California Tax Information
Reference Guide

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Introduction

Because buying and selling a home requires so much information and planning, we've created this guide to help you better understand California property taxes. It covers:

- Property Tax Overview
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- Understanding Propositions

Any time Stewart Title of California, Inc. is handling your title or escrow, annual real estate property taxes are pro-rated through closing and paid current through the transaction.

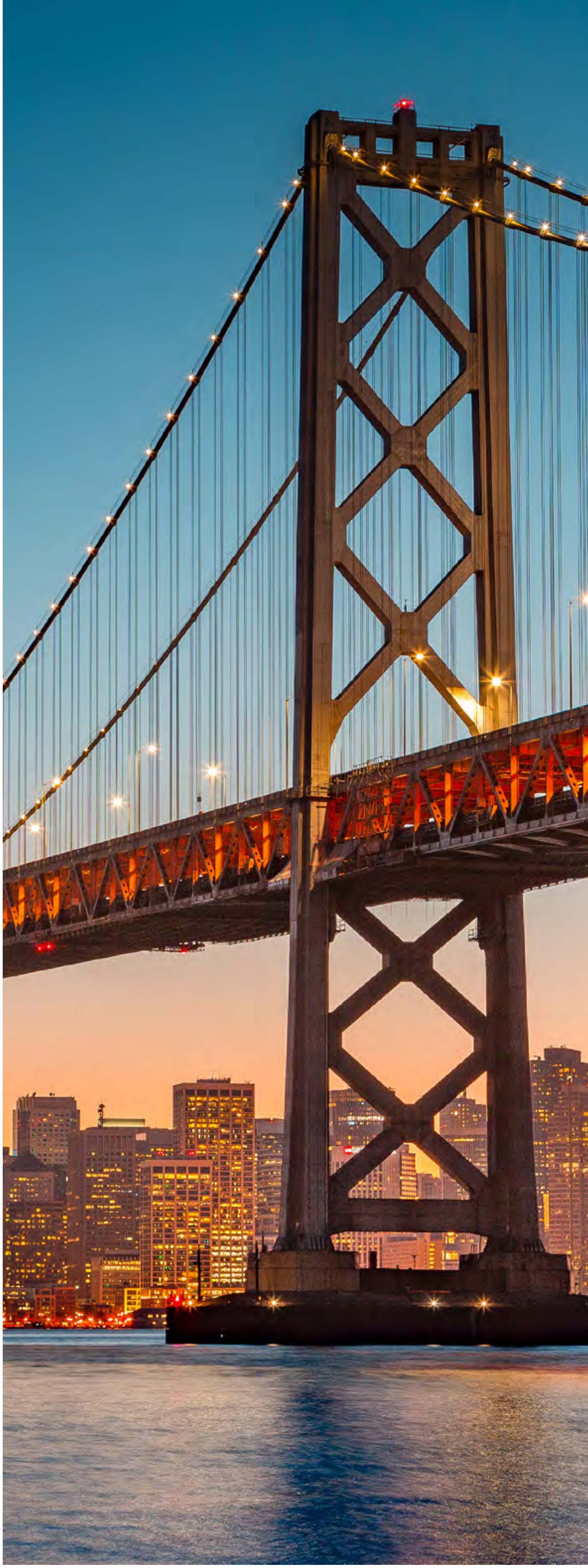
Property Tax Overview

Property tax defined
Local governments, usually at the county level, administer property taxes. Tax rates vary from county to county and are based on a predetermined percentage of the assessed value of your property. Property taxes are paid in two installments each year.

Property tax payments
Whether property taxes are to be paid at closing depends on when escrow closes. If escrow closes near the time a tax payment is due, proof of that payment from the seller will be required.

The lender's instructions will advise whether the buyer is to pay property taxes monthly through the loan payment and an impound account, or directly when due.

Supplemental tax
Typically, when there is a change of ownership, a supplemental tax assessment occurs. Most property taxes are based on the assessed value of a home at the time of purchase. The supplemental tax bill is sent to the mailing address of record. The supplemental tax payment is the responsibility of the new homeowner, who should provide proof of payment to the lender.



Understanding California's Supplemental Property Tax

When you purchase or build a home, you may receive a supplemental property tax bill from your county's tax assessor. That's because your home's assessed value most likely will have changed since the previous owner purchased it or since new construction began. In either case, a new assessed value may lead to a change in the amount of tax you owe.

How does this tax affect me?
The supplemental property tax only affects you if you buy property or start new construction on a home. In either case, you will be required to pay a supplemental property tax that will become a lien against your property. As we'll see, the date of the ownership change or of completion of new construction is a factor in the tax amount.

How can I lower my tax assessment?
If applicable, you can apply for homeowner's exception as soon as you buy the property or complete the construction.

