

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 1465 (First Edition)

SHORT TITLE: Allow Family Business to Lease Farmland.

SPONSOR(S): Representative Brubaker

FISCAL IMPACT					
	Yes ()	No ()	No Estimate Available (X)		
	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>
REVENUES					
General Fund					
Local Governments					
			No General Fund Impact		
			See Assumptions and Methodology		
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Local Governments					
EFFECTIVE DATE: This act is effective for taxes imposed for taxable years beginning on or after July 1, 2004.					

BILL SUMMARY: The bill changes the current present-use value program for property taxes to allow farmland owned by a business entity to keep its present-use value status when the land is leased to a nonmember, as long as all members of the business entity are relatives. This is a recommendation of the Revenue Laws Study Committee.

ASSUMPTIONS AND METHODOLOGY: Under the current present use value program, property can qualify for a lower valuation if it meets a series of size, use, and ownership requirements. According to a 1987 Property Tax Commission decision, if the property is owned by a business entity, members of the business entity or their relatives must be “actively engaged” in the business of farming for the property to continue to qualify for the use value program. (The Commission determined that leasing land in and of itself did not qualify as actively engaged in farming. As a result, the primary business then becomes land leasing and not farming). A similar provision does not exist for properties owned by an individual. This has the net result of disqualifying land from the program if it is owned by a family business but is leased to a non-relative. If an individual held the same property, the land would still qualify if the property were

leased. (In both cases, the leased land must still meet the remaining use and size requirements.) The bill effectively removes this distinction.

Because this is a property tax issue, no General Fund impact is expected. Fiscal Research cannot estimate the impact this change will have on local governments, as we have no data on what properties might qualify if the ownership requirements were changed. The bill will result in a loss of revenue to local governments, as it will allow more parcels to qualify for the farm use program. However, because of the limited nature of the change, the revenue loss for local governments is expected to be fairly small.

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