
Coates' Canons Blog: Discounts 101

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September 1 is just a few days away, which means the end of discounts for 2016 taxes is also just a few days away. Seems like a perfect time to cover the basics of one of the Machinery Act's most taxpayer-friendly provisions.

What's a discount?

A discount is a reduction in property tax obligations for taxpayers who pay their bills early. G.S. 105-360(c) lays out the legal details for discounts.

Discounts are optional, meaning every city and county that levies a property tax may decide for itself whether to offer a discount. While I don't have any statistics on how common discounts are across North Carolina, anecdotally I can tell you they are becoming less common. Most questions I receive concerning discounts are about how a local government may reduce or eliminate a discount, not increase or add one. (More on reducing and eliminating discounts in a minute.)

The amount of a discount is also left to the discretion of the local government, subject to approval by the N.C. Department of Revenue. From what I've learned, most discounts are in the range of one to two percent, sometimes staggered by month (2% discount if you pay in July, 1% if you pay in August).

Regardless of amounts all discounts must end by September 1, the due date for regular property taxes. To receive the benefit, a taxpayer must pay on or before August 31. Remember that the postmark rule applies, meaning the taxpayer must receive the discount if her payment is postmarked on or before August 31 regardless of when the payment actually arrives at the tax office. The weekend rule also applies, meaning that if August 31 falls on a Saturday or Sunday then the taxpayer may pay on the following Monday (or have a mailed payment postmarked by that date) and still receive the discount.

How may a local government adopt a discount?

A discount requires adoption of a resolution or ordinance by the governing board (board of county commissioners or city/town council) by May 1 of the year in which the local government wishes to implement the discount. The proposed discount must be submitted to the N.C. Department of Revenue to make sure that the amount or length of the discount is not "excessive or unreasonable." Once approved by DOR, the local government must advertise the new discount in a newspaper with "general circulation in the taxing unit." See this post for tips on how to choose a newspaper.

The discount takes effect immediately after DOR approval and remains in place until repealed by the local government. The board does not need to reauthorize the discount each year or include it in the annual budget ordinance.

How may a local government reduce or eliminate an existing discount?

The Machinery Act does not expressly answer this question. It's unclear whether a local government must act by May 1 or get DOR approval for a discount reduction or elimination. My take is that a local government should respect the May 1 deadline when eliminating or reducing a discount but not worry about DOR review.

DOR's only role is to review discounts to make sure they are not too generous; if a local government wants to reduce or eliminate a discount that the DOR already approved, I don't think the DOR has the authority to prevent the local government from doing so.

I think the best approach is for the governing board to adopt a new discount ordinance or resolution or repeal its existing

one entirely by May 1 so that taxpayers receive plenty of notice of the change. Advertising the reduction or repeal in a local newspaper would also be wise, even though it might not be required.

If the county collects property taxes for a municipality, is that municipality bound by the county's decision concerning the existence or amount of a discount?

No. Each local government has the discretion to determine its own discount or lack thereof. That said, the contract between a county and municipality for the collection of municipal property taxes could require the municipality to mirror the county's discount schedule to simplify collection calculations.

Does the taxpayer have to request the discount at time of payment in order to receive the discount?

No. If the local government offers a discount, all taxpayers who pay during the discount period must receive the benefit of the discount. This might result in overpayments from taxpayers who are unaware of the discount. Read about the new rules on overpayment here.

How should the discount be calculated if the taxpayer makes a partial payment?

The discount statute doesn't answer this question, but here's my advice: increase the partial payment by the amount of the discount and reduce the tax obligation by that increased amount. Assume I owe \$2,000 in taxes for 2016 and my county offers a 1% discount for taxpayers who pay prior to September 1. I pay \$1,000 toward my bill on August 30. The tax office should increase my payment by 1% to \$1,010 and apply that amount toward my \$2,000 tax bill. I would owe \$990 in remaining 2016 taxes.

Do discounts apply to discovery bills?

Yes. Regardless of the tax years included on a discovery bill, that bill is considered part of the tax levy for the fiscal year that opens in the calendar year in which the discovery is made. For example, a discovery made in June 2016 would be considered a tax for the 2016-2017 fiscal year. That means the same discount and interest deadlines that apply to "regular" 2016 taxes should also apply to 2016 discovery bills.

The discount should apply to the entire amount of a discovery bill, including any discovery penalties on that bill. Penalties are subject to discounts because discounts apply to all taxes, and G.S. 105-273(15) defines the term "taxes" as used in the Machinery Act to include principal taxes plus all "costs, penalties and interest."

If a discovery bill is issued on or after September 1 but prior to January 1, the taxpayer will not have the opportunity to benefit from the discount.

For example, assume Billy Blue Devil receives a discovery bill from Carolina County for his boat in August 2016 and that Carolina County offers a 1% discount on taxes paid prior to September 1. If Billy pays some or all of that discovery bill on or before August 31, then he should benefit from the discount just as he would if he were paying a "regular" 2016 tax bill.

But if Billy receives that discovery bill in September 2016, the discovery window for 2016 will have already closed. He cannot receive a discount for this discovery bill.

Links

- www.ncga.state.nc.us/gascripts/statutes/statutelookup.pl?statute=105-360
- canons.sog.unc.edu/advertising-tax-liens/
- canons.sog.unc.edu/new-rules-for-small-overpayments-of-property-taxes/
- www.ncga.state.nc.us/gascripts/statutes/statutelookup.pl?statute=105-273