How does the county bill me?
There isn't one answer to this one. A lot depends on the county where the property is located and how busy the assessor, controller and tax collector are. The assessor can bill you anytime from a few weeks to more than six months from the date of purchase or the completion of new construction.

Here's what to expect, generally:

1. The assessor will appraise your property and let you know what the new assessment is.
2. The county will calculate your supplemental tax amount.
3. The tax collector will mail you a supplemental tax bill and important payment dates.

See the chart and example that follow for specific details and information about pro-rating.

Can I spread out payments?
If making two payments counts as spreading out, yes. The first payment is due on the date the bill is mailed and is delinquent based on that date. The structure is based on July 1 being the first day of the tax year. Here's how that breaks out:

- First payments for bills mailed between July and October become delinquent on December 10 of the same year. Second payments for these bills are delinquent on April 10 of the following year.
- First payments for bills mailed between November and June become delinquent on the last day of the month following the month the bill is mailed. Second payments become delinquent on the last day of the fourth calendar month following the date the first installment is delinquent.

Can I appeal the new assessment?
Yes. If you're unhappy with the assessment, discuss your concerns with the assessor, who should provide details on how to appeal. If applicable, you should consider applying for a homeowner's exemption when you receive the county's appraisal information of the property. If you already applied for a homeowner's exemption (see How can I lower my tax assessment? above), verify that it's included when you review the new appraisal.

How does the assessor determine the amount of my bill?
The assessor uses a formula to determine your tax bill. In general, it's based on the new assessed value minus the prior one, minus any exemptions that may be allowed. As with all voter-approved bonded debt, the supplemental property tax rate is 1% plus recapture.

Understanding California's Supplemental Property Tax

Does it matter when I purchased or built my home?
Yes. Since the supplemental tax becomes effective on the first day of the month following the month when the change of ownership or completion of new construction occurred, your tax may be prorated based on your timing. An effective date of July 1 provides the only exception. Since July 1 is the first day of the new tax year, there won't be a supplemental assessment on the current tax roll; the entire supplemental assessment will be made to the tax roll being prepared, so it will reflect the full cash value. When the effective date is not July 1, these proration factors are used to compute the supplemental assessment on the current tax roll.

Effective Date	Proration Factor %	Effective Date	Proration Factor %
August 1	.92	February 1	.42
September 1	.83	March 1	.33
October 1	.75	April 1	.25
November 1	.67	May 1	.17
December 1	.58	June 1	.08
January 1	.50		

Can you give me an example?
Let's say you complete new construction of your home on September 15, making the effective supplemental property tax date October 1. The county auditor finds that the supplemental property taxes would be $1,000 for a full year. Referring to the proration chart above, the supplemental property taxes would be subject to a .75 proration factor. Your supplemental tax would be $750.

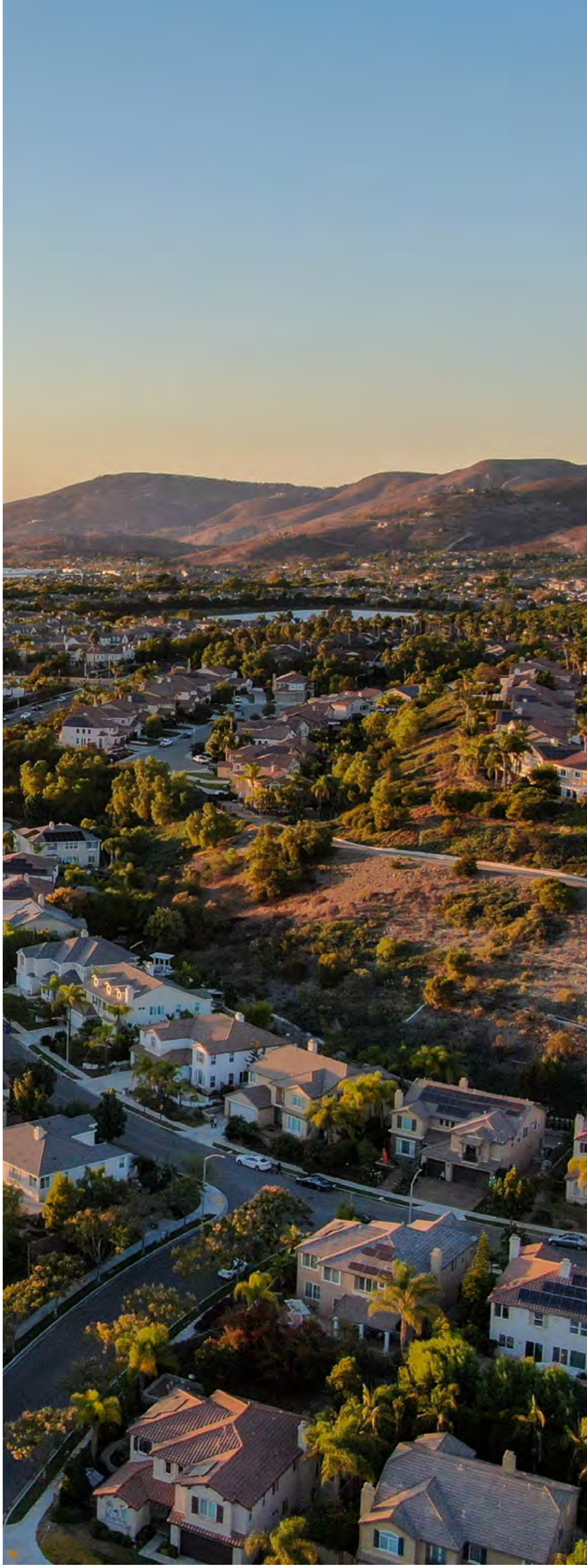
Can these taxes be prorated in escrow?
No, unlike your ordinary annual taxes, the supplemental tax is a one-time tax which dates from the date you take ownership of your property or complete the construction until the end of the tax year on June 30. The obligation for this tax is entirely that of the property owner and is handled wholly outside of escrow.

