

Property Tax Exemptions and Exclusions in North Carolina

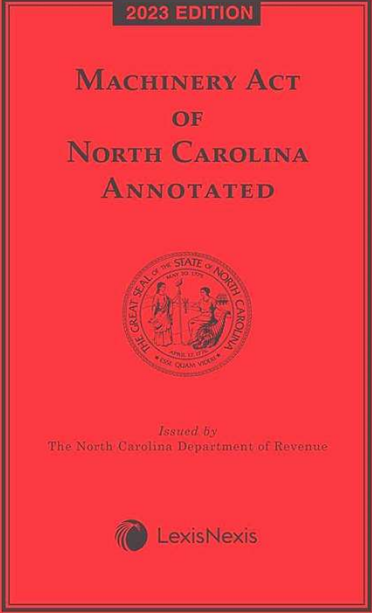
Guiding you from A to Z



Hello!

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The Machinery Act

- NCGS Chapter 105, Subchapter II
- Governs property tax listing, appraisal, and assessment processes
- Ensures uniform property tax practices across the state
- Applies to both county and municipal tax assessments

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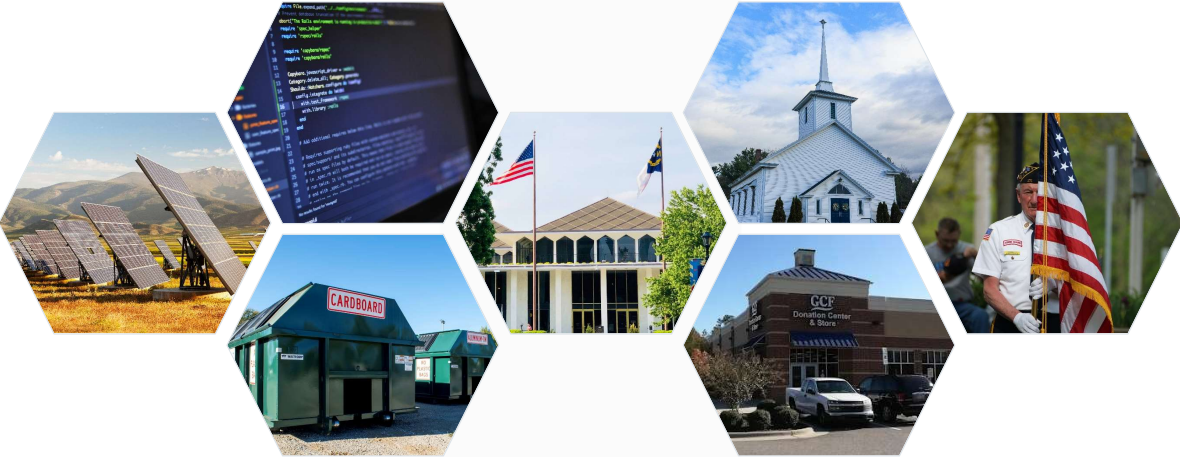
All Property Is Taxable – Unless...

- Excluded from the tax base by a statewide statute created under the General Assembly's *classification power*, or
- Exempt from taxation by the Constitution or a statewide statute enacted under the General Assembly's *exemption power*.
- In short — taxability is the rule, exemptions and exclusions are the exception.

NCGS §105-274

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Exemptions and Exclusions



Is there a difference?

- Technically, yes — they come from different parts of the state constitution
- In practice, not really
- Both can remove all, part, or even delay the taxable value of property

How the Courts View Taxability

- Property is presumed to be taxable.
- The burden of proof is on the taxpayer.

Bragg v. Cumberland County

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What are Exclusions?

- Created by the General Assembly as “special classes” of property
- Receive unique tax treatment:
 - Total – completely excluded
 - Partial – only part of the value is excluded
 - Deferred – taxes postponed and at least a portion may be recaptured later
- More common than exemptions
- Power granted under Article V, §2(2) of the NC Constitution

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Goods in Transit & Trade Zones

- Imported goods stored ≤12 months at a NC seaport while awaiting shipment.
- Foreign Trade Zone property — items for sale, manufacture, or export.
- Cargo containers and chassis used in ocean commerce.
- Property shipped into North Carolina for repair and then reshipped out of state.
- Goods made in North Carolina for out-of-state customers awaiting shipment.

