

Supplemental TAXES*



Sellers and their agents are required to provide prospective Buyers with a Supplemental Property Tax Bill Notice.

This notice requirement is completely different from the Mello-Roos and Special Assessment disclosure requirements. The legislature was very clear that the notice was meant to be just that – a notice that the Buyer will be receiving a supplemental property tax bill. When ownership changes, the respective County Assessor is required to revalue the property pursuant to the California Supplemental Tax law passed in 1983 to provide greater revenue for California schools. It arose as a result of provisions of Proposition 13, passed in 1978, that often created great increases in the assessed values of properties when they changed ownership, yet the tax due on these greater values could not be collected for as many as 15 months.

The reason this notice is important to Buyers is because the supplemental tax bill is sent to the BUYER ONLY, and not the Lender. If the Buyer has arranged for the property tax payments to be impounded, where they are collected and paid by the Lender, these tax bills are not normally included in the impound account and may not be paid by the Lender. The Buyer will have to come up with the money to pay the supplemental tax. If you have an impound account, check with your Lender about whether supplemental taxes can be added to your impound account payments.

Further, with this new notice, the Seller is not required to provide an estimated calculation of what the property tax may be or will be upon the close of escrow.

What are Supplemental Tax Bills?

Prior to the passage of SB 813 (Section 75 et seq. the Revenue and Taxation Code) Statutes of 1983 and as a result of the passage of Article XIII of the State Constitution (Proposition 13), County Assessors rolled back assessments to 1975 levels and could only thereafter be adjusted upward by a maximum 2 percent annual inflation factor as long as the property remained in the same ownership and there was no new construction.

When a change of ownership or new construction did occur, the property would be reappraised to its current full market value, but was not effective until the tax year following the change. This meant that a property that changed ownership after the then-in-effect March 1 lien date of the current tax year could escape reappraisal until the following year. The property would not be subject to higher taxes until the next July 1, following reappraisal.

With the enactment of SB 813, the Assessor is now able to assess property as a result of a change of ownership or new construction at any time during the tax year and issue a Supplemental Tax bill to the owner reflecting the new values and the additional taxes that resulted from the new value.

Since the tax bills are issued based on California's fiscal year that begins July 1, and property taxes are currently issued based on the ownership or condition as of the preceding January 1, it is possible the Assessors will have to adjust the taxes for two fiscal years as a result of a change occurring after January 1 of any year. There would be one for the portion of the fiscal year that began the prior July 1 and one for the fiscal year that will begin the next July 1.

In determining the increase in taxes, the following factors are taken into consideration:

- ▶ What was the value prior to the change of title or completion of improvements?
- ▶ What is the new value?
- ▶ What is the tax rate in effect at the time of the change?
- ▶ How much of the fiscal year remains to the taxes being adjusted?

Consumers should speak with their County Assessor's Office for further inquiry about Supplemental Taxes.

**This flyer is provided as an example and for illustrative purposes only. It is not meant to be used as tax advice nor legal advice. Please consult with your attorney and/or tax specialist for further information.*