UNDERSTANDING **SUPPLEMENTAL PROPERTY TAXES**

California law enacted under Proposition 13 which requires the county tax assessor to adjust the taxable value of a property when the ownership of the property changes or when the property undergoes new construction. The supplemental assessment represents the difference between the current value and the value which is established at the time of sale or upon completion of new construction.

As an example: On the current tax roll, a property has a value of $200,000.00. The property sells for $250,000.00. A supplemental assessment is levied for $50,000.00, bringing the tax rate in line with the current market value.

New construction on a property can also trigger a reassessment of the value. Examples of new construction might include room additions, pools, spas, and patio covers. Normal maintenance and repairs such as a new roof or garage door will not increase the taxable value.

Each change of ownership or completion of construction generates a separate supplemental assessment which becomes a lien on the real property. Events that occur between January 1 and May 31 result in two supplemental bills:

- The first bill is for the balance of the current fiscal year
- The second bill is for all of the upcoming fiscal year

How are supplemental taxes handled in an escrow?

Any unpaid supplemental tax bills which are reported to the Escrow Holder during the escrow period are charged to the Seller at close of escrow. The buyer and seller may instruct the escrow holder to prorate the taxes, including the supplemental amounts, at the time of settlement.

The parties may receive supplemental tax bills after the escrow has closed. These bills are handled directly between the buyer and seller. Questions which arise after closing concerning supplemental taxes can be directed to your accountant, attorney, or the tax assessor's office.

UNDERSTANDING **PROPERTY TAX PRORATIONS**

PRORATIONS DEFINED

The purpose of a proration in a sale escrow is to fairly divide property expenses such as taxes and association dues between the Seller and Buyer so that each party is paying only for those days which he actually owns the property.

TAX YEAR

The tax year runs from July 1 of any year to July 1 of the following year. It does not follow the standard calendar year. For example, a tax year might be described as the 2006-2007 tax year, meaning the time period from July 1, 2015 to July 1, 2016.

The tax year is divided into two (2) installments.

- The 1st installment is the time period between July 1 and January 1. The tax payment is due November 1 and delinquent after December 10.
- The 2nd installment is the time period between January 1 and July 1. The tax payment is due February 1 and delinquent after April 10.

Jul	Aug	Sep	Oct	**Nov 1**	Dec
				DUE	

1st Installment – July 1 to January 1

Jan	**Feb 1**	Mar	April	May	Jun
	DUE				

2nd Installment – January 1 to July 1

How is the tax proration figured?

The first step is to determine the date to which the taxes are paid.

- If the Seller (or escrow holder) pays (or paid) the 1st half, then taxes are paid to January 1.
- If the Seller (or escrow holder) pays (or paid) the 2nd half, then taxes are paid to July 1.

If the Seller's last tax payment covered a time period beyond the close of escrow, the proration is made from the close of escrow to the date to which the taxes are paid. The proration is a credit to the Seller and a charge to the Buyer.

Example: Close of escrow is November 22, 2006.

- Seller pays the 1st installment of taxes which brings the taxes current to January 1, 2007
- Seller is credited and Buyer is debited from November 22, 2006 to January 1, 2007. This reimburses the Seller for the days within that tax period that he no longer owns the property.

If the escrow closes before the tax due date arrives for a particular tax period, the proration is made from the first day of the installment to the close of escrow. The proration is a charge to the Seller and credit to the Buyer.

Example: Close of escrow is January 15, 2007.

- Seller has NOT paid the 2nd installment.
- Seller is debited and Buyer is credited from January 1, 2007 to January 15, 2007.
- This proration reimburses the Buyer for the days that the Seller owned the property within that tax period.
- Buyer is responsible for payment of the 2nd installment which is due February 1. If the Buyer is obtaining new financing, the lender is likely to require that the Buyer pay this tax bill through escrow.

Who pays what?

- At closing, if the Seller has not yet made a payment which is due, the Seller is charged with the amount of the installment.
- If the lender in the transaction requires that a future tax payment be made, this payment is a charge to the account of the Buyer. The Seller is only responsible for making tax payments that come due during the time period that the Seller owns the property.
- On the day of closing, the Buyer is the owner of the property, and the Buyer is responsible for tax bills that come due on or after that date.