



# UNDERSTANDING PRORATION TAXES

The purpose of Tax Proration in a sale escrow is to fairly divide property expenditures, such as taxes, between the Seller and Buyer so that **each party is paying only for those days which they actually own the property.**

The tax year runs from July 1<sup>st</sup> of any year to July 1<sup>st</sup> of the following year. It does not follow the standard calendar year. For Example, a tax year might be described as the 2021-2022 tax year, meaning the time period from July 1<sup>st</sup>, 2021, to July 1<sup>st</sup>, 2022.

## The tax year is divided into two installments:

- The 1<sup>st</sup> Tax Installment is the time period between July 1<sup>st</sup> and January 1<sup>st</sup>. The tax payment is due November 1<sup>st</sup> and is delinquent after December 10<sup>th</sup>.
- The 2<sup>nd</sup> Tax Installment is the time period between January 1<sup>st</sup> and July 1<sup>st</sup>. The tax payment is due February 1<sup>st</sup> and delinquent after April 10<sup>th</sup>.

At closing, if the seller has not yet made a payment which is due, the Seller is charged with the amount of the installment. If the lender in the transaction requires that a future tax payment be made, this payment is a charge to the account of the Buyer. The Seller is only responsible for making tax payments that come due during the time period that the Seller owns the property. On the day of closing, the Buyer is the owner of the property, and the Buyer is responsible for tax bills that come due on or after the date.

## Tax Proration Chart

Month of closing	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Month of first payment	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
If first payment is due in given month, reserves for buyer are as follows	7 Months	8 Months	3 Months	4 Months	5 Months	6 Months	7 Months	8 Months	9 Months	10 Months	5 Months	6 Months
Amount of taxes to prorate between buyer and seller:	Buyer pays 5 months plus # of days in Jan	Buyer pays 4 months plus # of days in Feb	Buyer pays 3 months plus # of days in March	Buyer pays 2 months plus # of days in April	Buyer pays 1 months plus # of days in May	Buyer pays # of days in possession for June	Seller pays # of days in possession for July	Seller pays # of days from July 1 to present	Seller pays # of days from July 1 to present	Seller pays # of days from July 1 to present	If not paid yet, seller pays days from July 1 to present	Buyer pays 6 months plus # of days in December

Contact us with any questions: