

Present-Use Valuation Program

NC DOR

Property Tax Division

Present-Use Value

- Generally, all property in North Carolina is valued at and taxed at its market value.
- Present-use value (PUV) is the value of land in its current use as agricultural land, horticultural land, or forestland based solely on its ability to produce income and assuming an average level of management.

Present-Use Value

- Deferred taxes are the difference in taxes between the market value and the present-use value.
- When due, current year, plus three prior years plus interest

Use Value Advisory Board

- The nine member board consults with Federal and State agencies as needed to develop the manual with recommended values for agricultural, horticultural and forestland
- Each year our office publishes this manual that is a recommendation for counties

Determining Present-Use Value

- Agricultural and horticultural present-use values are based on cash rents for agricultural and horticultural land.
- The Use-Value Advisory Board (UVAB) has currently set the capitalization rate at 6.5% agricultural and horticultural land.

Determining Present-Use Value

- Forestland present-use values are determined by applying a capitalization rate of 9% to the expected net income of forestland.

Classifications

- Agricultural Land
- Horticultural Land
- Forestland
- Note: The Wildlife Conservation Program is not part of the PUV program.

Four Tests

- Ownership
- Size
- Income
- Sound Management

Qualifying Forms of Ownership

- There are four categories of qualifying owners:
 - Individuals
 - Certain Business Entities
 - Certain Trusts and Testamentary Trusts
 - Certain Tenants in Common

Qualifying Forms of Ownership

- Business Entities are:
 - limited liability companies,
 - general partnerships,
 - limited partnerships, and
 - corporations.

Requirements for Qualifying Owners

- Standard Requirements—Individuals
 - If owned by an individual, the property must meet one of these requirements:
 1. The property is the owner's place of residence as of January 1.

Requirements for Qualifying Owners

- Standard Requirements—Individuals
 2. The property has been owned by the current owner or a relative of the current owner for the four full years preceding January 1 of the year for which application is made.

Requirements for Qualifying Owners

- Standard Requirements—Individuals
 3. If transferring from a business entity or trust to the current owner (an individual), the property must have been qualified for and receiving PUV. Additionally, at the time of transfer, the current owner must have been a member of the business entity or a beneficiary of the trust.

Requirements for Qualifying Owners

- Standard Requirements—Business Entities
- If the current owner is a business entity, the property must have been owned by one or more of the following for the four full years preceding January 1 of the year for which application is made:
 - a. The business entity.
 - b. A member of the business entity.
 - c. Another business entity whose members include a member of the business entity that currently owns the land.

Qualifying Forms of Ownership

- Business Entity Requirements
 1. A business entity must have agriculture, horticulture, or forestry as its principal business.

The principal business requirement applies only to the business entity that owns the land and does not apply to the members of the business entity.

Qualifying Forms of Ownership

- Business Entity Requirements (cont'd)
 2. All members of the business entity must be individuals, either directly or indirectly.

Directly or indirectly—All interest in a business entity is ultimately owned by individuals, if you look far enough down the ownership structure. Essentially, you are “looking through” all of the intermediate ownerships to identify the individual level of ownership.

Qualifying Forms of Ownership

- Business Entity Requirements (cont'd)
 3. All individual members must be actively engaged in the principal business of the entity or be related to an individual member who is actively engaged in the principal business of the entity.

Once you have identified all of the individuals who own interest in the business entity, either directly or indirectly, you can now apply the actively engaged requirement to those individuals.

Qualifying Forms of Ownership

- Business Entity Requirements (cont'd)
 4. A business entity cannot be a corporation whose shares are publicly traded. Neither can any of its members be corporations whose shares are publicly traded.

Qualifying Forms of Ownership

- Business Entity Requirements (cont'd)
 5. If a business entity leases the land, all of its members are individuals and are relatives. Under this condition “principal business” and “actively engaged” include leasing.

Requirements for Qualifying Owners

- Two Exceptions to the Standard Requirements for Qualifying Owners:
 1. Exception for Continued Use
 2. Exception for Expansion of Existing Unit

Estate Planning

- Ownership Issues—when changing from individual to business entity
- This may trigger the deferred taxes to become due and payable
- Where do property tax issues rank in estate planning?

Size Requirement

- Agricultural Land—10 acres in actual production
- Horticultural Land—5 acres in actual production
- Forestland—20 acres in actual production
- The home site is valued at market value. This acreage is not considered when trying to meet the minimum size requirement. Typically one acre is designated for the home site.

