROLINA
PROPERTY TAX SYSTEM STUDY COMMITTEE
STATE LEGISLATIVE BUILDING
RALEIGH 27611



ROBERT L. McALISTER, CHAIRMAN
DALLAS ALFORD, VICE-CHAIRMAN

February 1, 1983

To the Honorable Liston B. Ramsey, Speaker
of the House of Representatives and the Honorable
W. Craig Lawing, President Pro Tempore of the Senate
and Members of the 1983 General Assembly:

Transmitted herewith is the final report
of the proceedings and recommendations of the North
Carolina Property Tax System Study Committee.

The work of the Committee was authorized by
House Bill 258 (Chapter 948, of the 1981 Session Laws)
and was performed in accordance with the instructions
of that Act.

Respectfully submitted,

A handwritten signature in cursive script that reads "Robert L. McAlister".

Robert L. McAlister
Chairman

TABLE OF CONTENTS

	<u>PAGE</u>
LETTER OF TRANSMITTAL	
PREFACE AND COMMITTEE PROCEEDINGS	1
SUMMARY OF MEETINGS	5
TAX COLLECTION RECOMMENDATIONS	
1. Restructure Local-Option Discount Schedule For Early Tax Payments.	44
2. Require Local Government Commission's Approval Of Discount Schedule.	45
3. Increase Interest Rate On Late Tax Payments.	45
4. Increase Interest Rate On Sale Of Tax Lien Certificates.	47
5. Delete Certain Tax Receipts From Tax Collector's Charge.	47
6. Adjust Certain Incorrect Tax Payments.	47
7. Restructure Penalty For Late Tax Listing.	48
TAX ASSESSMENT TECHNICAL CHANGE RECOMMENDATIONS	
8. Eliminate Obsolete Statutory Provisions.	49
9. Clarify When And Where Certain Business Inventories Are To Be Listed For Taxation.	49
10. Clarify Process For The Department Of Revenue To Furnish Information To Local Tax Authorities.	50
11. Clarify Reports By Multi-County Businesses.	51
12. Extend Current System Of Taxation Of Public Property Used By Lessee For Private Purposes.	52
13. Clarify Law Regarding Appraisal Of Condominium Conversions.	53
14. Clarify Law Regarding Approval Of Late Applications For Tax Exemptions.	54

15. Conform Machinery Act To State Constitution
With Regard To Public Property. 55
16. Change The Title Of County Tax Supervisor
To County Assessor. 55
17. Clarify Appraisal Of Homeowners Associations. 56
18. Establish Rules Regarding Publication Of Notice
Of Adoption Of Schedules, Standards, And Rules
To Be Used In General Real Property Reappraisal. 56

APPEALS PROCESS RECOMMENDATIONS

19. Require County Assessor To Give Taxpayer Written
Notice of Assessment. 58
20. Add Procedure For Protest Of Listing And/Or
Assessment. 61
21. Establish Informal Conference As A Method For
Resolving Property Tax Protests. 62
22. Replace County Board Of Equalization And Review
With County Assessment Appeals Board. 62
23. Establish Procedure For Appeals Before County
Assessment Appeals Board. 63
24. Re-write Procedure For Appeals To Property Tax
Commission. 66

REAL PROPERTY REAPPRAISAL RECOMMENDATIONS

25. Appropriate From The State General Fund An
Additional Amount Of At Least \$1.2 Million Per Year
For An Eight-Year Period For Improvement Of Land
Records. 71
26. Require, On A Confidential Basis, The Full
Disclosure Of Sales Price And Financing Terms On
All Real Property Sales. 74

27.	Mandate For All Counties A Fourth-Year Update Of All Real Property.	77
28.	Require Department Of Revenue To Annually Perform Sales/Assessment Ratio Studies.	79
29.	Require Each County To Annually Reduce Tax Assessment Ratio For Personal Property And Public Service Company Property To The Ratio For Real Property.	80
30.	Upgrade The Professionalism Of Tax Office Personnel	81

OTHER RECOMMENDATIONS

31.	Replace Requirement That 15% Of Landowners Living Outside A Municipality Petition For The Creation Of A Fire Protection Tax District With A Majority Petition Requirement.	84
32.	Extend Eligibility For Use-Value Assessment To Publicly-Held Corporations.	85
33.	Provide For Use Of Site Index For Timber In Determination Of Current-Use Value For Forestland.	87
34.	Provide That Property Included In A Time-Sharing Arrangement Be Listed And Taxes Paid In The Name Of The Management Company.	88
35.	The General Assembly Should Explore Alternative Sources Of Revenue For Counties And Cities In Lieu Of Property Taxes.	89
36.	The General Assembly Should Study The Inequities Resulting From The Lack Of Uniformity In Methods Used By Counties To Value Inventory.	90

APPENDICES

1.	Resolution Authorizing Study Committee	93
2.	Membership and Staff Of The Study Committee	98
3.	Persons Making Presentations Before Committee	99

4.	Interim Recommendations	102
5.	Legislation Approving Interim Recommendations	104
6.	An Act To Amend The Machinery Act	106
7.	An Act To Improve The Administration Of The Property Tax	120
8.	An Act To Upgrade The Professionalism Of Tax Office Personnel	127
9.	An Act To Make Appropriations For State Land Records Assistance To Local Government	131
10.	An Act To Revise The Procedure For Protests And Appeals Of Property Tax Listings And Assessments	133
11.	An Act Extending Use-Value Appraisal Eligibility To Publicly-Held Corporations And Providing For Appraisal Of Eligible Forestlands According To The Site Index For Timber Production	157
12.	An Act To Tax Lessees And Users Of Property Owned By The United States, The State Or Its Political Subdivisions And Used By The Lessees Or Users For Private Purposes	163
13.	An Act To Simplify The Listing Of Real And Personal Property In Time-Sharing Arrangements	165
14.	An Act To Require A Petition Of A Majority Of Land-Owners For The Creation Of A Rural Fire Protection District	166

PREFACE AND COMMITTEE PROCEEDINGS

The Property Tax System Study Committee was established by House Bill 258, enacted as Chapter 943 of the 1981 Session Laws (see Appendix 1). The Committee consists of fifteen members with five members of the Senate appointed by the President Pro Tempore of the Senate, five members of the House of Representatives appointed by the Speaker of the House, and five public members appointed by the Governor. A list of the membership and staff of the Committee is shown on Appendix 2.

Chapter 943 instructs the Committee to "make a detailed and comprehensive study of the efficiency, effectiveness and fairness of the property tax system in North Carolina". Specifically, the Committee was directed to study the following matters:

- (1) All preferential exemptions, exclusions, and assessments and the taxation of public utility property in order to determine whether the current property tax system is fair and equitable;
- (2) The efficiency and equity of procedures for listing and collecting taxes on both real and personal property; and
- (3) The octennial system of real property revaluation and the feasibility of assisting counties in conducting more frequent revaluations.

The legislation requires the Committee to submit a final written report to the 1983 session of the General Assembly on or before February 1, 1983. However, the bill does allow the Committee, at its discretion, to submit an interim report to the 1982 session of the

1981 General Assembly. An interim report was submitted on June 1, 1982.

The appointments to the Committee were made in August, 1981. The organizational meeting was held on September 16, 1981. From that date to the convening of the 1982 legislation session five one-day meetings and one two-day meeting were held. All of the meetings prior to the May, 1982 meeting were for the purpose of obtaining opinions and discussion regarding the property tax system from a variety of individuals and groups. The Committee heard presentations by its staff counsels (property tax specialists with the Institute of Government), the Director and other members of the Ad Valorem Tax Division of the Department of Revenue, and the Fiscal Research Division. On two separate occasions representatives from the North Carolina Association of the County Commissioners and the North Carolina League of Municipalities spoke to the Committee; also, the Committee received comments from numerous county and municipal elected officials and staff. Finally, the Committee heard from individuals and groups affected by the property tax. A list of persons appearing before the Committee is contained in Appendix 3.

At the May 14 meeting the Staff Counsel to the Committee and the Chairman of the state Property Tax Commission outlined specific short term and long-range objectives and decided to make two specific interim recommendations to the 1982 session of the General Assembly. These recommendations are outlined in Appendix 4 . The recommendations were adopted by the General Assembly as special provisions in the main appropriations bill (see Appendix 5).

After the June legislative session adjournment, the Committee held four one-day meetings and a concluding two-day session on December 1 and 2. The meetings held after the 1982 session were used for presentations from a few more individuals and groups affected by the property tax; to review, discuss and recommend numerous technical changes to the Machinery Act in order to clarify the language of the Act, delete obsolete sections, and to make minor improvements to the administration of the tax; and to discuss and make recommendations regarding the long-range improvement of the property tax system, especially the octennial real property reappraisal cycle. In developing the final recommendations the committee relied heavily on the ideas and assistance of Staff Counsels from the Institute of Government, (Joseph S. Ferrell and William A. Campbell), the director of the Ad Valorem Tax Division of the North Carolina Department of Revenue (Doug Holbrook), the Chairman of the Property Tax Commission (James E. Long) and the Fiscal Research Division tax analysts (David F. Crofts and Edward M. Cherry). Also assisting in these discussions were representatives of the N. C. Association of County Commissioners and the N. C. League of Municipalities.

The final recommendations of the Committee are contained in Appendices 6-14. The Committee spent a considerable amount of time discussing the long-range recommendations, especially the recommendations dealing with the real property reappraisal process. These recommendations represent a major overhaul of the current system and contribute to a more equitable and efficient property tax system. While the Committee feels that the recommendations are attainable, it does recognize that there may be transitional problems for local tax administrators and the Department of Revenue. Thus, the

Committee recommends that the revaluation proposals not become effective until the 1984 calendar year. Also, the Committee feels strongly that the General Assembly should closely monitor the progress of the state, and the counties and cities in adapting to the new system and that one method to do so is to authorize a 1983-84 interim study commission to follow the transition.

SUMMARY OF MEETINGS

September 16, 1981

In an organizational meeting committee members expressed the following concerns and suggestions:

1. Methods of reducing reliance on the property tax by the use of alternative revenue sources.
2. Tax-exempt federal and state property.
3. Reduction in federal "impact" funds for public schools in counties with federal facilities.
4. Octennial real property revaluation cycle.
5. Real property revaluation costs.
6. Skill level and training of tax office personnel.
7. Differences in frequency of revaluation for real property versus public utility and business personal property and effect on relative tax burden.

October 28, 1981

After adopting a budget the Committee heard presentations from the following speakers:

1. JOHN SANDERS, DIRECTOR, INSTITUTE OF GOVERNMENT

Mr. Sanders discussed the role of the Institute in state and local government research and education and the Institute's tradition of strong emphasis in property tax matters.

2. WILLIAM A. CAMPBELL, ASSISTANT DIRECTOR, INSTITUTE OF GOVERNMENT AND STAFF COUNSEL TO COMMITTEE

Mr. Campbell's primary area of responsibility in property tax matters is tax collection. Mr. Campbell discussed three collection

matter that he felt deserved attention:

- A. THE POSSIBILITY OF ALLOWING TAXPAYERS WHO DO NOT PAY THEIR TAXES THROUGH AN ESCROW ACCOUNT TO REMIT THEIR TAXES IN MORE THAN ONE PAYMENT.

For property owners who do not pay their property tax through a monthly or quarterly mortgage escrow account, the payment of the tax represents a substantial cash-flow burden because the entire annual tax bill is paid at one time. This payment pattern differs from that of the personal income tax (withholding declarations) or the sales tax (paid at time of purchase). The problem is mitigated by some taxpayers through voluntary partial payments; however, there is no formal system for such payments. Mr. Campbell felt that it might be possible to establish a regular schedule of two or four payments per year for non-escrow accounts.

- B. SHORTENING THE DIFFERENCE BETWEEN THE DUE DATE FOR TAX PAYMENTS AND THE ACTUAL DATE WHEN INTEREST BEGINS TO APPLY.

Presently the due date is September 1 but under the law, taxpayers may make payments up to January 6 without being assessed a penalty or interest. The perception of most taxpayers is that taxes are not due until early January.

- C. EXTENDING THE PERIOD FOR WHICH A DISCOUNT FOR EARLY PAYMENT OF TAXES APPLIES.

With a September 1 due date and the fact that the tax rate does not become effective until July 1, the discount in practice applies only to July and August payments. Mr. Campbell suggested the possibility of changing the due date to November or December and thus lengthening the discount period.

D. INCREASING THE INTEREST RATE ON LATE PAYMENTS,

The rate is now 2% in January and 3/4% per month (9% annual rate) after January. With short-term money market rates well above 9%, cities and counties are in fact providing low-cost loans to taxpayers.

3. JOSEPH S. FERRELL, ASSISTANT DIRECTOR, INSTITUTE OF GOVERNMENT AND STAFF COUNSEL TO COMMITTEE

Mr. Ferrell's area of responsibility in property tax matters is in tax assessment (listing, valuation). Mr. Ferrell noted three assessment matters that he felt deserved attention:

A. THE LARGE DIFFERENCES IN RELATIVE TAX BURDEN BETWEEN THE MAJOR CLASSES OF PROPERTY DUE TO DIFFERENCES IN THE FREQUENCY OF PROPERTY REVALUATION.

Public service company property is revalued annually at 100% of current market value by the State for a company's total statewide system and then allocated to counties and cities. Also, personal property must be listed annually at 100% of current values. On the other hand, real property is revalued only once every eight years. A 1958 Property Tax Commission recommended a mandatory four-year revaluation cycle to replace the old system of voluntary revaluation by counties. Prior to 1958, many counties had not revalued for decades and thus the relative tax burden was constantly changing. The 1959 General Assembly mandated an eight-year revaluation cycle with a mandatory fourth-year horizontal adjustment whenever tax values are out-of-line with market values. In fact, the fourth-year adjustment has been ignored by counties. In the seven years after the real property revaluation, the level of tax value of real property relative to current market value will decline while that

market value will decline while that of public utilities and business personal property will stay at 100% of current value. Thus, the tax burden for annually-valued property will rise relative to that of real property. In the year of a revaluation, the burden will shift back to real property owners in one step. With the increase in the rate of inflation in recent years, the size of the annual shift in burden has accelerated. This trend has led to the current suit in Federal Court by the railroad companies and the 1979 legislation allowing public service companies to appeal their assessments in the first, third, and seventh year after a real property revaluation if the assessment level for their property is at least 15% higher than that for real property. From the point of view of owners of real property, the octennial revaluation schedule, combined with high inflation and the attempt by tax supervisors to "catch-up" on low valuations on certain real property in the past, creates a "shock effect" for real property owners each eight years.

Mr. Ferrell suggested three possible approaches for dealing with problems caused by the eight-year revaluation cycle:

- (1) Revalue real property more frequently.

A study of this option will necessarily involve the questions of tax office staffing, use of automated data processing equipment, and necessary market information on real estate transactions.

- (2) Reduce the 100% assessment level on public personal property and public service company property to the current level of assessment of real property based on a sales-ratio study.

- (3) Require an annual horizontal adjustment of all real property based on the rate of increase in the real property class as a whole.

This option would also require current market data on real property sales.

B. THE DIFFERENCES IN THE EFFECTIVE ASSESSMENT LEVEL BETWEEN DIFFERENT TYPES OF PROPERTY.

Mr. Ferrell felt that during the revaluation of real property, agricultural and forest land is effectively assessed at a lesser percentage of current market value than other real property and that real property as a class is often assessed at less than 100% of fair market value. The reduced assessment results from decisions made by the board of county commissioners during the adoption of schedules of value to be used during the revaluation. If certain real property is assessed at less than 100% during the revaluation year, the differences in assessment levels over the next seven years will be greater than if real property was valued close to 100% to begin with. Lower assessment levels also exacerbate the shift in the tax burden away from the real property class to the other classes in the years following the octennial revaluation. A possible solution would be to allow different assessment ratios for different classes of property to correspond to actual practice across the state.

C. THE LEGAL AND ADMINISTRATIVE PROBLEMS OF LISTING, VALUATION AND ASSESSMENT OF PERSONAL PROPERTY.

The 1971 re-write of the Machinery Act assumes that the owner of motor vehicles, boats, airplanes, etc., and household personal property lists the property in person at the tax office and that a value is immediately placed on the property. In fact, tax

supervisors have worked out various systems to deal with the valuation of different types of personal property but are concerned that there may be no legal foundation for the systems. Also, the taxpayer often does not learn the valuation level until he receives a tax bill. Finally, the system used in assessing personal property makes it difficult in many cases for the taxpayer to appeal a decision of the tax office and causes administrative problems for the tax supervisor. One solution would be to have a separate Machinery Act for personal property.

4. DOUG HOLBROOK, DIRECTOR, AD VALOREM TAX DIVISION,
N. C. DEPARTMENT OF REVENUE

Mr. Holbrook's division staffs the state Property Tax Commission which is the board that hears taxpayer appeals from county boards of equalization and review. Also, the Ad Valorem Division acts as an advisor to counties and cities in property tax matters. Mr. Holbrook made the following suggestions for improving the property tax system:

- A. MAKE THE PROPERTY TAX AS FAIR AND WORKABLE AS POSSIBLE AND THEN TRY TO ASSIST TAXPAYERS IN UNDERSTANDING THE SYSTEM.
- B. TRY TO SHORTEN THE REVALUATION CYCLE FOR REAL PROPERTY.
- C. RE-WRITE THE MACHINERY ACT TO MAKE IT CLEAR THAT THE FOURTH-YEAR HORIZONTAL ADJUSTMENT IS MANDATORY.
- D. DEVELOP "IN-HOUSE" REVALUATION CAPABILITY BY HIRING AND TRAINING LOCAL PEOPLE AND COMPUTERIZE THE OPERATION.

Such a system would reduce revaluation costs, improve the image of the revaluation with taxpayers and county commissioners, and allow for more frequent revaluation.

- E. CLARIFY THE MACHINERY ACT REGARDING EXEMPTIONS.

F. ENACT A SEPARATE MACHINERY ACT FOR PERSONAL PROPERTY.

G. LEARN HOW THE STATE'S ANNUAL APPRAISAL OF UTILITY PROPERTY WORKS.

5. RON AYCOCK, EXECUTIVE DIRECTOR, N. C. ASSOCIATION OF COUNTY COMMISSIONERS

The Association represents North Carolina's 100 counties before the General Assembly, as well as assisting commissioners and county administrative staff on legal and technical matters.

Mr. Aycock explained that the granting of property tax exemptions to one class of property shifts the tax burden to other classes. He felt that the most crucial problem for the Committee to deal with was the octennial revaluation cycle for real property.

6. ERNIE BALL, COUNSEL, N. C. LEAGUE OF MUNICIPALITIES

The League represents cities in North Carolina before the General Assembly, as well as assisting council members and municipal administrative staff on legal and technical matters. Mr. Ball felt that a principal goal of the Committee should be to protect the viability of the property tax. His primary concern was with the octennial revaluation cycle. He felt that the three main problems with the revaluation cycle are:

- A. LOCAL ELECTED OFFICIALS BEAR THE BRUNT OF CRITICISM OF STATE-MANDATED REVALUATION AND THE EFFECT OF HIGH INFLATION.
- B. THE LEGAL AND EQUITY PROBLEM OF DIFFERENT LEVELS OF ASSESSMENT FOR REAL PROPERTY VERSUS PERSONAL PROPERTY AND PUBLIC SERVICE COMPANY PROPERTY DUE TO DIFFERENCES IN THE FREQUENCY OF REVALUATION.

C. THE EFFECT OF REAL PROPERTY REVALUATION ON ELDERLY
HOMEOWNERS WITH FIXED INCOMES.

7. DAVE CROTTS, SENIOR FISCAL ANALYST, FISCAL RESEARCH DIVISION

The Fiscal Research Division is the fiscal staff of the General Assembly and provides research assistance to individual members and interim legislative study commissions, as well as staffing the Appropriations and Finance Committees during the legislative session.

Mr. Crotts noted that the Committee had at its disposal a wealth of background material on the property tax in North Carolina. He presented a handout that listed material from the Institute of Government, reports of previous property tax commissions, reports of various state tax commissions dealing with property tax matters and current legal material.

November 18, 1981

Various local government officials made the following presentations to the Committee:

1. LARRY POWELL, TAX SUPERVISOR, NEW HANOVER COUNTY

Mr. Powell discussed the major events that occurred during the 1975 revaluation in New Hanover County. These events included shortcuts taken by the appraisal company, taxpayer insecurity about the quality of the appraisal, a subsequent court suit, numerous taxpayer appeals, and a substantial tax base reduction in the appeal process.

Mr. Powell made the following recommendations regarding property tax system improvements:

- A. EDUCATE THE PUBLIC ABOUT THE FACT THAT THE TAXABLE
VALUES ESTABLISHED DURING A REAL PROPERTY REVALUATION
ARE BASED ON ACTUAL VALUES IN THE MARKET PLACE.

- B. REQUIRE THE REVALUATION OF REAL PROPERTY NO LESS FREQUENTLY THAN EVERY FOUR YEARS.
 - C. EQUALIZE THE DIFFERENCES IN RELATIVE TAX BURDENS BETWEEN REAL PROPERTY, AND PERSONAL PROPERTY AND PUBLIC SERVICE COMPANY PROPERTY THAT OCCUR DUE TO DIFFERENCES IN THE FREQUENCY OF REVALUATION.
 - D. HAVE THE AD VALOREM TAX DIVISION OF THE N. C. DEPARTMENT OF REVENUE PREPARE ANNUAL SALES-RATIO STUDIES IN ALL COUNTIES.
 - E. ESTABLISH A GRADUATED SCALE FOR THE PENALTY FOR LATE LISTING TO ENCOURAGE SOONER LISTING.
 - F. PROVIDE JOB SECURITY FOR THE COUNTY TAX SUPERVISOR IN ORDER TO ENCOURAGE PROFESSIONAL DEVELOPMENT AND ADEQUATE SKILLS FOR TAX OFFICE PERSONNEL.
2. BOBBY MILLER, TAX SUPERVISOR, CATAWBA COUNTY AND PRESIDENT OF THE N. C. ASSOCIATION OF ASSESSING OFFICERS

The Association is the professional association of tax assessment personnel in North Carolina. Mr. Miller made the following recommendations regarding property tax system improvements:

- A. ESTABLISH A BETTER SYSTEM OF LISTING PERSONAL PROPERTY.
 - B. REQUIRE A MORE FREQUENT REVALUATION OF REAL PROPERTY.
 - C. ESTABLISH A PERMANENT LISTING SYSTEM FOR REAL PROPERTY.
3. HARVEY PARDUE, TAX SUPERVISOR, FORSYTH COUNTY

Mr. Pardue made the following suggestions for property tax system improvements:

- A. CLARIFY THE MACHINERY ACT REGARDING WHICH TYPES OF PROPERTY ARE TO BE REVALUED DURING A YEAR IN WHICH REAL PROPERTY IS NOT REVALUED. IT IS UNCLEAR UNDER

THE PRESENT LAW AS TO HOW APARTMENT PROPERTY CONVERTED TO CONDOMINIUMS SHOULD BE TREATED.

B. REQUIRE MORE FREQUENT REAL PROPERTY REVALUATION.

4. JACK WILLIFORD, TAX SUPERVISOR, BERTIE COUNTY AND IMMEDIATE PAST PRESIDENT OF THE N. C. ASSOCIATION OF ASSESSING OFFICERS

Mr. Williford presented to the Committee suggested improvements of the property tax system as recommended by Mr. Van McQueen, Tax Supervisor from Montgomery County. (Mr. McQueen could not appear due to illness.) These recommendations were:

A. REVALUE REAL PROPERTY MORE FREQUENTLY THAN EVERY EIGHT YEARS.

B. MANDATE PROPERTY TAX MAPS FOR ALL COUNTIES.

C. ADDRESS THE PROBLEM OF DIFFERING RELATIVE TAX BURDENS BETWEEN REAL PROPERTY AND PERSONAL AND PUBLIC SERVICE COMPANY PROPERTY DUE TO DIFFERENCES IN THE FREQUENCY OF REVALUATION AND THE POSSIBILITY OF THE USE OF DIFFERENT ASSESSMENT RATIOS IN THE REVALUATION PROCESS.

D. EXEMPT HOUSEHOLD PERSONAL PROPERTY.

5. JOE R. HEDRICK, COUNTY MANAGER, CLEVELAND COUNTY AND PRESIDENT OF THE CITY-COUNTY MANAGERS ASSOCIATION

Mr. Hedrick discussed the following recommendations:

A. THE USE OF 100% OF FAIR MARKET VALUE IN APPRAISALS.

B. REVALUE REAL PROPERTY EVERY TWO OR FOUR YEARS.

C. THE NEED TO AUTOMATE REAL PROPERTY REVALUATION PROCESS.

December 16, 1981

County and city tax collectors were invited to speak to the Committee concerning tax collection problems.

1. C. E. WORLEY, TAX COLLECTOR, ALAMANCE COUNTY

Mr. Worley discussed the cash-flow problem which counties have and suggested the following as possible solutions:

A. DELINQUENT INTEREST RATES NEED TO BE RAISED.

The current 9% rate encourages taxpayers to borrow from counties and cities by delaying payments.

B. THE DATE WHEN INTEREST FOR LATE PAYMENTS BEGINS TO APPLY NEEDS TO BE MOVED BACK TO NOVEMBER OR DECEMBER.

A 3% interest rate should be charged for the beginning month and 1% per month thereafter.

C. MOVE THE TAX LIEN SALE DATE BACK.

2. G. THOMAS DAVIS, TAX COLLECTOR, WILSON COUNTY

Mr. Davis made the following suggestions concerning tax collecting schedules:

A. MOVE THE JANUARY 5 TAX DUE DATE BACK TO NOVEMBER 1.

B. GIVE A DISCOUNT FOR PAYMENTS MADE IN SEPTEMBER AND OCTOBER.

C. GIVE COUNTIES OPTION TO CHANGE TAX SALE-DATE FROM MARCH TO JANUARY.

3. MR. MARVIN COLEMAN, TAX COLLECTOR, CITY OF GREENSBORO

Mr. Coleman made the following recommendations:

A. MOVE THE JANUARY 5 TAX DUE DATE BACK TO NOVEMBER 1.

B. INCREASE THE INTEREST PENALTY ON LATE TAX PAYMENTS.

- C. EITHER INCREASE THE INTEREST RATE ON TAX-SALE CERTIFICATES TO 12% OR EXEMPT THE INTEREST EARNED ON THE CERTIFICATES FROM STATE INCOME TAX.
- D. AMEND MACHINERY ACT PROVISIONS FOR THE COLLECTION OF TAXES IN CASES WHERE MERCHANTS GO OUT OF BUSINESS OR TRANSFER INVENTORY.

