



CHICAGO BULL

(7-18-2019)

It's That Time of Year Again. The Property Tax Man Cometh!



QUESTION: Have you ever had an out of state or “smart” client (especially a seller) drill you or your paralegal about tax proration being on the lien (calendar) year versus the fiscal budget year of the city and county? Is this often because they called the tax office or, better yet, looked at an internet website which reflected that property taxes are assessed on the fiscal year? And they argue about this, notwithstanding G.S. 39-60.

ANSWER: Of course you have!!

WHAT DO YOU DO? Well, *now*, thanks to collaboration of a multitude of groups, spearheaded by the Real Estate Lawyers Association of North Carolina (or RELANC), and including the NC Bar Association Real Property Section, the NC Land Title Association, the North Carolina Association of Assessing Officers, and the North Carolina Tax Collectors Association, Inc., you can print on-line, email or even purchase glossy tri-fold brochures that outline at a very basic level the tax proration as historically contracted in this state. Go to <https://relanc.com/newsletters/> (link and order form) and <https://relanc.com/wp-content/uploads/2019/07/Tax-Proration-Brochure-2019.pdf> (the brochure).

Of course, a working familiarity with North Carolina General Statutes Chapter 105, Subchapter II, is crucial for the real property attorney and staff. North Carolina has a *lot* of special circumstances -- deferrals, exemptions, exclusions and special use valuations. All require special attention by the closing attorney in coordination with the local tax offices to assure the correct listing, valuation and recaptures are applied. And all are often misunderstood by sellers and buyers, both in how they apply and in the requisite process for compliance!

View this and more articles on our website at <https://www.northcarolina.ctic.com>



What are real property taxes?

Real property taxes (also known as “ad valorem” taxes) are imposed by municipalities and counties based on the assessed value of the real property as of January 1st and the tax rate the municipality and/or county sets by June 30. The real property taxes are the primary source of revenue for local governments in North Carolina.

Who will send me my real property tax bill?

Where you own property in North Carolina will determine which government entity sends out your property tax bill. If you own in the county but not in a municipality, then the county will send you your property tax bill. If you own in a municipality, you will receive either two property tax bills (one from your county and one from your municipality) or one bill from the county, which will include collection for both the county and the municipality.

When is my real property tax bill due?

When you receive your property tax bill, it will have a due date of September 1; however, you will not be subject to interest charges on the tax bill amount if your tax bill is paid or postmarked before January 6 of the next year (N.C.G.S. 105-360(a)). For example, your 2019 tax bill will have a due date of September 1, 2019 but will not be subject to interest charges if paid or postmarked before January 6, 2020.

THIS BROCHURE WAS PRODUCED AND SPONSORED BY THE FOLLOWING ORGANIZATIONS:



www.relanc.com



REAL PROPERTY SECTION

Need more information? For help with your additional tax questions, call your closing attorney or find one at www.relanc.com.



So, you bought a house and received your first real property tax bill? Or you are headed to closing to buy or sell your house? Ever wonder...

Why are Real Property Taxes Prorated on a Calendar Year Basis at Closing?

It's the law! The North Carolina legislature enacted a law that “unless otherwise provided by contract, property taxes on the real property being sold shall be prorated between the seller and buyer of the real property on a calendar year basis” (N.C.G.S. 39-60 with emphasis added).

It's contractual! The standard “Offer to Purchase and Contract” used by the majority of buyers and sellers of residential property follows the law and requires the real property taxes to be prorated on a calendar year basis at closing.

But doesn't the local government use a fiscal year?

Yes, the local government budget operates on a fiscal year (July 1 to June 30), but the tax lien on the real property and the tax billing and collection process operate on a calendar year (January 1 to December 31). Therefore, even though the property tax bill will not be created until the middle of the current year, it will relate back to January 1 of the current year.

DATE OF CLOSING

HOW TO PRORATE

WHO PAYS THE TAX BILL?

TIPS

Property Not Recently Improved

Closing between January 1 and the date the Tax bill is released

Prorate using the prior year's Tax bill as an estimate.

Seller credits Buyer at closing for Seller's estimated portion of the Tax bill.

Buyer or Buyer's escrow account will pay the entire Tax bill when it is created.

Tax bill sent to Seller (by law) who must share with Buyer.

If the Seller has an escrow account, then the Seller should notify their lender of the sale and provide instructions on where to mail the Seller's escrow balance.

Property Not Recently Improved

Closing between the date the Tax bill is created and December 31

Prorate based on current year's Tax bill.

If the Seller has already paid the Tax bill, then the Buyer credits the Seller at closing an amount equal to the Buyer's prorated portion of the bill.

If the Tax bill has not been paid, then either (1) the tax bill is prorated between the Seller and Buyer and paid at closing or (2) the Seller credits the Buyer at closing for the Seller's prorated portion of the Tax bill and the Buyer's escrow account is established to pay the tax bill by the end of the year.

If the Tax bill is paid twice, then the tax office will return the second payment to the entity that made the second payment.



Property Recently Improved

Closing between January 1 and the date the Tax bill is created

Prorate based on the parties' estimate of the value of the property as of January 1 and based on the prior year's property tax rate.

Seller credits Buyer at closing for Seller's estimated portion of the Tax bill.

Buyer or Buyer's escrow account will pay the entire Tax bill when it is created.

Tax bill sent to seller (by law) who must share with Buyer.

If the Seller has an escrow account, then the Seller should notify their lender of the sale and provide instructions on where to mail the Seller's escrow balance.

Buyer's lender should set up escrow based on estimate of improved property value and previous year's tax rate.

Buyer should notify tax department of recent improvements.



Property Recently Improved

Closing between the date the Tax bill is created and December 31

Prorate based on current year's Tax bill.

If the Seller has already paid the Tax bill, then the Buyer credits the Seller at closing an amount equal to the Buyer's prorated portion of the bill.

If the Tax bill has not been paid, then either (1) the tax bill is prorated between the Seller and Buyer and paid at closing or (2) the Seller credits the Buyer at closing for the Seller's prorated portion of the Tax bill and the Buyer's escrow account is established to pay the tax bill by the end of the year.

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