

**GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2007**

**SESSION LAW 2008-146
SENATE BILL 1878**

AN ACT TO MODIFY THE SCHEDULE FOR GENERAL REAPPRAISALS OF REAL PROPERTY IN THE STATE TO REDUCE THE DISCREPANCY BETWEEN THE PROPERTY TAX VALUE OF PROPERTY AND ITS MARKET VALUE, TO MODIFY THE OWNERSHIP REQUIREMENTS OF PRESENT-USE VALUE PROPERTY TO REFLECT COMMON FORMS OF LAND OWNERSHIP, TO ALLOW PROPERTY TO REMAIN IN PRESENT-USE VALUE WHEN THE DEFERRED TAXES ARE PAID AT THE TIME OF TRANSFER AND THE NEW OWNER CONTINUES TO FARM THE PROPERTY, TO CLASSIFY LOW-INCOME HOUSING PROPERTY, TO EXCLUDE FROM PROPERTY TAX PRESCRIPTION DRUGS GIVEN AS FREE SAMPLES, TO EXCLUDE FROM PROPERTY TAX EIGHTY PERCENT OF THE APPRAISED VALUE OF A SOLAR ELECTRIC SYSTEM, AND TO DIRECT THE REVENUE LAWS STUDY COMMITTEE TO STUDY THE EFFECT THAT THIS ACT HAS ON STAFFING NEEDS OF THE DEPARTMENT OF REVENUE AND THE DEFINITION OF INCOME AS IT APPLIES TO THE HOMESTEAD EXCLUSION.

The General Assembly of North Carolina enacts:

PART I: REAPPRAISAL SCHEDULE

SECTION 1.1. G.S. 105-286 reads as rewritten:

"§ 105-286. Time for general reappraisal of real property.

(a) ~~Octennial Plan. — Unless the date shall be advanced as provided in subdivision (a)(2), below, each county of the State, as of January 1 of the year prescribed in the schedule set out in subdivision (a)(1), below, and every eighth year thereafter, shall reappraise all real property in accordance with the provisions of G.S. 105-283 and 105-317.~~ Octennial Cycle. — Each county must reappraise all real property in accordance with the provisions of G.S. 105-283 and G.S. 105-317 as of January 1 of the year set out in the following schedule and every eighth year thereafter, unless the county is required to advance the date under subdivision (2) of this section or chooses to advance the date under subdivision (3) of this section.

(1) Schedule of Initial Reappraisals.

Division One – 1972: Avery, Camden, Cherokee, Cleveland, Cumberland, Guilford, Harnett, Haywood, Lee, Montgomery, Northampton, and Robeson.

Division Two – 1973: Caldwell, Carteret, Columbus, Currituck, Davidson, Gaston, Greene, Hyde, Lenoir, Madison, Orange, Pamlico, Pitt, Richmond, Swain, Transylvania, and Washington. Division Three – 1974: Ashe, Buncombe, Chowan, Franklin, Henderson, Hoke, Jones, Pasquotank, Rowan, and Stokes. Division Four – 1975: Alleghany, Bladen, Brunswick, Cabarrus, Catawba, Dare, Halifax, Macon, New Hanover, Surry, Tyrrell, and Yadkin. Division Five – 1976: Bertie, Caswell, Forsyth, Iredell, Jackson, Lincoln, Onslow, Person, Perquimans, Rutherford, Union, Vance, Wake, Wilson, and Yancey.

Division Six – 1977: Alamance, Durham, Edgecombe, Gates, Martin, Mitchell, Nash, Polk, Randolph, Stanly, Warren, and Wilkes.

Division Seven – 1978: Alexander, Anson, Beaufort, Clay, Craven, Davie, Duplin, and Granville.

Division Eight – 1979: Burke, Chatham, Graham, Hertford, Johnston, McDowell, Mecklenburg, Moore, Pender, Rockingham, Sampson, Scotland, Watauga, and Wayne.

- (2) ~~Advancing Scheduled Octennial Reappraisal. — Any county desiring to conduct a reappraisal of real property earlier than required by this subsection (a) may do so 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. If the scheduled date for reappraisal for any county is advanced as provided herein, real property in that county shall thereafter be reappraised every eighth year following the advanced date unless, in accordance with the provisions of this subdivision (a)(2), an earlier date shall be adopted by resolution of the board of county commissioners, in which event a new schedule of octennial reappraisals shall thereby be established for that county.~~ Mandatory Advancement. — A county whose population is 75,000 or greater according to the most recent annual population estimates certified to the Secretary by the State Budget Officer must conduct a reappraisal of real property when the county's sales assessment ratio determined under G.S. 105-289(h) is less than .85 or greater than 1.15, as indicated on the notice the county receives under G.S. 105-284. A reappraisal required under this subdivision must become effective no later than January 1 of the earlier of the following years:
- a. The third year following the year the county received the notice.
 - b. The eighth year following the year of the county's last reappraisal.

