



**This Bill Analysis
reflects the contents
of the bill as it was
presented in
committee.**

HOUSE BILL 168: Exempt Builders' Inventory

2015-2016 General Assembly

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| Committee: | House Finance | Date: | June 16, 2015 |
| Introduced by: | Reps. Hager, Millis, Brody, Collins | Prepared by: | Greg Roney Committee Counsel |
| Analysis of: | PCS to First Edition H168-CSTM-34 | | |

SUMMARY: *The Proposed Committee Substitute (PCS) for House Bill 168 would exempt the value of any improvements to residential real property held for sale by a builder. A builder is a person who is engaged in the business of buying property, making improvements to the property, and reselling the property. Each builder would be eligible to exempt improvements for 3 years.*

[As introduced, this bill was identical to S321, as introduced by Sens. Brown, Tucker, Gunn, which is currently in Senate Re-ref to Commerce. If fav, re-ref to Finance.]

CURRENT LAW: G.S. 105-273(3a) defines "builder" to mean a taxpayer licensed as a general contractor who is engaged in the business of buying real property, making improvements to it, and then reselling it.

Former G.S. 105-277.1D provided a deferral of property tax on a residence constructed by a builder. The term "residence" was limited to a new structure that is intended to be sold and used as an individual's residence, that is unoccupied, and that has a certificate of occupancy. The section allowed an optional deferral of property tax for the increase in value of the property attributable to the construction of a residence. The deferred taxes became a lien on the property. The deferred taxes were due when the property loses its eligibility for deferral because: (1) the builder transferred the residence, (2) the residence was occupied, (3) five years from the time the improved property was first subject to being listed for taxation by the owner, or (4) three years from the time the improved property first received the property tax deferral.¹

BILL ANALYSIS: The PCS for House Bill 168 allows a property tax exemption for any increase in the value of residential real property held for sale by a builder. Residential real property is real property intended to be sold and used as an individual's residence. The excluded value must be attributable to subdivision or any improvements by the builder. The builder must continuously hold the property for sale.

The PCS for House Bill 168 reenacts the definition of builder from former law and deletes the requirement that the builder hold a general contractor's license. The definition of builder requires the person be engaged in the business of buying real property, making improvements, and reselling the property.

¹ S.L. 2009-308 enacted former G.S. 105-277.1D effective for taxes imposed for taxable years beginning on or after July 1, 2010 and repealed effective for taxes imposed for taxable years beginning on or after July 1, 2013. However, S.L. 2010-95 amended S.L. 2009-308 to extend the deferral after the repeal of the section for residences receiving the property tax deferral in the year immediately prior to the repeal. These residences remain eligible for continued deferral for subsequent taxable years until a disqualifying event.

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House Bill 168

Page 2

The exclusion is allowed starting at the time property is improved and should be listed for taxation by the builder. The exclusion ends when the property is sold or 3 years from the time the builder should have listed the property. The builder must apply for this exclusion annually.

EFFECTIVE DATE: The PCS for House Bill 168 would become effective for taxes imposed for taxable years beginning on July 1, 2016. Therefore, the PCS would apply to improvements to residential real property as of January 1, 2016, assuming the requirements of the statute are met.