4. DR. WOODROW ROBBINS, COMPUTER SCIENCE DEPARTMENT,
N. C. STATE UNIVERSITY

Dr. Robbins explained problems faced by the counties in making real property revaluations and discussed recent efforts in automating the revaluation process.

March 9, 1982

Representatives from various businesses and trade associations appeared before the Committee to discuss problems concerning the property tax system.

1. SAMUEL H. JOHNSON, ATTORNEY, REPRESENTING N. C. ASSOCIATED
INDUSTRIES

Mr. Johnson gave a brief overview of the property tax system and discussed prior studies that have been made. He stated that due to current economic conditions no major change should be made in the property tax system. He felt, however, that there needed to be more efficiency and it was necessary to hold down local government spending in order to reduce the burden of the local property tax. The following recommendations were made by Mr. Johnson:

- A. EXPAND THE CURRENT STATE INCOME TAX CREDIT ON BUSINESS INVENTORY.

B. REVIEW VARIOUS EXCLUSIONS AND EXEMPTIONS.

- (1) Property held by religious organizations.
- (2) Property exempted for educational purposes.
- (3) Household personal property.

Mr. Johnson recommended that the committee consider raising this exemption from \$300 to \$500.

C. ELIMINATE THE INTANGIBLE PERSONAL PROPERTY TAX.

D. DO NOT REQUIRE REAL PROPERTY REVALUATION MORE FREQUENTLY THAN THE CURRENT SCHEDULE.

2. EDITH MARSH, DIRECTOR, STATE AND LOCAL GOVERNMENT RELATIONS, WESTINGHOUSE ELECTRIC CORPORATION

Ms. Marsh made the following recommendations:

- A. SUPPORT THE EXPANSION OF THE CURRENT STATE INCOME TAX CREDIT ON BUSINESS INVENTORY.
- B. DO NOT CHANGE THE DUE DATE FOR PROPERTY TAXES FROM JANUARY 5 TO AN EARLIER DATE.
- C. COMPUTERIZE TAX RECORDS.

Small counties should consider a consortium of time-sharing arrangement to make it economical for them.

- D. INCLUDE BUSINESS OR INDUSTRY REPRESENTATIVES IN TRAINING COURSES GIVEN FOR TAX ASSESSORS AND OTHERS.
- E. SUPPORT BILL IN SENATE THAT EXEMPTS FROM PROPERTY TAX POLLUTION EQUIPMENT LOCATED INSIDE PLANTS.

3. CHARLES DUNN, N. C. TEXTILE MANUFACTURERS ASSOCIATION

Mr. Dunn presented suggestions as recommended by the Tax Committee of the N. C. Textile Manufacturers Association:

- A. SUPPORT EXPANSION OF CURRENT STATE INCOME TAX CREDIT ON BUSINESS INVENTORY.

- B. SUPPORT BILL IN SENATE THAT EXEMPTS FROM PROPERTY TAX POLLUTION EQUIPMENT LOCATED INSIDE PLANTS.
- C. ENCOURAGE EARLY PAYMENT OF TAXES THROUGH UTILIZATION OF A MORE REALISTIC DISCOUNT RATE SCHEDULE.
- D. ESTABLISH A UNIFORM PROCEDURE TO EVALUATE MANUFACTURING MACHINERY.

Require that fair market value of machinery be determined by reducing original cost of property by a depreciation allowance of 10% per year with a maximum cumulative allowance of 80%.

- E. CONSIDERATION OF FREQUENT HORIZONTAL ADJUSTMENTS OF REAL PROPERTY BASED ON SALES-ASSESSMENT RATIO STUDIES.

4. WILLIAM ELMORE, JR., ASSISTANT TAX COUNSEL, BURLINGTON INDUSTRIES AND MEMBER OF N. C. TEXTILE MANUFACTURERS TAX COMMITTEE

Mr. Elmore discussed the procedures used in determining the tax value of manufacturing machinery and equipment. He expressed concern at the lack of uniformity, from county-to-county, in the methods used to depreciate machinery and equipment. The Ad Valorem Tax Division of the Department of Revenue has developed a suggested schedule but Mr. Elmore felt that the schedule was too complex and difficult for many counties to use. Also, the schedule has some results that he felt were incorrect. His suggestion was to use a mandatory simple procedure whereby machinery and equipment is depreciated at the rate of 10% per year, up to a maximum of 80%.

5. DENNIS JULIAN, N. C. CITIZENS ASSOCIATION

Mr. Julian made the following recommendations:

- A. EXEMPT MANUFACTURERS' INVENTORY FROM THE TAX OR EXPAND THE STATE INCOME TAX CREDIT.

- B. EXEMPT POLLUTION ABATEMENT EQUIPMENT LOCATED INSIDE A PLANT.
- C. ELIMINATE THE INTANGIBLE PERSONAL PROPERTY TAX AND POSSIBLY INCREASE THE STATE SALES TAX RATE BY 1% TO OFFSET THE LOSS FROM REPEALING THE INTANGIBLES TAX.
- E. DO NOT ADVANCE THE DELINQUENT DUE DATE OF PROPERTY TAX PAYMENTS FROM JANUARY 5 TO NOVEMBER 1.

6. BUTCH GUNNELLS, COUNSEL, N. C. ASSOCIATION OF COUNTY COMMISSIONERS

Mr. Gunnells introduced two members of the Ad Hoc Property Tax Committee of the N. C. Association of County Commissioners who had recommendations.

7. MS. VIRGINIA THOMPSON, CUMBERLAND COUNTY COMMISSIONER AND MEMBER OF AD HOC PROPERTY TAX COMMITTEE

Ms. Thompson made the following recommendations:

- A. SUPPORT THE BILL IN THE SENATE THAT AUTHORIZES AN ADDITIONAL 1¢ SALES TAX.
- B. REQUIRE MORE FREQUENT REAL PROPERTY REVALUATION.
- C. ESTABLISH A HIGHER INTEREST RATE ON LATE PAYMENT OF TAXES.
- D. MOVE FORWARD THE TAX DUE DATE.
- E. MADE THE DISCOUNTS FOR EARLY PAYMENT OF TAXES AVAILABLE FOR A LONGER PERIOD.

8. KENNETH THOMPSON, COUNTY MANAGER, ORANGE COUNTY AND MEMBER OF AD HOC PROPERTY TAX COMMITTEE

Mr. Thompson expressed the following concerns about the property tax system:

- A. THE OCTENNIAL REVALUATION CYCLE FOR REAL PROPERTY IS TOO LONG.

(1) With higher inflation, disparity between market value and assessed value widens.

(2) Real property owners are shocked by results of revaluation.

(3) Every eight years the tax burden shifts back sharply to real property and then begins shifting gradually to public utility and business personal property in intervening years.

B. ACCURACY OF REVALUATION.

Some counties do an excellent job and reach close to 100% of market value. Other revaluations are not done well or values are compromised. The majority of counties treat different classes of property differently.

C. TAXPAYER REACTION TO REAL PROPERTY REVALUATION SYSTEM.

(1) Misunderstanding of dual revaluation timetable.

(2) Misunderstanding of shift in tax burden each eight years

(3) Shock and outrage at revaluation notice.

(4) Reaction against local officials.

D. REACTION OF PUBLIC SERVICE COMPANIES.

(1) Objections to public service property being assessed annually versus eight years for real property.

(2) Objection to fact that in year of revaluation real property is not assessed at 100% in some counties.

Mr. Thompson discussed the following alternatives that could be used to address the problems discussed above:

E. FREQUENCY OF REAL PROPERTY REVALUATION

(1) Plan the county budget for a four-year revaluation.

(2) Allow annual extensions in revaluation cycle if county demonstrates by a sales-assessment ratio that property is no more than 15% out of line.

F. ACCURACY OF REVALUATION.

(1) Provide state fiscal assistance for:

- (a) More training of tax officials.
- (b) Computer software for all counties.
- (c) Land maps for all counties.

(2) Provide state supervisory and technical assistance to tax supervisors for:

- (a) Planning and organizing for revaluation.
- (b) Developing periodic sales-assessment ratio studies.
- (c) Alerting counties when their assessment levels have fallen far below sales prices.
- (d) Developing an appraisal manual with pricing schedules or ranges for each county for personal property, agricultural and forest land, and commercial and industrial property.

G. DUTIES, FUNDING AND ORGANIZATION OF AD VALOREM TAX DIVISION OF THE DEPARTMENT OF REVENUE.

- (1) Duties - Implement existing law.
- (2) Funding - Due to sharp increase in appeals to Property Tax Commission, consider additional staff.
- (3) Reorganization - Divide the staff into a section for public service company appraisal, N. C. Property Tax Commission staffing, and supervision and technical assistance to tax supervisors.

9. ERNIE BALL, COUNSEL, N. C. LEAGUE OF MUNICIPALITIES

Mr. Ball discussed several issues concerning the property tax system. He felt that the recent legal attach by the railroads and public utility companies was justified. Mr. Ball stated that

the most pressing property tax problem is the eight-year revaluation cycle for real property. He also felt that the Committee should look at the exemptions from the tax.

10. ERNEST MESSER, ASSISTANT SECRETARY FOR AGING, N. C. DEPARTMENT OF HUMAN RESOURCES.

Mr. Messer recommended that the Committee study the effect of a real property revaluation on the property tax homestead exemption. The problem is that whenever a revaluation occurs, the value of the homestead exemption remains fixed and thus the net taxable value of the homestead rises sharply.

11. W. B. JENKINS, ASSISTANT TO THE PRESIDENT, N. C. FARM BUREAU FEDERATION

Mr. Jenkins presented five resolutions adopted by the Federation during their annual meeting.

- A. INCREASING THE LOCAL OPTION SALES TAX OR ALLOWING A LOCAL INCOME TAX IN LIEU OF INCREASING THE PROPERTY TAX.
- B. ASK AD VALOREM TAX DIVISION OF THE DEPARTMENT OF REVENUE TO CORRECTLY ADVISE TAX SUPERVISORS ON THE PROCEDURE FOR ESTABLISHING AGRICULTURAL USE VALUE.
- C. RECOMMEND THAT ONLY REAL ESTATE OWNERS BE ELIGIBLE TO VOTE ON BOND ISSUES WHICH AFFECT PROPERTY TAX RATES.
- D. RECOMMEND COUNTY COMMISSIONERS APPOINT ADVISORY BOARD TO PREPARE A SCHEDULE OF VALUES THAT WILL RESULT IN THE APPRAISAL OF FARM PROPERTY AT ACTUAL USE VALUE.

The board would be made up of a tax supervisor and three other members, of which two would be farmers.

- E. RECOMMEND THAT FARMERS BUYING FARM LAND BE ELIGIBLE FOR PRESENT USE VALUE UPON PURCHASE.

12. DANIEL GELBERT, CHAIRMAN OF THE BOARD, N. C. FORESTRY ASSOCIATION

Mr. Gelbert expressed concern that under the present use-value legislation for agricultural, horticultural and forest lands, a public corporation that owns forest land is not eligible for the use-value assessment. Mr. Gelbert felt that this treatment increases the cost of timber and such costs will increase to the point where timber growing will not be economical in certain parts of the state. As a result, the property will be sold for development or other purposes. Mr. Gelbert stated that he was personally aware of many such sales recently. He also pointed out that of the 32 states that have use-value treatment for forest land, only one state specifically excludes corporately-held land. Mr. Gelbert also expressed concern about the lack of uniformity among counties regarding how the determination is made that the property is used productively in eligible uses.

13. JOHN D. HICKS, SENIOR VICE-PRESIDENT OF PUBLIC AFFAIRS, DUKE POWER COMPANY; ALSO APPEARING ON BEHALF OF CAROLINA POWER AND LIGHT COMPANY, CAROLINA TELEPHONE COMPANY, SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY, AND VIRGINIA ELECTRIC POWER COMPANY

Mr. Hicks expressed concern about the difference in the property tax burden between public utility property, which is reappraised annually by the state, and real property, which is revalued only once every eight years. He made mention of the fact that the tax office in many counties does not have adequate personnel and resources to revalue real property as often as annually to keep up with inflation. An alternative approach would be horizontal adjustments based on an

inflation index. Another option would be to factor the level of public utility property down to the actual level of real property. Such factoring would be based on actual sales data submitted on an annual basis by counties to the Ad Valorem Tax Division of the Department of Revenue.

Mr. Hicks also discussed the problem resulting from the present language in the Machinery Act providing for a tax exemption for pollution control equipment. The problem is that such equipment must be certified by the Environmental Management Commission to be eligible for the exemption but the Environmental Management Commission has no legal jurisdiction to inspect such equipment. He suggested that the law be enlarged to permit the Department of Human Resources to determine eligibility.

14. WILLIS MARSHALL, ASSISTANT VICE-PRESIDENT FOR GOVERNMENTAL RELATIONS, CAROLINA TELEPHONE AND TELEGRAPH COMPANY

Mr. Marshall stated that he agreed with the idea of using sales-assessment ratio data for real property to factor down public utility property assessment level.

15. HOMER T. BREWER, DIRECTOR OF PROPERTY TAX ADMINISTRATION, SOUTHERN RAILWAY SYSTEM

Mr. Brewer felt that if the property tax was to be maintained as the primary source of revenue for local government, then it should be applied uniformly across all classes of property. Thus, the Committee should review closely the current exemptions. Mr. Brewer also felt that the Ad Valorem Tax Division of the Department of Revenue should have more freedom to supervise revaluation appraisals. To this end, the Division should be provided with additional funding to

conduct sales-assessment ratio studies. These studies could be used to make adjustments in assessment levels to ensure that all classes of property are treated the same. The additional funding would also enable the Division to assist the counties in complicated appraisals of commercial or industrial property. The state should provide forms and guidelines for the assessment of large holdings of machinery, equipment, and inventories. Finally, the Division should examine the administration of the statutory exemptions to ensure uniform handling.

16. LARRY B. EDLIN, DIRECTOR, AD VALOREM TAXES, FAMILY LINES
RAIL SYSTEM, REPRESENTING THE N. C. RAILROAD ASSOCIATION

The N. C. Railroad Association is concerned about the difference in relative tax burden for railroads versus real property. This difference results from the fact that railroad property is appraised annually by the state while real property is revalued only once every eight years at the local level. The facts brought out in the present court suit by the railroads indicate that the level of assessment for real property in most counties is far below 100%. Mr. Edlin feels that sales-assessment ratios conducted by the Ad Valorem Tax Division of the Department of Revenue could be used to determine how far out of line various classes of property are. He pointed out that the 1979 General Assembly appropriated \$150,000 for such a study but the study was never carried out. If annual sales-assessment ratios were carried out, railroad property could be factored down to the level for real property.

March 10, 1982

The purpose of the meeting was a discussion and display of the possibilities for the use of automated data processing equipment

and programs in the tax office. Dr. Woody Robbins of the Computer Science Department of N. C. State University explained generally how such systems could be used.

Mr. Dave Bodenheimer of Byers and Bodenheimer Appraisal Services in Burlington, N. C., discussed the model program funded by the General Assembly, which was set up in Burke County.

Mr. Clarence Blackman, Tax Supervisor from Burke County demonstrated the system.

April 14, 1982

At the meeting the following presentations were made:

1. DON HOLLOWAY, MANAGER, LAND RECORDS MANAGEMENT PROGRAM
DEPARTMENT OF ADMINISTRATION

Mr. Holloway discussed the history of the Land Records Management Program and explained the technical and financial assistance provided to counties by this program in four major areas:

- A. BASE MAPS.
- B. PROPERTY MAPS.
- C. A SYSTEM OF PARCEL IDENTIFIERS.
- D. THE AUTOMATION OF LAND RECORDS.

Mr. Holloway stated that if the counties are to modernize their record-keeping process and reduce revaluation costs, mapping and automation are necessary first steps and that the state should continue funding the program on a matching basis.

2. WILLIAM FERRISS, PRESIDENT, W. P. FERRISS, INC.
CHARLOTTE, N. C.

Mr. Ferriss' appraisal firm has been used by many counties

in North Carolina for revaluations. Mr. Ferris made the following recommendations:

- A. MANDATE FOURTH-YEAR HORIZONTAL ADJUSTMENT OF REAL PROPERTY.
 - B. TAX OFFICE APPRAISER SHOULD HAVE REAL ESTATE LICENSE AND EXPERIENCE IN MASS APPRAISAL BUSINESS.
 - C. STATE SHOULD SUPPORT A MAPPING PROGRAM.
 - D. SET UP A SEPARATE BOARD OF EQUALIZATION AND REVIEW MADE UP OF QUALIFIED PERSONS AND LEAVE COUNTY COMMISSIONERS OUT OF IT.
 - E. ESTABLISH A SEPARATE SYSTEM FOR ASSESSING PERSONAL PROPERTY.
 - F. SALES-RATIO STUDY SHOULD BE USED TO SUPPORT SCHEDULE OF VALUES.
 - G. STATE SHOULD GET MORE INVOLVED IN PROVIDING FINANCIAL ASSISTANCE TO COUNTIES WITH GOOD SALES-RATIO STUDIES.
 - H. AMEND STATE CONSTITUTION TO LIMIT TAX RATE TO ABOUT FIFTY CENTS TO FORCE COUNTIES TO REVALUE REAL PROPERTY MORE FREQUENTLY.
 - I. HOMESTEAD EXEMPTION SHOULD BE TIED TO VALUE OF PROPERTY RATHER THAN TO INCOME OF INDIVIDUAL.
3. JERRY KUBALA, ROBERT L. KIMBALL AND ASSOCIATES,
CHARLOTTE, N. C.

Mr. Kubala discussed the necessity of mapping and its importance in updating tax records.

4. DOUG HOLBROOK, DIRECTOR, AD VALOREM TAX DIVISION,
THE DEPARTMENT OF REVENUE

Mr. Holbrook discussed the functions of the Ad Valorem Tax Division and how it provides technical assistance and advice to county tax supervisors. He listed some of the major problems of the property tax:

- A. THE ADOPTION BY THE COUNTY COMMISSIONERS OF SCHEDULES OF VALUES THAT DIFFERENTIATE IN ASSESSMENT LEVELS BETWEEN DIFFERENT CLASSES OF REAL PROPERTY.
- B. THE NEED FOR MAINTAINING GOOD CONSTRUCTION COST AND SALES MARKET INFORMATION.
- C. LENGTH OF REVALUATION CYCLE FOR REAL PROPERTY IS TOO LONG.

5. JAMES E. LONG, CHAIRMAN, N. C. PROPERTY TAX COMMISSION

Mr. Long discussed the need of having uniform taxation as mandated by the Constitution and discussed the federal suits concerning the valuation of railroad property. He made the following recommendations:

- A. MOVE TO MORE FREQUENT VALUATIONS OF REAL PROPERTY.
- B. EXEMPT HOUSEHOLD PERSONAL PROPERTY FROM TAX BASE.
- C. ELIMINATE PERSONAL AUTOMOBILES FROM TAX BASE.
- D. FUND ADDITIONAL STAFF AND EQUIPMENT FOR THE AD VALOREM TAX DIVISION OF THE DEPARTMENT OF REVENUE FOR:
 - (1) Two additional real estate appraisers.
 - (2) One attorney assigned solely to the division.
 - (3) A small computer.
 - (4) Computer terminal hooked into the Revenue

Department computers.

May 12, 1982

The purpose of the meeting was to make recommendations which would be considered by the General Assembly in the June, 1982 session. Three speakers made presentations before any recommendations were made.

1. C. L. OSMINT, GUILFORD CHAPTER, UNITED TAXPAYERS
OF NORTH CAROLINA, INC.

Mr. Osmint spoke to the Committee about tax problems encountered by North Carolina's property owners. His main concern was the mass appraisals performed during the revaluation years. He felt there was a need for more competent appraisers who have had adequate appraisal training. Mr. Osmint also stated that property owners need an avenue of recourse, such as an unbiased equalization and review board.

2. W. R. UNDERHILL, ASSISTANT DIRECTOR, AD VALOREM TAX
DIVISION, N. C. DEPARTMENT OF REVENUE

Mr. Underhill's primary responsibility with the Ad Valorem Division is the annual appraisal of public service company property. Mr. Underhill explained to the Committee the process used to allocate to each county the value of total statewide public service company property. Mr. Underhill said that there have been a number of suggestions for improvements and that he had a few technical amendments that would be provided to the Committee.

3. JAMES E. LONG, CHAIRMAN, N. C. PROPERTY TAX COMMISSION

Mr. Long followed up his general discussion in the April 14 meeting with specific proposals that he hoped the Committee would recommend to the 1982 session of the General Assembly. The proposals

would involve additional 1982-83 appropriations from the intangibles tax to the Department of Revenue and the Institute of Government. Part of the additional funding for the Department of Revenue would be used to assist the Ad Valorem Tax Division in responding to legal inquiries from county tax supervisors. Also, there would be funding for two additional property valuation specialists to work on the large number of appeals being filed with the Property Tax Commission. The fourth position would be for clerical assistance to support the increased workload from the additional three professional positions. Finally, a keypunch operator position would be created to input the data from counties in the conduct of sales-assessment ratio studies. The total operations cost of the additional salaries, fringe benefits and supplies would be \$116,606. Added to this amount would be capital purchases of \$16,852, primarily for automated data processing equipment.

Also recommended was additional funding of \$72,034 for the Institute of Government to be used to create a property tax appraisal and assessment administration program. The program would provide an increased number of courses at the Institute for county tax office personnel to increase their expertise. Mr. Long felt that this additional expertise was necessary if counties are to conduct higher quality and more frequent real property revaluations. The person filling the position would also be available to answer questions from county tax officers.

Mr. Long noted that the additional appropriations would increase the share of earmarked intangibles tax revenue used for local assistance programs from the current .6% to 1.0%.

3. JOSEPH S. FERRELL, ASSISTANT DIRECTOR, INSTITUTE OF
OF GOVERNMENT AND STAFF COUNSEL TO COMMITTEE

After reviewing the material presented by various individuals at previous meetings as well as the ensuing Committee discussions, Mr. Ferrell set out the following long-range proposals to improve the property tax system:

- A. MANDATE A GENERAL REVALUATION OF REAL PROPERTY NOT LESS FREQUENTLY THAN ONCE EVERY FOUR YEARS WITH AUTHORITY TO REVALUE AS OFTEN AS ANNUALLY.

Shifting from an octennial to a quadrennial cycle will require an adjustment of the revaluation timetable currently in the Machinery Act. A schedule developed by the Legislative Committee of the N. C. Association of Assessing Officers could be used to phase in the new cycle beginning in 1984. Such a schedule would give each county, beginning in 1984, at least two years to prepare for the quadrennial cycle.

- B. REQUIRE THE AD VALOREM TAX DIVISION OF THE DEPARTMENT OF REVENUE TO CONDUCT CONTINUING SALES-ASSESSMENT RATIO STUDIES AND TO PUBLISH THE RESULTS ANNUALLY.

Additional appropriations to the Ad Valorem Division would be necessary to accomplish this objective.

- C. REQUIRE ANYONE BUYING OR SELLING REAL PROPERTY TO MAKE A FULL DISCLOSURE OF THE PURCHASE PRICE TO THE TAX SUPERVISOR OF THE COUNTY IN WHICH THE DEED IS RECORDED.

It is anticipated under this proposal that the full sales price data would not be open to public inspection and would be restricted to use in sales-assessment ratio studies.

- D. REQUIRE THAT THE ASSESSMENT LEVEL OF PERSONAL PROPERTY IN ANY YEAR BE ADJUSTED DOWNWARD TO THE SALES-ASSESSMENT RATIO OF THE REAL PROPERTY CLASS FOR THE IMMEDIATE PRECEDING CALENDAR YEAR, EXCEPT THAT NO REDUCTION SHALL TAKE PLACE IN A REAL PROPERTY REVALUATION YEAR OR IN A CASE WHERE THE REAL PROPERTY CLASS IS ASSESSED AT 90% OR MORE OF MARKET VALUE.

This proposal would ensure that the relative tax burden would not shift from real property to personal property in the years between general real property revaluations.

- E. REQUIRE THAT THE ASSESSED VALUE OF THE REAL PROPERTY CLASS RESULTING FROM A REVALUATION BE ADJUSTED DOWNWARD BY THE AMOUNT THAT THE ASSESSMENT RATIO FOR THE REAL PROPERTY CLASS FOR THE IMMEDIATE PRECEDING YEAR EXCEEDS 100% OF MARKET VALUES.

In most counties the market values during the revaluation process are established twelve to eighteen months in advance of the effective date of the revaluation and are not changed. During a declining real estate market if a county were to adopt a schedule of values for real property that is close to 100% of market value at the time the values are established, it is possible that during the revaluation year the assessed values will be greater than the market value in the year that the revaluation becomes effective.

- F. REQUIRE THAT THE ASSESSED VALUE OF PUBLIC SERVICE COMPANY PROPERTY IN ANY YEAR BE ADJUSTED DOWNWARD TO THE SALES-ASSESSMENT RATIO OF THE REAL PROPERTY CLASS FOR THE IMMEDIATE PRECEDING YEAR, EXCEPT THAT NO

REDUCTION SHALL TAKE PLACE IN A REAL PROPERTY REVALUATION YEAR OR IN A CASE WHERE THE REAL PROPERTY CLASS IS ASSESSED AT 90% OR MORE OF MARKET VALUE.

This proposal would ensure that the relative tax burden would not shift from real property to public service company property in the years between general real property revaluations.