- (3) Optional Advancement. — A county may conduct a reappraisal of real property earlier than required by subdivision (1) or (2) of this section if the board of county commissioners adopts a resolution providing for advancement of the reappraisal. The resolution must designate the effective date of the advanced reappraisal and may designate a new reappraisal cycle that is more frequent than the octennial cycle set in subdivision (1) of this section. The board of county commissioners must promptly forward a copy of the resolution adopted under this subdivision to the Department of Revenue. A more frequent reappraisal cycle designated in a resolution adopted under this subdivision continues in effect after a mandatory reappraisal required under subdivision (2) of this section unless the board of county commissioners adopts another resolution that designates a different date for the county's next reappraisal.

~~(b) Fourth Year Horizontal Adjustments. — 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 review the appraised values of all real property and determine whether changes should be made to bring those values into line with their current true value. If it is determined that the appraised value of all real property or of defined types or categories of real property require such adjustment, the assessor shall revise the values accordingly by horizontal adjustments rather than by actual appraisal of individual properties: That is, by uniform application of percentages of increase or reduction to the appraised values of properties within defined types or categories or within defined geographic areas of the county.~~

~~(c) Value to Be Assigned Real Property When Not Subject to Appraisal.—In years in which real property within a county is not subject to appraisal or reappraisal under subsections (a) or (b), above, or under G.S. 105-287, it shall be listed at the value assigned when last appraised under this section or under G.S. 105-287."~~

SECTION 1.2. G.S. 105-287 reads as rewritten:

"§ 105-287. Changing appraised value of real property in years in which general reappraisal or horizontal adjustment is not made.

(a) In a year in which a general reappraisal ~~or horizontal adjustment~~ of real property in the county is not ~~made,~~ made under G.S. 105-286, the property shall be listed at the value assigned when last appraised unless the value is changed in accordance with this section. ~~the~~ The assessor shall increase or decrease the appraised value of real property, as determined under G.S. 105-286, to recognize a change in the property's value resulting from one or more of the reasons ~~listed in this subsection.~~ The reason necessitating a change in the property's value need not be under the control of or at the request of the owner of the affected property following reasons:

- (1) Correct a clerical or mathematical error.
- (2) Correct an appraisal error resulting from a misapplication of the schedules, standards, and rules used in the county's most recent general ~~reappraisal or horizontal adjustment.~~ reappraisal.
- (2a) Recognize an increase or decrease in the value of the property resulting from a conservation or preservation agreement subject to Article 4 of Chapter 121 of the General Statutes, the Conservation and Historic Preservation Agreements Act.
- (2b) Recognize an increase or decrease in the value of the property resulting from a physical change to the land or to the improvements on the land, other than a change listed in subsection (b) of this section.
- (2c) Recognize an increase or decrease in the value of the property resulting from a change in the legally permitted use of the property.
- (3) Recognize an increase or decrease in the value of the property resulting from a factor other than one listed in subsection (b).

(b) In a year in which a general reappraisal ~~or horizontal adjustment~~ of real property in the county is not made, the assessor may not increase or decrease the appraised value of real property, as determined under G.S. 105-286, to recognize a change in value caused by:

- (1) Normal, physical depreciation of improvements;
- (2) Inflation, deflation, or other economic changes affecting the county in general; or
- (3) Betterments to the property made by:
 - a. Repainting buildings or other structures;
 - b. Terracing or other methods of soil conservation;
 - c. Landscape gardening;
 - d. Protecting forests against fire; or
 - e. Impounding water on marshland for non-commercial purposes to preserve or enhance the natural habitat of wildlife.

(c) An increase or decrease in the appraised value of real property authorized by this section shall be made in accordance with the schedules, standards, and rules used in the county's most recent general ~~reappraisal or horizontal adjustment.~~ reappraisal. An increase or decrease in appraised value made under this section is effective as of January 1 of the year in which it is made and is not retroactive. The reason for an increase or decrease in appraised value made under this section need not be under the control of or at the request of the owner of the affected property. This section does not modify or restrict the provisions of G.S. 105-312 concerning the appraisal of discovered property.