Supplemental tax proration factor chart content reprinted with permission from the California Land Title Association (February 2020).

Source: Legislative Analyst's Office (www.lao.ca.gov/reports/2012/tax/property-tax-primer-112912.aspx), California State Board of Equalization (https://www.boe.ca.gov/proptaxes/prop60-90_55over.htm)

The information and dates provided are for informational purposes and are subject to change without notice. Stewart Title has no information and cannot assist with anything related to supplemental taxes.

Seek legal, tax or other professional advice before relying upon this information.



The Tax and Insurance Impound Schedule

A tax and insurance impound account is an account that can be set up with your new home loan through the lender. This will pay your property taxes and/or insurance when they're due. The account may be optional or required by the lender. When the tax and insurance impound account is first set up, a deposit of two to six months of property taxes and, generally, two to three months of insurance is placed into the account. This is known as the impound deposit. Once the loan has been paid in full, the lender should forward the balance of the impound account to the owner within 30 days.

First installment – July 1 through December 31
Add two months for standard loans

July	August	Sepember	October	November	December
July 1 Beginning of the fiscal tax year		**September** Tax bills mailed		**November 1** First installment due	**December 10** Installment delinquent

Second installment – January 1 through June 30
Add four months for government loans

January	February	March	April	May	June
	February 1 Second installment due	**March 1** Assessment date	**April 10** Second installment delinquent		

Note: Homeowner must own and occupy property on March 1 in order to be eligible for applicable exemptions.

The Tax and Insurance Impound Schedule

Tax Impound Reserve Schedule

Closing Months	First Payment	In Escrow – Pay First Installment	In Escrow – Pay Second Installment	Estimated Months Required by Lender to Impound (or as Instructed by Lender)
January	March	–	Yes	6
February	April	–	Yes	7
March	May	–	Yes	2
April	June	–	Yes	3
May	July	–	–	4
June	August	–	–	5
July	September	–	–	6
August	October	No	–	7
September	November	No	–	8
October	December	Yes	–	9
November	January	Yes	–	4
December	February	Yes	–	5

Property Tax Proration

Charge	Credit
No Proration	No Proration
Collect 2nd Installment from Seller's Account	Credit Seller 5 months
Charge Buyer 4 months	Credit Seller 4 months
Charge Buyer 3 months	Credit Seller 3 months
Charge Buyer 2 months	Credit Seller 2 months
Charge Buyer 1 month	Credit Seller 1 month
No Proration	No Proration
Charge Seller 1 month	Credit Buyer 1 month
Charge Seller 2 months	Credit Buyer 2 months
Charge Seller 3 months	Credit Buyer 3 months
Collect 1st Installment Taxes from Seller Account Charge Buyer 2 Months	Credit Seller 2 months
Charge Buyer 1 month	Credit Seller 1 month

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Understanding California's Propositions Property Transfer Exceptions

Are you looking to transfer property? If so, your property transfer may be exempt from reassessment for real estate property tax purposes. Anytime Stewart Title of California, Inc. is handling your title or escrow, annual real estate property taxes are pro-rated through closing and paid current through the transaction. In California, the annual real estate tax on a parcel of property is limited to one percent of its assessed value (Proposition 13). The "assessed value" may not be increased by more than two percent per year unless the property has changed ownership. The following types of ownership transfers are not considered "changed ownership" and should not result in a reassessment. Please let your title or escrow officer know if one of the following exceptions applies to your transaction:

Proposition 19 – The Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disasters Act