- G. EXTEND THE CERTIFICATION AUTHORITY OF THE AD VALOREM TAX DIVISION OF THE DEPARTMENT OF REVENUE TO ALL TAX OFFICE PERSONNEL ENGAGED IN PROPERTY APPRAISAL.

Presently, the certification emphasis is on the tax supervisor.

- H. AUTHORIZE THE AD VALOREM TAX DIVISION OF THE DEPARTMENT OF REVENUE TO CERTIFY PERSONS OR FIRMS OFFERING TO CONTRACT WITH COUNTIES OR CITIES FOR LAND MAPPING OR PROPERTY TAX APPRAISAL SERVICES.

It is not intended under this proposal to prohibit a non-certified firm from doing work in North Carolina. Such certification would serve only to reassure local tax officials that a certain firm meets minimum levels of competence.

- I. APPROPRIATE FOR THE 1983-84 FISCAL YEAR SUFFICIENT FUNDING FOR THE LAND RECORDS MANAGEMENT PROGRAM OF THE DEPARTMENT OF ADMINISTRATION.

At the present time, one-third of the counties have adequate maps. The additional funding would help the Department in covering the remaining counties.

J. APPROPRIATE FOR THE 1982-83 FISCAL YEAR SUFFICIENT FUNDING FOR THE EXPANSION OF THE STAFF OF THE AD VALOREM TAX DIVISION OF THE DEPARTMENT OF REVENUE AND FOR AN EXPANDED TRAINING PROGRAM FOR LOCAL TAX OFFICIALS.

This recommendation is similar to the 1982 legislative program recommended by the Chairman of the N. C. Property Tax Commission.

August 11, 1982

During the meeting the following presentations were made:

1. NANCY BRIGHT, PUBLIC STAFF, N. C. UTILITIES COMMISSION

Ms. Bright appeared at the request of the Committee to discuss the effect of property taxes on electric power rates. Ms. Bright pointed out that all federal, state, and local taxes are an allowable operating expense for rate-making purposes before the Utilities Commission and thus have a direct impact on the rates of all regulated utilities. In the ensuing discussion it was noted that while electric utility production facilities are concentrated in a few counties in the state and therefore enlarge the tax base of those counties, the higher rates necessitated by the property tax on these plants is allocated evenly over all counties. The result is that ratepayers in counties with little or no production facilities are paying some of the property tax burden for ratepayers in the counties with a concentration of plants. Ms. Bright was not aware of any states that attempt to allocate the property tax burden on a difference basis. Also, while there have been Congressional proposals in recent years to exempt public utilities from federal taxes, none have been enacted.

2. WILLIAM A. CAMPBELL, ASSISTANT DIRECTOR, INSTITUTE OF
GOVERNMENT AND STAFF COUNSEL TO THE COMMITTEE

Mr. Campbell followed up his earlier discussion of property tax collection issues with further explanation and outlined the following options for the Committee to consider:

- A. ALLOW DISCOUNTS TO APPLY PAST THE DUE DATE OF SEPTEMBER 1.
- B. BEGIN APPLICATION OF INTEREST EARLIER IN FISCAL YEAR, POSSIBLY AS EARLY AS NOVEMBER 1 OR DECEMBER 1, INSTEAD OF JANUARY 6.
- C. INCREASE AMOUNT OF INTEREST ON LATE PAYMENTS MADE DURING JANUARY FROM 3% TO 5%.
- D. FOLLOW THE SECRETARY OF REVENUE'S INTEREST SCHEDULE ON STATE TAXES. THE SECRETARY HAS THE AUTHORITY TO ESTABLISH A NEW RATE EVERY YEAR BY DECEMBER 1, AT ANY AMOUNT BETWEEN 5% AND 16¢, AFTER A REVIEW OF CURRENT MARKET CONDITIONS.
- E. MAKE A PROVISION IN THE STATUTE FOR PAYMENT OF PROPERTY TAXES IN TWO EQUAL INSTALLMENTS.

3. JOSEPH S. FERRELL, ASSISTANT DIRECTOR, INSTITUTE OF
GOVERNMENT AND STAFF COUNSEL TO THE COMMITTEE

Mr. Ferrell discussed the following areas of the tax assessment portion of the Machinery Act.

- A. LATE EXEMPTION APPLICATIONS.
- B. APPEALS OF PERSONAL PROPERTY VALUATIONS.
- C. STATUS OF DEFERRED TAX LIEN UPON WITHDRAWAL OF USE-VALUE APPLICATION.

- D. CONVEYANCE OF USE-VALUE LAND WITHOUT INVOKING THE DEFERRED TAX LIEN.
 - E. KEEPING RECORDS OF DEFERRED TAXES.
 - F. APPRAISAL OF LAND OF HOMEOWNERS' ASSOCIATIONS.
 - G. EXEMPTION OF GOVERNMENT-OWNED PROPERTY.
 - H. APPRAISAL OF CONDOMINIUM CONVERSIONS IN NON-REVALUATION YEARS.
 - I. LIST TAKERS.
 - J. MUNICIPAL LISTING.
 - K. NOTICE OF ADOPTION OF SCHEDULES OF VALUE.
 - L. POWER OF THE BOARD OF EQUALIZATION AND REVIEW TO CHANGE VALUES ON ITS OWN MOTION.
 - M. EXPIRATION OF TIME IN WHICH TO CHANGE VALUES FOR THE CURRENT YEAR.
 - N. PAYMENT OF TAXES PENDING RESOLUTION OF VALUATION APPEALS.
 - O. TAX SUPERVISOR'S AUTHORITY.
 - P. TAX SUPERVISOR'S TITLE.
3. DOUG HOLBROOK, DIRECTOR, AD VALOREM TAX DIVISION,
N. C. DEPARTMENT OF REVENUE

Mr. Holbrook discussed the following property tax assessment and collection problems:

- A. TAXATION BY MUNICIPALITIES OF RECENTLY-ANNEXED PROPERTY FOR UPCOMING FISCAL YEAR EVEN THOUGH TAXPAYER MOVED INTO AREA AFTER EFFECTIVE DATE OF ANNEXATION.
- B. LENGTH OF TIME BETWEEN DUE DATE FOR TAX PAYMENTS (SEPTEMBER 1) AND LAST DATE FOR WHICH TAXES COULD BE PAID WITHOUT PENALTY (JANUARY 6).

- C. TECHNICAL REVISION REGARDING COMPUTERIZATION OF LOCAL TAX OFFICE.
- D. INEQUITY IN TREATMENT OF DISCOVERED PROPERTY BETWEEN TAXPAYER WHO DOES NOT LIST PROPERTY AND ONE WHO LISTS AND IS UNABLE TO PAY TAX BILL.
- E. INADEQUACY OF STATUTORY LANGUAGE WITH REGARD TO APPRAISAL OF CONDOMINIUM CONVERSIONS IN NON-REVALUATION YEARS.
- F. DIFFICULTY OF RECOVERING TAXES FROM TRUCKING COMPANIES.
- G. PROBLEMS WITH PUBLIC UTILITY APPEALS MECHANISM.
- H. LEGAL PROBLEMS WITH SCHEDULE OF VALUES ADOPTED BY COUNTY COMMISSIONERS.
- I. USE-VALUE DETERMINATION.
- J. ADMINISTRATIVE BURDEN AND NEGATIVE IMAGE OF TAX OF HOUSEHOLD PERSONAL PROPERTY.

October 13, 1982

At this meeting the Committee heard the following presentations:

1. KENNETH J. UNGAR, CHAIRMAN, STATE AND LOCAL TAXATION
SUBCOMMITTEE, BUSINESS EQUIPMENT MANUFACTURERS
ASSOCIATION

Mr. Ungar spoke on behalf of a trade association that represents 85% of the manufacturers of computer and business equipment in the United States. The general concern of the association is with the high administrative costs to a multi-county taxpayer of complying with the local property tax on business equipment located in North Carolina. The burden is primarily due to a lack of uniformity from one county to another in the tax listing and assessment forms, in the assessment of the property, and in the appeals process. Also, Mr. Ungar

expressed concern that the present systems used by counties to appraise leased high-technology equipment do not adequately account for obsolescence because this equipment is valued using the same standards as business personal property that does not become obsolete as rapidly. Mr. Ungar had the following specific recommendations to improve the current system:

- A. ADOPTION OF A STANDARD PERSONAL PROPERTY TAX RETURN FORM.
- B. CODIFICATION OF A UNIFORM STATEWIDE ASSESSMENT AND APPEAL PROCEDURE.

One possibility would be to modify the model State Assessment Appeal Procedures Act developed by the American Bar Association.

- C. ESTABLISH VALUATION PROCEDURES THAT ACCOUNT FOR TECHNOLOGICAL OBSOLESCENCE INHERENT IN HIGH-TECHNOLOGY EQUIPMENT.

During another part of the meeting the Committee discussed the assessment of forestland under the use-value statute. Representatives of the N. C. Forestry Association expressed concern that the use-value treatment for agricultural, horticultural, and forestland applies only to individually-owned property or property owned by family corporations. Forestland in production that is held by a public corporation is not eligible for the special assessment. The Association feels that the use-value treatment should apply to all forestland in production that meets the industry's criteria for sound resource management, regardless of the type of ownership, and that the original restrictions in the law were intended to prohibit corporations not using forestland for productive purposes from receiving the same treatment as family operations. The Association noted that while

North Carolina has numerous financial incentives for the forest products industry, the treatment of publicly-held forestland is out-of-line with the use-value law in other states and that this difference is a deterrent to the further development of the industry. Also, if a large-scale lumber producer reduces his operations because of the tax burden on the forestlands he also owns, the numerous small woodlot owners in the state will not have as large a market for their cuttings.

During the discussion of the use-value system another concern of the Committee was considered. That issue had to do with the recent State Supreme Court ruling in the McElwee case. The Committee discussed the details of the case, especially the Court's criticism of the method used by a particular county in arriving at use-value. One concern was that the methods used by the appraisal firm hired by the county were somewhat arbitrary and not based on a thorough examination of relevant valuation factors as intended under the use-value statute. Another concern was the adoption by the board of commissioners of a schedule of use-values that was based on market sales data developed by the appraisers. The Court seemed to favor the use of an income-based appraisal technique, except in cases where the market sales data used applies to property that is truly comparable and where the current use of the property is the highest and best use. The Court seemed to imply that sales data could be used if the appraiser and the county tax office analyzed the sales data to an extent sufficient to "qualify" the data.

The Committee's review of the implications of the McElwee case led to a discussion of the income method of determining use-value. One problem for county tax assessors is the inability to develop

enough information on the relevant factors influencing use-value. Another is the determination of the proper capitalization rate to use in converting income data into values. This rate is the inverse of whatever interest rate is used to measure the opportunity cost of the property investment. In many cases it is difficult to determine the applicable rate of return from alternative investment opportunities. However, such a determination is crucial because a slight change in the rate can dramatically change the value that results. A related problem is the fact that capitalization rates are usually determined, at least partly, from sales transactions and if such sales data cannot be used in the appraisal process, it will be very difficult to determine a rate that can be defended on appeal.

One other new matter discussed by the Committee at this meeting was the valuation of business inventories for property tax purposes. The two most frequent accounting methods are LIFO (last-in, first-out) and FIFO (first-in, first-out). The discussions indicated that there is considerable variation among counties in the techniques used to appraise inventories and that one major reason for the differences is the numerous methods allowable under generally-accepted accounting principles and income tax law. There was some discussion regarding the creation of a prescribed uniform statewide method for valuating business inventories. It was pointed out during the discussions that the only method that will lead to a current market value for inventory is FIFO.

The remainder of the meeting was devoted to discussions of proposed property tax collection legislation drafted by Bill Campbell, and property tax listing and assessment changes drafted by Joe Ferrell and Doug Holbrook. All of these changes had been initially presented at earlier meetings.

November 10, 1982

The Committee heard one presentation at this meeting.

1. W. H. McELWEE, ATTORNEY, NORTH WILKESBORO, N. C.

Mr. McElwee discussed a number of property tax issues, some of which were based on his work in the recent McElwee case decided by the State Supreme Court. Mr. McElwee's specific recommendations were as follows:

- A. THE COUNTY TAX SUPERVISOR SHOULD BE REQUIRED TO MEET CERTAIN EDUCATION AND TRAINING STANDARDS AND BE CERTIFIED BY THE STATE.
- B. THE OCTENNIAL REVALUATION CYCLE FOR REAL PROPERTY SHOULD BE REPLACED BY AN AUTOMATED ANNUAL REVALUATION.
- C. THE FAIR MARKET VALUE ASSESSMENT REQUIREMENT SHOULD BE REPLACED WITH A SYSTEM OF REAL PROPERTY VALUES FOR DIFFERENT CATEGORIES THAT WOULD BE UNIFORM ACROSS THE STATE.
- D. THE PROPERTY TAX APPEALS STATUTE SHOULD BE AMENDED TO ALLOW APPEALS FROM THE COUNTY BOARD OF EQUALIZATION AND REVIEW TO THE DISTRICT COURT IN WHICH THE PROPERTY IS LOCATED INSTEAD OF TO THE PROPERTY TAX COMMISSION IN RALEIGH.
- E. THE NEWSPAPER NOTICE LEGALLY REQUIRED FOR THE ADOPTION OF A SCHEDULE OF VALUES BY THE BOARD OF COMMISSIONERS DURING AN OCTENNIAL REVALUATION OF REAL PROPERTY SHOULD BE AMENDED OR REPEALED AS IT DOES NOT MEET THE CONSTITUTIONAL REQUIREMENTS OF DUE PROCESS.

F. THE CURRENT USE-VALUE SYSTEM FOR AGRICULTURAL, HORTICULTURAL, AND FORESTLAND SHOULD BE REPLACED WITH A SYSTEM OF VALUES THAT WOULD BE BASED ON AVAILABLE SCIENTIFIC METHODS AND WOULD BE UNIFORM ACROSS THE STATE.

In another portion of the meeting the Committee discussed a letter received from Mrs. Jane Patterson, Secretary of the N. C. Department of Administration. That department administers the state land records management program, authorized by the 1977 General Assembly. In her letter, Mrs. Patterson expressed concern over the cost to counties of octennial real property revaluations and the costs of land mapping. She suggested looking at the possibility of the creation of a state land-mapping revolving fund from which counties could borrow funds at a below-market rate of interest to be paid back over an extended period of time.

The remainder of the meeting involved continued discussions of property tax collection matters, led by Bill Campbell, and property tax listing and assessment changes, led by Joe Ferrell and Doug Holbrook.

November 16, 1982

The entire meeting was devoted to a further discussion of draft legislation in the property tax listing and assessment areas. The discussions were led by Joe Ferrell and Doug Holbrook.

December 1 and 2, 1982

The final two committee meetings were primarily devoted to giving final approval to the property tax collection proposals of Bill Campbell

and the tax listing and assessment proposals of Joe Ferrell and Doug Holbrook. The Committee also discussed and made final recommendations regarding the use-value system, the methods of valuing business inventories, and the 1% local-option sales tax.

TAX COLLECTION RECOMMENDATIONS

1. Restructure Local-Option Discount Schedule For Early Tax Payments.

The Committee, based on numerous presentations, feels that there is a great deal of public misunderstanding about when property taxes are actually due. This misunderstanding results from the difference between the September 1 stated due date and the January 5 effective due date after which interest applies. Both of these dates are contained in the same statute (G.S. 105-360). The difference represents a substantial period of time (four months and five days). G.S. 105-360 also allows each county and municipal governing board to establish a discount schedule for payments made prior to September 1. In effect, then, the discount applies only to payments made between July 1, the beginning of the fiscal year, and August 31. Beginning September 1 there is no incentive for taxpayers to make payment prior to January 5.

The two main options discussed by the Committee included a shortening of the time period between the stated due date and the effective due date and lengthening the period for which discounts can be provided for early tax payments. The Committee decided on the latter option by recommending that the eligible period for discounts begin July 1 and end November 30. Also, the Committee felt strongly that the actual schedule should continue to be decided locally, subject to the new statutory constraints.

The recommended legislation dealing with this proposal is contained in Section 6 of Appendix 6.

2. Require Local Government Commission's Approval Of Discount Schedule.

In developing the recommendation to restructure the discount schedule for early payment of taxes the Committee discussed the current requirement that the schedule adopted by each county and city be submitted to the State Department of Revenue for approval prior to publication in local newspapers. The purpose of this requirement is to ensure that a county or city will not adopt an unreasonably high discount rate, The Committee, upon the advice of the Department of Revenue, changed the approving agency from the Department of Revenue to the Local Government Commission of the Department of State Treasurer. In making this change the Committee felt that the Local Government Commission's fiscal oversight role, coupled with the interest rate information the Commission routinely receives from other divisions of the Treasurer's Office, makes the Commission a more appropriate body for the approval of discount schedules.

The recommended legislation dealing with this proposal is contained in Section 6 of Appendix 6.

3. Increase Interest Rate On Late Tax Payments.

A consistent theme running through the remarks of all of the speakers discussing tax collection matters was the need to increase the interest rate on tax payments made on or after January 6. The various speakers felt that the current schedule of 2% for payments made between January 6 and January 31, and 3/4% per month (9% per year) beginning with February 1, was too low in light of current money market conditions and that the artificially low rate provided an incentive for delinquent taxpayers to "borrow" from a county or city by delaying

payment. This concern is particularly important at the present time due to the difficult fiscal conditions facing most local government units. In Committee discussions it was pointed out that the 1977 General Assembly had begun linking interest rates on delinquent state tax payments to current conditions by tying the state rate to the market-based rate established annually by the Secretary of the Treasury for federal income tax purposes. During the 1982 session, the General Assembly amended the indexing mechanism to deal with some deficiencies in the federal mechanism. The new mechanism, effective January 1, 1983, provides that the Secretary of Revenue shall, by December 1 of each year, set a rate at any amount between 5% and 16% and that the Secretary may look at current market rates for guidance in setting the rate. The Committee discussed the possibility of tying the rate for delinquent property tax payments to that established by the Secretary of Revenue. However, it is likely that the Secretary will wait as close to December 1 as possible each year to pick a rate that will hopefully be close to the rates during the upcoming calendar year. This date will be too late for the Department to notify all local units and for the governing boards of each unit to adopt the rate and give notice to taxpayers. The Committee was also concerned with the fact that there is no guarantee that any market-based rate set in advance of the applicable period would be an accurate reflection of money market conditions during the period. In the absence of a completely satisfactory method, the Committee recommended that the 2% rate for payments made between Jan. 6 and Jan. 31 be increased to 3% and that the 3/4% monthly rate (9% annual rate) for payments made after Jan. 31 be increased to 1% (12% annual rate).

The recommended legislation dealing with this proposal is contained in Section 6 of Appendix 6.

4. Increase Interest Rate On Sale Of Tax Lien Certificates.

The current interest rate applicable to the sale of tax lien certificates is 9%, the same as that for delinquent tax payments made on or after February 1. This recommendation would increase the rate for such sales to the same 12% rate recommended for delinquent payments.

The recommended legislation dealing with this proposal is contained in Sections 7-10 of Appendix 6.

5. Delete Certain Tax Receipts From Tax Collector's Charge.

There is no provision in the Machinery Act to allow a county or city governing board to delete from a tax collector's charge property tax bills that involve a very small sum of money. These bills cause a considerable administrative expense relative to the size of the bill. This recommendation would allow a board of county commissioners or a city council to delete bills of less than \$5.00, if the bill applies only to personal property. Each board or council would have the option of choosing a smaller threshold. The deletion would apply only to taxpayers for whom not more than one tax receipt is prepared.

The recommended legislation dealing with this proposal is contained in Section 25 of Appendix 6.

6. Adjust Certain Incorrect Tax Payments.

There is no provision in the Machinery Act to allow a tax collector to adjust an incorrect property tax payment of a very small amount. In such cases the collector must go through the normal administrative process used for overpayments and underpayments of larger magnitude. Such a process is not cost-effective when the

overpayment or underpayment is minor. In practice, many collectors are making adjustments without the proper legal authority. This recommendation would allow a county board of commissioners or city council to adopt a resolution to allow the tax collector to treat overpayments or underpayments of less than \$1 as a correct amount.

The recommended legislation dealing with this proposal is contained in Section 27 of Appendix 6.

7. Restructure Penalty For Late Tax Listing.

Under G.S. 105-312(h) there is a penalty of 10% of the tax due for property listed after the close of the regular listing period with an additional 10% penalty if the property is not listed until after the close of the next subsequent listing period. The same penalty applies regardless of whether the listing took place one day after the regular period or much later. The Committee felt that a more equitable approach would be to restructure the penalty in such a fashion that the penalty would be smaller for property listed shortly after the regular period. At the same time the Committee wanted to keep the schedule simple. The schedule recommended by the Committee is a 5% penalty for property listed within thirty days after the end of the regular listing period or 10% for property listed or discovered after the thirty-day period.

The recommended legislation dealing with this proposal is contained in Section 28 of Appendix 6.

TAX ASSESSMENT TECHNICAL CHANGE RECOMMENDATIONS

8. Eliminate Obsolete Statutory Provisions.

Article 20 of the Machinery Act (G.S. 105-387 through 105-393) contains language that validates property tax sales and other tax actions taken by county and city governing boards primarily during the 1920's and 1930's, with the last validation applying to actions taken prior to March 20, 1951. These validation sections were left in the 1971 re-write of the Machinery Act because at that time a few counties and cities still had an unlimited authority to go back and collect taxes. In 1972 the law was changed to prohibit counties and cities from going back more than ten years. Thus, the validation language for the earlier actions no longer has any effect and the Committee recommends the repeal of this Article.

The recommended legislation dealing with this proposal is contained in Section 11 of Appendix 6.

9. Clarify When And Where Certain Business And Inventories Are To Be Listed For Taxation.

G.S. 105-285 outlines the time and place requirements for listing property for taxation. The recommended legislation amends the law that deals with the listing of business inventories by taxpayers whose fiscal year ends on a date other than the end of the calendar year. The amendments correct two inadvertent grammatical and punctuation errors made in 1973 amendments to this section. The errors make the current law difficult to interpret and enforce with regard to certain types of inventory.

The recommended legislation dealing with this proposal is contained in Section 12 of Appendix 6.

10. Clarify Process For The Department Of Revenue To Furnish Information To Local Tax Authorities.

G.S. 105-289(e) authorizes the Department of Revenue to make available to local tax offices any information the Department has that would assist local units in securing more complete tax listings, appraising taxable property, and presenting information in administrative and judicial proceedings on property tax matters. Prior to the 1981 legislative session the statute contained no specific instructions as to how the system would work. In the absence of such instructions the Department of Revenue was able to voluntarily provide to local tax offices any useful information it might receive without a specific request from the unit. The 1981 General Assembly tightened up the system by requiring local tax offices to request the specific taxpayer information in writing. The request must contain identifying taxpayer information as well as a description of the information sought and the reason for seeking the information. In responding, the Department of Revenue can furnish only the information specifically requested.

The new legislation, which was in response to a single limited incident involving the release of information to a particular county has proven to be very time-consuming for both the state and the local tax offices and unnecessarily restrictive. The Committee is very aware of the sensitivity of furnishing such information and wishes to ensure that such a system is not abused. However, such information is vital to the ability of counties and cities to determine whether certain types of business properties are listed, to ensure that the values established are correct, and to identify and locate taxpayers

for collection purposes. The recommended legislation represents the Committee's attempt to satisfy the need for information while also protecting the confidentiality of that information. Under the proposed system the Department of Revenue will send a statement to each county and city tax office that will describe the statutory constraints on the use of such information and the penalties resulting from a violation of the constraints. If the Department of Revenue receives a written certification from the tax official requesting information that the person is familiar with the statute, then the Department will furnish the requested information. In practice, the certification will be made on one-time basis and from that point on the local tax office will receive the information in an expeditious manner.

The recommended legislation dealing with this proposal is contained in Section 13 of Appendix 6.

11. Clarify Reports By Multi-County Businesses.

G.S. 105-313 allows the Department of Revenue or the county tax supervisor to request from multi-county businesses information concerning the counties in which the business has personal property and the market value of such property in each county. The information is used by the Department of Revenue and the counties to determine whether all of the personal property of such businesses is correctly listed and valued in each county. The recommended legislation changes the terminology "true value" to "investment" to make the statutory language conform to the actual data requested and received by the state and the counties. Most counties use a Department of Revenue manual for valuing business personal property and the basic

data needed for using the manual is the amount of investment, listed by year of acquisition.

The proposed legislation dealing with this recommendation is contained in Section 14 of Appendix 6.

12. Extend Current System Of Taxation Of Public Property Used By Lessee For Private Purposes.

For decades there has been some question as to whether federal, state, or local government property that is leased to an individual or business which uses the property for a private purpose is taxable. The Federal preeminence rule prevents the taxation of federal property used for public purposes. Article V, Section 2(3) of the North Carolina Constitution exempts state and local government property. While it is clear that state or local property used for a public purpose is exempt, there have been a number of State Supreme Court cases over the years that have tried to answer the question of whether such property used for private purposes is exempt. The decisions have vacillated from one extreme to the other. In the most recent decision (In re University of North Carolina, 1980), the Court ruled that all state and local government property is exempt regardless of use.

The 1980 decision had major consequences on counties that have large amounts of state-owned property leased to private concerns who use the property for private purposes. There has been much sentiment expressed by the members of the General Assembly that such property should be taxed. Actually, under current law counties and cities can tax the leasehold interest created when the state leases land or buildings for an amount below the market rate. The problem for the

county tax supervisor is that the unique nature of the property makes it impossible to find comparable property from which market rental data can be obtained. The 1981 General Assembly attempted to deal with this problem by enacting legislation that followed a method that has been declared legal in the courts of other states. Under this legislation, any person or business that leases federal, state, or local government property and uses the property for private purposes is subject for the property tax on the leased property. The 1981 legislation originally was intended to apply to all such public property but during legislative debate it was noted that the language would tax property leased by private companies but used for public purposes. The prime example would be public airport property that is occupied by an airline company. The discussion of the bill came up late in the 1981 session and there was not enough time to satisfactorily resolve the problem. Realizing the effect on certain counties of the exemption of leased agricultural and forestland, the General Assembly enacted a bill that exempted from the new treatment all property other than those two categories.

