TAX PRORATION PRIMER

*“Ad valorem property taxes…shall be prorated as of the date of closing. Notwithstanding any provision to the contrary, in the event ad valorem property taxes are based upon an estimated tax bill…, Buyer and Seller shall, upon the issuance of the actual tax bill…, promptly make such financial adjustments between themselves as are necessary to correctly prorate the tax bill…. Buyer agrees to indemnify Seller against any and all claims of the county and if applicable, city, for unpaid ad valorem real property taxes for the year in which the Property is sold.” (from the GAR contract)*

Take a look at your ALTA statement and you’ll see property taxes prorated on every single transaction (unless your closing is on December 31st or the contract stipulates otherwise). Although it’s a common sight, many people don’t understand the basic mechanics of how property taxes are prorated.

As a general note, counties and municipalities in Georgia typically examine and value properties effective January 1st of each year and release their property tax bills in the fall, giving the taxpayer 60 days to make payment in full. Let me run you through a few scenarios regarding the tax prorations to help guide you and your clients in the future:

1. From January 1st until the date of release of property taxes that year (no change in property status): Taxes are prorated based on the prior year’s bill. The seller’s proceeds are debited and the buyer’s proceeds are credited on the ALTA statement for the number of days in the year that the seller held title to the property. For instance, if the owner sells the property on the 100th day of the year, the seller’s proration amount would be 100/365 of the total bill from the prior year. The buyer would be responsible for payment of the entire bill when rendered.
2. From the date of release of the property taxes until the end of the year: Taxes are prorated on the actual bill amount for that tax year and not on an estimate. The proration debits the buyer from the date of closing to the end of the year and credits the seller that amount.
3. If a tract was subdivided prior to January 1st, the prior year’s tax bill will be different than the one for the current tax year. For example, if the owner had a 2-acre tract on January 1, 2021 and subdivided it into two 1-acre tracts in 2021, the 2021 tax bill will still be for the 2-acre tract; however, in 2022, there will be two tax bills, one for each one 1-acre tract. If the owner sells both 1-acre tracts in 2021, the property tax proration for each tract will be based on estimated value at closing. The buyer’s proceeds would be debited and the seller would be credited that estimated amount. The seller would be responsible for payment of the entire tax bill upon receipt.
4. As per the GAR contract, any estimated tax prorations can be revisited in the future by the parties after the actual tax bills are released. This clause survives closing and any party’s refusal to pay the difference is essentially considered a breach of contract.