- Eligible homeowners who are 55 years and older, severely disabled, or victims of wildfires and natural disasters may transfer their tax assessments to a different home of the same or lesser market value, within the same county, which allows them to move without paying higher taxes. Proposition 19 allows eligible homeowners to transfer their tax assessments anywhere within the state and allows tax assessments to be transferred to a more expensive home, but now with an upward adjustment.
- Parents or grandparents may transfer their primary residence to their children or grandchildren without the property's tax assessment resetting to market value. However, Proposition 19 only provides exemption from tax reassessment when the transferred property was the primary residence of the qualifying parent(s) or grandparent(s) and the child or grandchild continues to occupy the home as their primary residence. A homeowners exemption must by applied for within one year of the qualifying transfer. Proposition 19 eliminates the parent-to-child and grandparent-to-grandchild exemption in cases where the child or grandchild does not use the inherited property as their primary residence and thus, the inherited property not used as a primary residence is no longer able to be transferred without a tax reassessment to market value.

Proposition 110 – Severely and Permanently Disabled by Property Owners

- This constitutional initiative provides property tax relief for severely and permanently disabled claimants when they sell an existing home and buy or build another.
- If you or your spouse who lives with you is severely and permanently disabled, you can buy a home of equal or lesser value than your existing home and transfer the factored base year value to your new property.
- Modifications of your current home are permissible if they directly satisfy disability requirements without the modifications being assessed as new construction.

Understanding California's Propositions Property Transfer Exceptions

Proposition 50 – Property Substantially Damaged by Disaster

- Owners of property substantially damaged 50% or more by a governor-declared disaster may transfer the factored base year value prior to the disaster to another comparable property within the same county.
- The replacement property must be acquired or newly constructed within five (5) years of the disaster and have a value of 120% or less of the former value of the damaged property. If the replacement's value is greater than 120%, that portion of value greater than 120% will be added to the transferred base year assessment.

Proposition 3 – Property Taken by Government Action (Eminent Domain)

- A constitutional amendment that provides property tax relief, under certain conditions, to a person whose property has been taken by eminent domain proceedings, acquisition by a public entity or governmental action resulting in a judgment of inverse condemnation.
- It allows property owners to transfer the factored base year value of real property taken by government action to a comparable replacement property located anywhere in California, if certain qualifying conditions are met.
- The replacement property must be of similar use as the property taken by government action.

For more information and to get more details on yourproperty transfer exceptions qualification, visit ca.gov.

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Capital Gains Tax Rates

1031 Exchanges Can Defer the 3.8% NIIT and Capital Gains Taxes

The familiar adage, “It’s not how much you make, but how much you keep” rings truer than ever for taxpayers who are real estate investors facing today’s high tax rates. Fortunately, IRC Section 1031, a provision in the tax code since 1921, provides critically needed tax deferral. Reflected below is a summary of the four ways a taxpayer could be taxed on the sale of an investment property if they do not take advantage of a 1031 exchange:

1. Depreciation Recapture: First, taxpayers will be taxed at a rate of 25% on all depreciation recapture.
2. Federal Capital Gains Taxes: Next, taxpayers owe federal capital gain taxes on the remaining economic gain depending upon their taxable income. Taxpayers exceeding the $434,550, taxable income threshold for single filers and married couples filing jointly with over $488,850 in taxable income will be subject to a 20% capital gain tax rate. The 15% capital gain tax rate generally applies to taxpayers below these threshold income amounts.
3. Net Investment Income Tax Pursuant to IRC Section 1411: When applicable, an additional 3.8% surtax applies to taxpayers with “net investment income” who exceed threshold income amounts of $200,000 for single filers and $250,000 for married couples filing jointly. Pursuant to IRC §1411, “net investment income” includes interest, dividends, capital gains, retirement income and income from partnerships (as well as other forms of “unearned income”).
4. State Taxes: Last, taxpayers must also take into account the applicable state tax, if any, to determine their total taxes owed.

Despite high overall taxes owed when combining these four levels of taxation at the disposition of an investment property, one aspect of the tax code provides real estate investors with a significant tax advantage. Section 1031 exchanges allow taxpayers holding real property for investment purposes to defer taxes that would otherwise be recognized upon the sale of investment property.

Federal Capital Gains Tax Rates

Single Taxpayer	Married Filing Jointly	Capital Gains Tax Rate	Section 1411 NIIT Surtax*	Combined Tax Rate
$0-$41,675	$0-$83,350	0%	0%	0%
$41,676-$200,000	$83,351-$250,000	15%	0%	15%
$200,001-$459,750	$250,001-$517,200	15%	3.8%	18.8%
$459,751+	$517,201+	20%	3.8%	23.8%

*The 3.8% NIIT surtax only applies to “net investment income” as defined in IRC §1411.

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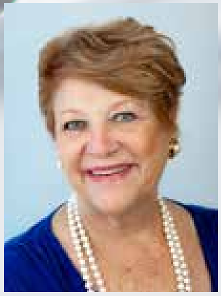

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