

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2025

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HOUSE BILL 1042  
Committee Substitute Favorable 5/12/26  
PROPOSED COMMITTEE SUBSTITUTE H1042-PCS40732-SVx-42

Short Title: Affordable Housing Exemption Mods.

(Public)

Sponsors:

Referred to:

April 27, 2026

1 A BILL TO BE ENTITLED  
2 AN ACT TO UPDATE AND MODIFY THE NONPROFIT LOW- OR MODERATE-INCOME  
3 HOUSING PROPERTY TAX EXEMPTION.

4 The General Assembly of North Carolina enacts:

5 SECTION 1. G.S. 105-278.6 reads as rewritten:

6 "**§ 105-278.6. Real and personal property used for charitable ~~purposes~~; purposes by certain**  
7 **entities.**

8 (a) Real and personal property owned ~~by~~ by an entity listed in this subsection is exempt  
9 from taxation if (i) as to real property, it is actually and exclusively occupied and used and, as to  
10 personal property, it is entirely and completely used by the owner for a charitable purpose; and  
11 (ii) the owner is not organized or operated for profit. The entities are:

- 12 (1) A Young Men's Christian Association or similar ~~organization~~; organization.  
13 (2) A home for the aged, sick, or ~~infirm~~; infirm.  
14 (3) An orphanage or similar ~~home~~; home.  
15 (4) A Society for the Prevention of Cruelty to ~~Animals~~; Animals.  
16 (5) A reformatory or correctional ~~institution~~; institution.  
17 (6) A monastery, convent, or ~~nummery~~; nummery.  
18 (7) A nonprofit, life-saving, first aid, or rescue squad ~~organization~~; organization.  
19 (8) A nonprofit organization providing housing for individuals or families with  
20 low or moderate ~~incomes~~ incomes, other than rental housing. This subdivision  
21 does not apply to rental housing, which must qualify under G.S. 105-278.7A  
22 to be eligible for an exemption.

23 ~~shall be exempted from taxation if: (i) As to real property, it is actually and exclusively occupied~~  
24 ~~and used, and as to personal property, it is entirely and completely used, by the owner for~~  
25 ~~charitable purposes; and (ii) the owner is not organized or operated for profit.~~

26 (b) A charitable purpose within the meaning of this section is one that has humane and  
27 philanthropic objectives; it is an activity that benefits humanity or a significant rather than limited  
28 segment of the community without expectation of pecuniary profit or reward. The humane  
29 treatment of animals is also a charitable purpose.

30 (c) The fact that a building or facility is incidentally available to and patronized by the  
31 general public, so long as there is no material amount of business or patronage with the general  
32 public, ~~shall~~ does not defeat the exemption granted by this section.

33 (d) Notwithstanding the ~~exclusive use~~ exclusive use requirements of this section, if part  
34 of a property that otherwise meets the section's requirements is used for a purpose that would



1 require exemption under subsection (a), above, if the entire property were so used, the valuation  
2 of the part so used ~~shall be exempted~~ is exempt from taxation.

3 (e) Real property held by an organization described in subdivision (a)(8) for a charitable  
4 purpose under this section as a future site for ~~housing~~ housing, other than affordable rental  
5 housing as defined in G.S. 105-278.7A, for individuals or families with low or moderate incomes  
6 may be classified under this section for no more than ~~10~~ five years. The taxes that would  
7 otherwise be due on real property exempt under this subsection ~~shall be~~ are a lien on the property  
8 as provided in G.S. 105-355(a). The taxes ~~shall be~~ are carried forward in the records of the taxing  
9 unit as deferred taxes. The deferred taxes are due and payable in accordance with  
10 G.S. 105-277.1F when the property loses its eligibility for deferral as a result of a disqualifying  
11 event. A disqualifying event occurs when the property ~~was~~ is not used for low- or  
12 moderate-income housing within ~~10~~ five years from the first day of the fiscal year the property  
13 was classified under this subsection. In addition to the provisions in G.S. 105-277.1F, all liens  
14 arising under this subdivision are extinguished when the property is used for low- or  
15 moderate-income housing within the time period allowed under this subsection."

