GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Fiscal Note

BILL NUMBER: House Bill 168 (Second Edition)

SHORT TITLE: Exempt Builders' Inventory.

SPONSOR(S): Representatives Hager, Millis, Brody, and Collins

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FISCAL IMPACT
($ in millions)

☑ **Yes** ☐ **No** ☐ **No Estimate Available**

State Impact	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
General Fund Revenues:	No General Fund Impact				
General Fund Expenditures:					
State Positions:					
NET STATE IMPACT	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**

Local Impact					
Revenues:	Annual Revenue Loss of $52.6 -$65.8 million				
Expenditures:					

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Local Governments; NC Dept. of Revenue

EFFECTIVE DATE: Tax years beggінning July 1, 2016.

TECHNICAL CONSIDERATIONS:
None

BILL SUMMARY:
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. The bill applies to improvements made after January 1, 2016.

ASSUMPTIONS AND METHODOLOGY:
The NC Department of Revenue collects data from counties each year on the total amount of their property tax bases. The data is broken down by real property, motor vehicles, and business personal property. The NC Association of County Commissioners (NCACC) reviewed the real property data to determine the amount of annual growth in tax base for each county. The growth in tax base is adjusted to account for revaluations.

To determine the fiscal impact of exempting residential property held for sale, the NCACC sampled tax assessors to determine the percentage of real property tax base growth attributable to property exempted under H 168. The assessors determined that roughly 50% of the annual growth what Win the tax base would be exempted for up to three years. This is considered an upper bound estimate because assessors factored in commercial and residential construction. Because the second edition applies only to residential construction, a lower bound estimate is constructed by subtracting the percentage of growth represented by commercial construction. This percentage is estimated by dividing total commercial property value by the total of commercial and residential property.

Based on the calculations, commercial property is estimated to represent approximately 20% of the total real property growth. The upper bound estimate of 50% is reduced by 20% to produce a lower bound. The resulting range estimate of exempted property is considered to be 40% to 50% of annual growth in the real property tax base. For counties, the annual real property growth is $14.8 billion. Applying county tax rates to this figure results in tax revenue growth of $101.2 million. Municipal revenue is estimated to account for an additional $30.4 million, for a total of $131.6 million. Applying the range percentages of 40% - 50% results in an estimated revenue loss for counties and municipalities of $52.6 - $65.8 million.

SOURCES OF DATA: NC Dept. of Revenue; NC Association of County Commissioners

TECHNICAL CONSIDERATIONS: None

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