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Segregation of Property Taxes

Segregation is a word commonly used by the development industry to refer to what the Assessor calls a **'parcel change'.** A parcel change occurs when a property is divided by a new subdivision map, condominium plan or lot line adjustment. **Segregation** is the term the Assessor and Tax Collector uses to describe the separation of a single tax bill which then becomes prorated among individual owners. So the segregation is the separation of the tax amounts after the parcel change has occurred. Proration of taxes based on segregated tax bills is fairly easy and will be handled by escrow. It is the estimating and proration of unsegregated tax bills that is the subject of this section.

If the property taxes at the time of sale to your buyers are not segregated, as is almost always the case in condominium and condominium conversion developments, a plan must be in place to estimate with some accuracy what tax amount should be used for proration. If a future unsegregated bill is expected, a collection plan also needs to be in place to insure the timely payment of these taxes.

In addition to segregation, an increase in the assessed value due to a change in ownership and new construction can be under review with the Assessor during sales to individual buyers, causing a change in assessed value after bills have been issued and resulting in additional bills issued after sales. Therefore, it is important to understand what triggers reassessment and what triggers segregation. Both come into play in properly planning for your tax prorations and possible tax collection.

A segregation is triggered by the recording of a tract map, parcel map, condominium plan or lot line adjustment. A map, plan or lot line adjustment in a new subdivision that records prior to December 31st will cause the segregation by the following tax year.

A **reassessment** is triggered by a change in value based on a transfer of ownership or new construction. If the reassessment is based on a transfer of ownership, a Supplemental Tax Bill will be issued to reflect the increase from the time of sale to the end of the tax year. If the reassessment is based on new construction, the value will be the construction value as of January 1st or as of the recording date on a Notice of Completion (for non-exempt developments).

If your project is a standard subdivision or planned development which required the recording of your tract map prior to commencement of construction, chances are the property taxes will be segregated prior to your sales. Your concern will be whether the segregated tax bills reflect the value of a vacant lot or a complete or partially complete home.

The Assessor no longer requires the filing of a Builder's Exclusion/ConEx form to exempt you from the issuance of a Supplemental Tax Bill generated by a Notice of Completion on new construction, with the exception of

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condominium conversions, commercial condominiums and condominiums of four units or less. However, you can still be subject to an Escaped Assessment, Adjusted Tax Bill or an Unsecured Tax Bill that reflects the increase in value of new construction as of January 1st.

These bills usually arrive after you have sold your homes or units. If the taxes are segregated and you have sold the home, the bill should be already prorated for that portion of the year in which you were the owner. If the taxes are not segregated, you need to have anticipated this and collected an adequate proration from your buyer.

Estimating future unsegregated taxes:

- When estimating based on a change in ownership by the developer after January 1st, 1.25% of the sales price is the standard suggested by escrow companies and the Department of Real Estate. If you are aware of any special assessment districts of Mello-Roos assessments, you will want to take those into account as they will probably make the tax rate higher than 1.25%. This situation occurs when a developer sells the entire project either right before the map records or near the time of sale-outs and the Assessor has not had time to issue the new developer's Supplemental Bill.

- When estimating a bill based on the status of construction as of January 1st, you will want to determine the value of the completed building based on the cost of construction times the percentage of completion as of January 1st. This would then be added to the soft cost and land value for a total estimate. If you are reviewing a new bill that has no building value or still reflects the value of the improvements you demolished, you may wish to discuss the method with the Assessor. By October, the Assessor should already be working on the adjusted valuation. The address and phone number for the Assessor's Regional Office for your project will be reflected on the bill.

- 1.25% of the buyer's purchase price can also be used. The buyer is charged and the developer credited. In this case, the developer has an agreement with the buyer through escrow that they will pay both the unsegregated bill and the buyer's new Supplemental Bill that will be issued as a result of the sale.

- It will be up to you to let your escrow know if you will be providing an estimate for the proration of taxes. You should also make sure that they plan to prorate based on a full year. The Assessor will not segregate a half or partial year. The exception to this is condominium projects of four units or less that have applied for assistance in segregating the bill.

- Once the tax estimate is determined, unless you will be using 1.25% of the buyer's purchase price, it is customary to divide the estimate equally to determine a per unit amount. Again, this amount is prorated for the entire tax year. If your closing is occurring between January 1st and June 30th, the buyer will be charged that entire estimate amount in addition to a proration of the current taxes. If your closing is between July 1st and October 1st, the buyer's amount will be prorated from their close of escrow through June 30th of the following year.

- The tax estimate amount can either be held by the developer, the homeowner's association management company, or a tax hold account can be set up with Corinthian Title. Discuss with your Corinthian Title Sales Representative whether a tax hold account would be advantageous for your project.