16 **SECTION 2.** Article 12 of Chapter 105 of the General Statutes is amended by adding  
17 the following new section to read:

18 **"§ 105-278.7A. Real and personal property owned, in whole or in part, by a charitable**  
19 **nonprofit and used for affordable rental housing.**

20 (a) Exemption Generally. – Real and personal property owned by an eligible owner and  
21 used for a charitable purpose in the operation of affordable rental housing is exempt from taxation  
22 to the extent provided in this section if the requirements of this section are met.

23 (b) Definitions. – The following definitions apply in this section:

24 (1) Affiliate. – Defined in G.S. 105-130.2.

25 (2) Affordable rental housing. – A rental housing development consisting of land  
26 and improvements in which more than fifty percent (50%) of the units are  
27 qualifying units.

28 (3) Charitable purpose. – A charitable purpose within the meaning of this section  
29 is one that has humane and philanthropic objectives; it is an activity that  
30 benefits humanity or a significant rather than limited segment of the  
31 community without expectation of pecuniary profit or reward.

32 (4) Eligible joint venture. – A limited partnership, limited liability company, or  
33 limited liability partnership in which a general partner or limited liability  
34 company managing member is an eligible nonprofit corporation.

35 (5) Eligible nonprofit corporation. – A nonprofit described in section 501(c)(3) of  
36 the Code that (i) is exempt from federal income taxation under section 501(a)  
37 of the Code, (ii) is incorporated under a certificate of existence or admitted  
38 under a certificate of authority under the North Carolina Nonprofit  
39 Corporation Act as provided in Chapter 55A of the General Statutes, and (iii)  
40 has day-to-day control of the operations of and decisions for the affordable  
41 rental housing and has not delegated any decision-making authority other than  
42 to a property manager serving under the direction of the eligible owner. The  
43 term includes a single-purpose entity wholly owned by an eligible nonprofit  
44 corporation.

45 (6) Eligible owner. – An eligible joint venture or an eligible nonprofit corporation.

46 (7) Income limit. – Eighty percent (80%) of area median income, adjusted for  
47 family size, as set and published by the U.S. Department of Housing and  
48 Urban Development as of January 1 of the year the application was submitted  
49 under this section.

50 (8) Public agency. – Any of the following agencies, if overseeing a program listed  
51 in sub-subdivision b. of subdivision (2) of subsection (c) of this section:

- 1           a.     A county government.  
2           b.     A municipal government.  
3           c.     A housing authority.  
4           d.     A State agency or department.  
5           e.     A federal agency or department.  
6       (9)   Qualifying unit. – An affordable rental housing unit for which both of the  
7           following conditions are met:  
8           a.     The rent charged for an occupied unit or the published rent for a vacant  
9           unit is at or below the rent limit.  
10          b.     It is occupied by, or set aside for, a tenant whose income is at or below  
11           the income limit.  
12       (10) Rent limit. – Rent, plus a utility allowance calculated in accordance with the  
13           requirements of the North Carolina Housing Finance Agency, that does not  
14           exceed thirty percent (30%) of the income limit.  
15       (c)   Requirements for Government-Supported Affordable Rental Housing. – Real and  
16       personal property that provides government-supported affordable rental housing is exempt from  
17       property taxation in any year in which all of the conditions listed in this subsection are met. For  
18       purposes of this section, the term "government-supported" means that the property is financed as  
19       described in sub-subdivision a. or b. of subdivision (2) of this subsection. The conditions are:  
20           (1)   The property is owned and operated by an eligible nonprofit corporation or an  
21           eligible joint venture.  
22           (2)   Either of the following applies:  
23           a.     The eligible owner is an eligible joint venture that receives  
24           low-income housing credits pursuant to section 42 of the Code and  
25           that is in compliance with any applicable regulatory requirements as  
26           determined by the North Carolina Housing Finance Agency. Ownership is determined as of the date the certificate of occupancy is  
27           issued.  
28           b.     The eligible owner finances the acquisition, rehabilitation,  
29           development, or operation of the property, or any combination thereof,  
30           with tax-exempt mortgage revenue bonds, qualified 501(c)(3) bonds,  
31           federal direct loans or grants, State loans or grants, or loans or grants  
32           provided by a local jurisdiction in which the property is located. Such  
33           government support must require the execution of a deed restriction or  
34           an enforceable, verifiable regulatory agreement with a public agency  
35           requiring that the property be operated as affordable rental housing in  
36           accordance with this section for a period of at least 15 years from the  
37           date the financing or financial assistance was initially provided. If the  
38           public agency is a municipal government, a housing authority, or a  
39           county government, the deed restrictions or regulatory agreement shall  
40           be recorded with the register of deeds for each county in which the  
41           property is located. The rights of a public agency under the deed  
42           restrictions or regulatory agreement shall endure for the full term of  
43           the agreement and are not defeasible without the written agreement of  
44           the public agency. Government support does not include payments  
45           made to the owner under the federal Housing Choice Voucher  
46           Program or other local, State, or federal voucher program.  
47       (d)   Requirements for Non-Government-Supported Affordable Rental Housing. – Real  
48       and personal property that provides non-government-supported affordable rental housing is  
49       exempt from property taxation in any year in which all of the conditions listed in this subsection  
50       are met. For purposes of this subsection, the term "non-government-supported" means that the  
51

