

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2025

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HOUSE BILL 1042
Committee Substitute Favorable 5/12/26
Committee Substitute #2 Favorable 5/19/26

Short Title: Affordable Housing Exemption Mods.

(Public)

Sponsors:

Referred to:

April 27, 2026

1 A BILL TO BE ENTITLED
2 AN ACT TO UPDATE AND MODIFY THE NONPROFIT LOW- OR MODERATE-INCOME
3 HOUSING PROPERTY TAX EXEMPTION.

4 The General Assembly of North Carolina enacts:

5 SECTION 1. G.S. 105-278.6 reads as rewritten:

6 "**§ 105-278.6. Real and personal property used for charitable ~~purposes~~; purposes by certain**
7 **entities.**

8 (a) Real and personal property owned ~~by~~ by an entity listed in this subsection is exempt
9 from taxation if (i) as to real property, it is actually and exclusively occupied and used and, as to
10 personal property, it is entirely and completely used by the owner for a charitable purpose; and
11 (ii) the owner is not organized or operated for profit. The entities are:

12 (1) A Young Men's Christian Association or similar ~~organization~~; organization.

13 (2) A home for the aged, sick, or ~~infirm~~; infirm.

14 (3) An orphanage or similar ~~home~~; home.

15 (4) A Society for the Prevention of Cruelty to ~~Animals~~; Animals.

16 (5) A reformatory or correctional ~~institution~~; institution.

17 (6) A monastery, convent, or ~~numery~~; numery.

18 (7) A nonprofit, life-saving, first aid, or rescue squad ~~organization~~; organization.

19 (8) A nonprofit organization providing housing for individuals or families with
20 low or moderate ~~incomes~~ incomes, other than rental housing. This subdivision
21 does not apply to rental housing, which must qualify under G.S. 105-278.7A
22 to be eligible for an exemption.

23 ~~shall be exempted from taxation if: (i) As to real property, it is actually and exclusively occupied~~
24 ~~and used, and as to personal property, it is entirely and completely used, by the owner for~~
25 ~~charitable purposes; and (ii) the owner is not organized or operated for profit.~~

26 (b) A charitable purpose within the meaning of this section is one that has humane and
27 philanthropic objectives; it is an activity that benefits humanity or a significant rather than limited
28 segment of the community without expectation of pecuniary profit or reward. The humane
29 treatment of animals is also a charitable purpose.

30 (c) The fact that a building or facility is incidentally available to and patronized by the
31 general public, so long as there is no material amount of business or patronage with the general
32 public, ~~shall~~ does not defeat the exemption granted by this section.

33 (d) Notwithstanding the ~~exclusive use~~ exclusive use requirements of this section, if part
34 of a property that otherwise meets the section's requirements is used for a purpose that would



1 require exemption under subsection (a), above, if the entire property were so used, the valuation
2 of the part so used ~~shall be exempted~~ is exempt from taxation.

3 (e) Real property held by an organization described in subdivision (a)(8) for a charitable
4 purpose under this section as a future site for ~~housing~~ housing, other than affordable rental
5 housing as defined in G.S. 105-278.7A, for individuals or families with low or moderate incomes
6 may be classified under this section for no more than ~~40~~ five years. The taxes that would
7 otherwise be due on real property exempt under this subsection ~~shall be~~ are a lien on the property
8 as provided in G.S. 105-355(a). The taxes ~~shall be~~ are carried forward in the records of the taxing
9 unit as deferred taxes. The deferred taxes are due and payable in accordance with
10 G.S. 105-277.1F when the property loses its eligibility for deferral as a result of a disqualifying
11 event. A disqualifying event occurs when the property ~~was~~ is not used for low- or
12 moderate-income housing within ~~40~~ five years from the first day of the fiscal year the property
13 was classified under this subsection. In addition to the provisions in G.S. 105-277.1F, all liens
14 arising under this subdivision are extinguished when the property is used for low- or
15 moderate-income housing within the time period allowed under this subsection."