The Committee has had ample time to deal with the questions that came up during the 1981 session and recommends going back to the original 1981 concept with the exception that leased public airport property is specifically exempt.

The recommended legislation dealing with this proposal is contained in Appendix 12.

13. Clarify Law Regarding Appraisal Of Condominium Conversions.

G.S. 105-287 specifies the types of real property that are to be reappraised in years in which the general revaluation does not occur. None of the categories covers structures that have been

converted to condominium units. In the absence of any statutory guidance some counties revalue converted property in non-revaluation years on the basis that the property was not revalued as a condominium during the last general revaluation. Some counties take the position that the property has been subdivided and is therefore eligible for reappraisal. Finally, the remaining counties feel that the statute does not give them any grounds for reappraising prior to the next general revaluation. The Committee's recommendation would clear up the uncertainty by adding a provision under G.S. 109-287 to cover converted condominiums.

The recommended legislation dealing with this proposal is contained in Section 4 of Appendix 6.

14. Clarify Law Regarding Approval Of Late Applications For Tax Exemptions.

There is an inequitable situation created under G.S. 105-282.1 between property owners who make an unintentional error in listing or valuing property during the regular listing period, and those who fail to list the property and apply for an exemption during the regular listing period. In the latter case if the taxpayer appeals to the county board of equalization and review and can demonstrate that the property is eligible for the exemption, the board may approve the exemption at that time. On the other hand, if a taxpayer makes a mistake in listing or valuing the property during the regular listing period, the board of equalization and review has no authority to grant relief.

The Committee recommends that the unfairness be removed by dealing with the latter case by allowing the taxpayer's application

for exemption to be approved by the board of county commissioners or city council after the regular listing period only if the taxpayer files a written application and shows good cause for not making a timely application. Any late application would be assessed a penalty equal to 10% of the taxes released or refunded.

The recommended legislation dealing with this proposal is contained in Section 3 of Appendix 6.

15. Conform Machinery Act To State Constitution With Regard To Public Property.

G.S. 105-278.1 is the statute that tracks the property tax exemption for state and local government property contained in Article V, Section 2(3) of the North Carolina Constitution. However, while the language in the Constitution would seem to indicate a blanket exemption for the property, regardless of use, the statute allows the exemption only if the property is used wholly and exclusively for public purposes. The statutory restriction has been affirmed in previous State Supreme Court decisions. However, in a 1980 case, In re University of North Carolina, the Court held that all state and local government property is fully exempt regardless of use. The Committee's recommendation re-writes G.S. 105-278.1 to correspond to the Court decision.

The recommended legislation dealing with the proposal is contained in Section 2 of Appendix 6.

16. Change The Title Of County Tax Supervisor To County Assessor.

The use of the term "county tax supervisor" to describe the top tax assessment official in each county is unique to North Carolina and dates back to 1919 to describe the duties of the position at that time. The title is no longer appropriate and the Committee

recommends changing the title to "county assessor". The new title is used in most other states and was recommended recently by the North Carolina Association of Assessing Officers.

The recommended legislation dealing with the proposal is contained in Section 15 of Appendix 6.

17. Clarify Appraisal of Homeowners Associations.

The 1979 General Assembly enacted G.S. 105-277.8, which specifies the system to be used in appraising property owned by homeowners' associations. The reason for the legislation was the fact that the unique nature of the property and the absence of any specific instructions for appraising the property made it possible that such property could be taxed both as a separate holding of the association and as the enhanced value of the associated dwellings. The 1979 legislation instructed the appraiser of the dwellings to consider the enhanced value in his tax appraisal and instructed the county tax supervisor to assess the association's property at "nominal value". The problem for the tax supervisor is that there is no definition of the term "nominal" and thus most supervisors simply exempt such property. The recommendation of the Committee is that the statute be re-written to correspond to existing practice by exempting the property of the homeowners' associations.

The recommended legislation dealing with the proposal is contained in Section 1 of Appendix 6.

18. Establish Rules Regarding Publication Of Notice Of Adoption Of Schedules, Standards, And Rules To Be Used In General Real Property Reappraisal.

One of the key findings of the 1981 McElwee State Supreme Court decision is that the September, 1974 public notice of

schedules, standards, and rules to be used by Wilkes County in the 1977 octennial real property revaluation did not meet the due process requirements for adequate notice. The Court based its decision on the fact that the notice had been published over two years in advance of the effective date of the revaluation, had been printed only once, had been printed in small type, and was buried at the back of the local newspaper. While the Court did not specifically address the adequacy of the present statutory requirements for such notices (G.S. 105-317(c)), the Committee members felt that the language was not specific enough to give counties the guidance needed. To correct this problem, the Committee recommended that G.S. 105-317(c) be re-written to require that the order adopting the revaluation schedules, standards, and rules be published once a week for four successive weeks in local newspapers and that the last publication not be less than five days prior to the last day for challenging the validity of the schedules, standards and rules.

The recommended language dealing with this proposal is contained in Section 5 of Appendix 6.

APPEALS PROCESS RECOMMENDATIONS

Recommendations 18-23 are directed to the procedures for the taxpayer to appeal property tax listing, appraisal, and assessment decisions by the county tax office. The thrust of the first recommendation is to provide the property owner with certain important listing and assessment information. The provision of such information may serve to reduce appeals whenever the appraisal results from the taxpayer not being fully informed. The other recommendations deal with the actual appeals process. In general, the informational and appeals process problems with the Machinery Act stem from the fact that much of the current statutory system is a holdover from the early 1900's and the current set of actual procedures has evolved over many years without a comprehensive review. The recommendations contained in this section of the report are the end product of the Committee's review of this system and are tailored somewhat after the system in use. A major objective of the new procedure is to encourage the resolution of appeals at the county level in an informal, inexpensive, and expeditious manner. Also, the new language hopefully will enable the taxpayer to work through the process without the need for formal representation.

19. Require County Assessor To Give Taxpayer Written Notice Of Assessment.

For many types of property the taxpayer is made aware of the assessed value of the property during the listing period. In the case of real property, the owner is notified of a change in value during the general octennial revaluation of all real estate. If the property has not been modified, the value established during

the revaluation is shown on the property abstract each year. The value of business inventories is set by the taxpayer during the listing period. If the tax supervisor changes that value, he is required by law to give written notice to the owner. Personal property that is either valued by the taxpayer or assessed by the tax office at the time of listing does not present a problem because if the original value is changed, a written notice from the tax supervisor is required. Finally, if a homeowner selects the option of valuing his household personal property at a fixed percentage of the value of his residence, the taxpayer will have a rough idea of the taxable value of that property.

There are, however, three types of property for which the owner will not learn the assessed value until he receives his tax bill unless he makes a special effort to contact the tax office. The value of motor vehicles, boats, and aircraft is established by taking information supplied by the owner during the listing period (make, model, year) and finding the value in a schedule of values applicable to such property. Normally the county tax supervisor has made the decision to use the manual prior to the listing period but unless the taxpayer asks to see the manual or checks with the tax office after the listing period, he will not be aware of the value selected. When an owner of business machinery or equipment makes a listing, he reports the year of acquisition, the purchase cost, and the installation cost for each article. Also, he supplies a description of the articles listed the preceding year that have been disposed of. The tax office will take the basic data and establish a value based on the original cost and depreciation factors. However, the business will not find out the tax value until the bill is received.

Also, if the company does not list the property disposed of, the county will continue to carry the items, at a depreciated value, and the company will not be aware of this error because the tax bill shows only the total assessed value of all machinery and equipment. A third type of information problem occurs when a taxpayer makes an addition to his real property and the tax supervisor, due to a heavy workload, is unable to send an appraiser out to look at the property until after the board of equalization and review has adjourned. In all three situations the notification of the level of assessment does not come until it is too late to make an appeal to the board of equalization and review.

The Committee substantially re-wrote the existing appeals process language and reorganized into one section the notice of assessment provision of the Machinery Act. The tact taken in the re-write is to begin with a general statement that requires the tax supervisor to provide notice of each assessment and then to list all exceptions. For personal property that is appraised according to a uniform schedule of values adopted prior to the listing period (e.g., motor vehicles), the tax office is exempt from the notice requirement only if the methods used in valuing such items are disclosed to the taxpayer at the time of listing, either by a written statement on the abstract or a separate explanation. Also, the schedules must be available for public inspection in the tax office.

The required notice shall be in writing and contain the following language:

- (1) The name of the taxpayer;
- (2) A description of the property or parcel identification number;

- (3) For real property only, the amount of the assessment for the prior year;
- (4) The appraised value of the property, any applicable assessment ratio, and the assessed value (if different from the appraised value); and
- (5) The procedure for protesting the assessment, including a statement of the taxpayer's right to request an informal conference.

The notice does not become effective until mailed.

The recommended legislation dealing with this proposal is contained on pages 134-136 (Appendix 10).

20. Add Procedure For Protest Of Listing And/Or Assessment.

Under G.S. 105-322(g) (2) a taxpayer who is dissatisfied with the listing, appraisal, or assessment of his property may request a hearing before the county board of equalization and review. Listing appeals are concerned with whether the property is exempt or not; appraisal appeals deal with how market value is established; and assessment appeals are based on the issue of whether the property qualifies for preferential assessment rates. The Committee studied the current appeals process system and decided to insert an intermediate step between the notice of assessment and a request for appearance before the county board of equalization and review. This step would be a protest of the listing, appraisal, or assessment decisions of the tax supervisor, as reported by the notice of assessment. The written protest would contain taxpayer and property identifying information, the basis for the protest, and a request for an informal conference with the county assessor, if desired. The protest must be filed within sixty days of the end of the listing

period, within thirty days after submission of the property abstract if that abstract is filed after the end of the listing period, or within thirty days after the mailing of the notice of assessment, whichever is latest.

Unless the taxpayer voluntarily withdraws his protest in writing, the county assessor would be required to send the taxpayer a written response. This response must explain why and to what extent the protest has been allowed or why it has not be allowed. It shall also state the procedure for further appeal and must contain the appropriate forms for appeal to the county assessment appeals board.

The recommended legislation dealing with this proposal is contained on pages 136-138 (Appendix 10).

21. Establish Informal Conference As A Method For Resolving Property Tax Protests.

The second feature of the new appeals process is the use of an informal conference between a taxpayer and the county assessor's office as an avenue to resolving the taxpayer's concern. In filing a written protest the taxpayer can request such a conference. After receiving a request, the assessor must schedule the conference and notify the taxpayer by mail of the date, time, and place no later than 30 days after he receives the protest.

The recommended legislation dealing with this proposal is contained on page 137 (Appendix 10).

22. Replace County Board Of Equalization And Review With County Assessment Appeals Board.

Under present law, G.S. 105-322, the first step a taxpayer takes in registering a listing and/or assessment appeal

is to request a hearing before the county board of equalization and review. The board of commissioners in a county may either decide that it will sit as the board of equalization and review or may designate a separate board. The board must begin its proceedings by the first Monday in April and finish by the first Monday in May.

The Committee recommends the replacement of the county board of equalization and review with a county assessment appeals board. The new board would be composed of three to seven members appointed by the board of county commissioners. At least one member of the board shall be affiliated with a political party other than that of the majority of the board of county commissioners. The board of commissioners may designate one or more of its own members to serve on the assessment appeals board in an ex-officio capacity.

The recommended legislation dealing with this proposal is contained on pages 138-139 (Appendix 10).

23. Establish Procedure For Appeals Before County Assessment Appeals Board.

The Committee feels that the current procedure in G.S. 105-322 for requesting a hearing before the county board of equalization and review should be replaced with a set of procedures for appeals to the county assessment appeals board. The new procedures would be more detailed than those contained in the current law and would be an integral part of the new appeals process. The appeal to the board would be the next step available to a property owner after he has protested his listing and/or assessment to the assessor and has received a response. The appeal must be made in writing within thirty days after the mailing of the assessor's response to the taxpayer's protest. As in the case of the protest

the appeal must set forth the reasons for objecting to the listing or assessment. An extra feature of the appeal is that the property owner must give an opinion as to what the level of assessment should be if the assessment is the basis for the protest and appeal. Upon receipt of the notice of appeal, the assessment appeals board would be required to set the date and time for a hearing and shall notify both the taxpayer and assessor in writing at least thirty days in advance.

The Committee's proposal sets out three necessary requirements that must be met before interested persons not parties to the appeal will be allowed to intervene. First, the intervenor must have an interest in the property subject to the appeal. Second, if the disposition of the appeal could conceivably impede protection of that interest, intervention will be allowed. Finally, intervention will be allowed if the intervenor can show that his interest will not be adequately represented by the existing parties.

The appeal can be heard either by the full board, a panel of three members (one of which shall serve as chairman), or by a single member if the taxpayer agrees. The hearing must be open to the public but the board may meet in closed session to discuss evidence presented at the hearing. The final decision is to be rendered in an open session. At least 15 days prior to the hearing, the assessor must provide to the panel or individual member hearing the appeal a copy of the listing and assessment for the subject property, the taxpayer's written protest, and any other information in support and explanation of the listing or assessment as the board may direct or the assessor may choose.

The Committee's recommendation details the step-by-step procedure to be used at the hearing. The steps are:

- (1) Explanation by assessor of listing or assessment and his response to protest.
- (2) Taxpayer's statement of basis for appealing listing or assessment.
- (3) Taxpayer's presentation of testimony and documentary evidence.
- (4) Intervenor's testimony and documentary evidence.
- (5) Offering by assessor of additional evidence and arguments in support of listing or assessment.
- (6) Rebuttal by taxpayer and intervenor.

After these steps are completed, the assessment appeals board will enter an order confirming or removing the listing; or confirming, reducing, or increasing the assessment. If the appeal is heard by a panel, the decision shall be based on a majority vote of the members. If a single member hears the appeal, the individual member shall render the decision. The decision of the board may be announced at the end of the meeting or submitted in writing within thirty days of the end of the hearing. The written decision must state whether and to what extent the listing and/or assessment is affirmed or modified, explain the basis for the decision, and state the grounds and procedure for further appeal and the place where such an appeal may be filed.

A provision for release and refund of taxes pursuant to orders of the county assessment appeals board or the Property Tax Commission was added because the present law assumes that it is not possible for an appeal after the tax receipts have been turned over

to the tax collector. The new provision directs the tax collector to make the necessary refunds or releases without having to take them to the board of county commissioners for authorization.

The recommended legislation dealing with this proposal is contained on pages 139-144 (Appendix 10).

24. Re-write Procedure For Appeals To Property Tax Commission.

The current language regarding appeals of decisions by the county board of equalization and review to the State Property Tax Commission has been re-written by the Committee. The re-write does not change the substance of the current procedure but does make the language conform to the new appeals process.

The recommended legislation dealing with this proposal is contained on page 144 (Appendix 10).

REAL PROPERTY REAPPRAISAL RECOMMENDATIONS

The following six recommendations represent a major overhaul of the octennial revaluation system for real property. The present system has been in effect since 1959. Prior to that time there was no effective requirement that counties update real estate values periodically and in many counties such property had not been revalued for decades. Under the 1959 legislation each county is required to conduct a general revaluation of all real property at least once every eight years. The legislation included a revaluation timetable for all 100 counties so that an average of 12-13 counties would revalue each year. The timetable was established because most counties contracted with private appraisal companies for the work and there were only a limited number of companies. The reappraisal statute (G.S. 105-286) also called for a fourth-year "horizontal adjustment" by counties if such adjustments were needed to bring tax values more in line with market values. To date, very few counties have made such an adjustment. The last step in the development of the current system is the 1973 legislation requiring all property to be assessed at 100% of full market value, unless specifically classified under G.S. 105-277 at lower rates.

For the first 15 years the new system worked reasonably well as the overall rate of inflation and the rate for real estate remained relatively low. Beginning in the mid-1960's, the combination of higher general inflation and a strong economy (and subsequent demand for housing) started pushing up real estate values at an increasing rate. The accelerating growth first became felt in the revaluations that took place in the mid-1970's. Factors compounding the trend

included the 1973 fair market value legislation and the attempt by tax supervisors to improve the overall quality of such subsequent revaluation by bringing the appraised value of real property closer to full market value and pulling up the historically low assessment levels for agricultural and residential property. Since the mid-1970's these factors have caused a rapid rise in tax bills. During this time it has not been unusual for the overall appraised value of real estate to rise during a revaluation by 75%-100% and the values of agricultural property to rise 200%-400%. Even though county commissioners and city councils have reduced the tax rate to offset the large increase in the size of the tax base, tax bills for many property owners still rose substantially. The resulting "shock wave" led to an acceleration in the number of appeals to the county board of equalization and review and the State Property Tax Commission. For example, appeals to the Property Tax Commission rose from an annual level of 70-90 for the 1969-74 period to 260 in 1981. The protests made life difficult for local elected officials and led boards of county commissioners to juggle the schedule of values to reduce the impact on agricultural and residential property. These adjustments affected the integrity of the revaluation and lessened the incentive of tax supervisors to improve the quality of a revaluation.

A related problem is the dramatic shifts that take place from year to year in the relative tax burdens of the three major classes of taxable property: real property, personal property, public service company property. The latter two classes are appraised annually, with public service company property being valued by the Ad Valorem Tax Division. Whenever an octennial revaluation occurs, the tax burden

shifts dramatically to real property and away from the other two classes. During the next seven years the burden gradually moves away from real estate because the taxable values for that class do not follow the rise in market values.

The tax burden shift, combined with implicit decisions of many counties not to appraise some classes of real property at 100% of fair market value during a revaluation, have led to protests, appeals, legal actions, and a push for legislative relief by public service companies (public utilities, railroads, trucking companies). In 1979 the General Assembly passed a law that allowed any public service company in the year of a general revaluation and in the third and seventh years following such a revaluation to petition the board of county commissioners to reduce the level of assessment of their property if there is a difference of 15% or more between the level of assessment of their property and that of locally-appraised property. In 1980, railroads in North Carolina used a federal law allowing them to directly appeal decisions of the Property Tax Commission to Federal District Court to file an equalization suit against the Commission. During the case the railroads contracted for a sales/assessment ratio of 93 counties. The study indicated that the level of assessment of railroads across the state was significantly higher than that of real property. The Court ruled in favor of the railroads and the decision has been appealed by the counties to the Federal Court of Appeals. Finally, trucking companies in North Carolina filed a similar suit.

A third major concern of the Committee regarding the octennial revaluation cycle is the considerable expense of revaluations that

are contracted out. Data gathered by the Ad Valorem Tax Division indicates that the per parcel cost has risen from \$6 in 1977 to \$11 in 1982. About one-quarter of the counties have their tax records stored on computers and would be able to conduct an in-house reappraisal using this equipment. While the first reappraisal will not necessarily reduce costs, future revaluations could be performed as frequently as needed and at a much lower cost.

The Committee is very concerned about the rise in the number of property tax appeals and the legal actions of the public service companies. In the majority of cases these actions are warranted and their success threatens the existence of local government's primary revenue base, the property tax. The tax is an integral part of the system of federalism in the United States and provides local government with a certain amount of fiscal independence. Many of the property tax complaints across the nation in the last decade have resulted from a combination of a sharp rise in real estate prices (which represent "paper wealth" until sold) and a stagnating economy (which affects cash-flow). In North Carolina the problem has been compounded by "surprise factor" that occurs during an octennial revaluation. Complaints in North Carolina about the current system have generated much discussion during the last ten years about revamping the reappraisal system. Both the 1974 and 1976 property tax study commissions dealt extensively with the problem and came up with a package of proposals that would require more frequent real property revaluation.

The intent of the following package of recommendations is to shorten the revaluation cycle, encourage counties to perform revaluations in-house, and to equalize the tax burden among property

owners. The Committee feels that the recommendations are interrelated and that the enactment by the General Assembly of all of the recommendations is necessary for the objectives to be achieved.

25. Appropriate From The State General Fund An Additional Amount Of At Least \$1.2 Million Per Year For A Eight-Year Period For The Improvement Of Land Records.

A modern, geographically-based land records system at the local level is essential for a reliable, efficient, and equitable real property system. Such a system can provide both the base and property maps and additional data necessary for such county functions as property tax administration, planning, zoning, development, and title examination. The first step in establishing a model system is the preparation of accurate base (planimetric or orthophoto) maps with county-wide coverage suitable as a base for the development and maintenance of current cadastral maps. Next would be the preparation of cadastral maps established on a uniform statewide basis. These maps would be utilized during the real property revaluation process. The third step would be the development of a system of parcel identifiers that would give a unique identification number to each parcel of land in the state. This system would result in a permanent historical record of change of title, improving the title search process. The final step would be the implementation of a system of automated record-keeping and processing that would expedite the maintenance of accurate, up-to-date files and would assist in the revaluation process.

The report of the 1974 Property Tax Study Commission noted that an informal survey by the Ad Valorem Tax Division of the Department

of Revenue found that thirty-five counties did not have land maps and another thirty-five had inadequate maps. The Commission speculated that the main reason for the deficiencies was the fact that North Carolina was one of the few states that did not require counties to prepare maps. The Commission's recommendation was that the preparation of land maps be made mandatory in all 100 counties.

The 1976 Property Tax Study Commission also looked at the land mapping issue. A survey at that time indicated that twenty-nine counties did not have land maps, fourteen had maps restricted to municipalities, twelve had undertaken a low-quality aerial photographic system and had drawn property boundary lines on the photographs, thirty-three had maps that were not backed up with base maps, and twelve counties had maps that would meet proposed state standards. The Commission recommended legislation that would establish a land records management program in the Department of Administration. The objective of this program would be the development of a statewide program for the improvement of county land records, with immediate emphasis on the completion of county-wide base maps. Counties that already had acceptable base maps would be encouraged to undertake subsequent logical improvements to their systems. Program development by the counties would be eligible for state matching grants.

The proposed legislation set out the state specifications for the maps and the logical steps in the development of a complete land records system.

The 1977 General Assembly enacted legislation creating a land records management system. However, the recommended appropriation was pared down during the appropriations process from \$950,000 per

year for the 1977-79 biennium to \$37,500 per year for a pilot program. Also, the language in the 1976 study commission recommendation was substantially modified by removing the step-by-step progression in the development of a comprehensive system in each county. Added to the recommended legislation was an advisory committee on land records. The recommended system of state specifications for land record systems was retained in the final legislation.

The Land Records Management Program has been in existence for four years. The basic thrust of the program has been to provide technical and financial assistance to counties that would enable them to modernize their land records system. Generally, the response of the counties has been very favorable. To date, thirty-six counties have submitted qualifying grant-in-aid applications. The direct financial benefits from the upgrading of the local tax base (through discovery), greater efficiency in land-use planning, and the eventual installation of "in-house" revaluation capabilities have led to professional association endorsement of the program by county commissioners, attorneys, tax administrators, registers of deeds, surveyors, professional engineers, and planners. More importantly, the financial commitment from counties has been far greater than the amounts made available from the state. The actual funding amounts are shown below:

<u>Fiscal Year</u>	<u>Number of Counties Receiving State Aid</u>	<u>State Aid</u>	<u>New County Commitments</u>
1978-79	9	\$ 75,000	\$ 183,000
1979-80	9	75,000	902,000
1980-81	19	325,000	943,000
1981-82	24	322,000	950,000 (Approx.)
1982-83	31	331,360	3,340,000 (Approx.)

To date, sixteen counties have completed mapping except for automation, twenty-two have begun a mapping project, and the remaining

sixty-two counties have yet to begin a project. The total cost of an immediate completion of the program in all counties would be \$46 million, or \$23 million to the state under the current matching arrangement. However, even if the full amount of the funding were made available during the 1983 session the state and the counties would not be able to fully expend the amount for a number of years. Based on the success of the program to date and a knowledge of the remaining needs of counties, the Department of Administration has developed a long-range mapping and automation funding proposal that would accelerate the completion of the program through an eight-year timetable. The increase in the state appropriation necessary to accomplish this objective would be \$1.2 million per year. The Department of Administration has submitted an expansion budget request to the Advisory Budget Commission of \$1,223,246 for 1983-84 and \$1,223,316 for 1984-85.

The Committee recommends that the 1983 General Assembly authorize the additional land mapping and automation request of the Department of Administration for the 1983-85 biennium and that the General Assembly appropriate at least \$1.2 million per year for the six years immediately following the biennium. The \$1.2 million figure would hopefully become a continuation item in the state budget after the 1983-85 biennium and could thus be adjusted for inflation.

The recommended legislation dealing with this proposal is contained in Appendix 9.

26. Require, On A Confidential Basis, The Full Disclosure Of Sales Price And Financing Terms On All Real Property Sales.

Under present law, the seller in a real estate transaction must pay a 50¢ per \$500 of value excise stamp tax when recording the

deed. The tax is based upon the consideration or value of the interest in property conveyed. In many cases the amount of consideration will be equal to the sales price. However, for a sale that involves a loan assumption, the tax is paid on the amount the purchaser pays to assume the loan and not on the amount of the loan assumption. Real estate appraisers depend heavily on market sales data, especially in the appraisal of residential property. Appraisers in a private real estate practice will normally have access to reliable data through membership in a local real estate trade association, but tax office personnel will be limited to the use of deed stamp information. To make a reliable appraisal using such data the tax office appraiser will discard data from "bad" sales (sales in which either the buyer or seller is not fully informed or the transaction is not "at arm's length") and transactions in which the appraiser thinks there is a loan assumption involved. The loan assumption transactions presently represent over 40% of total sales and will continue to be important in times of high interest rates. The exclusion of these sales will not be a problem in neighborhoods which have a high turnover rate or where the dwellings are fairly similar. In other situations the appraiser's sample size will be too small to be reliable. The sample-size problem could be overcome if the actual market price of a sale were disclosed at the time the deed is recorded. For this reason, twenty-three of thirty-four states that levy a value-based deed recording tax require the disclosure of full sales price and in five of the eleven states that do not levy the deed stamp tax on the full value, there is a separate tax on mortgages.

