# MEDIA RELEASE

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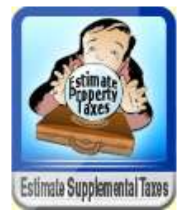
Assessor unveils new on-line tool for prospective and new home owners

# Estimating "Supplemental" Assessments, Property Taxes




Santa Clara County Assessor Larry Stone today announced the introduction of the on-line Supplemental Tax Estimator, which can be accessed at www.sccassessor.org/ste or on the Assessor's website by clicking on the graphic displayed under highlights (pictured to the right). The tax estimator is designed to help new and prospective homeowners reduce confusion concerning the amount of property taxes they can expect to pay following their purchase. "It's very frustrating. You buy a home, think your property taxes were taken care of during escrow or as part of the monthly mortgage payments, only to receive a supplemental assessment followed by a supplemental tax bill," said Stone. "The first call they make is to our office. I am hopeful this new tool will help taxpayers estimate their supplemental taxes, before they complete the purchase transaction, and help them to prepare for the resultant supplemental tax bill before it arrives in the mail."

Although supplemental assessments have been part of California property tax law since 1983, new buyers often overlook the financial impact that generally falls within their first year of ownership. In addition, estimating the supplemental assessment amount and resultant supplemental tax is confusing and perhaps even mystifying. It requires knowledge of the property's market value as of the date of acquisition (usually the purchase price), knowledge of the assessed value based upon the seller's assessed value, and the number of months remaining in the fiscal year. The new supplemental estimator is intended to demystify and simplify the process for new homeowners.

Supplemental assessments and taxes are in addition to the annual assessments and property taxes which are generally prorated during escrow, so that the seller and buyer each pay the portion of taxes attributed to their period of ownership. However, the proration is based on the assessed value prior to the purchase transaction. The supplemental assessment is based on the difference between the prior assessed value and the new assessed value. This value is multiplied by the tax rate and the resultant tax is prorated for the number of months remaining in the fiscal year from the date of acquisition by the new owner. The result is that between the regular tax bill prorated in escrow, and the supplemental tax bill, the new owner will pay property taxes based upon the value of the property as of their date of purchase.

Realtors typically provide prospective homeowners with an estimate of their taxes for future years by multiplying the purchase price by an estimated tax rate. However these estimates usually don't reflect the new property owner's responsibility for the supplemental assessment that will result from their purchase. The new supplemental estimator will help both realtors and prospective homeowners. The new estimator enables a taxpayer to calculate their estimated taxes based upon their anticipated purchase price and month of acquisition. In addition, it shows the mathematics assisting taxpayers to better understand how supplemental assessments and taxes are calculated by the Assessor and the Tax Collector. It is important to note that this is only an estimate. The property owner must wait for the supplemental tax bill and pay the actual taxes by the due dates.

The Assessor and Tax Collector recognize that receiving the Notice of Supplemental Assessment and the supplemental tax bill often come as an unanticipated surprise. While the Assessor's office is required by law to administer the property tax system in this manner, including the possibility of delivering multiple supplemental notices, we are working continuously to expedite delivery of the supplemental notices and educate real estate professionals about the process. Due to the record number of home foreclosures, distressed sales, efforts to limit the outstanding backlog have been severely limited.

**Why are there supplemental assessments?**

Supplemental assessments were created in 1983 to close what was perceived as loopholes and inequities in Proposition 13. Prior to the creation of supplemental assessments, changes in assessed value due to a change in ownership or completion of new construction would not result in higher taxes until the tax year (July 1 to June 30), following the lien date when the new values were placed on the assessment roll. In some instances, taxes on the new assessments would not be collected for up to 21 months. This resulted in serious differences in tax treatment for transactions that may have only been separated by one day. For example, two houses closed escrow, one the day before the annual lien date and the other the day after; the value increase for each change in ownership was $500,000. The buyer who purchased the day before the lien date would pay taxes on the entire purchase price with the first installment of taxes no later than December 10 that year. The buyer who purchased the day after the lien date would not see the increase in taxes until the tax bill due in December of the following year. If both properties are owned for the same period of time, the buyer who bought a single day before the lien date would pay about $5,000 more in taxes than the other property owner due only to the differences in the initial transaction date.

**Adjusting for time**

With the implementation of supplemental assessments, the increase or decrease in assessed value is taxed from the first of the month following the date of completion of new construction or the change in ownership. That date is referred to as the event date.

An event date between January 1 and May 31 results in two supplemental Assessments and tax bills. The first supplemental assessment bill is from the first of the month following the event date for the remainder of the fiscal year. The second supplemental bill is for the subsequent fiscal year, beginning July 1 after the event date. If the event date is between June 1 and December 31, there will be only one supplemental assessment in effect for the remainder of that fiscal year.

The amount of the supplemental assessment is the increase or decrease in value as of the event date compared to the value that was previously assessed. Supplemental taxes are prorated based on the number of months remaining in the fiscal year, ending June 30. If the new assessment is lower than the prior assessed value a property tax refund results, rather than additional taxes.

**Owners who have acquired property should be prepared for the following financial responsibilities:**

Supplemental event dates between June 1 & December 31

1. The portion of the annual tax bill for that fiscal year based upon the assessed value prior to the event, usually pro-rated and paid through escrow.
2. The supplemental tax bill for the difference in value between the new and prior assessed values; taxes are prorated for remainder of the fiscal year. This is not generally pro-rated in escrow, nor is it typically paid through an impound account.
3. The annual tax bill for the upcoming fiscal year, reflecting the new assessed value.

Supplemental event dates between January 1 and May 31

1. The portion of the annual tax bill for that fiscal year based upon the assessed value prior to the event, usually pro-rated and paid through escrow.
2. The first supplemental tax bill for the difference in value between the new and prior assessed values; taxes are prorated for the remainder of the fiscal year. This is not generally pro-rated in escrow, nor is it typically paid through an impound account.
3. The annual tax bill for the full fiscal year (July 1 – June 30) following the date of the event based upon the assessed value prior to the event. This is not generally paid through escrow and may or may not be paid through an impound account.
4. The second supplemental tax bill for the difference in value between the new value and the assessed value shown on the tax bill referenced immediately above This is not generally pro-rated in escrow, nor is it typically paid through an impound account.

**An estimate, not the final supplemental tax**

The Assessor has developed the on-line tool to provide an estimate of the amount of supplemental taxes a homeowner can expect to pay if they have recently purchased a property. The estimator is intended for changes in ownership only and NOT for new construction.

**Taxpayers must not use the estimate to pay the supplemental tax bill, instead they must use only the amount provided in the supplemental tax bill.**

Information for the estimate is calculated using the most current tax rate and assessment roll information available. In many instances, calculations will be based on prior year information. For example, calculations between January and May will be based upon tax rates from the prior August and assessment information from the prior July. For these and other reasons the calculations provided are only an estimate.

**When the supplemental estimator will not work.**

There are a number of situations in which the supplemental tax estimator will not be able to produce a reliable estimate. The most common are:

- More than one change in ownership has occurred in a calendar year.
- A change in ownership and new construction have both occurred in a calendar year.
- Partial interest transfers, where less than 100% of the property has changed ownership.
- Some new housing tracts or condominium subdivisions in which the map recording and change in ownership has occurred in the same calendar year.

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