

Property Taxes

Property owners are obligated to pay city, county, and state ad valorem taxes. Nonpayment of such taxes will result in a lien on the property. The county tax assessor periodically determines the value of the property. Depending on the city, county or state in which the property is situated, there may be exemptions for which the property owner can apply which reduce the tax bill.

At closing, the seller is responsible for paying delinquent property taxes for previous years. Taxes for the current year are prorated between the buyer and seller on the settlement statement. Generally, the lender requires the closing or settlement agent to establish an escrow account to pay taxes for future years.

In calculating taxes for closing, the settlement agent will base prorations upon the current year's tax bill. If the tax bill for the current year has not been issued, the proration of taxes will typically be based upon the previous year's tax bill. The formula or proration calculation method is defined by the purchase agreement. While there are slight differences, each method does take into account the amount of time both the buyer and seller each possess the property.

In closings involving new construction, the current tax bill may be dramatically less than future tax bills are expected to be. This happens because the most recent tax assessment was likely based on unimproved property. The tax assessor will eventually reassess the property and base taxes on the improvements. In such cases, the closing or settlement agent will use the current lower tax bill for prorations between the buyer and seller, and then will use an estimated future tax amount to establish the tax and insurance escrow account.