The full disclosure proposal was recommended by both the 1974 and 1976 Property Tax Study Commissions as part of the revaluation

cycle package. Neither recommendation was adopted and one reason was the desire of real estate attorneys to keep real estate sales data confidential. To deal with this objection the Committee has designed a disclosure procedure that would ensure confidentiality. The recommendation would require that the person recording a deed include a separate statement giving the full sales price and financing terms of the sale. The register of deeds would make sure that the statement had been correctly furnished and would send the statement directly to the county assessor. The assessor would be the custodian of the statements until they are sent to the Department of Revenue for required sales/assessment ratio studies. The recommended legislation contains language that the disclosure statement is to be used only for the purpose of sales/assessment ratio studies and cannot be divulged or made public except as required in administrative or judicial proceedings under the Machinery Act. Violation of the confidentiality provision would constitute a misdemeanor and carry appropriate penalties.

A unique feature of the full disclosure recommendation of this Committee is the requirement that the financing terms be disclosed along with the sales price. During the last four years record high mortgage rates and the resulting depressed sales level have encouraged prospective sellers to use creative financing methods to sell their property without having to reduce the price. Industry data indicates that over 52% of all residential real estate sales now involve some type of creative financing. These plans normally involve some amount of owner- or broker-financing at below-market rates. The widespread use of seller-financing as a marketing tool has affected

the reliability of sales price data for appraisal purposes because the financing is a substitute for a price reduction. The appraisal industry has techniques available that can be used to adjust the sales price for favorable financing terms. However, the techniques are useless unless the appraiser has knowledge of the terms and such knowledge is not presently available to tax office appraisers. Without the financing data the tax office appraiser will see his sales sample size reduced further and, more importantly, will not know when a sale should be "thrown out" because owner-financing is involved. For these reasons, the Committee recommends that the full disclosure statement include information on the terms of financing as well as the full sales price.

The recommended legislation dealing with this proposal is contained in Section 10 of Appendix 7.

27. Mandate For All Counties A Fourth-Year Update Of All Real Property.

The most frequently voiced criticism of the current property tax system in North Carolina is the length of the mandatory real property revaluation cycle - eight years. Numerous proposals have been advanced in recent years in property tax study commission proceedings, conferences of the North Carolina Association of County Commissioners and the North Carolina League of Municipalities, and meetings of tax supervisors to shorten the cycle. All of the discussions presume the use of computer-assisted mass appraisals in revaluations as the high cost of manual revaluations would rule out more frequent revaluations. If the necessary market data and computer hardware and software were available, counties would be able to revalue property as often as desired. However, even a computer-assisted

revaluation involves substantial costs and personnel time. Also, the Committee has no definite answer to the question of how taxpayers and local elected officials would react to having taxable values (and the relative tax burden) change on an annual basis. Therefore, most of the discussion has centered around a revaluation cycle of either two or four years. With the slowdown since 1979 in real estate inflation the taxable value increases taking place in revaluation is not as great, and thus there seems to be less pressure for updating as frequently as every year or every two years. G.S. 105-286(b) requires counties to perform a fourth-year "horizontal" adjustment of taxable values if a review of current market values leads the "county" to conclude that an adjustment "should be made to bring those values into line with the then current market values". To date, very few counties have made such an adjustment. The law is difficult to enforce due to the lack of specificity about how far taxable values must be out-of-line to require the adjustment. Also, under the statute all real property within uniform categories or geographical areas would be adjusted by the same factor regardless of actual experience. Such a technique would be inequitable because not all property changes at the same rate.

The Committee felt that the most appropriate recommendation is to require that each county perform a fourth-year update of real property. The adjustment would be accomplished by an update of the schedule of values, standards, and rules used in the preceding general reappraisal. The revised schedules, standards, and rules would be used to develop uniform percentages to adjust the appraised value of each parcel without a full-scale appraisal. The Committee envisions

that the county assessor would collect individual parcels into homogeneous groupings (i.e., residential neighborhoods) based on a sample of sales data throughout the county and then apply a uniform percentage change factor to each group. The grouping process may not be possible for commercial and industrial property because of the uniqueness of the property and thus it may be necessary to appraise each establishment separately. However, the limited number of parcels will make the full-scale appraisals economically feasible.

The Committee feels that the recommendation should be written to allow a county to conduct a general revaluation more frequently than every eight years and to update more frequently than every four years. As a matter of fact, the annual "factoring down" of the assessment ratio for personal property and public service company property to the level of real property (see Recommendation 28) may provide an incentive for a county to update more frequently than is required.

The recommended legislation dealing with this proposal is contained in Section 4 of Appendix 7.

28. Require Department Of Revenue To Annually Perform Sales/Assessment Ratio Studies.

A sales/assessment ratio is a comparison of the assessed value of property to market value. In a sales/assessment ratio study a comparison is made of the ratios for different classes of property or for individual parcels within a class. The studies have been used for years in many other states to test the reliability of a mass appraisal, to search for tax burden inequities, to determine whether there is a need for a general reappraisal, or to assist taxpayers in comparing their tax burden to that of others.

G.S. 105-289(h) requires the Department of Revenue to make continuing studies in each county at least every two years. However, from the time of the enactment of this provision (1971) to 1977, the General Assembly did not authorize the necessary funding for the studies. In 1979 the General Assembly approved a special appropriations bill providing \$150,000 to the Department of State Treasurer for the Local Government Commission to perform or contract for such studies. This amount turned out to be far less than the amount the Treasurer found necessary to make the studies on a statewide basis and the appropriation reverted.

The Committee feels that sales/assessment ratio studies are an essential component of any program to shorten the real property revaluation cycle. With the full disclosure of sales price and financing data on real estate transactions and sufficient data processing hardware and software, the Department of Revenue would be able to determine ratios for each major class of taxable property without a great deal of time or expense.

The recommended legislation dealing with this proposal is contained in Section 5 of Appendix 7.

29. Require Each County To Annually Reduce Tax Assessment Ratio For Personal Property And Public Service Company Property To The Ratio For Real Property

One of the major problems of the octennial real property revaluation cycle is the continual shift in tax burden between real property and personal and public service company property. During the years after a revaluation of real estate the tax burden in a county shifts away from this class to the other two classes, which

are revalued annually. During the last three years the state's public utilities, railroads, and trucking companies have begun requesting legislative and judicial relief. These kinds of inequities existed prior to recent times but were not as great because real estate prices increased at a slower rate. The requirement that counties update all real property within four years after a general revaluation will reduce the inequities to some extent. However, the Committee feels that the problem will still be significant enough to warrant remedy. The annual sales assessment ratio studies required of the Department of Revenue will allow counties to reduce the assessment level of personal property and public service company property to that of real property.

The recommended legislation dealing with this proposal is contained in Section 3 of Appendix 7.

30. Upgrade The Professionalism Of Tax Office Personnel.

A key to the success of counties and cities in achieving the objectives of the Committee's real property reappraisal recommendations is the quality of personnel. This is especially true with regard to the position of county assessor and appraisal personnel. Assessors and appraisers must be versed in property law, tax law, engineering, economics, business finance, and accounting. The necessary expertise is usually acquired through a combination of academic classroom instruction, professional association training, and field experience. Many of the state's technical institutes, community colleges and colleges/universities offer real estate courses as a part of either a regular curriculum or part-time extension programs. The Ad Valorem Tax Division of the Department of Revenue sponsors

occasional short courses in certain assessment areas. The International Association of Assessing Officers (IAAO) sponsors numerous types of listing, appraisal, and assessment courses. Property tax specialists at the Institute of Government are available to assist local tax personnel and the General Assembly during its 1982 session authorized an appropriation of \$75,000 to the Institute for the creation of a property tax appraisal and assessment program.

The Committee feels that there are a number of changes that should be made to the Machinery Act to upgrade the professionalism of assessors and appraisers. One improvement regarding the county assessor is to provide that the assessor may not hold any other salaried appointive or elective office other than that of tax collector. In prior years, the tax supervisor's job in a few small counties was held by a county officer who also filled one or more other county positions; a common example being a manager or commissioner who also held the title of tax supervisor. This tendency has diminished in recent years to the point where the Committee is aware of only one such case. However, unless the law is changed the dual office holding possibility will still exist. The Committee feels that the job of tax supervisor is highly professional and should receive the full-time, undivided attention of the person filling the position. The one exception to this rule is the combined role of tax supervisor and tax collector in some counties.

Another change that should strengthen the assessor's position is to allow the board of county commissioners to appoint the assessor for a term of four years. Under G.S. 105-294, the commissioners may presently appoint the tax supervisor to only a two-year term. The Committee feels that such a period is too short for a new supervisor

to learn the position and make the improvements he or she feels are essential. A four-year appointment would provide the assessor with a greater degree of job security and would assure more continuity to the operations of the tax office.

G.S. 105-289(d) deals with the responsibilities of the Department of Revenue in providing for education and training of county and city tax office personnel and the certification of county tax supervisors. The Committee feels the importance of appraisal work is such that the persons conducting appraisals for the county, either on an in-house or contractual basis, should be certified by the Department of Revenue.

A fourth Committee recommendation in the area of personnel improvement is that the general statutory provision requiring the Department of Revenue to certify the county assessor should be re-written to specify age, basic education, and continuing education requirements for initial certification and re-certification.

Finally, the Committee is of the opinion that the Machinery Act should contain basic educational requirements that appraisal personnel must meet before being hired by the assessor or contracted for by the board of county commissioners.

The recommended legislation dealing with these proposals is contained in Appendix 8.

OTHER RECOMMENDATIONS

31. Replace Requirement That 15% Of Landowners Living Outside A Municipality Petition For The Creation Of A Fire Protection Tax District With A Petition By A Majority Of Landowners.

G.S. 69-25.1 provides that upon the petition of 15% of landowners in a rural fire protection district as specified in the petition, the board of county commissioners must call a special election of qualified voters in the area for the purpose of deciding whether to levy and collect a special tax on all taxable property in the district. It was pointed out to the Committee that though only resident landowners in a district may petition for the election, all registered voters in that district may vote in the election. If a majority of voters approve the creation of the special district and the accompanying taxing authority, the costs of the election are paid from the taxes ultimately collected. If the voters do not approve the district, the costs of the election are borne by the county. The statute allows special elections to take place each two years and there has been a trend in recent years for advocates of the special district to re-petition after each unsuccessful election. The Committee feels that this process leads to a wasteful expenditure of county funds and that this situation could be avoided by requiring a petition by a majority of the resident freeholders in the district.

The recommended legislation dealing with this proposal is contained in Appendix 14.

32. Extend Eligibility For Use-Value Assessment To Publicly Held Corporations.

In 1973 the North Carolina General Assembly followed the lead of most other states by enacting legislation that allowed individuals or families who owned agricultural, horticultural, or forestland that was actively engaged in production of crops, plants, animals, fruits, vegetables, floral products, or trees to apply for assessment of the property at present-use value instead of market value. The primary objective of the original legislation was to help prevent small family farms located near cities and towns from being sold for residential, commercial, or industrial development. The legislation was modified in 1975 by allowing family corporations to apply for the preferential valuation. The acreage, usage, and income requirements contained in the current law are probably the strictest of any state in the U. S. because the legislation was carefully studied and tightly drawn. Land owned by publicly-held corporations was not included as being eligible for the treatment because of concern among legislators about the fiscal effect on local government units and the need to give highest priority to the maintenance of the family farm unit.

The Committee feels that the type of ownership of agricultural, horticultural, or forestland should not be a criteria for determining eligibility for present-use valuation. North Carolina is one of the few states, if not the only state, that restricts eligibility to individuals and family corporations. The effect of the depressed conditions in the construction industry on large timber producers and the feedback influence on the market for the products of small woodlots is another factor that should be considered in designing

the use value system. Reducing the property tax burden of publicly-held corporations that own forestland would also satisfy one of the implicit objectives of the original legislation: to slow the sale of valuable open-space areas near cities and towns.

A study presented to the House Finance Committee of the General Assembly during the 1981 session indicated that the overall state-wide impact of extending present-use value treatment to forestland owned by publicly-held corporations was not substantial when compared to the overall size of the property tax base, though the effect on a few counties might be significant.

A major concern of the Committee is that the treatment not be allowed to corporations which speculate in undeveloped land near cities and towns and which do not have the majority of their business operations in timber production. The Committee dealt with this concern by putting special restrictions applying to publicly-held corporations in the legislation. These restrictions are:

- (1) to qualify for the treatment, the land must be "wholly and exclusively" used for commercial production of crops, plants, animals, fruits, vegetables, floral products, or trees, (this restriction applies also to land owned by individuals and family corporations);
- (2) only corporations actively engaged in the commercial growing of trees under a sound management plan will be eligible;
- (3) the minimum acreage requirement is fifty acres (in contrast to twenty acres for other owners);
- (4) to be eligible, tracts of forestland must not be located near the corporate limits of a city or town;

- (5) Forestland owned by the corporation must have been owned the five years immediately preceding the year for which the use-value application is to apply; and
- (6) the deferred taxes provision applies to the preceding four fiscal years (versus three years for other owners).

The recommended language dealing with this proposal is contained in Appendix 11.

33. Provide For Use Of Site Index For Timber In Determination Of Current-Use Value For Forestland.

The Committee is concerned with the implications to county tax offices of the recent State Supreme Court case, In Re McElwee. In that case the Court criticized the methods used by a county in determining present-use value for forestland. The Court's concern was with the use of the market sales approach instead of an income approach. In its decision the Court strongly suggested that sales data not be used unless the current use of the property was the "highest and best use" and the "comparable" sales were truly comparable. The implication for county tax supervisors is that the appraiser must do a substantial amount of work researching the sale to determine whether the sale is truly comparable and how the data can be "qualified" if it is not. The Committee is also concerned with the lack of uniformity across the state in the methods used to establish use value. This lack of uniformity results from the inability of tax supervisors to obtain adequate and reliable productivity and income data, differing capitalization rates, and pressures brought by farmers to reduce the use values adopted by the board of county commissioners during an octennial revaluation.

The Committee notes that the forest products industry and forestry schools in the U. S. have recently developed tools that would allow counties to use a uniform statewide site index method for setting use values on forestland. The site index for an individual tract of forestland would be based on the income potential of that tract relative to the state as a whole. The income potential of the tract would be based on the productivity of the land as well as income and cost factors in the timber-growing industry. The use of this index would enable counties to more scientifically determine present-use value under an income approach to valuation and therefore satisfy the concerns of the State Supreme Court.

The Committee recommends that the General Assembly study the possibility of adopting the site index approach to determine present-use value of forestland.

The recommended language dealing with this proposal is contained in Appendix 11.

34. Provide That Property Included In A Time-Sharing Arrangement Be Listed And Taxes Paid In The Name Of The Management Company.

G.S. 105-302 and G.S. 105-306 contain a general statement that real and personal property must be listed in the name of the owner the day the property is listed. Both statutes have a number of clarifying provisions that specify the listing requirements in situations in which the property is owned by more than one party. A new form of property ownership that has become available in recent years is a time-sharing plan. These plans are designed to allow a large number of individuals or families to use a single piece of residential property in a resort area during the course of a year. In most

arrangements the individual or family has the reserved use of the property the same time each year. In a few of the arrangements the user in effect has a long-term lease or a right to occupancy and use of the property and thus does not actually own the property. These cases do not present a problem to the tax supervisor because the developer's interest in the property has not been transferred. In the more common case the developer transfers a fee simple interest to each of the users for a specified block of time each year. Because all users become part-time owners, each user is technically required to list and pay taxes on his respective share of the property. This procedure represents an administrative nightmare for tax offices and an unnecessary amount of effort for a large number of part-time owners.

In most time-sharing programs the original developer provides the management services. Most states have dealt with the listing problem created by time-sharing arrangements by requiring the property to be listed and taxes paid by the management company. The Committee feels that this approach is reasonable for North Carolina and recommends its adoption.

The recommended legislation dealing with this proposal is contained in Appendix 13.

35. The General Assembly Should Explore Alternative Sources Of Revenue For Counties And Cities In Lieu Of Property Taxes.

The property tax has come under increased criticism across the U. S. during the last decade. The concerns of individual taxpayers have been channeled into property tax limitation groups in a number of states. The success of these groups has placed a severe

financial strain on state and local government being in those states. North Carolina has largely escaped the pressures exerted in other states because our property tax burden is relatively low as a result of state funding and operation of many governmental programs that are local responsibilities in other states.

Unlike the personal income and sales tax, where tax payments are made in frequent installments and tax increases are largely unnoticed, the property tax is an annual tax that is highly visible. The majority of property owners pay property taxes monthly or quarterly into a mortgage escrow amount; however a large number make payment in one lump sum. Also, the tax liability of property owners is adjusted only one time a year.

Criticism of the property tax in North Carolina has tracked taxpayer protests throughout the nation. This trend has been reflected in a sharp increase in appeals to county board of equalization and review, the State Property Tax Commission, and the courts, and through increased turnover of local elected officials. The current sentiment among state and local elected officials in North Carolina is that dependence on the property tax to finance local government has reached or exceeded an acceptable limit. The Committee feels that the General Assembly should explore other sources of revenue for counties and cities in lieu of property taxes.

36. The General Assembly Should Study The Inequities Resulting From The Lack Of Uniformity By Counties In The Methods Used To Value Inventory.

G.S. 105-317.1 sets out the factors to be considered by the tax supervisor in appraising personal property. However, there is no detailed explanation as to how the tax supervisor is to consider

each factor and the weight to be accorded each factor. Thus, the statute is interpreted locally by the tax supervisor and the board of county commissioners. The result is a considerable amount of variation among counties in the techniques used to value business inventories. One reason for the lack of uniformity is that different valuation methods are allowed under generally-accepted accounting principles and income tax law. The Committee feels that the General Assembly should study the methods used by counties to value business inventories with the objective of obtaining a higher degree of uniformity across the state.

A P P E N D I C E S

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 1981
RATIFIED BILL

CHAPTER 943

HOUSE BILL 258

AN ACT CREATING A COMMITTEE FOR A COMPREHENSIVE STUDY OF THE PROPERTY TAX SYSTEM IN NORTH CAROLINA.

Whereas, the property tax continues to provide a significant source of revenue to local governments in North Carolina; and

Whereas, sound and responsible government depends heavily on the proper administration and collection of taxes from existing tax revenue sources; and

Whereas, problems remain with an efficient administration and collection of property taxes, especially with collection of taxes on motor vehicles, household furnishings and personal effects, and administration of exemptions for the elderly and disabled; and

Whereas, G.S. 105-286 requires revaluation of the real property in each county at least once every eight years, resulting in many inequities among taxpayers that are magnified in periods of high inflation and can be remedied only through more frequent adjustment of appraised values; and

Whereas, current methods of conducting revaluations are expensive, thereby prohibiting more frequent revaluations; and

Whereas, a thorough study of all features of the property tax system is warranted in order to promote the fairest

and most equitable property tax structure possible for all citizens of the State; and

Whereas, this study should provide a comprehensive approach to evaluating all aspects of the property tax base, including a review of the public policy justifications for all existing and proposed exemptions and preferential classifications; Now, therefore,

The General Assembly of North Carolina enacts:

Section 1. There is established a Property Tax System Study Committee. The Committee shall consist of 15 members. The President Pro Tempore shall appoint five members of the Senate, and the Speaker of the House shall appoint five members of the House of Representatives to serve on the Committee. The Governor shall appoint five citizens to serve on the Committee, one of whom is a county commissioner and one of whom is an elected official of a city or town. All appointments shall be made in time for the Committee to begin its work by September 15, 1981. The Speaker and President Pro Tempore of the Senate shall jointly call the first meeting to be held on a date no later than September 15, 1981.

Sec. 2. Upon its appointment, the Committee shall meet and elect from its membership a chairman and vice-chairman. Original members appointed to the Committee shall serve until the Committee makes its final report. Vacancies on the Committee shall be filled in the same manner as the original appointments were made.

Sec. 3. The Committee shall make a detailed and

comprehensive study of the efficiency, effectiveness and fairness of the property tax system in North Carolina. The Committee shall examine all classes of property that comprise the property tax base, all exemptions, exclusions and preferential classifications, and the valuation of public utility property to determine whether the property tax system is fair and equitable in taxing the citizens of the State. The Committee shall review current procedures for listing and collecting taxes on personal and real property to determine how to increase the efficiency and equity of these procedures. The Committee shall examine the octennial revaluation system and evaluate the feasibility of any programs that would aid the counties in conducting more frequent revaluations.

Sec. 4. On or before February 1, 1983, the Committee shall submit a final written report of its recommendations to the General Assembly by filing the report with the Speaker of the House and President Pro Tempore of the Senate. If legislation is recommended, the Committee shall submit appropriate bills with its report. The Committee, in its discretion, may submit an interim report to the 1982 Session of the 1981 General Assembly. The Committee shall terminate upon filing its final report.

Sec. 5. The Committee shall consult with tax officials in State and local government and may employ necessary professional and clerical assistance. The Committee is authorized to obtain assistance from the Department of Revenue and the Fiscal Research Division of the Legislative Services Commission.

Sec. 6. The Committee shall meet in the State Legislative Building.

Sec. 7. Members of the Committee shall be paid subsistence and travel allowances as follows:

(1) Committee members who are also General Assembly members - at the rate established in G.S. 120-3.1;

(2) Committee members who are also officials or employees of the State - at the rate established in G.S. 138-6;

(3) All other Committee members - at the rate established in G.S. 138-5.

Sec. 8. The expenses of the Committee shall be paid from funds collected by the Department of Revenue under Article 7, Chapter 105 of the General Statutes. The funds so expended shall be deducted as in G.S. 105-213(a) for the costs of administering the intangibles tax. Committee expenses shall be limited to a maximum of seventy-five thousand dollars (\$75,000).

Sec. 9. This act is effective upon ratification.

In the General Assembly, read three times and ratified,
this the 10th day of July, 1981.

JAMES C. GREEN

James C. Green

President of the Senate

LISTON B. RAMSEY

Liston B. Ramsey

Speaker of the House of Representatives

PROPERTY TAX SYSTEM STUDY COMMITTEE

MEMBERSHIP

Rep. Robert L. McAlister, Chairman
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N. C. Legislature

Mr. Jesse Alphin
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Dunn, North Carolina

Shirley F. Phillips
Committee Clerk
Property Tax Study Committee

PERSONS MAKING PRESENTATIONS BEFORE COMMITTEE

John Sanders, Director
Institute of Government

William A. Campbell, Assistant Director and Staff Counsel
Institute of Government

Joseph S. Ferrell, Assistant Director and Staff Counsel
Institute of Government

Doug R. Holbrook, Director
Ad Valorem Tax Division
Department of Revenue

Ron Aycock, Executive Director
N. C. Association of County Commissioners

Ernie Ball, Counsel
N. C. League of Municipalities

David Crotts, Senior Fiscal Analyst
Fiscal Research Division
N. C. Legislature

Larry Powell, Tax Supervisor
New Hanover County

Bobby Miller, President
N. C. Association of Assessing Officers
Catawba County

Harvey Pardue, Tax Supervisor
Forsyth County

Jack Williford, Past President
N. C. Association of Assessing Officers

Joe R. Hedrick, President
City-County Managers Association

C. E. Worley, Tax Collector
Alamance County

Tom Davis, Tax Collector
Wilson County

Marvin Coleman, Tax Collector
City of Greensboro

Dr. Woodrow Robbins
Computer Science Department
N. C. State University

Samuel H. Johnson, Attorney
N. C. Associated Industries

Edith Marsh, Director
State and Local Government Relations
Westinghouse Electric Corporation

Charles Dunn
N. C. Textile Manufacturers Association

William Elmore, Jr., Member
N. C. Textile Manufacturers Association Tax Committee

Dennis Julian
N. C. Citizen's Association

Butch Gunnells
N. C. Association of County Commissioners

Virginia Thompson, Chairman
Ad Hoc Committee
N. C. Association of County Commissioners

Ken Thompson, County Manager, Orange County
Member, Ad Hoc Committee
N. C. Association of County Commissioners

Ernest Messer
Assistant Secretary for Aging
N. C. Department of Human Resources

W. B. Jenkins
N. C. Farm Bureau Federation

Daniel Gelbert
N. C. Forestry Association

John Hicks
Sr. Vice-President of Public Affairs
Duke Power Company

Willis Marshall
Carolina Telephone Company

Homer T. Brewer, Director
Property Tax Administration
Southern Railway System

Larry R. Edlin, Director
Ad Valorem Taxes
Family Lines Rail System

Dave Bodenheimer
Byers & Bodenheimer Appraisal Services

Clarence Blackman, Tax Supervisor
Burke County

Don Holloway, Manager
Land Records Management Program
Department of Administration

William Ferriss
Ferriss Appraisal Company

Jerry Kubala
Robert L. Kimball & Associates

James E. Long, Chairman
Property Tax Commission

C. L. Osmint
Guilford Chapter
United Taxpayers of North Carolina, Inc.

W. R. Underhill, Assistant Director
Ad Valorem Tax Division
Department of Revenue

Kenneth J. Ungar, Chairman
State and Local Taxation Subcommittee
Business Equipment Manufacturer's Association
Dayton, Ohio

W. H. McElwee, Attorney
North Wilkesboro, North Carolina

INTERIM RECOMMENDATIONS

The interim recommendations to the 1982 session of the General Assembly are as follows:

- I. Authorize an additional appropriation for \$132,458 for 1982-83 from the intangibles tax to go to the Ad Valorem Division of the Department of Revenue. The additional appropriations would be used to fund the following:
 - A. The position of assistant director to assist the Property Tax Commission in legal matters and to respond to legal questions from county tax offices and county attorneys;
 - B. Two real property valuation specialists to assist the Property Tax Commission in handling appeals;
 - C. A clerical position to support the three additional professional positions;
 - D. A keypunch operator position to input data from counties in order to conduct sales-assessment ratio studies; and
 - E. Capital purchases, primarily automated data processing equipment, to support the Division's role.

- II. Authorize an appropriation of \$72,034 for 1982-83 from the intangibles tax to go to the Institute of Government. The additional funding would be used to create a property tax appraisal and assessment administration training program. The appropriation would involve the creation of

one new position with the associated fringe benefits and equipment and supplies costs. The specialist filling the position would be also available to answer questions from county tax offices.

