HOUSE BILL 168:
Exempt Builders' Inventory

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

2015-2016 General Assembly

Committee:	Senate Re-ref to Commerce. If fav, re-ref to Finance. If fav, re-ref to Appropriations/Base Budget	**Date:**	June 30, 2015
Introduced by:	Reps. Hager, Millis, Brody, Collins	**Prepared by:**	Greg Roney
Analysis of:	PCS to Third Edition H168-CSTM-36		Committee Counsel

***SUMMARY:** The Proposed Committee Substitute (PCS) for House Bill 168 would exempt the increase value of certain improvements to real property held for sale by a builder:*

- ***For residential real property, a builder may exclude for 3 years the increase in value due to subdivision, improvements, and buildings that are either a new single-family residence or a duplex.***
- ***For commercial property, a builder may exclude for 5 years the increase in value due to subdivision and improvements – excluding buildings.***

Compared to the third edition of the bill, the PCS clarifies subsection (a) exempting residential property that subdivision and other improvements are exempted from taxation. The PCS adds subsection (b) exempting commercial property. Subsection (c) and (d) contain the same language as the third edition of the bill.

[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]

[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.

BILL ANALYSIS: The PCS for House Bill 168 allows a property tax exemption for any increase in the value of certain real property held for sale by a builder. The PCS 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.

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, improvements other than buildings, new single-family residence, or duplex.

Commercial real property is real property intended to be sold and used for commercial purposes. The excluded value must be attributable to subdivision or improvements other than buildings.

The builder must continuously hold the property for sale. 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 for residential (5 years for commercial) 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, and apply to subdivision of or other improvements made on or after July 1, 2015. Therefore, the PCS would apply to subdivision or improvements to real property as of January 1, 2016, assuming the requirements of the statute are met.