

Tax Proration

Everything you need to know
about one of the key closing
costs in your home purchase.



What is **tax proration**?

Let's get into it.

Property tax is a monthly tax paid on an owned property, calculated and enforced by the local government. It's a necessary and sometimes tricky cost of homeownership.

In most cases, a buyer will purchase a home and move in on a date within a property tax billing cycle. The responsibility of who pays what portion of the property tax is known as **property tax proration**.



TAX PRORATION

Tax proration is when
**property taxes are fairly
divided between buyer
and seller** based on date of
ownership transfer or closing.

Who's responsible for paying how much?

Typically, it's a split bill.

Proration helps break things down fairly, and is usually completed as part of the closing process.

In most cases, the seller would pay for the period of time they owned the property by issuing a credit to the buyer. The buyer would be responsible for the rest of the year. This helps offset the home's overall cost and allows the buyers to afford the upcoming property tax bill.



Playing out proration.

To help you understand the process.

Recently retired Ronald and Rita sold their home to Henry and Holly Homebuyer for **\$350,000**. The city's annual property tax rate is **2%**.

Ronald and Rita owned the home until November 17th, when they're scheduled to close. That means they will have owned the home for **322 days** out of the year, while Henry and Holly will own the home for the remaining **43 days**.

Come closing time, the title company and/or settlement agent team used the following formulas to determine the daily tax rate and as well as how much each party is responsible for paying.

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PLAYING OUT PRORATION

$$\text{Property Tax Rate} \div \text{Number of Days in the Year} = \text{Daily Rate \%}$$
$$\text{Property Value} \times \text{Daily Rate \%} \times \text{Days of Homeownership} = \text{Tax Share Responsibility}$$

Daily Rate: .00005479%

Tax Share Responsibility: \$6,175.96 (Ronald & Rita), \$824.74 (Henry & Holly)

The Result: Ronald and Rita agreed to credit the buyers \$6,175.96 to offset the property tax and help Henry and Holly close on their dream home.

***Disclaimer:** This is not a real scenario. It assumes the home value is the same as the home price, which may vary with your situation. Consult your team for a more detailed explanation.*



Tax Proration Pro-Tips

Things to consider before you close.




TAX PRORATION PRO-TIPS

- Motivated buyers might offer to pay the seller's portion of property taxes to help expedite a sale or get a leg up on competing buyers.
- Motivated sellers might offer to pay the buyer's share of taxes in exchange for the coverage of other closing costs.
- Tax exemptions for age and disability may impact the buyer or seller's tax responsibility, so communicate with your team to determine potential tax implications.
- Property taxes vary by state and city, so your specific situation won't look like someone else's. We'll be able to break down specific closing costs in detail for you.
- Pay special attention to tax proration for new builds and rehabilitation projects, as they'll be reassessed upon completion to determine current tax values.
- If both parties can't agree upon or aren't certain of how much the property tax will be, the seller might place funds into an escrow account to be released as a credit when the bill is received.

Take on taxes with confidence.

A few things to keep in mind.

Consider the following to ensure you're taking advantage of every **money-saving opportunity** available to you.

Mortgage Interest	Discount Points	Property Taxes
		
Homeowners may be able to write off interest paid on their home loans. The exact amount depends on the loan amount and your purchase date, but it could help offset your annual tax bill and may even lead to a little extra cash back.	Points are prepaid interest on your mortgage. When you get your home loan, you'll have the option of purchasing points in exchange for a lower interest rate. One point equals one percent, and these points can be written off as itemized deductions come tax time.	After figuring out the initial prorated tax amount, you'll be responsible for state and local property taxes in the following years. If you file as an individual, you can deduct up to \$5,000 in property taxes. Filing with a spouse? Double that figure and enjoy a \$10,000 deduction.



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