



Tax and Other Proration Items

Property taxes can be prorated several different ways and the custom for proration varies from geographical area to geographical area. The “custom” for proration method will not necessarily “match” the way taxes are paid in reality (arrears vs. advance for example) to the treasurer. Listed below are explanations of the some of the different methods used for prorating taxes in the mid-Michigan area.

Tax Proration Using the Advance/Fiscal Method

Taxes to be prorated and adjusted as of the date of closing, in accordance with the due and payable date basis of the municipality or taxing unit in which the property is located, on a 365 day basis, treating the taxes as paid in **Advance**. Amount to be estimated using the most recent tax bills. (“Grace periods” to pay taxes without additional interest due are not applicable when determining this calculation unless the Seller’s taxes are delinquent and have interest owing on the base amount of the tax billing.)

This means that the Purchaser would be charged from the date of closing through the next billing date. The Seller would be given a credit for those amounts. A July bill would cover from July 1st through June 30th; and a December bill would cover from January 1, through December 31, unless stated differently in the purchase agreement.

Tax Proration Using the Calendar Year/Arrears Method

Taxes are prorated on a calendar year basis as if paid in Arrears, with the Seller being charged from January 1st through the date of closing. This amount is estimated by using the current millage rate and the taxable value of the property at the time of closing.

What this means is that the Seller will be charged from January 1st through the date of closing on a daily basis and the same amount will be credited to the Purchaser. No adjustments will be made between the parties after the closing.

No Tax Proration

This means that there would not be any tax proration done and a Purchaser would begin making property tax payments with the next billing sent out after closing. It should be specified as to the next bill the Purchaser will begin payment with (example: Purchaser will begin paying taxes with the tax billing mailed out in December 2004. All prior tax billings are to have been paid by the Seller) or will be collected and paid at the time of closing.

Typically, at time of closing, real estate taxes billed after the date of closing will be the responsibility of the Purchaser. This method might be used if a parcel of property is being split off from a larger parcel and new values have not been determined, nor will tax bills be split at the end of the year – the parcel will still be taxed as a “whole” parcel without considering the split until the next year.

Special Assessments and Utilities

If there are any delinquent property taxes (or assessments) on the property it is typically the Sellers responsibility to pay for them at the time of closing, unless the purchase agreement states different terms. If the tax bill includes an assessment for garbage, lighting, fire protection etc., the Buyer will assume this cost through the future tax billings, as these are “perpetual assessments” that can’t be paid off. If there is a special assessment for anything additional it must be determined if the Buyer or Seller will payoff the entire balance due for the assessment or the purchaser will assume the balance of that assessment. Special Assessments can be for drains, road paving, water, sidewalks, lawn mowing, refuse removal, water mains and other items.



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The Seller is responsible for any delinquent/current charges for Gas, Electric, Water and Sewage through the date of vacating, unless agreed to otherwise. If LP Gas or Fuel Oil is used to heat the home, the service provider can be contacted to assist with determining the amount of gas/oil in the tank at the time possession is available.

The information contained herein is for informational purposes only. This information should not be relied upon. IF YOU DO NOT UNDERSTAND THE CHOICES OF METHODS ABOVE THAT CAN BE USED FOR TAX PRORATIONS BETWEEN THE BUYER & SELLER AND MUST BE DETERMINED IN THE PURCHASE AGREEMENT, YOU SHOULD SEEK LEGAL ADVICE BEFORE YOU SIGN THE PURCHASE AGREEMENT.