16 **SECTION 2.** Article 12 of Chapter 105 of the General Statutes is amended by adding
17 the following new section to read:

18 "**§ 105-278.7A. Real and personal property owned, in whole or in part, by a charitable**
19 **nonprofit and used for affordable rental housing.**

20 (a) Exemption Generally. – Real and personal property owned by an eligible owner and
21 used for a charitable purpose in the operation of affordable rental housing is exempt from taxation
22 to the extent provided in this section if the requirements of this section are met.

23 (b) Definitions. – The following definitions apply in this section:

24 (1) Affiliate. – Defined in G.S. 105-130.2.

25 (2) Affordable rental housing. – A rental housing development consisting of land
26 and improvements in which more than fifty percent (50%) of the units are
27 qualifying units.

28 (3) Charitable purpose. – A charitable purpose within the meaning of this section
29 is one that has humane and philanthropic objectives; it is an activity that
30 benefits humanity or a significant rather than limited segment of the
31 community without expectation of pecuniary profit or reward.

32 (4) Eligible joint venture. – A limited partnership, limited liability company, or
33 limited liability partnership in which a general partner or limited liability
34 company managing member is an eligible nonprofit corporation.

35 (5) Eligible nonprofit corporation. – A nonprofit described in section 501(c)(3) of
36 the Code that (i) is exempt from federal income taxation under section 501(a)
37 of the Code, (ii) is incorporated under a certificate of existence or admitted
38 under a certificate of authority under the North Carolina Nonprofit
39 Corporation Act as provided in Chapter 55A of the General Statutes, and (iii)
40 has day-to-day control of the operations of and decisions for the affordable
41 rental housing and has not delegated any decision-making authority other than
42 to a property manager serving under the direction of the eligible owner. The
43 term includes a single-purpose entity wholly owned by an eligible nonprofit
44 corporation.

45 (6) Eligible owner. – An eligible joint venture or an eligible nonprofit corporation.

46 (7) Income limit. – Eighty percent (80%) of area median income, adjusted for
47 family size, as set and published by the U.S. Department of Housing and
48 Urban Development as of January 1 of the year the application was submitted
49 under this section.

50 (8) Public agency. – Any of the following agencies, if overseeing a program listed
51 in sub-subdivision b. of subdivision (2) of subsection (c) of this section:

- 1 a. A county government.
2 b. A municipal government.
3 c. A housing authority.
4 d. A State agency or department.
5 e. A federal agency or department.
6 (9) Qualifying unit. – An affordable rental housing unit for which both of the
7 following conditions are met:
8 a. The rent charged for an occupied unit or the published rent for a vacant
9 unit is at or below the rent limit.
10 b. It is occupied by, or set aside for, a tenant whose income is at or below
11 the income limit.
12 (10) Rent limit. – Rent, plus a utility allowance calculated in accordance with the
13 requirements of the North Carolina Housing Finance Agency, that does not
14 exceed thirty percent (30%) of the income limit.
15 (c) Requirements for Government-Supported Affordable Rental Housing. – Real and
16 personal property that provides government-supported affordable rental housing is exempt from
17 property taxation in any year in which all of the conditions listed in this subsection are met. For
18 purposes of this section, the term "government-supported" means that the property is financed as
19 described in sub-subdivision a. or b. of subdivision (2) of this subsection. The conditions are:
20 (1) The property is owned and operated by an eligible nonprofit corporation or an
21 eligible joint venture.
22 (2) Either of the following applies:
23 a. The eligible owner is an eligible joint venture that receives
24 low-income housing credits pursuant to section 42 of the Code and
25 that is in compliance with any applicable regulatory requirements as
26 determined by the North Carolina Housing Finance Agency. Ownership is determined as of the date the certificate of occupancy is
27 issued.
28 b. The eligible owner finances the acquisition, rehabilitation,
29 development, or operation of the property, or any combination thereof,
30 with tax-exempt mortgage revenue bonds, qualified 501(c)(3) bonds,
31 federal direct loans or grants, State loans or grants, or loans or grants
32 provided by a local jurisdiction in which the property is located. Such
33 government support must require the execution of a deed restriction or
34 an enforceable, verifiable regulatory agreement with a public agency
35 requiring that the property be operated as affordable rental housing in
36 accordance with this section for a period of at least 15 years from the
37 date the financing or financial assistance was initially provided. If the
38 public agency is a municipal government, a housing authority, or a
39 county government, the deed restrictions or regulatory agreement shall
40 be recorded with the register of deeds for each county in which the
41 property is located. The rights of a public agency under the deed
42 restrictions or regulatory agreement shall endure for the full term of
43 the agreement and are not defeasible without the written agreement of
44 the public agency. Government support does not include payments
45 made to the owner under the federal Housing Choice Voucher
46 Program or other local, State, or federal voucher program.
47 (d) Requirements for Non-Government-Supported Affordable Rental Housing. – Real
48 and personal property that provides non-government-supported affordable rental housing is
49 exempt from property taxation in any year in which all of the conditions listed in this subsection
50 are met. For purposes of this subsection, the term "non-government-supported" means that the
51