A bill has been drafted to accomplish these recommendations. (See Appendix 5).

Following the adjournment of the 1982 session of the General Assembly, the Committee will make further studies regarding the long-range proposals that were introduced to the Committee as well as the numerous other problems discussed by persons appearing before the Committee.

special appropriations act, the amount of the additional appropriation may not become part of the base budget unless the act so indicates.

Any new program included in the budget submitted to the General Assembly by the Governor shall not become part of the base budget during the first fiscal biennium in which an appropriation to it is made. When a program that has not previously been included in the base budget is submitted to the General Assembly by the Governor for continued funding, it shall bear a designation that it is a pilot program.

-----PROPERTY TAX ASSISTANCE

Sec. 69. The second unnumbered paragraph of G.S. 105-213(a) is rewritten to read as follows:

"In determining the amount to be distributed there shall be deducted from net collections (total collections less refunds) the following:

- (1) The tax credit specified in the second paragraph of G.S. 105-122(3), and
- (2) The cost to the State to administer and collect the taxes levied under this Article for the preceding fiscal year, and
- (3) The cost to the State for the operation of the Ad Valorem Tax Division of the Department of Revenue and of the Property Tax Commission for the preceding fiscal year, and
- (4) The cost to the State of the operation of a training program in property tax appraisal and

assessment administration by the Institute of Government for the preceding fiscal year."

Sec. 70. For the purpose of determining net collections for the fiscal year ending June 30, 1982, the following amounts shall be deducted in addition to the amounts specified by the second paragraph of G.S. 105-213(a), as amended by Section 69 of this act for the purposes indicated:

- (1) One hundred thirty-three thousand four hundred fifty dollars (\$133,450) to fund additional appropriations to the Ad Valorem Tax Division of the Department of Revenue and the Property Tax Commission for fiscal 1982-83;
- (2) Seventy-five thousand dollars (\$75,000) to fund a training program in property tax assessment administration to be begun by the Institute of Government in fiscal 1982-83.

If the full amount of the funds deducted under this section is not expended during the 1982-83 fiscal year, the unexpended amount shall be distributed to counties and cities during the 1983-84 fiscal year along with the distribution required under G.S. 105-213(a). The basis of the distribution of the unexpended balances shall be the same as that for revenue collected under G.S. 105-199 and G.S. 105-205.

-----HOMESTEAD EXEMPTION REIMBURSEMENT

Sec. 70.1. Section 3 of Chapter 1052 of the 1981 Session Laws is amended by adding the following sentence at the end:

A BILL TO BE ENTITLED

AN ACT TO AMEND THE MACHINERY ACT.

The General Assembly of North Carolina enacts:

Section 1. G.S. 105-277.8(a) is rewritten to read as follows:

"(a) The following properties are designated a special class of property under Article V, Section 2(2) of the North Carolina Constitution and shall not be listed, appraised, assessed, or taxed:

Real and personal property owned by a nonprofit homeowner's association, as herein defined, if:

- (1) All property owned by the association is held for the use, benefit, and enjoyment of all members of the association equally; and
- (2) Each member of the association owns or possesses an irrevocable right to use and enjoy, on an equal basis, all the property so held by the association, subject to any restrictions imposed by the instruments conveying such right and any valid and binding rules, regulations, or bylaws of the association; and
- (3) Each irrevocable right to use and enjoy all association property is, appurtenant to taxable real property owned by the association's members."

Sec. 2. G.S. 105-277.8(b) is rewritten to read as follows:

"(b) Notwithstanding the provisions of subsection (a) of this section, in appraising individual properties owned by members of the association who are entitled to use and enjoy facilities owned by the association, the enhanced value of the individual properties attributable to the right to use and enjoy the facilities shall be a factor taken into consideration by the appraiser."

Sec 2. G.S. 105-278.1 is rewritten to read as follows:

"§ 105-278.1. Exemption of real and personal property owned by units of government.--(a) Real and personal property owned by the United States and, by

virtue of federal law, not subject to State and local taxes shall be exempted from taxation.

(b) Real and personal property belonging to the State, counties, and municipalities shall be exempted from taxation."

Sec 3. G.S. 105-282.1 is amended by inserting therein a new subsection as follows:

"(f) Notwithstanding any other provisions of this section, and except as otherwise provided by another section of this Subchapter, the board of county commissioners or municipal governing board, as appropriate, may approve applications for exemption, exclusion, or preferential taxation for the current year only that are filed after the close of the regular or extended listing period and before the opening of the next regular listing period upon written application of the taxpayer showing good cause for his failure to make timely application. Late applications approved under the provisions of this subsection (f) shall apply only with respect to taxes levied by the governing board granting such approval and shall be subject to a penalty of 10% of the tax thereby released or refunded, which penalty may not be waived, compromised, or released and which shall be collected in the same manner as other taxes levied pursuant to this Subchapter."

Sec 4. G.S. 105-287(b) is amended by inserting therein a new paragraph as follows:

"(10) Has been converted to condominium units under the Unit Ownership Act (G.S. Chapter 47A) that have been sold or offered by sale as condominium units since the last appraisal of such property."

Sec 5. G.S. 105-317(c) is rewritten to read as follows:

"(c)(1) The schedules of values, standards and rules required by subdivision (b)(1), above, shall be reviewed and approved by the board of county commissioners before they are used. When the

board of county commissioners approves the schedules, standards, and rules, it shall issue an order adopting them. The order shall be published once a week for four successive weeks in a newspaper having general circulation in the county with the last publication being not less than five days before the last day for challenging the validity of the schedules, standards and rules by appeal to the Property Tax Commission. The published notice shall state (i) that the schedules, standards, and rules to be used in the next scheduled reappraisal of real property have been adopted and are open to examination in the office of the tax supervisor, and (ii) that any property owner who asserts that the schedules, standards and rules are invalid may except to the order and appeal therefrom to the Property Tax Commission within 30 days from the date of the first publication of the order.

- (2) Any property owner of the county (separately or in conjunction with other property owners of the county) asserting that the schedules, standards, and rules adopted by the board of county commissioners under the provisions of this section fail to meet the appraisal standards established by G.S. 105-283 and G.S. 105-277.2(5) may except to the order and appeal therefrom to the Property Tax Commission at any time within 30 days after the date of the first publication of the adoption order by filing a written notice of the appeal with the clerk of the board of county commissioners and with the Property Tax Commission. At the time of filing the notices of appeal, the appellant or appellants shall file with the clerk of the board of county

commissioners and with the Property Tax Commission a written statement of the grounds of appeal. Upon timely appeal, the Property Tax Commission shall proceed under the provisions of G.S. 105-290(c).

- (3) The appeal procedure provided herein shall be the exclusive administrative means for challenging the order of the board of county commissioners adopting schedules, standards, and rules under this section."

Sec. 6. G.S. 105-360 is rewritten to read as follows:

"§ 105-360. Due date; interest for nonpayment of taxes; discounts for prepayment.--(a) All taxes levied by counties and municipalities under the provisions of this Subchapter shall be due and payable on the first day of September of the fiscal year for which the taxes are levied. If paid:

- (1) On or after the due date and before the sixth day of January thereafter, taxes shall be paid at par or face amount;
- (2) On or after the sixth day of January following the due date and before the first day of February thereafter, there shall be added to the taxes interest at the rate of three per cent (3%);
- (3) On or after the first day of February following the due date, there shall be added to the taxes, in addition to the three per cent (3%) provided in subdivision (a)(2), above, interest at the rate of one per cent (1%) per month or fraction thereof until the taxes plus penalties and interest have been paid.

(b) Any person who was on active duty as a member of the armed forces of the United States during the Viet Nam Era, upon exhibiting a certificate of his discharge from the armed forces to the appropriate tax collector, shall be relieved of the payment of any interest that may have accrued during the period of such service on taxes levied against his property. For purposes of this

subsection (b), the Viet Nam Era shall mean the period beginning August 5, 1964 and ending May 7, 1975.

(c) Under the conditions established by this subsection (c), the governing body of any county or municipality levying taxes under the provisions of this Subchapter may establish a schedule of discounts to be applied to taxes paid during the fiscal year for which they are levied. No discount may be given earlier than July 1 or later than November 30. To exercise this authority, the governing body shall:

- (1) Not later than the first day of May preceding the due date of the taxes to which it first applies, adopt a resolution or ordinance specifying the amounts of the discounts and the periods of time during which they are to be applicable;
- (2) Submit the resolution or ordinance to the Local Government Commission for approval; and
- (3) Upon approval by the Local Government Commission, publish the discount schedule at least once in some newspaper having general circulation in the taxing unit.

When such a resolution or ordinance is submitted to the Local Government Commission, the Commission may approve it or disapprove it in whole or in part if, in the opinion of the Commission, the discounts are excessive or unreasonable. Such resolution or ordinance, once adopted and approved by the Local Government Commission, shall continue in effect until repealed. The Commission may delegate to its Secretary the authority conferred upon it by this subsection (c).

(d) For the purposes of computing discounts and interest, tax payments submitted by mail shall be deemed to be received as of the date shown on the postmark affixed by the United States Postal Service. If no date is shown on

the postmark, or if the postmark is not affixed by the United States Postal Service, the tax payment shall be deemed to be received when the payment is received in the office of the tax collector. In any dispute arising under this subsection (d), the burden of proof shall be on the taxpayer to show that the payment was timely made."

Sec. 7. G.S. 105-370(a) is amended in line twelve by deleting the words and figures "nine per cent (9%)" and inserting in lieu thereof the words and figures "twelve per cent (12%)".

Sec. 8. G.S. 105-371(a) is amended in line four by deleting the words and figures "nine per cent (9%)" and inserting in lieu thereof the words and figures "twelve per cent (12%)".

Sec. 9. G.S. 105-372(b) is amended in line five by deleting the words and figures "nine per cent (9%)" and inserting in lieu thereof the words and figures "twelve per cent (12%)".

Sec. 10. G.S. 105-375(d) is amended in line eight by deleting the words and figures "six per cent (6%)" and substituting in lieu thereof the words and figures "twelve per cent (12%)".

Sec. 11. G.S. Chapter 105, Article 29 (§§ 105-387 through 105-393) is repealed.

Sec. 12. G.S. 105-285(c) is rewritten to read as follows:

"(c) Business Inventories.--The value, ownership, and place of taxation of inventories held and used in connection with the mercantile, manufacturing, producing, processing, or other business enterprise of a taxpayer having a place of business in this State, whose fiscal year closes at a date other than December 31, shall be determined annually as of the ending date of the taxpayer's latest completed fiscal year. However, if with respect to any business enterprise or any new or additional business location a taxpayer has not completed a fiscal year as of January 1, the value, ownership, and place of

taxation of inventories held and used in connection with the taxpayer's new business enterprise or new or additional business location shall be determined as of January 1.

For purposes of this section, the word "inventories" means goods held for sale in the regular course of business, raw materials, and goods in process of manufacture or processing and also other goods and materials that are used or consumed in manufacture or processing or that accompany and are sold with the goods manufactured or processed."

Sec. 13. G.S. 105-289(e) is rewritten to read as follows:

"(e) In accordance with regulations that may be adopted by it, the Department of Revenue may make available to local tax authorities any information contained in any report to it or to any other State department, or any other information that the Department may have in its possession that may assist local tax authorities in securing complete tax listings, appraising taxable property, collecting taxes, and presenting information in administrative and judicial proceedings involving the listing, appraisal, assessment, and taxation of property.

(1) Information furnished to local tax authorities under the provisions of this subsection (e) shall be used only for the purpose hereinabove set forth. Such information shall not be divulged or made public except as required in administrative or judicial proceedings under this Subchapter. Any local tax authority making improper use or disclosure of information obtained under this provision shall be subject to the provisions of G.S. 105-259, including the penalties set forth therein.

(2) The Department shall not furnish any such information to a local tax authority unless it has obtained from the person requesting the

information a written certification that the authority is familiar with the provisions of both this subsection (e) and G.S. 105-259 and that the information will be used only as provided herein.

- (3) Except as provided in this subsection (e), and except to the Governor or his authorized agent, and except to a district attorney or the authorized agent of a district attorney of a district in which such information would affect the listing, appraisal, or assessment of property for taxation, neither the Department nor the Commission shall divulge or make public the reports made to it or to other State departments. (The provisions of this subsection shall not interfere with the publication of appraisals, assessments, or statistics by the Department or decisions made by the Commission, nor shall the provisions of this subsection prevent presentation of such information in any administrative or judicial proceeding involving appraisals, assessments, or decisions of the Commission.)
- (4) For the purpose of this subsection, "local tax authorities" shall include county assessors, assistant assessors, members of county boards of commissioners, members of county assessment appeals boards, county tax collectors, and the municipal equivalents of such officials."

Sec. 14. G.S. 105-313 is rewritten to read as follows:

"§ 105-313. Report of property by multi-county businesses.--Any person engaged in business in more than one county of this State and owning real or tangible personal property in connection with his business in more than one county of this State shall, upon the request of the Department of Revenue or the assessor of any county in which such property is situated, file a report with the Department of Revenue showing, as of the dates specified in G.S. 105-285, for any year, the following information:

- (1) A list of the counties of this State in which such real or tangible personal property is situated.
- (2) The investment in such real or tangible personal property situated in each county, categorized as the Department of Revenue or the assessor may require.
- (3) The total investment in such real or tangible personal property situated in this State, categorized as provided in subdivision (2), above.

This report shall be subscribed and sworn to by the owner or, if the owner is a corporation, partnership, or unincorporated association, by a principal officer of the owner who has knowledge of the facts contained in the report."

Sec. 15. The following sections, subsections, and subdivisions of G.S. Chapter 105, Subchapter II, are amended by striking out the words "tax supervisor" or "tax supervisors" and inserting in lieu thereof the word "assessor" or "assessors", as appropriate:

G.S. 105-277.4(a), (b), and (b1).

G.S. 105-277.5.

G.S. 105-277.6(a) and (c).

G.S. 105.277.7.

G.S. 105-282.1(a), (b) and (d).

G.S. 105-287(b)(5).

G.S. 105-289(d) and (e)(3).

G.S. 105-294.

G.S. 105-295.

G.S. 105-296.

G.S. 105-297.

G.S. 105-299.

G.S. 105-302(c)(6) and (9).

G.S. 105-302.1.

G.S. 105-303.

G.S. 105-307.

G.S. 105-309.

G.S. 105-311.

G.S. 105-312.

G.S. 105-313.

G.S. 105-315.

G.S. 105-316.

G.S. 105-317.

G.S. 105-321.

G.S. 105-322(d) and (g)(2)c.

G.S. 105-325.

G.S. 105-326.

G.S. 105-328

G.S. 105-368(i).

Sec. 16. G.S. 105-296(1) is rewritten to read as follows:

"(i) He shall have the power to list, appraise and assess taxable property pursuant to the provisions of this Subchapter."

Sec 17. G.S. 105-296 is amended by striking out all of subsections (d), (e), and (f), and by rewriting subsection (b) to read as follows:

"(b) Within budgeted appropriations, he shall employ listers, appraisers, and clerical assistants necessary to carry out the listing, appraisal, assessing, and billing functions required by law. He may allocate responsibility among them by territory, by subject matter, or on any other reasonable basis."

Sec. 18. G.S. 105-298 is repealed.

Sec. 19. G.S. 105-303(b)(2) is amended by striking out the words

"(or proper list taker)".

Sec. 20. The last unnumbered paragraph of G.S. 105-307 is rewritten to read as follows:

"Nothing in this section shall be construed to prevent the assessor from conducting preparatory work prior to the opening of the listing period, but no final appraisal or assessment shall be made before the day as of which the value of property is to be determined under the provisions of G.S. 105-285."

Sec. 21. G.S. 105-308 is amended by striking out the words "(or proper list taker)".

Sec. 22. G.S. 105-309(b) is amended by striking out the words "or list taker".

Sec. 23. G.S. 105-309(d) is amended by striking out the words "or list takers" and "or list taker".

Sec. 24. G.S. 105-311(a) is amended by striking out the words "or proper list taker".

Sec. 25. G.S. 105-321 is amended by adding a new subsection (e) as follows:

"(e) The governing board of any taxing unit may provide by ordinance that no tax receipt on which the total amount of taxes, including penalties and interest, is less than five dollars (\$5.00) (or some uniform lesser amount, as determined by the board), shall be delivered to the tax collector for collection or included in his charge of items to be collected. Such an ordinance may apply only to receipts on which there is no tax due on real property and only in the case of a taxpayer for whom not more than one tax receipt is prepared. Taxes so treated shall not be a charge against the taxpayer in whose name the property is listed. Receipts covered by an ordinance adopted pursuant to this subsection shall be retained by the taxing unit's chief accounting officer for

not less than one year following the close of the fiscal year during which returns were prepared and may then be destroyed. Adoption of a resolution pursuant to this subsection shall not constitute a release, compromise, or refund of tax claims within the meaning of G.S. 105-380 or 105-381. An ordinance adopted pursuant to this subsection shall continue in effect until amended or repealed."

Sec. 26. G.S. 105-328 is amended by striking out the words "list takers" wherever they appear.

Sec. 27. G.S. 105-357 is amended by adding a new subsection (c) as follows:

- "(c) (1) The governing body of any taxing unit may provide by resolution that under- and overpayments of property taxes received by mail or other carrier in the office of the tax collector shall be adjusted as provided in this subsection. The resolution must refer to this subsection by North Carolina General Statutes section number and be adopted no later than May 30 of the year for which it is first to become effective. A resolution adopted pursuant to this subsection shall apply to taxes levied for all prior fiscal years, for the current fiscal year, and for subsequent years until repealed. A resolution adopted pursuant to this subsection shall continue in effect until repealed, and a repeal shall only affect the treatment of taxes levied for fiscal years following the repeal.
- (2) When the amount of taxes, penalties, and interest paid on a tax receipt is less than the total amount due and the underpayment is within one dollar (\$1.00) of the amount due, the tax collector shall treat the receipt as fully paid and so indicate on his

records. When the amount of taxes, penalties, and interest paid on a tax receipt is more than the total amount due and the overpayment is within one dollar (\$1.00) of the amount due, the tax collector shall treat the tax receipt as paid and shall not refund the amount of the overpayment unless requested to do so by the taxpayer before the end of the current fiscal year. Overpayments shall be used by the taxing unit to offset underpayments. The tax collector shall keep records of all under- and overpayments by receipt number and amount, and shall submit a report of such payments to the governing board as part of his settlement. A tax adjusted pursuant to this subsection is not a release, refund, or compromise of a tax claim within the meaning of G.S. 105-380 or 105-381."

Sec. 28. G.S. 105-312(h) is rewritten to read as follows:

"(h) Computation of Penalties. --Having computed each year's taxes separately as provided in subsection (g), above, there shall be added a penalty of five percent (5%) of the amount of the tax for the earliest year in which the property was not listed if the discovery was made within thirty (30) days of the close of the regular listing period for that year, or a penalty of ten percent (10%) of the amount of the tax for that year if the discovery was made more than thirty (30) days after the close of the regular listing period, plus an additional ten percent (10%) of the same amount for each subsequent listing period that elapsed before the property was discovered. This penalty shall be computed separately for each year

in which a failure to list occurred; and the year, the amount of the tax for that year, and the total of penalties for failure to list in that year shall be shown separately on the tax records; but the taxes and penalties for all years in which there was a failure to list shall be then totalled on a single tax receipt."

Sec. 29. All references in this Act to portions of Chapter 105 of the General Statutes of North Carolina refer to those sections as they appear in 1979 Replacement Volume 2D, the 1981 Cumulative Supplement thereto, and the 1982 Interim Supplement.

Sec. 30. This Act shall become effective on January 1, 1984.

A BILL TO BE ENTITLED

AN ACT TO IMPROVE THE ADMINISTRATION OF THE PROPERTY TAX.

The General Assembly of North Carolina enacts:

Section 1. G.S. 105-273(2) is rewritten to read as follows:

"(2) "Appraise" and "appraisal" mean to ascertain the true value or use value of property, and the process by which true value or use value is ascertained."

Sec. 2. G.S. 105-273(3) is rewritten to read as follows:

"(3) "Assess" and "assessment" mean to ascertain the tax value of property, the tax value of property, and the process by which the tax value is ascertained."

Sec. 3. G.S. 105-284 is rewritten to read as follows:

"§ 105-284. Uniform assessment standard.--(a) Except as otherwise provided in this section, all property, real and personal, shall be assessed for taxation at the valuation established pursuant to G.S. 105-283 or 105-277.6, and taxes levied by all counties and municipalities shall be levied uniformly on assessments determined as provided in this section.

(b) The assessed value of (i) locally appraised personal property and (ii) public service company property appraised by the Department of Revenue pursuant to Article 23 of this Subchapter shall be determined by applying to the appraised value of such property established pursuant to G.S. 105-283 a percentage equal to the median ratio for the preceding calendar year established by the Department of Revenue pursuant to G.S. 105-289(h) for the county in which the property is situated. No percentage shall be applied in a year in which a reappraisal of real property is conducted pursuant to G.S. 105-286 or a year in which the established ratio for the preceding calendar year is not less than 90%.

(c) If the median ratio for the preceding calendar year established

pursuant to G.S. 105-289(h) exceeds 100%, personal property and public service company property appraised by the Department of Revenue shall be assessed at its appraised value, and real property shall be assessed by reducing the appraised value by a percentage equal to the amount by which the median ratio exceeds 100%.

Sec 4. G.S. 105-286 is rewritten to read as follows:

"§ 105-286. Time for general reappraisal of real property.--(a) Unless the date is advanced as provided in subsection (c), below, each county of the State, as of January 1 of the year prescribed in the following schedule, and not less frequently than every eighth year thereafter, shall reappraise all real property:

- Division I--1988: Camden, Cherokee, Cleveland, Cumberland, Guilford, Harnett, Haywood, Lee, Montgomery, Northampton, Pamlico, and Robeson.
- Division II--1989: Caldwell, Carteret, Columbus, Currituck, Davidson, Gaston, Greene, Lenoir, Madison, Orange, Pitt, Richmond, Swain, Tyrrell, and Washington.
- Division III--1990: Ashe, Buncombe, Chowan, Franklin, Henderson, Hoke, Jones, Pasquotank, Rowan, and Stokes.
- Division IV--1991: Alleghany, Bladen, Cabarrus, Catawba, Dare, Halifax, Mecklenburg, Macon, New Hanover, Surry, and Yadkin.
- Division V--1984: Bertie, Caswell, Forsyth, Iredell, Jackson, Lincoln, Onslow, Person, Perquimans, Rutherford, Union, Vance, Wake, Wilson, and Yancey.
- Division VI--1985: Alamance, Durham, Edgecombe, Gates, Martin, Mitchell, Nash, Polk, Randolph, Stanly, Warren, and Wilkes.
- Division VII--1986: Alexander, Anson, Avery, Beaufort, Brunswick, Clay, Craven, Davie, Duplin, and Granville.

Division VIII-1987: Burke, Chatham, Graham, ~~Martin~~, Hyde, Johnston, McDowell, Moore, Pender, ~~Surge~~, ~~Swain~~, Scotland, Transylvania, Watauga, and Wayne.

(b) As of January 1 of the fourth year following a reappraisal of real property conducted under the provisions of subsection (a), above, each county shall revise the schedule of values, standards, and values accepted for use in the preceding general reappraisal to reflect then-current true value and use value, as established by the assessor pursuant to G.S. 105-289, 105-277.6, and 105-317, and shall adjust the appraised values of real property accordingly by uniform application of percentages or amounts of increase or reduction to the end that the appraised value of each tract, parcel, or lot of real property is adjusted to approximate true value or use value, as appropriate, as nearly as practicable without actual, separate appraisal of each individual tract, parcel, lot, building, structure, and improvement.

(c) Notwithstanding anything contained in subsection (a) or (b) of this section, any county may establish a reappraisal cycle of less than eight years or may conduct a reappraisal of real property or an adjustment of real property values earlier than required by subsections (a) or (b) upon adoption by the board of county commissioners of a resolution so providing. A copy of any such resolution shall be forwarded promptly to the Department of Revenue. Such a resolution shall have the effect of transferring that county from the Division in which it is placed by subsection (a), above, to the appropriate Division requiring a general reappraisal and subsequent readjustment in a cycle of not less than eight years.

(d) Notwithstanding anything contained in subsections (b), (c), or (c), above, any county for which the assessment ratio, as established by the Department of Revenue pursuant to G.S. 105-289(h), has for the year in which a

general reappraisal is conducted pursuant to subsection (a), above, is less than 85% shall be deemed transferred from the Division in which it is otherwise placed by this section to the appropriate Division requiring a general reappraisal in the fourth year thereafter.

(e) In years in which real property within a county is not subject to appraisal or reappraisal under the preceding subsections of this section or under G.S. 105-287, it shall be listed at the value assigned when last appraised under the preceding subsections of this section or under G.S. 105-287.

Sec. 5. G.S. 105-289(h) is rewritten to read as follows:

"(h) To make continuing studies of the ratio of the appraised value of real property to its true value in each county, according to generally accepted principles and procedures for conducting such studies; to establish for each county the median ratio as determined by such studies for each calendar year; and to certify to each county and municipality its established ratio for the ensuing year not later than 30 days before the opening of the regular listing period."

Sec. 6. G.S. 105-339 is rewritten to read as follows:

"§ 105-339. Certification of appraised valuations of nonsystem property and locally assigned rolling stock.--Having determined the appraised valuations of the nonsystem properties of public service companies in accordance with subdivisions (b)(2) and (b)(3) of G.S. 105-335 and the appraised valuations of locally assigned rolling stock in accordance with subdivision (c)(1) of G.S. 105-335, the Department of Revenue shall assign those appraised valuations to the taxing units in which such properties are situated by certifying the valuations to the appropriate counties and municipalities. Each local taxing unit receiving such certified valuations shall determine the assessed valuations in the manner provided by G.S. 105-284 and shall tax the assessed valuations at the rate of tax levied against other property subject to taxation therein."