(d) Notwithstanding subsection (a), if a tract of land has been subdivided into lots and more than five acres of the tract remain unsold by the owner of the tract, the

assessor may appraise the unsold portion as land acreage rather than as lots. A tract is considered subdivided into lots when the lots are located on streets laid out and open for travel and the lots have been sold or offered for sale as lots since the last appraisal of the property."

SECTION 1.3. G.S. 153A-150 reads as rewritten:

"§ 153A-150. Reserve for ~~octennial~~-reappraisal.

Before the beginning of the fiscal year immediately following the effective date of ~~an octennial~~ reappraisal of real property conducted as required by G.S. 105-286, the county budget officer shall present to the board of commissioners ~~an eight-year~~ budget for financing the cost of the next ~~octennial~~-reappraisal. The budget shall estimate the cost of the reappraisal and shall propose a plan for raising the necessary funds in ~~eight~~ annual installments during the ~~next fiscal years, intervening years between reappraisals,~~ with all installments as nearly uniform as practicable. The board shall consider this budget, making any amendments to the budget it deems advisable, and shall adopt a resolution establishing a special reserve fund for the next ~~octennial~~-reappraisal. In the budget ordinance of the first fiscal year of the plan, the board of commissioners shall appropriate to the special reappraisal reserve fund the amount set out in the plan for the first year's installment. When the county budget for each succeeding fiscal year is in preparation, the board shall review the ~~eight-year~~-reappraisal budget with the budget officer and shall amend it, if necessary, so that it will reflect the probable cost at that time of the reappraisal and will produce the necessary funds at the end of the ~~eight-year~~ intervening period. In the budget ordinance for each succeeding fiscal year, the board shall appropriate to the special reappraisal reserve fund the amount set out in the plan as due in that year.

Moneys appropriated to the special reappraisal reserve fund shall not be available or expended for any purpose other than the reappraisal of real property required by G.S. 105-286, except that the funds may be deposited at interest or invested as permitted by G.S. 159-30. If there is a fund balance in the reserve fund following payment for the required reappraisal, it shall be retained in the fund for use in financing the next required reappraisal.

Within 10 days after the adoption of each annual budget ordinance, the county finance officer shall report to the Department of Revenue, on forms to be supplied by the Department, the terms of the county's ~~eight-year~~-reappraisal budget, the current condition of the special reappraisal reserve fund, and the amount appropriated to the reserve fund in the current fiscal year."

SECTION 1.4. This section becomes effective July 1, 2009, and mandatory advancements in G.S. 105-286(a)(2), as amended by this section, apply to notices sent under G.S. 105-284(c) on or after that date.

PART II: PRESENT-USE VALUE PROPERTY CHANGES

SECTION 2.1. G.S. 105-277.2 reads as rewritten:

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

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

- (1) Agricultural land. – Land that is a part of a farm unit that is actively engaged in the commercial production or growing of crops, plants, or animals under a sound management program. Agricultural land includes woodland and wasteland that is a part of the farm unit, but the woodland and wasteland included in the unit must be appraised under the use-value schedules as woodland or wasteland. A farm unit may consist of more than one tract of agricultural land, but at least one of the tracts must meet the requirements in G.S. 105-277.3(a)(1), and each tract must be under a sound management program. If the agricultural land includes less than 20 acres of woodland, then the woodland portion is not required to be under a sound management program. Also, woodland is not required to be under a sound

management program if it is determined that the highest and best use of the woodland is to diminish wind erosion of adjacent agricultural land, protect water quality of adjacent agricultural land, or serve as buffers for adjacent livestock or poultry operations.

