

REAL PROPERTY TAXES AT CLOSING

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Tax matters may appear on settlement statements in different ways. Three of these are “tax prorates,” “tax reserves,” and “tax holdbacks.”

TAX PRORATE – an adjustment of the current year’s tax bill between a Buyer and a Seller. If the Seller has paid the current year’s taxes, the Seller is compensated for taxes attributable to the period after closing. If the current year’s taxes are not paid, or cannot be paid, the Buyer is compensated for taxes attributable to the period before closing.

TAX RESERVE – a lender required deposit that the lender will use in the future to pay the next year’s property tax bill. Setting up tax reserves is an elective decision if the Buyer/borrower has at least 20% equity in the property or a 20% down payment.

TAX HOLDBACK – an amount an escrow agent holds to pay taxes when the new tax year has started but the tax amount is unknown and not yet payable. A tax holdback is also triggered by a lender’s requirement.

Tax reserves and holdbacks are affected by the timing of the tax bills. In Oregon, the tax year is July 1 through June 30. Taxes for the year become a lien on July 1, even though taxes are not payable until after the county in which the property is located has certified the new tax roll showing the new values and tax liability. The tax roll is typically certified in the first half of October with taxes due and payable by November 15.

For escrows closing in July, August, September or early October, the lender may require a holdback through the closing process to pay the new year’s tax bill. The escrow officer will hold in the escrow account an amount equal to or greater than the previous year’s tax bill. It is common practice to hold a greater amount, up to 125% of the previous amount, to cover any increase in the tax bill. After the tax rolls are certified, the escrow officer will pay the new tax bill and return any excess funds left in the escrow account to the borrower.

When the lender requires a tax reserve, the reserve often involves an initial deposit. This deposit and future monthly payments into the reserve will accumulate for payment of the next year’s tax bill. If a lender also requires a tax holdback, the holdback may eliminate the need for an initial deposit into a tax reserve; however, this may depend on when the first regular loan payment is due.

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PROPERTY TAX GLOSSARY

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One of the most confusing aspects of a real estate sale transaction is dealing with the property taxes. This glossary explains the different types of property tax charges you may experience with your transaction. This glossary applies to property taxes for all Oregon counties.

CURRENT TAXES TO BE PAID - The fiscal tax year begins July 1 and ends June 30. Taxes are “a lien, due but not yet payable” until the tax rolls are certified on or before October 15. Property taxes then become “a lien due and payable.”

Property taxes are due on or before November 15. If paid in full by that date, the homeowner qualifies for a 3% discount. Taxes may also be paid in three installments. There is a 2% discount if 2/3 of the taxes are paid on or before November 15. If a homeowner elects to pay in equal thirds, the payments are due on November 15, February 15, and May 15.

For transactions closing from July 1 through mid-October, the Seller will credit the Buyer with a pro-rated share of the taxes figured on the prior year's tax amount. The Buyer will pay the taxes when they are due. From mid-October through June 30, the Seller pays the taxes and the Buyer will reimburse for a portion of the taxes based on an agreed upon date, typically the date of closing or possession.

TAX RESERVES - If there is a new loan for a purchase, or refinance, the lender may collect tax reserves (sometimes referred to as impounds) as a part of the monthly payment. Each month the lender will collect 1/12 of the amount necessary to pay the taxes for the next year when they are due.

At the time of closing, the lender will calculate how many additional 12ths are necessary to insure there will be a full amount to pay the taxes when due. The Buyer is required to pay this amount at closing. A Buyer/Borrower should always check with a new lender about its property tax reserve requirements.

TAX SERVICE - Another charge that can be passed to the Buyer/Borrower is for tax service if required by his lender. In cases where the property tax bill is mailed to the Buyer/Borrower, not the lender, the lender may contract with a tax service company. The tax service company will obtain copies of the tax bill and send them to the appropriate lender, with a reference to the correct loan number, to assure that the taxes are paid in a timely fashion.

TAX PRORATES - The escrow agent determines what portion of the current year's property taxes the Seller and Buyer should pay. Depending on what time of the tax year the transaction closes, the Seller will either be credited with his unused portion if the taxes are already paid or debited for the time he had possession before the taxes were due and payable.

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OREGON PROPERTY TAX CALENDAR

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July

July 1 – new fiscal year begins. Tax year runs through next June 30. Taxes are a lien not yet due and payable.

August

Note: From July 1 through mid-October, the SELLER credits the BUYER with a prorated share of the taxes based on the previous year tax amount. BUYER is then responsible for paying the taxes when due.

September

Property tax rolls turn & are certified.

October

Tax bills are mailed by October 25.

November

Taxes due November 15. Pay in full for a 3% discount. Pay 2/3 for a 2% discount. First installment due if paying in thirds.

December

Happy Holidays!

January

Note: From mid-October through June 30, the SELLER pays the taxes and BUYER reimburses for a portion of the taxes

February

February 15 - second installment due.

March

Happy Spring!

April

April 15 last day to file for Homeowners, Veterans or Senior Citizen exemptions.

May

May 15 last installment due. The entire tax bill is considered delinquent if unpaid by this date. Three years of unpaid taxes are subject to tax foreclosure.

June

June 30 tax year ends.

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TAX RESERVE ACCOUNTS

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When a lender requires a tax reserve account, an initial deposit is made through the escrow closing. Afterwards, as monthly loan payments are made, each payment includes one-twelfth of the annual taxes. This money is placed in a reserve account.

When the property taxes are due, the reserve account will have accrued sufficient funds, with the initial deposit and the monthly payments, to cover the tax bill. The following chart illustrates how many months (or twelfths) of taxes must usually be placed in the reserve account through the escrow closing. It is always suggested to check with your lender for their exact reserve requirements.

| Closing date | First full monthly payment | Reserve Account |
|---------------------|---------------------------------------|------------------------|
| January | March | 6 months |
| February | April | 7 months |
| March | May | 8 months |
| April | June | 9 months |
| May | July | 10 months |
| June | August | 11 months |
| July | September | 12 months |
| August | October | 13 months |
| September | November | 14 months |
| October | December | 3 months |
| November | January | 4 months |
| December | February | 5 months |

When a tax reserve account is established, the lender customarily pays the taxes in November, on or before November 15, to take advantage of the 3% discount.

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