Sec. 7. G.S. 105-340(a) is rewritten to read as follows:

"(c) Each local taxing unit receiving certified valuations in accordance with this section shall determine the assessed valuations in the manner provided by G.S. 105-284 and shall tax the assessed valuations at the rate of tax levied against other property subject to taxation therein."

Sec. 8. G.S. 105-341 is rewritten to read as follows:

"§ 105-341. Certification of public service company appraised valuations.--Having determined the appraised valuations of public service company system property in accordance with subdivision (b)(1) of G.S. 105-335 and having allocated the valuations in accordance with G.S. 105-338(b)(2) and (3), the Department of Revenue shall assign each local taxing unit's appraised valuations by certifying them to the appropriate counties and municipalities. Each local taxing unit receiving such certified valuations shall determine the assessed valuations in the manner provided by G.S. 105-284 and shall tax the assessed valuations at the rate of tax levied against other property subject to taxation therein."

Sec. 9. G.S. 105-342(c) is repealed.

Sec. 10. G.S. Chapter 105, Article 8E, is amended by inserting therein a new section as follows:

"§ 105-228.37. Disclosure statement.--(a) Every person, firm, corporation, association, society or organization offering for recordation any deed, instrument, or other writing subject to the tax imposed by this Article 8E shall simultaneously file with the Register of Deeds a statement disclosing such information with respect to the transaction evidenced by such deed, instrument, or other writing as the Department of Revenue may by regulation require for the purpose of conducting the annual studies required by G.S. 105-289(h). Such information may include, but is not limited to:

- (1) The name and address of the grantor and grantee;
- (2) The actual or estimated value of the consideration changing hands, including the value of any lien or encumbrance remaining thereon at the time of sale; and
- (3) The terms of financing associated with the sale.

The statement shall be made on forms designed and provided by the Department of Revenue at State expense and shall contain the following affirmation to be signed by the person presenting the statement:

'Under penalties prescribed by law, I affirm that to the best of my knowledge and belief the information contained in this disclosure statement is true and complete.'

Any individual who willfully makes and subscribes a disclosure statement required by this section which he does not believe to be true and complete as to every material matter shall be guilty of a misdemeanor and, upon conviction, shall be subject to a fine not to exceed five hundred dollars (\$500.00) or imprisonment not to exceed six months.

(b) No deed, instrument, or other writing to which this section applies shall be recorded until the statement required by this section has been filed and the register of deeds has determined that the correct amount of excise stamps is affixed as indicated by the disclosure statement.

(c) Upon receiving a statement pursuant to this section, the Register of Deeds shall note thereon the book, page number, and date of recordation of the deed, instrument, or other writing to which the statement refers and shall forward the statement to the county assessor who shall be the custodian thereof. Statements filed pursuant to this section shall be used only for the purpose of conduct by the Department of Revenue of the studies required by G.S. 105-289(h) and shall not be divulged or made public except as may be required in administrative or judicial proceedings under The Machinery Act, Subchapter

II of this Chapter. Any person making improper use or disclosure of any statement filed pursuant to this section shall be subject to the provisions of G.S. 105-259, including the penalties set forth therein."

Sec. 11. This Act shall become effective on January 1, 1984.

A BILL TO BE ENTITLED

AN ACT TO CLARIFY THE PROVISIONS FOR CERTIFICATION OF LOCAL TAXING OFFICIALS AND TO PROVIDE A CONTINUING EDUCATION PROGRAM FOR ALL PERSONS ENGAGED IN THE APPRAISAL OF PROPERTY FOR TAXATION.

The General Assembly of North Carolina enacts:

Sec. 1. G. S. 105-289(d) is hereby rewritten to read as follows:

"(d) In exercising general and specific supervision over the valuation and taxation of property, the Department shall provide the following:

- (1) A continuing program of education and training for county and municipal tax officials in the conduct of their duties,
- (2) A program for testing the qualifications of county assessors and other persons engaged in the appraisal of property for the county,
- (3) A certification program for county assessors and other persons engaged in the appraisal of property for the county.

The Department shall promulgate regulations to carry out its duties under this subsection."

Sec. 2. G. S. 105-294 is hereby rewritten to read as follows:

"(a) At its first regular meeting in July, 1983, and every two years or four years thereafter, as appropriate, the board of county commissioners of each county shall appoint a county assessor to serve a term of not less than two nor more than four years; provided, however, that no person shall be eligible for appointment to a term of more than two years unless such person is deemed to be qualified as provided in subsection (b) of this section or has been certified by the Department of Revenue as provided in subsection (c) of this section.

(b) Persons who held the position of tax supervisor on July 1, 1971, and continue to hold the position, and persons who have been certified for appointment as tax supervisor by the Department of Revenue since that date are deemed to be qualified to serve as county assessor. Any other person selected to serve as county assessor must meet the following requirements:

- (1) Be at least 21 years of age as of the date of appointment,
- (2) Hold a high school diploma or certificate of equivalency, or in the alternative, have 5 years employment experience in a vocation which is reasonably related to the duties of a county assessor,
- (3) Within two years of the date of appointment, achieve a passing grade in all of the following courses:
 - a. Fundamentals of Listing and Assessing
 - b. IAAO Course I - Fundamentals of Real Property Appraisal
 - c. IAAO Course 4 - Assessment Administration
 - d. Fundamentals of Personal Property Appraisal.

An alternate course in property appraisal related instruction may be substituted for either of the above courses, except Fundamentals of Listing and Assessing, upon approval by the Department of Revenue.

- (4) Upon completion of the required four courses, achieve a passing grade in a comprehensive examination in property tax administration conducted by the Department of Revenue.

(c) Certification. Persons meeting all of the requirements of this section shall be certified by the Department of Revenue. From the date of appointment until the date of certification, persons appointed to serve as county assessor are deemed to be serving in an acting capacity. Any person who fails to qualify within the two-year period shall not be eligible for reappointment until all of the requirements have been met.

(d) In order to retain the position of county assessor, every person serving as county assessor, including those persons deemed to be qualified under the provisions of this Act, shall annually complete at least 30 hours of instruction in the appraisal or assessment of property as provided in regulations of the Department of Revenue.

(e) The compensation and expenses of the county assessor shall be determined by the board of county commissioners.

(f) Alternative to separate office of county assessor. Pursuant to Act VI, Section 9 of the North Carolina Constitution, the office of county assessor is hereby declared to be an office that may not be held concurrently with any other salaried appointive or elective office except that of tax collector.

Sec. 3. G. S. 105-296(b) is hereby rewritten to read as follows:

"(b) Within budgeted appropriations, he or she shall employ listers, appraisers, and clerical assistants necessary to carry out the listing, appraisal, assessing, and billing functions required by law. Any person employed by the assessor whose duties include the appraisal of real or personal property shall be required to attend at least one course in the appraisal of real or personal property approved by the Department of Revenue each year and at the end of the first year achieve a passing grade on a comprehensive examination in property tax administration conducted by the Department of Revenue. The assessor may allocate responsibility among such employees by territory, by subject matter, or on any other reasonable basis."

Sec. 4. G. S. 105-299 is hereby rewritten to read as follows:

" 105-299. Employment of experts. -- The board of county commissioners may employ appraisal firms, mapping firms or other persons or firms having expertise in one or more of the duties of the assessor to assist him or her

in the performance of such duties. Any person employed by an appraisal firm whose duties include the appraisal of property for the county shall be required to demonstrate that he or she is qualified to carry out such duties by achieving a passing grade on a comprehensive examination in the appraisal of property administered by the Department of Revenue. In the employment of such firms, primary consideration shall be given to the firms registered with the Department of Revenue pursuant to the provisions of G. S. 105-289(i). Contracts for the employment of such firms or persons shall be deemed to be contracts for personal services and shall not be subject to the provisions of Article 8, Chapter 143, of the General Statutes.

Sec. 5. This Act shall be effective on July 1, 1983.

A BILL TO BE ENTITLED
AN ACT TO MAKE APPROPRIATIONS FOR STATE LAND RECORDS
ASSISTANCE TO LOCAL GOVERNMENT.

WHEREAS, the property tax is the major source of revenue to local government in North Carolina; and

WHEREAS, the property tax provides local government with an important independent source of funding; and

WHEREAS, high rates of inflation, high interest rates, and difficult economic times in recent years have led citizens of the State to express increased concern with their property tax burden, especially the octennial system of revaluation of real property; and

WHEREAS, the 1981-82 Property Tax System Study Committee has thoroughly studied the problems with the current revaluation system and has developed a package of improvements; and

WHEREAS, an essential component of this package is an eight-year schedule for improving county land records systems.

The General Assembly of North Carolina enacts:

Section 1. There is hereby appropriated from the General Fund to the Department of Administration, in addition to all other funds appropriated, the sum of one million two hundred twenty-three thousand two hundred and forty-six dollars (\$1,223,246) for the 1983-84 fiscal year and one million two hundred twenty-three thousand three hundred sixteen dollars (\$1,223,316) for the 1984-85 fiscal year.

This appropriation shall be for the purpose of accelerating the implementation of Chapter 1099 of the 1977 Session Laws, which act established a statewide program for the development of county land records. This appropriation shall be subject to all conditions, limitations, and requirements set forth in Chapter 1099 of the 1977 Session Laws.

Sec. 2. The 1983 General Assembly recommends that this additional appropriation for the Land Records Management Program of the Department of Administration continue at a level of no less than one million two hundred thousand dollars (\$1,200,000) per year for the six (6) fiscal years immediately following the 1983-85 biennium.

Sec. 3. This act shall become effective on July 1, 1983.

A BILL TO BE ENTITLED

AN ACT TO REVISE THE PROCEDURE FOR PROTEST AND APPEAL OF PROPERTY TAX LISTINGS AND ASSESSMENTS.

The General Assembly of North Carolina enacts:

Section 1. The Machinery Act, G.S. Chapter 105, Subchapter II, is amended by inserting therein a new Article as follows:

"Article 21A

Protest and Appeal of Listings and Assessments.

Part 1. General Provisions.

§ 105-325.1. Purpose.--The purpose of this Article is to provide administrative protest and appeal procedures to be followed by taxpayers and local taxing units with respect to listings and assessments for taxes levied under the provisions of this Subchapter.

§ 105-325.2. Representation.--(a) At, or in connection with, any conference or hearing held pursuant to this Article, any taxpayer or intervenor is entitled to the assistance of a representative of his choice and may appear in person or by representative. However, a representative shall have no power to appear for, or act on behalf of, a taxpayer unless he presents a written authorization from the taxpayer before the conference or hearing.

(b) A representative who appears for or with a taxpayer at a conference or hearing held pursuant to Parts 2 or 3 of this Article shall not be deemed to be engaged in the practice of any licensed trade or profession by reason of that appearance.

(c) The assessor may delegate duties to be performed under this Article to any of his assistants, employees, or agents. The assessor may also call upon the county attorney, representatives of professional appraisal companies employed to assist in a general reappraisal of real property, and other persons to assist or represent him at or in connection with proceedings held pursuant

this Article.

§ 105-325.3. Department of Revenue to issue regulations. The Department of Revenue shall promulgate such regulations, rules, forms, and instructions as it deems appropriate to aid in the interpretation and administration of this Article.

§ 105-325.4 Administrative Procedure Act inapplicable.--Proceedings conducted pursuant to Parts 2 and 3 of this Article are not subject to the Administrative Procedure Act, G.S. Chapter 150A.

§ 105-325.5. Reserved.

Part 2. Notice of Assessment, Protest, Informal Conference, and Response.

§ 105-325.6. Notice of assessment.--(a) The assessor shall provide notice of each assessment in accordance with this section.

(b) Notice of assessment is not required for:

- (1) Real property not subject to appraisal for the current year.
- (2) Personal property listed by aggregate dollar value, which value is adopted by the assessor as the appraised value of the property for the current year.
- (3) Personal property appraised by the assessor or valued by the taxpayer on the abstract at the time of listing, which listed value is not subsequently increased by the assessor.
- (4) Personal property appraised according to uniform schedules of value established or adopted by the assessor before the beginning of the regular listing period, but only if (i) the method by which such items are appraised is disclosed to the taxpayer at the time of listing by a statement printed on the abstract or supplied separately, (ii) the schedules are available for public inspection in the office of the assessor, and (iii) the taxpayer does not specifically request written notice of the

assessment.

- (5) Household personal property, as defined in G.S. 105-277.1(b)(2a), appraised at a uniform percentage of the value of residential real property or a standard multiple of monthly rent, which standard percentage or multiple is indicated on the abstract or supplied separately when the property is listed.

(c) The notice of assessment shall be in writing and contain the following:

- (1) The name of the taxpayer.
- (2) A description of the property or the parcel identification number.
- (3) For real property only, the amount of the assessment for the prior year.
- (4) The appraised value of the property, any applicable assessment ratio, and the assessed value (if different from the appraised value).
- (5) The procedure for protesting the assessment, including a statement of the taxpayer's right to request an informal conference.

(d) Except as provided in subsections (e) and (f) of this section, the notice of assessment shall be sent by United States mail to the person in whose name the property is listed, or his designee, at his address last known to the assessor.

(e) In the case of property owned by husband and wife as tenants by the entirety or other form of joint ownership, but in no other case, notice of assessment may be a single joint notice sent to the marital residence, except that if the assessor has received actual notice from either spouse that separate residences have been established, then a duplicate original of the joint

notice shall be sent by United States mail to each spouse at his last known address.

(f) The notice of assessment shall be effective and adequate if it is completed and mailed as provided in subsections (c), (d), and (e) of this section, notwithstanding the prior death, termination, or legal disability of the taxpayer or his designee, provided that the assessor has received no actual notice of such death, termination, or disability. When the assessor receives such notice, he shall exercise due diligence to determine the real party in interest and mail to such real party in interest the notice of assessment.

(g) The notice of assessment shall be effective and adequate if it is completed and mailed as provided in subsections (c), (d), (e), and (f) of this section notwithstanding the failure of the taxpayer or his designee to receive the notice. A sworn statement by the assessor attesting to the giving of notices of assessments, as provided in this section, for all properties in the county or for a portion thereof that includes the property in question shall constitute prima facie evidence that such notice was given and the burden shall be on the taxpayer to show to the contrary.

(h) For all purposes of this section, an abstract signed by the taxpayer or his authorized agent shall constitute notice of assessment for all property listed and valued thereon by the taxpayer or the assessor unless the assessor increases the assessment of any such property after the taxpayer has signed the abstract.

§ 105-325.7. Protest.--(a) Each person in whose name taxable property is or should be listed pursuant to G.S. 105-302 and 105-306 may protest the listing and/or assessment of that property in accordance with this section.

(b) A protest shall be effective and adequate if it is in writing and contains:

- (1) The name and address of the taxpayer;

- (2) A description of the property in issue;
- (3) The name and address of the taxpayer's representative, if any, for purposes of the protest;
- (4) The basis of protest; and
- (5) A request for an informal conference with the assessor, if the taxpayer so desires.

(c) The protest shall be effective if filed:

- (1) Within 60 days after the close of the regular or extended listing period, or
- (2) Within 30 days after submission of the abstract on which the property is listed if the abstract is filed after the close of the regular or extended listing period; or
- (3) Within 30 days after the date of mailing of the notice of assessment with respect to assessments for which mail notice is required;

whichever event last occurs.

(d) A protest filed by mail shall be deemed filed on the date of the United States postmark stamped on the envelope and shall not be effective and adequate unless it is actually received by the assessor. The protest may be filed by delivery to the office of the assessor during regular business hours.

§ 105-325.8. Informal conference.--(a) After receiving a protest that also requests an informal conference, the assessor shall schedule the conference and notify the taxpayer by mail of the date, time, and place no later than 30 days after the assessor receives the protest.

§ 105-325.9. Response.--(a) Notwithstanding anything contained in G.S. 105-325.8, the assessor shall respond to the protest unless the taxpayer has voluntarily withdrawn the protest in writing.

(b) The response shall:

- (1) Be in writing;
- (2) Be mailed to the taxpayer or his representative by
class mail to the address indicated on the taxpayer's pro
- (3) Explain why and to what extent the protest has been allow
or why it has been disallowed;
- (4) State the procedure for further appeal; and
- (5) Contain appropriate forms for appeal to the county assess
appeals board.

(c) The assessor shall have the jurisdiction to amend or modify
any protested listing or assessment for good cause shown.

Part 3. County Assessment Appeals Board.

§ 105-325.10. County assessment appeals board established.--There
is hereby created a county assessment appeals board in and for each
county of this State which shall have exclusive original jurisdiction
to hear and determine taxpayer listing and assessment appeals.

§ 105-325.11. Selection and qualifications of members.--(a) Each
county assessment appeals board shall be composed of not less than three
nor more than seven members appointed by the board of county commission
The board of county commissioners shall by ordinance determine the numb
of members and the terms of office. The members of the assessment appea
board shall select a chairman and vice chairman, At least one member o
the board shall be affiliated with a political party other than that
of a majority of the members of the board of county commissioners.
The board of county commissioners may designate one or more of its
own members to serve as a member of the county assessment appeals board
ex officio. If a member of the county board of commissioners is appoin
to the county assessment appeals board to serve ex officio, the duties o
the office of member of the county assessment appeals board shall be de
annexed to the duties of the office of member of the board of county co

sioners and the member serving ex officio shall be deemed to hold but one public office as a consequence.

(b) A member of the county assessment appeals board shall be disqualified from hearing assessment appeals for properties in which he has any financial interest.

(c) Before entering upon his duties, each member of the county assessment appeals board shall take and subscribe the following oath and file it with the clerk of the board of county commissioners:

I,, do solemnly swear (or affirm) that I will support and maintain the Constitution and laws of the United States, and the Constitution and laws of North Carolina not inconsistent therewith, and that I will faithfully discharge the duties of my office as a member of the Assessment Appeals Board of County, North Carolina, and that I will not allow my actions of the Assessment Appeals Board to be influenced by personal or political friendships or obligations, so help me God.

.....

(Signature)

§ 105-325.12. Appeals to the county assessment appeals board.--(a) Any taxpayer in whose name property has been listed and assessed and who has protested the listing and/or assessment pursuant to Part 2 of this Article 21A may appeal the listing and/or assessment to the county assessment appeals board. The board shall have authority and jurisdiction to rule on any issue of law or fact relating to the correctness of the listing or assessment, including claims of exemption, exclusion, and preferential tax treatment.

(b) An appeal shall be commenced by filing a notice of appeal. A notice of appeal shall be effective and adequate if it is in writing and:

- (1) Is filed with the county assessment appeals board no later than 30 days after the mailing of a written response by the assessor

pursuant to G.S. 105-325.9.

- (2) Is signed by the taxpayer;
- (3) Sets forth the reasons for objecting to the listing or assessment, including the opinion of the taxpayer as to what the assessment should be, if that is in dispute; and
- (4) Sets forth that a timely protest to the listing or assessment was filed in accordance with G.S. 105-325.7;

(c) Upon receiving a notice of appeal, the assessment appeals board shall set the date and time for the hearing and shall give the assessor and the taxpayer 30 days written notice thereof.

(d) Interested persons who are not parties to the action shall be allowed to intervene if:

- (1) The intervenor has an interest in the property which is the subject of the assessment under appeal;
- (2) The disposition of the action could, as a practical matter, impede protection of that interest; and
- (3) The intervenor's interest would not be adequately represented by the existing parties.

(e) Each appeal shall be heard by the full board, or a panel composed of at least three members of the board, one of whom shall serve as chairman, or, if the taxpayer consents, by an individual member of the board.

(f) For the purpose of hearing appeals:

- (1) Each individual member of the board shall be authorized to administer oaths.
- (2) The hearing shall be open to the public.
- (3) Notwithstanding anything to the contrary contained in G.S. Chapter 143, Article 33B, the board may meet in closed session to

consider evidence presented at the hearing but shall render its decision in open session.

(g) At least 15 days before the hearing, the assessor shall provide to the panel or hearing officer:

- (1) A copy of the listing and assessment for the subject property;
- (2) The taxpayer's written protest;
- (3) The assessor's written response to the taxpayer's protest; and
- (4) Such other information and documents in support and explanation of the listing or assessment as the board may direct or the assessor may choose.

(h) At the hearing:

- (1) The assessor, under oath, shall explain the listing or assessment and his response to the taxpayer's protest, then
- (2) The taxpayer shall state the basis for appealing the listing or assessment, then
- (3) The taxpayer may offer sworn testimony and documentary evidence to support his case, then
- (4) Any intervenor, or his representative, shall be allowed to offer sworn testimony and documentary evidence in support of his position, then
- (5) The assessor may offer additional relevant evidence and argument in support of the listing or assessment, then
- (6) The taxpayer and intervenors, if any, or their representatives, shall be given rebuttal time.

(i) The county assessment appeals board, or a panel of the board, or an individual member of the board is authorized and empowered to subpoena witnesses and documents upon a subpoena to be signed by the member presiding at the

hearing directed to the witness or the person having custody of the documents sought. Subpoenas issued under this subsection may be served by any officer authorized to serve subpoenas. Any person who shall wilfully fail or refuse in response to a subpoena to appear, to produce subpoenaed documents, or to testify shall be guilty of a misdemeanor and fined and/or imprisoned in the discretion of the court.

(j) The rules of evidence applicable in the General Court of Justice shall not apply in hearings of appeals by a county assessment appeals board. Any evidence relevant and material to a determination of the appeal may be presented at the hearing, and the board shall consider all evidence presented that is not clearly irrelevant or unduly repetitious. The board may take official notice of any fact that could be judicially noticed in the General Court of Justice.

(k) All parties may present testimony of witnesses, cross-examine witnesses offered by other parties, and request the board to issue subpoenas.

(1) Documentary evidence may be received at the hearing in the form of copy or excerpt. Upon request, if the original documentary evidence is readily available, parties shall have the opportunity to compare the copy with the original.

§ 105-325.13. Decision and order.--(a) After hearing an appeal, the county assessment appeals board shall render an order confirming or removing the listing or confirming, reducing, or increasing the assessment. If an appeal is heard by a panel, the decision shall be rendered by majority vote of the members of the panel. If the appeal is heard by an individual member, the individual member shall render the decision. The decision may be announced orally at the end of the hearing, or it may be reserved for consideration. In either case, the board shall mail or deliver to the parties its written decision to the parties within 30 days after the hearing.

(b) There shall be a rebuttable presumption that the listing or assessment under appeal is valid, correct, and made in good faith. The burden of proof shall be on the taxpayer to show, by a preponderance of the evidence, that the listing is unlawful or that the assessment is arbitrary or unlawful and substantially exceeds the proper assessment of the property. If the taxpayer successfully sustains his burden of proof, the board shall order appropriate modification of the listing and/or assessment.

(c) The written decision of the board shall:

- (1) State whether and to what extent the listing and/or assessment is modified or affirmed;
- (2) Explain the basis for the decision;
- (3) State the grounds and procedure for further appeal and the place where such appeal may be filed.

§ 105-325.14. Release and refund of taxes pursuant to orders of the county assessment appeals board or the Property Tax Commission.--If a tax receipt for an assessment appealed to the county assessment appeals board has already been prepared and delivered to the collector when the board's order is issued, and if the effect of the order is to reduce the amount of tax due on the property that is the subject of the appeal, the difference between the amount of tax appearing on the tax receipt and the amount due upon implementation of the board's order shall be deemed an illegal tax within the meaning of G.S. 105-381 when the order becomes final. For the purposes of this section, an order of the county assessment appeals board becomes final when the time for appeal of the order to the Property Tax Commission expires or the Property Tax Commission enters its order on appeal. Upon certification to the collector of a final order of the county assessments appeal board or the Property Tax Commission, as appropriate, the collector shall release or refund the illegal

amount on authority of the order, anything to the contrary in G.S. 105-381 notwithstanding, and shall report the amount released or refunded to the governing body of the taxing unit at its next regular meeting. Releases and refunds made pursuant to this section shall reduce the amount of taxes charged to the collector accordingly without the necessity of formal action by the governing board of the taxing unit."

§ 105-325.15. Reserved.

Part 4. Appeal to the Property Tax Commission.

§ 105-325.16. Appeal to the Property Tax Commission--(a) Any party to or intervenor in an appeal to a county assessments appeal board, any other property owner of the county, the assessor, any member of the board of county commissioners, or any member of the county assessment appeals board may except to an order of the county assessment appeals board entered pursuant to Part 3 of this Article and appeal therefrom to the Property Tax Commission.

(b) To perfect an appeal to the Property Tax Commission, the appellant shall, within 30 days after the county assessment appeals board has mailed the notice of its decision as required by G.S. 105-325.13(a), file a written notice of appeal and a written statement of the grounds of appeal with the county assessment appeals board and with the Property Tax Commission. Upon timely appeal, the Property Tax Commission shall proceed under the provisions of G.S. 105-290(b). Appeals to the Property Tax Commission shall be deemed filed when they are received in the office of the Commission.

(c) Appeals from decisions of the county assessment appeals board before the Property Tax Commission shall be original, independent proceedings and shall be tried de novo."

Sec. 2. G.S. 105-277.4(a) is rewritten to read as follows:

"(a) Property coming within one of the classes defined in G.S. 105-277.3

but having a greater value for other uses shall be eligible for taxation on the basis of the value of the property in its present use if a timely and proper application is filed with the assessor of the county in which the property is situated. The application shall clearly show that the property comes within one of the classes and shall also contain any other relevant information required by the assessor to properly appraise the property at its present-use value. The application shall be filed on or before the last day of the regular or extended listing period or within 30 days after a notice of assessment for the current year is mailed pursuant to Article 21A of this Subchapter, whichever event last occurs. Unless a change in the use-value appraisal is required because of a change in use, acreage or ownership of a qualifying property, no additional application shall be required until another notice of assessment for the then-current year is mailed, at which time a new application is required."

Sec. 3. G.S. 105-277.4(b1) is rewritten to read as follows:

"(b1) Decisions of the assessor regarding the qualification or appraisal of property under this section may be appealed in the manner provided by Article 21A of this Subchapter."