- (1a) Business entity. – A corporation, a general partnership, a limited partnership, or a limited liability company.
- (2) Forestland. – Land that is a part of a forest unit that is actively engaged in the commercial growing of trees under a sound management program. Forestland includes wasteland that is a part of the forest unit, but the wasteland included in the unit must be appraised under the use-value schedules as wasteland. A forest unit may consist of more than one tract of forestland, but at least one of the tracts must meet the requirements in G.S. 105-277.3(a)(3), and each tract must be under a sound management program.
- (3) Horticultural land. – Land that is a part of a horticultural unit that is actively engaged in the commercial production or growing of fruits or vegetables or nursery or floral products under a sound management program. Horticultural land includes woodland and wasteland that is a part of the horticultural unit, but the woodland and wasteland included in the unit must be appraised under the use-value schedules as woodland or wasteland. A horticultural unit may consist of more than one tract of horticultural land, but at least one of the tracts must meet the requirements in G.S. 105-277.3(a)(2), and each tract must be under a sound management program. If the horticultural land includes less than 20 acres of woodland, then the woodland portion is not required to be under a sound management program. Also, woodland is not required to be under a sound management program if it is determined that the highest and best use of the woodland is to diminish wind erosion of adjacent horticultural land or protect water quality of adjacent horticultural land. Land used to grow horticultural and agricultural crops on a rotating basis or where the horticultural crop is set out or planted and harvested within one growing season, may be treated as agricultural land as described in subdivision (1) of this section when there is determined to be no significant difference in the cash rental rates for the land.
- (4) Individually owned. – Owned by one of the following:
 - a. ~~A natural person. For the purpose of this section, a natural person who is an income beneficiary of a trust that owns land may elect to treat the person's beneficial share of the land as owned by that person. If the person's beneficial interest is not an identifiable share of land but can be established as a proportional interest in the trust income, the person's beneficial share of land is a percentage of the land owned by the trust that corresponds to the beneficiary's proportional interest in the trust income. For the purpose of this section, a natural person who is a member of a business entity, other than a corporation, that owns land may elect to treat the person's share of the land as owned by that person. The person's share is a percentage of the land owned by the business entity that corresponds to the person's percentage of ownership in the entity.~~ An individual.
 - b. A business entity having as its principal business one of the activities described in subdivisions (1), (2), and (3) and whose members are all natural persons who meet one or more of the conditions listed in this sub-subdivision. For the purpose of this sub-subdivision, the terms "having as its principal business" and

~~"actively engaged in the business of the entity" include the leasing of the land for one of the activities described in subdivisions (1), (2), and (3) only if all members of the business entity are relatives.~~

- ~~1. The member is actively engaged in the business of the entity.~~
- ~~2. The member is a relative of a member who is actively engaged in the business of the entity.~~
- ~~3. The member is a relative of, and inherited the membership interest from, a decedent who met one or both of the preceding conditions after the land qualified for classification in the hands of the business entity.~~that meets all of the following conditions:
 1. Its principal business is farming agricultural land, horticultural land, or forestland.
 2. All of its members are, directly or indirectly, individuals who are actively engaged in farming agricultural land, horticultural land, or forestland or a relative of one of the individuals who is actively engaged. An individual is indirectly a member of a business entity that owns the land if the individual is a member of a business entity or a beneficiary of a trust that is part of the ownership structure of the business entity that owns the land.
 3. It is not a corporation whose shares are publicly traded, and none of its members are corporations whose shares are publicly traded.
 4. If it leases the land, all of its members are individuals and are relatives. Under this condition, 'principal business' and 'actively engaged' include leasing.

c. ~~A trust that was created by a natural person who transferred the land to the trust and each of whose beneficiaries who is currently entitled to receive income or principal meets one~~all of the following conditions:

- ~~1. Is the creator of the trust or the creator's relative.~~It was created by an individual who owned the land and transferred the land to the trust.
- ~~2. Is a second trust whose beneficiaries who are currently entitled to receive income or principal are all either the creator of the first trust or the creator's relatives.~~All of its beneficiaries are, directly or indirectly, individuals who are the creator of the trust or a relative of the creator. An individual is indirectly a beneficiary of a trust that owns the land if the individual is a beneficiary of another trust or a member of a business entity that has a beneficial interest in the trust that owns the land.

d. A testamentary trust that meets all of the following conditions:

- ~~1. It was created by a natural person~~an individual who transferred to the trust land that qualified in that person's individual's hands for classification under G.S. 105-277.3.
- ~~2. At the time date of the creator's death, the creator had no relatives as defined in this section as of the date of death.~~relatives.
3. The trust income, less reasonable administrative expenses, is used exclusively for educational, scientific,