NCGS §105-275

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Public Utility & Infrastructure

- Nonprofit water or sewer associations – real and personal property used for public service.
- Pollution control and recycling equipment – certified systems for air, water, and waste treatment.
- Major recycling facilities and cotton dust control equipment in textile plants.
- Special nuclear materials held for manufacture or processing under federal regulation.

NCGS §105-275

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Conservation & Historic Preservation

- Nonprofit conservation land – used exclusively for nature preserves, parks, trails, or water quality protection (may be subject to deferred taxes).
- Historic preservation property – real property or easements held by nonprofits for preservation.
- Historic district land held for future relocation of qualifying structures (≤ 5 years).

Veterans & Associations

- Vehicles donated by the U.S. government to disabled veterans of WWII, Korea, or Vietnam.
- Specially equipped motor vehicles and adapted homes owned by disabled veterans for service-connected disabilities.
- Real and personal property of veterans' organizations (American Legion, VFW, DAV) used for lodge purposes.

Charitable & Educational Uses

- Nonprofit property used for public parks or drives.
- Goodwill Industries and similar nonprofits – property used for training and rehabilitation of people with disabilities.
- Property occupied by charter schools used for educational purposes.
- Mobile classrooms or modular units used exclusively for education.

Fraternal, Civic & Lodge Organizations

- Masonic organizations and appendant bodies – property used exclusively for lodge purposes.
- Fraternal or civic groups (Elks, Moose, Odd Fellows, etc.) – lodge use only, not social fraternities/sororities.
- College or high school fraternity/sorority improvements located on UNC-owned land.

Natural Resources & Agriculture

- Standing timber and forest growth – excluded until harvested.
- Poultry, livestock, and feed used directly in production.
- Energy mineral interests without a state permit.

Inventories & Development Rights

- Contractor inventories – materials held for projects.
- Manufacturer inventories – goods in process or finished products.
- Retail and wholesale merchant inventories – stock for sale.
- Severable development rights recorded in deeds.

Specialized & Government-Related

- Property owned by nonprofits financing public-use projects leased to government.
- State-owned correctional facilities and related leaseholds.
- Property on lands held in trust for the Eastern Band of Cherokee Indians.
- Property under capital lease for public school systems.

NCGS §105-275

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Technology, Energy & Equipment

- Computer software and documentation (excluding embedded or capitalized “canned” software).
- 80% exclusion for solar energy systems generating electricity.
- 50% exclusion for qualifying airport property used for aviation or commercial activities.
- Short-term rental vehicles and heavy equipment – covered by gross receipts tax instead of ad valorem tax.

NCGS §105-275

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Medical & Pharmaceutical

- Prescription drug samples provided free to licensed physicians.
- Vaccines – excluded beginning FY 2022.

Non-business Property

- Vehicle chassis of nonresidents in NC temporarily for body mounting
- Non-business personal property like household furnishings, clothing, lawn tools, and pets
- Exceptions: mobile homes, vehicles, aircraft, watercraft, and watercraft engines

Builder's Inventory

- Encourages development by reducing taxes on property held for sale by builders.
- A builder is a taxpayer who buys property, makes improvements, and holds it for sale.
- Excludes the increase in value from subdivision or construction while the builder still owns it.
- Temporary — up to 3 years for residential and 5 years for commercial property.
- Ends when the property is sold, occupied, used commercially, or time expires.

NCGS §105-277.02

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Present-Use Value Program

- Supports agriculture, horticulture, and forestry by taxing land based on its current use, not market value.
- Property is assessed at a lower “use value,” with deferred taxes on the difference from market value.
- Must meet requirements for ownership, acreage, income, and sound management.
- Deferred taxes for the current and previous three years become due with interest if the land no longer qualifies.