1 property is not financed as described in sub-subdivision a. or b. of subdivision (2) of subsection
2 (c) of this section. The conditions are:

- 3 (1) The property is one hundred percent (100%) owned and operated by an
4 eligible nonprofit corporation that has owned and operated affordable rental
5 housing for at least five years. For purposes of this subdivision, the term "one
6 hundred percent (100%) owned" means (i) the eligible nonprofit corporation
7 is the sole record owner of the property or (ii) if title to the property is held by
8 a single-purpose entity, the eligible nonprofit corporation, either directly or
9 through one or more wholly owned disregarded entities, owns one hundred
10 percent (100%) of the legal and equitable ownership interest in the
11 title-holding entity, and no other person or entity holds any membership
12 interest, partnership interest, shareholder interest, economic interest, profits
13 interest, capital interest, beneficial interest, or other direct or indirect
14 ownership interest in that entity.
- 15 (2) The eligible nonprofit corporation, including any of its subsidiaries or
16 nonprofit affiliates, does not receive any funding or financial assistance, other
17 than grants, from a for-profit affiliate.
- 18 (3) The eligible nonprofit corporation does not lease the affordable rental housing
19 land or improvements to another entity. This subdivision does not apply to the
20 leasing of affordable rental housing units to tenants.
- 21 (4) The eligible nonprofit corporation has executed a deed restriction in favor of
22 the county and any municipality in which the property is located requiring that
23 the property be operated as affordable rental housing in accordance with this
24 section for a period of at least 15 years from the date of application. The
25 restriction must require that the owner provide the reporting required under
26 subsection (g) of this section annually to all grantees for the term of the deed
27 restriction. The deed restriction must state that any grantee, or its assigns, has
28 the right to enforce the terms of the restriction.

29 (e) Exemption Amount. – The exemption amount is the percentage of the appraised value
30 that is equal to the percentage of qualifying units unless the eligible owner meets the requirements
31 of the safe harbor in section 3 of Internal Revenue Service Rev. Proc. 96-32, in which case the
32 exemption amount is one hundred percent (100%) of the appraised value of the property.

33 (f) Application. – To be eligible for an exemption under this section, an eligible owner
34 must submit an application in accordance with G.S. 105-282.1. The application form shall require
35 the applicant to provide the following information:

- 36 (1) Whether the applicant is applying for the exemption under subsection (c) or
37 subsection (d) of this section, along with documentation supporting that the
38 applicant is an eligible owner for the subsection under which it is applying;
39 evidence of government support pursuant to sub-subdivision a. or b. of
40 subdivision (2) of subsection (c) of this section, if applicable; and a copy of
41 the applicable deed restriction or regulatory agreement.
- 42 (2) Either of the following, as of the last day of the month immediately preceding
43 January 1 of the year of application:
- 44 a. If the applicant is applying for an exemption amount based on the
45 percentage of qualifying units, the percentage of qualifying units by
46 providing the following items:
- 47 1. The rent amount received by the owner for each qualifying unit
48 as evidenced by an anonymized rent roll. The applicant must
49 provide evidence of the published rent if a unit is vacant.
- 50 2. The total household income for each occupied qualifying unit
51 evidenced in an anonymized manner.