- literary, cultural, charitable, or religious purposes as defined in G.S. 105-278.3(d).
- e. ~~Tenants in common, if each tenant is either a natural person or a business entity described in sub-subdivision b. of this subdivision would qualify as an owner if the tenant were the sole owner.~~ Tenants in common may elect to treat their individual shares as owned by them individually in accordance with G.S. 105-302(c)(9). The ownership requirements of G.S. 105-277.3(b) apply to each tenant in common who is a ~~natural person, an individual,~~ and the ownership requirements of G.S. 105-277.3(b1) apply to each tenant in common who is a ~~business entity, entity or a trust.~~
 - (4a) Member. – A shareholder of a corporation, a partner of a general or limited partnership, or a member of a limited liability company.
 - (5) Present-use value. – The value of land in its current use as agricultural land, horticultural land, or forestland, based solely on its ability to produce income and assuming an average level of management. A rate of nine percent (9%) shall be used to capitalize the expected net income of forestland. The capitalization rate for agricultural land and horticultural land is to be determined by the Use-Value Advisory Board as provided in G.S. 105-277.7.
 - (5a) Relative. – Any of the following:
 - a. A spouse or the spouse's lineal ancestor or descendant.
 - b. A lineal ancestor or a lineal descendant.
 - c. A brother or sister, or the lineal descendant of a brother or sister. For the purposes of this sub-subdivision, the term brother or sister includes stepbrother or stepsister.
 - d. An aunt or an uncle.
 - e. A spouse of ~~a person~~ an individual listed in paragraphs a. through d. For the purpose of this subdivision, an adoptive or adopted relative is a relative and the term "spouse" includes a surviving spouse.
 - (6) Sound management program. – A program of production designed to obtain the greatest net return from the land consistent with its conservation and long-term improvement.
 - (7) Unit. – One or more tracts of agricultural land, horticultural land, or forestland. Multiple tracts must be under the same ownership and be of the same type of classification. If the multiple tracts are located within different counties, they must be within 50 miles of a tract qualifying under G.S. 105-277.3(a)."

SECTION 2.2. G.S. 105-277.3 reads as rewritten:

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

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

- (1) Agricultural land. – Individually owned agricultural land consisting of one or more tracts, one of which satisfies the requirements of this subdivision. For agricultural land used as a farm for aquatic species, as defined in G.S. 106-758, the tract must meet the income requirement for agricultural land and must consist of at least five acres in actual production or produce at least 20,000 pounds of aquatic species for commercial sale annually, regardless of acreage. For all other agricultural land, the tract must meet the income requirement for agricultural land and must consist of at least 10 acres that are in actual

production. Land in actual production includes land under improvements used in the commercial production or growing of crops, plants, or animals.

To meet the income requirement, agricultural land must, for the three years preceding January 1 of the year for which the benefit of this section is claimed, have produced an average gross income of at least one thousand dollars (\$1,000). Gross income includes income from the sale of the agricultural products produced from the land, any payments received under a governmental soil conservation or land retirement program, and the amount paid to the taxpayer during the taxable year pursuant to P.L. 108-357, Title VI, Fair and Equitable Tobacco Reform Act of 2004.

- (2) Horticultural land. – Individually owned horticultural land consisting of one or more tracts, one of which consists of at least five acres that are in actual production and that, for the three years preceding January 1 of the year for which the benefit of this section is claimed, have met the applicable minimum gross income requirement. Land in actual production includes land under improvements used in the commercial production or growing of fruits or vegetables or nursery or floral products. Land that has been used to produce evergreens intended for use as Christmas trees must have met the minimum gross income requirements established by the Department of Revenue for the land. All other horticultural land must have produced an average gross income of at least one thousand dollars (\$1,000). Gross income includes income from the sale of the horticultural products produced from the land and any payments received under a governmental soil conservation or land retirement program.
- (3) Forestland. – Individually owned forestland consisting of one or more tracts, one of which consists of at least 20 acres that are in actual production and are not included in a farm unit.

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

- (1) It is the owner's place of residence.
- (2) It has been owned by the current owner or a relative of the current owner for the four years preceding January 1 of the year for which the benefit of this section is claimed.
- (3) At the time of transfer to the current owner, it qualified for classification in the hands of a business entity or trust that transferred the land to the current owner who was a member of the business entity or a beneficiary of the trust, as appropriate.

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

(b2) ~~Exception~~ Exceptions to Ownership Requirements. – Notwithstanding the provisions of subsections (b) and (b1) of this section, land may qualify for classification in the hands of the new owner if all of the conditions listed in either subdivision of this subsection are met, even if the new owner does not meet all of the ownership requirements of subsections (b) and (b1) of this section with respect to the land.