Sec. 4. G.S. 105-282.1(b) is amended by striking out the second sentence and inserting in lieu thereof the following: "If an application for exemption or exclusion is denied by the assessor, the notice of denial shall be deemed a notice of assessment within the meaning of Article 21A of this Subchapter."

Sec. 5. G.S. 105-282.1(b) is further amended by striking out the words "as provided in G.S. 105-324" in the fifth sentence.

Sec. 6. G.S. 105-282.1(c) is amended by striking out the words "board of equalization and review or".

Sec. 7. The last sentence of G.S. 105-287(a) is rewritten to read as

follows: "The provisions of Article 21A of this Subchapter shall apply to reappraisals made under the requirements of this section."

Sec. 8. G.S. 105-287(b)(6) is amended by striking out the second sentence.

Sec. 9. G.S. 105-287(b)(7) is amended by rewriting the second sentence to read as follows: "(In such event the assessor shall adjust uniformly the appraised and assessed valuations of all real property affected by such a change in allotments.)"

Sec. 10. G.S. 105-289(e)(3) is amended by striking out the words "boards of equalization and review" and inserting in lieu thereof the words "county assessment appeals boards".

Sec. 11. G.S. 105-290 is rewritten to read as follows:

"§ 105-290. Appeals to Property Tax Commission.--(a) Duty to Hear Appeals.--In its capacity as the State board of equalization and review, the Property Tax Commission shall hear and adjudicate appeals from county assessment appeals boards and boards of county commissioners as provided in this section.

(b) Appeals from county assessment appeals boards.--It shall be the duty of the Property Tax Commission to hear and to adjudicate appeals from final orders of county assessment appeals boards entered pursuant to Article 21A, Part 3, of this Subchapter.

(1) In such cases, taxpayers, intervenors, and persons having ownership interests in the property under appeal may file separate appeals or joint appeals at the election of one or more of the taxpayers. It is the intent of this provision that all owners of a single item of personal property or tract or parcel of real property be allowed to join in one appeal and also that any taxpayer be allowed to include

in one appeal all objections timely presented regardless of the fact that the listing or assessment of more than one item of personal property or tract or parcel of real property is the subject of the appeal.

- (2) When an appeal has been filed as provided in Article 21, Part 4, of this Subchapter, the Property Tax Commission shall elect whether to deal with the appeal under the procedure specified in subdivision (b)(2)a, below, or that specified in subdivision (b)(2)b, below.

a. Hearing by Commission Representatives.--The Commission is empowered to authorize any member or members of the Commission or employee of the Department of Revenue to hear an appeal, to make examinations and investigations, to have made from stenographic notes a full and complete record of the evidence offered at the hearing, and to make recommended findings of fact and conclusions of law. Should the Commission elect to follow this procedure, it shall fix the time and place at which its representative or representatives will hear the appeal and, at least 10 days before the hearing, give written notice thereof to the appellant and to the county assessment appeals board from which the appeal is taken. At the hearing the Commission's representative or representatives shall hear all evidence and affidavits offered by the parties and may exercise the authority granted by subsection (d), below, to obtain information pertinent to decision of the appeal. The representative or representatives conducting the hearing shall submit to the Commission and to the parties a full record of the proceeding and his or their recommended findings of fact and conclusions of law. The Commission shall review the record, the recommended findings of fact and

conclusions of law, and any written arguments that may be submitted to the Commission by the parties within 15 days following the date on which the findings and conclusions were submitted to the parties and shall take one of the following actions:

1. Accept the recommended findings of fact and conclusions of law and issue an appropriate order as provided in subdivision (b)(3), below.
 2. Make new findings of fact or conclusions of law based upon the record submitted by the Commission's representative or representatives and issue an appropriate order as provided in subdivision (b)(3), below.
 3. Rehear the appeal under the procedure provided in subdivision (b)(2)b, below, with respect to any portion of the record or recommended findings of fact or conclusions of law.
- b. Hearing by Full Commission.--Should the Commission elect not to employ the procedure provided in subdivision (b)(2)a, above, it shall fix a time and place at which the Commission shall hear the appeal and, at least 10 days before the hearing, give written notice thereof to the parties. At the hearing the Commission shall hear all evidence and affidavits offered by the parties and may exercise the authority granted by subsection (d), below, to obtain information pertinent to decision of the appeal. The Commission shall make findings of fact and conclusions of law and issue an appropriate order as provided in subdivision (b)(3), below.

(3) On the basis of the findings of fact and conclusions of law made

after any hearing provided for by this subsection (b), the Property Tax Commission shall enter an order (incorporating the findings and conclusions) reducing, increasing, or confirming the assessment or listings and assessments appealed or listing or removing from the tax lists the property whose listing has been appealed. A certified copy of the order shall be delivered to each party, and the abstracts and tax records of the county shall be corrected to reflect the Commission's order.

(c) Appeals from Adoption of Schedules, Standards, and Rules.--It shall be the duty of the Property Tax Commission to hear and to adjudicate appeals from orders of boards of county commissioners adopting schedules of values, standards, and rules under the provisions of G.S. 105-317 as prescribed in this subsection (c), and the adoption of such schedules, standards, and rules shall not be subject to appeal under any other provision of this Subchapter.

- (1) Any property owner of the county (separately or in conjunction with other property owners of the county) asserting that schedules of values, standards, and rules adopted by order of the board of county commissioners under the provisions of G.S. 105-317 fail to meet the appraisal standard established by G.S. 105-283 or G.S. 105-277.6 may appeal to the Property Tax Commission as provided in G.S. 105-317(c).
- (2) Upon such an appeal the Property Tax Commission shall proceed to hear the appeal in accordance with the procedures provided in subdivisions (b)(1) and (b)(2), above, and in scheduling the hearing upon such an appeal, the Commission shall give it priority over appeals that may be pending before the Commission under the provisions of subsection (b), above. The decision of the Commission upon such an appeal shall be embodied in an order as provided in subdivision (c)(3), below.
- (3) On the basis of the findings of fact and conclusions of law made

after any hearing provided for by this subsection (c), the Property Tax Commission shall enter an order (incorporating the findings and conclusions):

- a. Modifying or confirming the order adopting the schedules, standards, and rules challenged, or
- b. Requiring the board of county commissioners to revise or modify its order of adoption in accordance with the instructions of the Commission and to present the order as thus revised or modified for approval by the Commission under rules and regulations prescribed by the Commission.

(d) Witnesses and Documents.--Upon its own motion or upon the request of any party to an appeal, the Property Tax Commission, or any member of the Commission, or any employee of the Department of Revenue so authorized by the Commission shall examine witnesses under oath administered by any member of the Commission or any employee of the Department of Revenue so authorized by the Commission, and examine the documents of any person if there is ground for believing that information contained in such documents is pertinent to the decision of any appeal pending before the Commission, regardless of whether such person is a party to the proceeding before the Commission. Witnesses and documents examined under the authority of this subsection (d) shall be examined only after service of a subpoena as provided in subdivision (d)(1), below. The travel expenses of any witness subpoenaed and the cost of serving any subpoena shall be borne by the party that requested the subpoena.

- (1) The Property Tax Commission, a member of the Commission, or any employee of the Department of Revenue authorized by the Commission, is authorized and empowered to subpoena witnesses and to subpoena documents upon a subpoena to be signed by the chairman of the Commis-

sion directed to the witness or witnesses or to the person or persons having custody of the documents sought. Subpoenas issued under this subdivision may be served by any officer authorized to serve subpoenas.

- (2) Any person who shall wilfully fail or refuse to appear, to produce subpoenaed documents in response to a subpoena, or to testify as provided in this subsection (d) shall be guilty of a misdemeanor and fined and/or imprisoned in the discretion of the court."

Sec. 11. G.S. 105-296(g) is rewritten to read as follows:

"(g) He shall have power to subpoena any person for examination under oath and to subpoena documents whenever he has reasonable grounds for the belief that such person has knowledge or that such documents contain information that is pertinent to the discovery or valuation of any property subject to taxation in the county or that is necessary for compliance with the requirements as to what the tax list shall contain. The subpoena shall be signed by either the chairman of the county assessments appeal board or the chairman of the board of county commissioners. It shall be served by an officer qualified to serve subpoenas. Any person who shall wilfully fail or refuse to appear, produce subpoenaed documents, or testify concerning the subject of the inquiry shall be guilty of a misdemeanor and fined and/or imprisoned in the discretion of the court."

Sec. 12. G.S. 105-296(i) is rewritten to read as follows:

"(i) He shall have the power to list, appraise and assess taxable property pursuant to the provisions of this Subchapter."

Sec 13. G.S. 105-296 is amended by striking out all of subsections (d), (e), and (f), and by rewriting subsection (b) to read as follows:

"(b) Within budgeted appropriations, he shall employ listers, appraisers, and clerical assistants necessary to carry out the listing, appraisal, assess-

ing, and billing functions required by law. He may allocate responsibility among them by territory, by subject matter, or on any other reasonable basis."

Sec. 14. G.S. 105-298 is repealed.

Sec. 15. G.S. 105-300 is amended by striking out the words "board of equalization and review" and inserting in lieu thereof the words "county assessment appeals board".

Sec. 16. G.S. 105-312(a)(4) is amended by striking out the words "county board of equalization and review or board of commissioners" and inserting in lieu thereof the words "county assessment appeals board".

Sec. 17. G.S. 105-312(d) is rewritten to read as follows:

"(d) Procedure for Listing, Appraising, and Assessing Discovered Property.--Subject to the provisions of subsection (c), above, and the presumptions established by subsection (f), below, discovered property shall be listed by the assessor in the name of the person required by G.S. 105-302 or 105-306. The discovery shall be deemed to be made on the date that the abstract is made or corrected pursuant to subsection (e) of this section. The assessor shall also make a tentative appraisal of the discovered property in accordance with the best information available to him.

When a discovery is made, the assessor shall mail a notice of assessment to the person in whose name the discovered property has been listed. The procedure for protesting and appealing listings and assessments made pursuant to this section shall be as provided in Article 21A of this Subchapter."

Sec. 18. G.S. 105-312(k) and G.S. 105-312(l) are amended by striking out the words "board of equalization and review, including any board created by resolution pursuant to G.S. 105-322(a) and any special board established by local act" and inserting in lieu thereof the words "county assessment appeals board".

Sec. 19. G.S. 105-319(d) is rewritten to read as follows:

"(d) Listings and assessments shall be entered on the county tax records, and the county tax records shall be submitted to the board of county commissioners for approval before the due date of taxes levied for the current year. Municipal corporations shall be governed by the provisions of G.S. 105-326 through 105-328 with regard to matters dealt with in this subsection (d).

Sec. 19.1. Article 20 of G.S. Chapter 105, Subchapter II, is amended by inserting therein a new section as follows:

"§ 105-319.1. Changes in abstracts and tax records after approval of tax records.--After the board of county commissioners has approved the tax records for the year, no changes shall be made on the abstracts and tax records for that year except as follows:

- (1) To give effect to decisions of the county assessments appeal board or the Property Tax Commission on appeals taken pursuant to Article 21A of this Subchapter;
- (2) To add to the tax records any valuation certified by the Department of Revenue pursuant to Article 23 of this Subchapter;
- (3) Subject to the provisions of subdivisions (a)(3)a and (a)(3)b, below, to correct the name of any taxpayer appearing on the abstract or tax records erroneously; to substitute the name of the person who should have listed property for the name appearing on the abstract or tax records as having listed the property; and to correct an erroneous description of any property appearing on the abstract or tax records.
 - a. Any correction or substitution made under the provisions of this subdivision (a)(3) shall have the same force and effect as if the name of the taxpayer or description of the property had been correctly listed in the first instance, but the provisions of this subdivision (a)(3) shall not be construed as a limitation

on the taxation and penalization of discovered property required by G.S. 105-312.

- b. If a correction or substitute under this subdivision (a)(3) will adversely affect the interests of any taxpayer, he shall be given written notice thereof which notice shall be deemed a notice of assessment within the meaning of Article 21A of this Subchapter.
- (4) To correct appraisals, assessments, and amounts of taxes appearing erroneously on the abstracts or tax records as the result of clerical or mathematical errors. (If the clerical or mathematical error was made by the taxpayer, his agent, or an officer of the taxpayer and if the correction demonstrates that the property was listed at a substantial understatement of value, quantity, or other measurement, the provisions of G.S. 105-312 shall apply).
- (5) To add to or correct the tax records and abstracts to include property discovered under the provisions of G.S. 105-312."

Sec. 20. G.S. 105-322 is repealed.

Sec. 21. G.S. 105-323 is repealed.

Sec. 22. G.S. 105-324 is repealed.

Sec. 23. G.S. 105-325 is repealed.

Sec. 24. G.S. 105-328(b)(4) is rewritten to read as follows:

- "(4) The governing body shall, with respect to property subject to city or town taxation, be vested with the powers and duties vested by this Subchapter in boards of county commissioners and county assessment appeals boards. Appeals may be taken from the municipal assessment appeals board to the Property Tax Commission in the manner provided in this Subchapter for appeals from county assessment appeals boards.

Sec. 25. G.S. 105-328(b)(6) is rewritten to read as follows:

"(6) The intent of this subsection (b) is to provide cities and towns that are situated in two or more counties with machinery for listing, appraising, and assessing property for municipal taxation equivalent to that established by this Subchapter for counties. The powers to be exercised by, the duties imposed on, and the possible penalties against municipal governing bodies, assessment appeals boards, assessors, and assistants shall be the same as those provided in this Subchapter by, or, or against county boards of commissioners, county assessment appeals boards, assessors, and assistants.

Sec. 26. G.S. 105-380(d) is rewritten to read as follows:

"(d) The provisions of this section are not intended to restrict or abrogate the powers of a county assessment appeals board."

Sec. 27. G.S. 105-394(1) is amended by striking out the words "members of boards of equalization and review" and inserting in lieu thereof "members of county assessment appeals boards."

Sec. 28. G.S. 105-394(4) is repealed.

Sec. 29. All references in this Act to portions of Chapter 105 of the General Statutes of North Carolina refer to those sections as they appear in 1979 Replacement Volume 2D, the 1981 Cumulative Supplement thereto, and the 1982 Interim Supplement.

Sec. 30. All special or local acts of the General Assembly creating or authorizing the creation of county boards of equalization and review or other boards having the powers of a board of equalization and review are repealed.

Sec. 31. Notwithstanding any other provisions of this Act, appeals pending before county boards of equalization and review and the Property Tax Commission on the effective date of this Act shall be carried to conclusion

under the provisions of G.S. Chapter 105, Subchapter II, as the same is written immediately before the effective date of this Act. This Act does not affect pending litigation.

Sec. 32. This Act shall become effective on January 1, 1984.

A BILL TO BE ENTITLED

AN ACT EXTENDING USE-VALUE APPRAISAL ELIGIBILITY TO PUBLICLY-HELD CORPORATIONS AND PROVIDING FOR APPRAISAL OF ELIGIBLE FOREST LANDS ACCORDING TO THE SITE INDEX FOR TIMBER PRODUCTION.

The General Assembly of North Carolina enacts:

Section 1. G.S. 105-277.2 is rewritten to read as follows:

"§ 105-277.2. **Agricultural, horticultural and forest land--definitions.--**

(a) For the purposes of G.S. 105-277.3 through 105-277.7 the following definitions shall apply:

- (1) "Agricultural land" means a tract of land wholly and exclusively used for the commercial production or growing of crops, plants or animals under a sound management program. (This definition includes forestland and wasteland which are a part of the tract.)
- (2) "Family corporation" means a corporation having as its principal business one of the activities described in subdivisions (1), (3), and (4) of this section, the real owners of all the shares of such corporation being natural persons actively engaged in such activities, or the spouse, siblings or parents of such persons.
- (3) "Forestland" means a tract of land wholly and exclusively used for the commercial growing of trees under a sound management program.
- (4) "Horticultural land" means a tract of land wholly and exclusively used for the commercial production or growing of fruits, vegetables, nursery or floral products under a sound management program.
- (5) "Individually owned" means owned by:
 - a. A natural person or persons or
 - b. A family corporation.
- (6) "Present use value" means the price estimated in terms of money at which the property would change hands between a willing and finan-

clearly able buyer and a willing seller, neither being under any compulsion to buy or to sell, both of them have reasonable knowledge of the capability of the property to produce income in its present use and assuming that the present use of the property is its highest and best use.

(7) "Publicly-held corporation" means a corporation that is actively engaged in the commercial growing of trees under a sound management program and is not a family corporation as defined in subdivision (2), above.

(8) "Site index" means a generally accepted measure of the capacity of a forest tract to produce timber growth over a period of 40 years under a sound management program developed according to generally accepted principles of forest management.

(9) "Sound management program" means a program of production designed to obtain the greatest net return from the land consistent with its conservation and long-term improvement.

(b) Notwithstanding the exclusive-use requirement of subdivisions (a)(1), (3), and (4), above, the fact that a portion of a tract is wasteland or otherwise unsuitable for the dominant use to which the tract is put shall not defeat the classification established by this section so long as that portion of the tract is not used or useful for any other commercial purpose."

Sec. 2. G.S. 105-277.3 is rewritten to read as follows:

"§ 105-277.3. **Agricultural, horticultural and forestland--classifications.--**(a) The following classes of property are hereby designated special classes of property under authority of Article V, Sec. 2(2) of the North Carolina Constitution and shall be appraised, assessed and taxed as hereinafter provided:

(1) Tracts of individually owned agricultural land consisting of 10 acres

or more and having gross income from the sale of agricultural products produced thereon (together with any payments received under a governmental soil conservation or land retirement program) averaging one thousand dollars (\$1,000) per year for the three years immediately preceding January 1 of the year for which the benefit of this section is claimed.

- (2) Tracts of individually owned horticultural land consisting of 10 acres or more and having gross income from the sale of horticultural products produced thereon (together with any payments received under a governmental soil conservation or land retirement program) averaging one thousand dollars (\$1,000) per year for the three years immediately preceding January 1 of the year for which the benefit of this section is claimed.
- (3) Tracts of individually owned forestland, consisting of 20 acres or more unless the property is included in a farm tract qualifying under G.S. 105-277.3(a)(1).
- (4) Tracts of forestland owned by a publicly-held corporation consisting of 50 acres or more which are not located within one mile of the corporate limits of a city or town having a population of less than 1,000, or within two miles of the corporate limits of a city or town having a population of at least 1,000 but less than 5,000, or within three miles of the corporate limits of a city or town having a population of at least 5,000 but less than 20,000, or within four miles of the corporate limits of a city or town having a population of at least 20,000 but less than 100,000, or within five miles of the corporate limits of a city or town having a population of 100,000 or more. For the purposes of this subdivision (a)(4), a city or town is

a municipality qualified to receive gasoline tax allocations pursuant to G.S. 136-41.2 and the population of a city or town shall be as determined by the most recent federal census of population.

(b) In order to come within a classification described in subdivisions (a)(1), (3), or (4), above, the property must, if owned by natural persons, also:

- (1) Be the owner's place of residence; or
- (2) Have been owned by the present owner or by the owner's spouse, siblings, or parents for the four years immediately preceding January 1 of the year for which the benefit of this section is claimed.

If owned by a family corporation, the property must have been owned by the corporation or by one or more of its shareholders as defined in G.S. 105-277.2(2) for the four years immediately preceding January 1 of the year for which the benefit of this section is claimed. Notwithstanding the provisions of G.S. 105-277.2(2), above, a family corporation qualifying for a classification described in G.S. 105-277.3 shall not lose the benefit of the classification by reason of the death of one of the shareholders provided the decedent's ownership passes to and remains in the surviving spouse or children.

If owned by a publicly-held corporation, the property must have been owned by the corporation, by a parent corporation owning all of the shares of the corporation, or by a wholly-owned subsidiary of the corporation for the five years immediately preceding January 1 of the year for which the benefit of this section is claimed.

Sec. 3. G.S. 105-277.4(c) is rewritten to read as follows:

"(c) Property meeting the conditions herein set forth shall be taxed on the basis of the value of the property for its present use. The difference between the taxes due on the present-use basis and the taxes which would have been payable in the absence of this classification, together with any interest,

penalties or costs that may accrue thereon, shall be a lien on the real property of the taxpayer as provided in G.S. 105-155(a). The difference in taxes shall be carried forward in the records of the taxing unit or units as deferred taxes, but shall not be payable unless and until (i) an individual owner conveys the property to anyone other than a spouse, child or sibling of the owner, or (ii) ownership of the property passes to anyone other than such an enumerated family member by will or intestacy, or (iii) ownership of the property passes to or from a family corporation to or from anyone other than its principal shareholders, or (iv) ownership of the property passes to or from a publicly-held corporation to or from anyone other than a parent corporation owning all of the shares of the corporation or a subsidiary corporation all of whose shares are owned by the corporation, or (v) the property loses its eligibility for the benefit of this classification for some other reason. However, withdrawal of an approved application for present-use value appraisal shall not be deemed a disqualification which invokes deferred taxes so long as the owner and the property would qualify if a valid application were to be filed and approved. The tax for the fiscal year that opens in the calendar year in which a disqualification occurs shall be computed as if the property had not been classified for that year, and taxes for the preceding three fiscal years (the preceding four fiscal years in the case of property owned by a publicly-held corporation) which have been deferred as provided herein, shall immediately be payable, together with interest thereon as provided in G.S. 105-360 for unpaid taxes which shall accrue on the deferred taxes due herein as if they had been payable on the dates on which they originally became due. If only a part of the qualifying tract loses its eligibility, a determination shall be made of the amount of deferred taxes applicable to that part and that amount shall become payable with interest as provided above. Upon the payment

of any taxes deferred in accordance with this section for the three or four years, as appropriate, immediately preceding a disqualification, all liens arising under this subsection shall be extinguished."

Sec. 4. G.S. 105-277.6 is amended by inserting therein a new subsection as follows:

"(c) The schedules developed by the assessor for present-use value appraisal of forestland shall be based on land having a site index of 100 and shall provide for appropriate upward or downward adjustment of the value of forest tracts having a site index greater or less than 100 according to a management plan for the tract developed in accordance with generally accepted principles of forest management."

Sec. 5. G.S. 105-277.7 is rewritten to read as follows:

"§ 105-277.7. **Agricultural, horticultural and forestland--Assistance in administration--**(a) To insure reasonable uniformity among the counties of the State in making appraisals prescribed herein, the Department of Revenue shall prepare rules, regulations and standards to assist the assessor in administering the provisions of this section.

(b) Assessors may call upon the Forest Resources Division of the Department of Natural Resources and Community Development for assistance in evaluating the adequacy of sound management programs submitted to them and the owner's execution of the program.

Sec. 6. This Act shall become effective on January 1, 1983.

A BILL TO BE ENTITLED

AN ACT TO TAX LESSEES AND USERS OF PROPERTY OWNED BY THE UNITED STATES,
THE STATE OR ITS POLITICAL SUBDIVISIONS AND USED BY THE LESSEES OR USERS
FOR PRIVATE PURPOSES.

The General Assembly of North Carolina enacts:

Section 1. Article 12A of Subchapter II of Chapter 105 is
rewritten to read:

"Article 12A. Taxation of Lessees and Users of Tax-Exempt Real and
Tangible Personal Property.

" 105-282.7. Taxation of lessees and users of tax-exempt real and
tangible personal property. -- (a) Subject to the exceptions in subdivision (b)
below, any person who leases, rents, uses or occupies, for private purposes,
any real or tangible personal property owned by the United States, the State,
or one of its political subdivisions shall be subject to taxation to the
same extent as if such person owned the property.

(b) Exceptions. -- This section does not apply to the following:

- (1) Property for which payments are made in lieu of taxes in
amounts equivalent to the amount of tax that could otherwise
be lawfully assessed;
- (2) Property within a public airport that is occupied by an airline
company and used by it in connection with the air transportation
of persons or property;
- (3) Property used on a short-term basis as a part of or in conjunction
with a State, county or community fair, a farmer's market, or
a similar activity;
- (4) Property made available to a person without rent or other
compensation solely for the purpose of performing one of the
functions of the governmental owner;

- (5) Property provided as housing for students at educational institutions; and
- (6) Property that would qualify for exemption or exclusion if the lessee or user owned the property.

(c) Character and purpose of tax. -- The taxes assessed pursuant to this Article are levied on the privilege of leasing or otherwise using tax-exempt property for private purposes. The purpose of the taxes is to eliminate the competitive advantage accruing from the use of tax-exempt property for private purposes.

"105-282.8. Assessment and collection. -- The taxes levied pursuant to this Article shall be assessed to the lessee or user of the exempt real or tangible personal property and shall be collected in the same manner and to the same extent as if the lessee or user owned the property. The taxes do not constitute a lien on the exempt property, but all other remedies and procedures provided by this Subchapter for the collection of property taxes are available for the collection of the taxes levied under this Article."

Sec. 2. This act is effective for taxable years beginning on and after January 1, 1984.

A BILL TO BE ENTITLED AN ACT TO SIMPLIFY THE LISTING OF REAL
AND PERSONAL PROPERTY IN TIME-SHARING ARRANGEMENTS

The General Assembly of North Carolina enacts:

Section 1. G.S. 105-302(c) is amended by adding
a new subdivision (13) to read as follows:

"(13) Real property, owned under a time-sharing
arrangement but managed by a homeowners
association or other managing entity, shall
be listed by the managing entity."

Sec. 2. G.S. 105-306(c) is amended by adding a
new subdivision (9) to read as follows:

"(9) Personal property, owned under a time-sharing
arrangement but managed by a homeowners association
or other managing entity, shall be listed by the
managing entity."

Sec. 3. This Act shall be effective upon ratification.

A BILL TO BE ENTITLED
AN ACT TO REQUIRE A MAJORITY OF LANDOWNERS
FOR THE CREATION OF A RURAL FIRE PROTECTION DISTRICT

The General Assembly of North Carolina enacts:

Section 1. G. S. 69-25.1 is hereby amended by replacing "fifteen percent (15%)" with "a majority".

Sec. 2. This act shall become effective with respect to all petitions submitted under G. S. 69-25.1 on and after thirty (30) days after ratification of this act, but shall not affect any petitions submitted before that date.