NCGS §105-277.2 through §105-277.7

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Elderly/Disabled Homestead Exclusion

- Provides property tax relief to qualifying homeowners who are 65 or older or totally and permanently disabled.
- Total income of applicant and spouse (taxable and non-taxable) must not exceed the annual limit set by NCDOR (adjusted each year; \$37,900 for 2025).
- Must own and occupy the home as their permanent residence as of January 1.
- Excludes the greater of \$25,000 or 50% of the appraised value of the residence and up to one acre of land.

NCGS §105-277.1

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Homestead Circuit Breaker

- Limits property taxes for qualifying homeowners based on income and age or disability.
- Who Qualifies:
 - 65 or older or totally and permanently disabled
 - Own and live in the home as a permanent residence for at least 5 years
 - Income limit of \$56,850 for 2025
- Tax Implications:
 - Taxes limited to 4-5% of income (depending on total income)
 - Any amount above the limit is deferred, not exempted
 - Deferred taxes for the current and previous three years become due with interest when the property is sold, transferred, or no longer qualifies.

NCGS §105-277.1B

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Disabled Veteran Homestead Exclusion

- Provides property tax relief to honorably discharged disabled veterans and certain surviving spouses.
- Who Qualifies:
 - Veteran with a permanent and total service-connected disability, or
 - Unremarried surviving spouse of a qualifying veteran or one killed in action.
 - Must own and occupy the home as their permanent residence as of January 1.
- Excludes the first \$45,000 of the appraised value of the residence

NCGS §105-277.1C

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Nonprofit Homeowners' Association

- Attributes the value of property owned by a nonprofit homeowners' association to all property owners within a subdivision or community.
- Eligible Property:
 - Common areas such as roads, greenways, playgrounds, pools, and clubhouses
 - Must be owned by a qualifying nonprofit homeowners' association
- Conditions:
 - Each member must have an equal and irrevocable right to use the property
 - Cannot be used for commercial purposes or operated for profit

NCGS §105-277.8

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Improvements on Brownfields Property

- Encourages the redevelopment of contaminated or underused industrial and commercial sites by providing a temporary partial tax exclusion for qualifying improvements.
- Property must be under a Brownfields Agreement with NCDEQ
- Improvements are assessed at a reduced rate for five years

Tax Year	Percent of Value Excluded
Year 1	90%
Year 2	75%
Year 3	50%
Year 4	30%
Year 5	10%

NCGS §105-277.13

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Low-Income Housing

- Encourages development of affordable rental housing
- Who Qualifies:
 - Property receiving a federal low-income housing tax credit under Section 42 of the IRC
 - Credit must be allocated by the N.C. Housing Finance Agency
- Assessment:
 - Must be appraised and assessed using the income approach
 - Applies only to the qualified rental portion of the property
 - Rent restrictions must be considered, but the income tax credits cannot be considered
- The value created by the tax credit is excluded from taxation

NCGS §105-277.16

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Historic Properties

- Encourages the preservation and restoration of historic buildings and sites
- Who Qualifies:
 - Property designated as a historic structure or site by the State Historic Preservation Office or local historic commission.
 - Must be certified as contributing to a local or national historic district or individually listed on the National Register of Historic Places.
- Tax Implications:
 - Taxes above 50% of the appraised value are deferred as long as it maintains its historic designation and integrity
 - Deferred taxes for the current and previous three years become due with interest when a disqualification event occurs, including a change in ordinance
 - Deferred taxes are extinguished if loss is due to fire or natural disaster

NCGS §105-278

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What are Exemptions?

- General Assembly granted power to exempt property from taxation
- Receive unique tax treatment:
 - Total – completely exempt
 - Partial – only part of the value is exempt
- Stipulations:
 - Must be on a State-wide basis and apply uniformly to all units of local government
 - Only the General Assembly has authority to create an exemption and may not be delegated
- Power granted under Article V, §2(3) of the NC Constitution

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Governmental and Burial Property

- Governmental Property – Land and buildings owned by federal, state, county, or municipal governments and their agencies used for a public purpose are fully exempt.
- Burial Property – Land and structures used for burial or memorial purposes are exempt, including cemeteries and mausoleums.
 - Commercial cemeteries must apply for exemption.