1 property is not financed as described in sub-subdivision a. or b. of subdivision (2) of subsection  
2 (c) of this section. The conditions are:

- 3 (1) The property is one hundred percent (100%) owned and operated by an  
4 eligible nonprofit corporation that has owned and operated affordable rental  
5 housing for at least five years. For purposes of this subdivision, the term "one  
6 hundred percent (100%) owned" means (i) the eligible nonprofit corporation  
7 is the sole record owner of the property or (ii) if title to the property is held by  
8 a single-purpose entity, the eligible nonprofit corporation, either directly or  
9 through one or more wholly owned disregarded entities, owns one hundred  
10 percent (100%) of the legal and equitable ownership interest in the  
11 title-holding entity, and no other person or entity holds any membership  
12 interest, partnership interest, shareholder interest, economic interest, profits  
13 interest, capital interest, beneficial interest, or other direct or indirect  
14 ownership interest in that entity.
- 15 (2) The eligible nonprofit corporation, including any of its subsidiaries or  
16 nonprofit affiliates, does not receive any funding or financial assistance, other  
17 than grants, from a for-profit affiliate.
- 18 (3) The eligible nonprofit corporation does not lease the affordable rental housing  
19 land or improvements to another entity. This subdivision does not apply to the  
20 leasing of affordable rental housing units to tenants.
- 21 (4) The eligible nonprofit corporation has executed a deed restriction in favor of  
22 the county and any municipality in which the property is located requiring that  
23 the property be operated as affordable rental housing in accordance with this  
24 section for a period of at least 15 years from the date of application. The  
25 restriction must require that the owner provide the reporting required under  
26 subsection (g) of this section annually to all grantees for the term of the deed  
27 restriction. The deed restriction must state that any grantee, or its assigns, has  
28 the right to enforce the terms of the restriction.

29 (e) Exemption Amount. – The exemption amount is the percentage of the appraised value  
30 that is equal to the percentage of qualifying units unless the eligible owner meets the requirements  
31 of the safe harbor in section 3 of Internal Revenue Service Rev. Proc. 96-32, in which case the  
32 exemption amount is one hundred percent (100%) of the appraised value of the property.

33 (f) Application. – To be eligible for an exemption under this section, an eligible owner  
34 must submit an application in accordance with G.S. 105-282.1. The application form shall require  
35 the applicant to provide the following information:

- 36 (1) Whether the applicant is applying for the exemption under subsection (c) or  
37 subsection (d) of this section, along with documentation supporting that the  
38 applicant is an eligible owner for the subsection under which it is applying;  
39 evidence of government support pursuant to sub-subdivision a. or b. of  
40 subdivision (2) of subsection (c) of this section, if applicable; and a copy of  
41 the applicable deed restriction or regulatory agreement.
- 42 (2) Either of the following, as of the last day of the month immediately preceding  
43 January 1 of the year of application:
  - 44 a. If the applicant is applying for an exemption amount based on the  
45 percentage of qualifying units, the percentage of qualifying units by  
46 providing the following items:
    - 47 1. The rent amount received by the owner for each qualifying unit  
48 as evidenced by an anonymized rent roll. The applicant must  
49 provide evidence of the published rent if a unit is vacant.
    - 50 2. The total household income for each occupied qualifying unit  
51 evidenced in an anonymized manner.