1 **b.** If the applicant is applying for an exemption amount based on meeting
2 the requirements of the safe harbor in section 3 of Internal Revenue
3 Service Rev. Proc. 96-32, evidence demonstrating the affordable
4 rental housing meets those requirements.

5 **(3)** Certification that the applicant is in compliance with any applicable deed
6 restriction or regulatory agreement and the requirements of this section.

7 **(g)** Compliance. – Pursuant to G.S. 105-282.1, an eligible owner must resubmit an
8 application annually with the information set forth in subsection (f) of this section to maintain
9 eligibility. For the first year that verified income eligibility is required, such household income
10 verification shall have occurred within the previous year. After the initial household income
11 verification, the household income provided for each qualifying unit must be verified at least
12 every two years.

13 **(h)** Future Site. – Real property held by an eligible owner as a future site for affordable
14 rental housing may be classified under this section for no more than five years. The taxes that
15 would otherwise be due on real property exempt under this subsection are a lien on the property
16 as provided in G.S. 105-355(a). The taxes shall be carried forward in the records of the taxing
17 unit as deferred taxes. The deferred taxes are due and payable in accordance with
18 G.S. 105-277.1F when the property loses its eligibility for deferral as a result of a disqualifying
19 event. A disqualifying event occurs when the property is not used for affordable rental housing
20 that is in compliance with this section within five years from the first day of the fiscal year the
21 property was classified under this subsection. In addition to the provisions in G.S. 105-277.1F,
22 all liens arising under this subsection are extinguished when the property is used for affordable
23 rental housing within the time period allowed under this subsection. For purposes of this
24 subsection, the term "future site" means unimproved real property or improved real property that
25 is not occupied as of the date of the application for exemption under this section.

26 **(i)** Ineligible Property. – Property that has been designated a special class of property
27 under G.S. 105-277.16 and assessed accordingly is not eligible for exemption under this section
28 unless a new Low-Income Housing Credit Allocation and Certification has been awarded for
29 newly financed improvements at the property and unless separately applied for and qualified
30 pursuant to subdivision (2) of subsection (c) of this section."

31 **SECTION 3.** G.S. 105-277.1F(a) reads as rewritten:

32 **"(a)** Scope. – This section applies to the following deferred tax programs:

- 33 **(1)** G.S. 105-275(12), real property owned by a nonprofit corporation held as a
34 protected natural area.
- 35 **(1a)** G.S. 105-275(29a), historic district property held as future site of historic
36 structure.
- 37 **(2)** G.S. 105-277.1B, the property tax homestead circuit breaker.
- 38 **(2a)** **(See note for repeal)** G.S. 105-277.1D, the inventory property tax deferral.
- 39 **(3)** G.S. 105-277.4(c), present-use value property.
- 40 **(4)** G.S. 105-277.14, working waterfront property.
- 41 **(4a)** G.S. 105-277.15, wildlife conservation land.
- 42 **(4b)** G.S. 105-277.15A, site infrastructure land.
- 43 **(5)** G.S. 105-278(b), historic property.
- 44 **(6)** G.S. 105-278.6(e), nonprofit property held as future site of low- or
45 moderate-income ~~housing~~-housing, other than affordable rental housing as
46 defined under G.S. 105-278.7A.
- 47 **(7)** G.S. 105-278.7A(h), nonprofit property held as future site of affordable rental
48 housing."

49 **SECTION 4.** This act is effective for taxes imposed for taxable years beginning on
50 or after July 1, 2026, and, with respect to property held as a future site under G.S. 105-278.6(e)
51 or G.S. 105-278.7A(h), as enacted by this act, applies to real property classified under those

1 provisions on or after that date. Notwithstanding G.S. 105-282.1(a)(2)a., an owner of low- or
2 moderate-income rental housing property that is exempt under G.S. 105-278.6(a)(8) as of the
3 effective date of this act must, by December 31, 2026, reapply for the exemption, providing the
4 assessor of the taxing unit with any necessary documentation for compliance consistent with this
5 act. Reapplication under this section is considered an application under G.S. 105-278.7A(f), as
6 enacted by this act. Failure to meet this requirement within the time limit subjects the property
7 to discovery under G.S. 105-312.