Other Acreage as Part of the Farm Unit

- Agricultural tracts can include woodland and wasteland.
- Horticultural tracts can include woodland and wasteland.
- Forestland tracts can include wasteland, but **not** agricultural or horticultural land. Of course, the agricultural or horticultural land may receive PUV if it qualifies on its own merits.

Woodland More Than 20 Acres

- If an agricultural or horticultural tract contains more than 20 acres of woodland, the woodland is required to be under a sound forestry management plan, except in certain circumstances.
- Plans should be in place prior to January 1 of the year the benefit is claimed.

Income

- Agricultural and Horticultural Land Income Requirement:
 - Produced average gross income of at least \$1,000 for previous three years preceding the January 1st of year for which benefit is claimed.
- Forestland Income Requirement
 - Forestland has no income requirement.

Sound Management

- Sound management is a program of production designed to obtain the greatest net return from the land consistent with its conservation and long-term improvement.
- Agricultural and horticultural land has six (6) test to consider for sound management. The owner must meet one of those test.
105-277.3(f)

Sound Management

- Forestland the owner must demonstrate that the forestland complies with a written sound forest management plan for the production and sale of forest products.

Application for PUV

- The present-use value program is a voluntary program that provides the owner with preferential tax treatment if the owner and the property meet the eligibility requirements.
- Acceptance into the program also requires that the owner and the property continue to meet the requirements, and failure to do so is generally subject to financial consequences.

Application for PUV

- Therefore, every owner who wishes to claim the benefits of present-use value must file a **proper** and **timely** application with the tax assessor's office.
- Under limited conditions, an untimely application may be filed.

Application for Present-Use Value

- Two application scenarios:
 - Initial Applications
 - Applications for Continued Qualification Due to Transfer of Ownership:
 - Continued Use
 - Expansion of Existing Unit

Two Major Categories of Applications

- Initial applications are required when the property was not in present-use value at the time of the transfer of the property, or when the property was removed from present-use value as a result of the transfer.
- Applications are required due to a transfer of a property already in present-use value when the new owner seeks continued and immediate classification.

Initial Application--Timely

- Initial applications must be filed during one of the two following time periods to be timely:
 - Regular listing period.
 - Within 30 days of a notice of change in value.

Application Required Due to Transfer of Property in PUV--Timely

- An application required due to transfer of the land must be filed within 60 days of the date of the property's transfer.
- If the new owner does not file a new application within 60 days of the property's transfer, the property will be removed from the present-use value program for failure to file a timely application.

Initial Application--Untimely

- An initial application is untimely if it is filed after the listing period of the year for which the benefit is requested, or if it is filed more than 30 days after a notice of a change in value.

Initial Application--Untimely

- Untimely applications may be approved:
 1. By the Board of Equalization and Review, or, if that board is not in session, by the Board of County Commissioners, and
 2. If the applicant can show good cause for failure to file a timely application.

The “Farm Unit” Concept

- Additional tracts (other than the initial qualifying tract) must meet the following requirements:
 1. Must be under the same ownership.
 2. Must be the same classification.
 3. Must be in the same county or within 50 miles of a qualifying tract if in a different county than the qualifying tract.
 4. Must be in active production and under sound management.

How Disqualification Occurs

- The deferred taxes become due and payable when the property loses its eligibility for deferral as a result of a disqualifying event.
- A disqualifying event occurs when the land fails to meet any condition or requirement for classification or when an application is not approved.
- The deferred taxes are delinquent on the date that a disqualifying event occurs.

Compliance Reviews

- Each county assessor must annually review one eighth of the parcels that are receiving the benefit of the present-use value classification to verify that these properties continue to qualify for the classification.

Venue for Hearing of Appeals

- Decisions regarding the qualification or appraisal of property may be appealed to the county board of equalization and review or, if that board is not in session, to the board of county commissioners.

Time Limits for Appeals

- An appeal must be filed within 60 days after the decision of the assessor.
- The decision should be in writing and should contain the date the notice was mailed. This date should be used to determine whether the appeal was filed within 60 days after the decision of the assessor.

Time Limits for Appeals

- If the owner submits additional information to the assessor as part of the compliance review process, the appeal must be filed within 60 days after the assessor's new decision, as based on the additional information.

Appeals from the County Board

- Decisions of the county board of equalization and review or the board of county commissioners may be appealed to the North Carolina Property Tax Commission.
- Appeals to the Property Tax Commission must be made in writing within 30 days after the date the county board mailed a notice of its decision to the owner.

Contact Information

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Forms Available:

<http://www.dor.state.nc.us/downloads/property.html>

Other Present-Use Valuation Publications:

<http://www.dor.state.nc.us/publications/property.html>