1           **b.**     If the applicant is applying for an exemption amount based on meeting  
2                   the requirements of the safe harbor in section 3 of Internal Revenue  
3                   Service Rev. Proc. 96-32, evidence demonstrating the affordable  
4                   rental housing meets those requirements.

5           **(3)**     Certification that the applicant is in compliance with any applicable deed  
6                   restriction or regulatory agreement and the requirements of this section.

7           **(g)**     Compliance. – Pursuant to G.S. 105-282.1, an eligible owner must resubmit an  
8                   application annually with the information set forth in subsection (f) of this section to maintain  
9                   eligibility. For the first year that verified income eligibility is required, such household income  
10                  verification shall have occurred within the previous year. After the initial household income  
11                  verification, the household income provided for each qualifying unit must be verified at least  
12                  every two years.

13           **(h)**     Future Site. – Real property held by an eligible owner as a future site for affordable  
14                   rental housing may be classified under this section for no more than five years. The taxes that  
15                   would otherwise be due on real property exempt under this subsection are a lien on the property  
16                   as provided in G.S. 105-355(a). The taxes shall be carried forward in the records of the taxing  
17                   unit as deferred taxes. The deferred taxes are due and payable in accordance with  
18                   G.S. 105-277.1F when the property loses its eligibility for deferral as a result of a disqualifying  
19                   event. A disqualifying event occurs when the property is not used for affordable rental housing  
20                   that is in compliance with this section within five years from the first day of the fiscal year the  
21                   property was classified under this subsection. In addition to the provisions in G.S. 105-277.1F,  
22                   all liens arising under this subsection are extinguished when the property is used for affordable  
23                   rental housing within the time period allowed under this subsection. For purposes of this  
24                   subsection, the term "future site" means unimproved real property or improved real property that  
25                   is not occupied as of the date of the application for exemption under this section.

26           **(i)**     Ineligible Property. – Property that has been designated a special class of property  
27                   under G.S. 105-277.16 and assessed accordingly is not eligible for exemption under this section  
28                   unless a new Low-Income Housing Credit Allocation and Certification has been awarded for  
29                   newly financed improvements at the property and unless separately applied for and qualified  
30                   pursuant to subdivision (2) of subsection (c) of this section."

31           **SECTION 3.** G.S. 105-277.1F(a) reads as rewritten:

32           **"(a)**     Scope. – This section applies to the following deferred tax programs:

- 33           (1)     G.S. 105-275(12), real property owned by a nonprofit corporation held as a  
34                   protected natural area.  
35           (1a)    G.S. 105-275(29a), historic district property held as future site of historic  
36                   structure.  
37           (2)     G.S. 105-277.1B, the property tax homestead circuit breaker.  
38           (2a)    **(See note for repeal)** G.S. 105-277.1D, the inventory property tax deferral.  
39           (3)     G.S. 105-277.4(c), present-use value property.  
40           (4)     G.S. 105-277.14, working waterfront property.  
41           (4a)    G.S. 105-277.15, wildlife conservation land.  
42           (4b)    G.S. 105-277.15A, site infrastructure land.  
43           (5)     G.S. 105-278(b), historic property.  
44           (6)     G.S. 105-278.6(e), nonprofit property held as future site of low- or  
45                   moderate-income ~~housing~~ housing, other than affordable rental housing as  
46                   defined under G.S. 105-278.7A.  
47           (7)     G.S. 105-278.7A(h), nonprofit property held as future site of affordable rental  
48                   housing."

49           **SECTION 4.** This act is effective for taxes imposed for taxable years beginning on  
50           or after July 1, 2026, and, with respect to property held as a future site under G.S. 105-278.6(e)  
51           or G.S. 105-278.7A(h), as enacted by this act, applies to real property classified under those

1 provisions on or after that date. Notwithstanding G.S. 105-282.1(a)(2)a., an owner of low- or  
2 moderate-income rental housing property that is exempt under G.S. 105-278.6(a)(8) as of the  
3 effective date of this act must, by December 31, 2026, reapply for the exemption, providing the  
4 assessor of the taxing unit with any necessary documentation for compliance consistent with this  
5 act. Reapplication under this section is considered an application under G.S. 105-278.7A(f), as  
6 enacted by this act. Failure to meet this requirement within the time limit subjects the property  
7 to discovery under G.S. 105-312.