NCGS §105-278.1 and §105-278.2

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Religious & Educational Property

- Religious Property – Property owned and used by religious organizations for worship or ministry, including buildings under construction.
- Educational Property – Property owned by nonprofit educational institutions and used exclusively for instruction or learning purposes.
- Religious Educational Assemblies – Property owned by nonprofit religious assemblies and used exclusively for worship, study, or faith-based instruction.

NCGS §105-278.3, §105-278.4 and §105-278.5

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Charitable, Scientific & Cultural Property

- Charitable Property – Property owned by nonprofit charitable organizations and used solely for charitable work such as housing, food distribution, health care, or community service.
- Educational, Scientific, Literary, or Cultural Property – Property owned by nonprofit agencies and used exclusively for educational, research, artistic, or cultural purposes, such as museums, libraries, or performing arts centers.

NCGS §105-278.6 and §105-278.7

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Qualified Retirement Facilities

- Provides a full or partial property tax exclusion for nonprofit retirement communities that offer charitable care or community benefits.
- Who Qualifies:
 - Must be a licensed continuing care or retirement facility designed for the elderly.
 - Must be exempt under 501(c)(3) with no private shareholder benefit.
 - Must have an active program to generate charitable funds (gifts, grants, or endowments).
 - Must commit assets to a charitable or educational organization if dissolved.
- Total Exclusion:
 - Provides care without regard to ability to pay, or
 - Provides at least 5% of resident revenue as charity care or community benefits.
- Partial Exclusion:
 - 20-80% graduated exclusion for providing 1–4% of resident revenue as charity care or community benefits.

NCGS §105-278.6A

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Charitable Hospitals

- Charitable Hospitals – Property owned by nonprofit hospitals and used exclusively for charitable hospital purposes, including medical treatment, research, and community health services.

NCGS §105-278.8

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Exemption Two-Part Requirement



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Building and Land Requirement

- To receive an exemption, there must be both:
 - A building (“sticks and bricks”), and
 - Land that directly supports the building’s exempt use.
- The land can be exempt only if it is:
 - Adjacent to the exempt building, and
 - Reasonably necessary for the convenient use of that building.
- Applies to property used for religious, educational, charitable, scientific, or cultural purposes.

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Religious Exemption

OWNERSHIP

- Congregation, parish, mission, or similar local unit of a church or religious body; or
- A conference, association, presbytery, diocese, district, synod, or similar unit comprising local units of a church or religious body

USE

- Wholly and exclusively used by its owner for religious purposes; or
- Gratuitously made available to one other than the owner and wholly and exclusively used by the possessor for religious, charitable, or nonprofit educational, literary, scientific, or cultural purposes

NCGS §105-278.3

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Case: Harrison v. Guilford County

- NC Supreme Court held that a six-acre vacant parcel located 4–5 blocks from a church was still adjacent and reasonably necessary for the church’s use.
- Key Point: “Adjacent” does not always mean physically touching — it means functionally connected to the exempt purpose.

In Re Harrison v. Guilford County, 218 N.C. 718, 12 S.E.2d 269 (1940)

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Education Exemption

OWNERSHIP

- An educational institution; or
- A nonprofit entity for the sole benefit of a constituent of The University of North Carolina, a North Carolina community college, or a combination of these;
- The owner is not organized or operated for profit

USE

- Wholly and exclusively used by its owner for educational purposes; or
- Gratuitously occupied by another nonprofit educational institution and wholly and exclusively used by the possessor for nonprofit educational purposes

NCGS §105-278.3

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Case: Rockingham v. Elon College

- NC Supreme Court held that private college-owned buildings rented for business purposes were taxable, even though the rental income supported education.
- Key point: Use of the property — not the use of the income — controls.

In Re Rockingham v. Elon College 219 N.C.342, 13 S.E.2d 618 (1941)

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Understanding “Exclusive Use”

- Incidental public or secondary use does not defeat the exemption
- If only part of the property qualifies, the qualifying portion may still be exempt
- Each qualifying purpose is specifically defined in statute and must be applied as written

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**Rowan
County
Power Plant**



Solar Energy



Brownfield

Applications



- Application requirements vary by statute
- Generally, applications due by January 31
- Approved listing extension extends application period for *personal property*
- Property owner still required to list personal property