- (1) ~~Exception for assumption of deferred liability.~~ Continued use. – If the land qualifies for classification in the hands of the new owner under the provisions of this subdivision, then ~~the any~~ deferred taxes remain a lien on the land under G.S. 105-277.4(c), the new owner becomes

liable for the deferred taxes, and the deferred taxes become payable if the land fails to meet any other condition or requirement for classification. Land qualifies for classification in the hands of the new owner if all of the following conditions are met:

- a. The land was appraised at its present use value at the time title to the land passed to the new owner.
- b. ~~At the time title to the land passed to the new owner, the~~The new owner acquires the land ~~for the purposes of~~ and continues to use the land for the ~~purposes~~purpose for which it was classified under subsection (a) of this section while under previous ownership.
- c. The new owner has timely filed an application as required by G.S. 105-277.4(a) and has certified that the new owner accepts liability for ~~the any~~ deferred taxes and intends to continue the present use of the land.

- (2) ~~Exception for expansion~~Expansion of existing unit. – ~~If deferred liability is not assumed under subdivision (1) of this subsection, the~~Land Land qualifies for classification in the hands of the new owner if, at the time title passed to the new owner, the land was not appraised at its present-use value but was being used for the same purpose and was eligible for appraisal at its present-use value as other land already owned by the new owner and classified under subsection (a) of this section. The new owner must timely file an application as required by G.S. 105-277.4(a).

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

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

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

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

- (1) The land was in actual production in turkey growing within the preceding two years and qualified for present use value treatment while it was in actual production.
- (2) The land was taken out of actual production in turkey growing solely for health and safety considerations due to the presence of Poultry Enteritis Mortality Syndrome among turkeys in the same county or a neighboring county.

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

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

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

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

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

SECTION 2.3. This section is effective for taxes imposed for taxable years beginning on or after July 1, 2008.

PART III: LOW-INCOME HOUSING PROPERTY

SECTION 3.1. Article 12 of Subchapter II of Chapter 105 of the General Statutes is amended by adding a new section to read:

"§ 105-277.15. Taxation of low-income housing property.

A North Carolina low-income housing development to which the North Carolina Housing Finance Agency allocated a federal tax credit under section 42 of the Code is designated a special class of property under Article V, Section 2(2) of the North Carolina Constitution and must be appraised, assessed, and taxed in accordance with this section. The assessor must use the income approach as the method of valuation for property classified under this section and must take rent restrictions that apply to the property into consideration in determining the income attributable to the property. The assessor may not consider income tax credits received under section 42 of the Code or under G.S. 105-129.42 in determining the income attributable to the property."

SECTION 3.2. This section is effective for taxes imposed for taxable years beginning on or after July 1, 2009.

PART IV: PRESCRIPTION DRUGS GIVEN AS FREE SAMPLES

SECTION 4.1. G.S. 105-275 is amended by adding a new subdivision to read:

"§ 105-275. Property classified and excluded from the tax base.

The following classes of property are hereby designated special classes under authority of Article V, Sec. 2(2), of the North Carolina Constitution and shall not be listed, appraised, assessed, or taxed:

- (44) Free samples of drugs that are required by federal law to be dispensed only on prescription and are given to physicians and other medical practitioners to dispense free of charge in the course of their practice."

SECTION 4.2. This section is effective for taxable years beginning on or after July 1, 2008.

PART V: SOLAR ENERGY ELECTRIC SYSTEMS

SECTION 5.1. G.S. 105-275 is amended by adding a new subdivision to read:

"§ 105-275. Property classified and excluded from the tax base.

The following classes of property are hereby designated special classes under authority of Article V, Sec. 2(2), of the North Carolina Constitution and shall not be listed, appraised, assessed, or taxed:

(45) Eighty percent (80%) of the appraised value of a solar energy electric system. For purposes of this subdivision, the term 'solar energy electric system' means all equipment used directly and exclusively for the conversion of solar energy to electricity."

SECTION 5.2. This section is effective for taxable years beginning on or after July 1, 2008.

PART VI: STUDY

SECTION 6. The Revenue Laws Study Committee must study the following:

- (1) The effect of PART I of this act and determine whether new positions are needed to perform sales assessment ratio studies in additional counties each year and to perform other functions related to this act.
- (2) The definition of income as it applies to the homestead exclusion.

PART VII: EFFECTIVE DATE

SECTION 7. Except as otherwise provided in this act, this act is effective when it becomes law.

In the General Assembly read three times and ratified this the 18th day of July, 2008.

s/ Marc Basnight
President Pro Tempore of the Senate

s/ Joe Hackney
Speaker of the House of Representatives

s/ Michael F. Easley
Governor

Approved 8:17 p.m. this 2nd day of August, 2008