PROPERTY TAX BILLINGS

Proration is a concept necessary in the transfer of real estate in Ohio, because real estate taxes are paid “in arrears.” In other words, the bills that were sent out in January, 2014 were actually for the tax period January, 2013 through June, 2013 taxes, and the bills that come out in June, 2014, will be for the tax period July, 2013 through December, 2013 taxes. Real estate property taxes are actually billed and assessed one year in arrears. Ohio real estate taxes may be paid in two, semi annual installments.

Because of the payment in arrears phenomenon, the taxpayer is, in effect, paying taxes based on a non-current valuation of their property. Nonetheless, most real estate contracts contain a clause to the effect that “real estate taxes and assessments shall be prorated based on the latest available tax duplicate”.

For the buyer, it's very important to know how the sellers tax bill is reconciled at settlement. Depending upon your contract terms and the month that you close, the current tax duplicate that is billed and due and payable at the time of closing, whether it be for the first half taxes for the prior year or the second half taxes for the prior year, will be paid through closing, and the remaining taxes that will be billed and owed by the seller in the future will be prorated through the closing date. The escrow officer may NOT actually pay the county treasurer's office directly as many buyer's would think, unless the tax bill is then currently due and payable at the time of the closing. The county treasurer will not accept any payment of taxes for future billings other than those shown on a current tax duplicate. The escrow officer will calculate the taxes the seller owes based on the current tax duplicate. He will then deduct the seller's tax amount owed from the seller's proceeds of the sale and credit the buyer this same amount. This transaction will clearly be shown on the HUD-1 statement given to both the buyer and seller at closing. The HUD-1 statement outlines by whom, or to whom, every penny in the transaction is paid or earned.

After the buyer takes possession of the property he will receive his first property tax statement, and depending upon when the closing took place the bill would be received around January or June. That statement will cover the prior year taxes. Because as a buyer you did not own the house for the time the tax valuation is figured. you may think a mistake has been made and assert, "The seller should already have paid these taxes!" He did pay them. He paid you. You were credited the taxes owed for this period at closing. You, the new owner, must now pay this bill when it actually comes due. Because many buyers don't have a clear understanding of the procedure, they are caught short of funds. Make sure your closing agent explains in detail how property taxes are handled, and what your responsibilities are.

If your taxes are included in your monthly mortgage payments, your lender will collect a 1/12 of your annual real estate tax amount with your monthly payment and put it an escrow account sometimes called an escrow reserve account or impound account. The actual tax bill should go to and is paid by the lender. If you get a tax bill and your paying your lender the taxes in an impound account, be sure that you send the tax bill to your lender. In our area the treasurer only sends out one tax bill, so that would mean that your lender did not receive the tax bill to pay. The homeowner will receive an annual summary statement from the lender. This can be used to claim your property tax deduction if you itemize your federal tax return.