TAXES

TYPE OF TAXES

There are several types of taxes that can be a part of your real estate transaction. California Title is providing the following information as a courtesy and recommends you seek professional tax advice for any and all questions or concerns regarding taxes and your transaction.

Some of the taxes mentioned below can potentially be a part of your real estate transaction:

Property Taxes
Transfer Tax
Mello Roos
Supplemental Taxes
Capital Gains Tax
FIRPTA
Change of Ownership Filing (PCOR)
CAL Withholding

PROPERTY TAX

SCHEDULE

The following information is a general guide in order to help facilitate the closing of your escrow. For any questions regarding your property taxes please contact the Tax Collectors office in your county.

Title Tip: If you have a transaction in escrow...

Sellers: Pay the 1st installment property taxes in the form of a cashier's check, payable to the Tax Collector and deliver to the Title Company to avoid the Title Company from holding funds at close of escrow in order to verify the taxes have been paid. The check once delivered to the Title Company will be documented in their file and then forwarded to the Tax Collector.

If the taxes were already paid, the Title Company may have to hold funds until they can verify payment.

Please contact your title representative to ensure the taxes are taken care of correctly during your transaction to avoid any delays or holding of funds at close of escrow.

JANUARY	**Calendar Year Begins.**
FEBRUARY	**February 1st - 2nd Installment of Current Taxes Become Due.**
MARCH	
APRIL	**April 10th– 5:00PM Second Installment Becomes Delinquent.** ***10% penalty attaches plus $10.00 delinquent list charge.***
MAY	
JUNE	
JULY	**July 1st- Beginning of the Fiscal Year. All Property with Delinquent Taxes "Goes to Sale".** ***1.5% per month for the next 12 months is charged on delinquent taxes, plus $10.00.***
AUGUST	
SEPTEMBER	
OCTOBER	
NOVEMBER	**Nov. 1st — 1st Installment of Current Taxes Become Due.**
DECEMBER	**Dec. 10th- 5:00 PM 1st Installment Becomes Delinquent.** ***10% penalty attaches.***

PROPERTY TAX

EFFECT ON THE ESCROW PROCESS

Assessor

The County Assessor establishes the assessed value of your property by appraising the value of that property under applicable State laws. The assessed value is then placed on a list with all other properties in the county and this list is called the "Assessment Roll." The Assessor also approves and applies all exemptions, which are added to the Assessment Roll. The Assessment Roll is then presented to the County Auditor-Controller for further processing.

Auditor-Controller

The County Auditor-Controller adds direct assessments to the Assessment Roll then applies the tax rates, which consists of general (1%) levy and debt service (voter & bonded) tax rates to the value to create an Extended Assessment Roll. The Extended Roll is then sent to the County Treasurer and Tax Collector for individual tax bill distribution and payment collection.

Treasurer & Tax Collector

The County Treasurer and Tax Collector receives the Extended Roll, prints and mails the property tax bills to the name and address on the Extended Roll. The Treasurer and Tax Collector collects secured and unsecured taxes. Secured taxes are taxes on real property, such as vacant land, structures on land, i.e. business/office building, home, apartments, etc. Unsecured taxes are taxes on assessments such as office furniture, equipment, airplanes and boats, as well as property taxes that are not liens against the real property.

TRANSFER TAX

This tax is levied by the County any time real property is conveyed. This tax is paid at the time of recording and is usually paid by the Seller however, in some cases the Buyer and Seller may split the cost. The tax is based on the sales price and is usually charged per $500 or $1,000 of the sales price. Some cities also have a transfer tax that is charged in addition to the county tax and typically will be paid together. In some cases a separate check may need to be mailed to the city. Your escrow officer will advise you on the payment of this tax and the amount.

MELLO ROOS

Mello Roos is a special tax imposed on those real property owners within a Community Facilities District. This district has chosen to seek public financing through the sale of bonds for the purpose of financing certain public improvements and services. These services may include streets, water, sewage and drainage, electricity, infrastructure, schools, parks and police protection to newly developing areas. The tax you pay is used to make the payments of principal and interest on the bonds.

By purchasing an interest in a subdivision within a Community Facilities District you can expect to be assessed for a Mello Roos tax which will typically be collected with your general property tax bill. These special tax payments are subject to the same penalties that apply to regular property taxes.

SUPPLEMENTAL PROPERTY TAXES

WHEN CLOSING AN ESCROW

The California Land Title Association (CLTA) has put together this Q&A regarding Supplemental Property Taxes to help navigate you through the settlement process.

Q. When did this tax come into effect?

A. The Supplemental Real Property Tax Law was signed by the Governor in July of 1983 and is part of an ambitious drive to aid California's schools. This property tax revision is expected to produce over $300 million per year in revenue for schools.

Q. How will Supplemental Property Taxes affect me?

A. If you don't plan on buying new property or undertaking new construction, this new tax will not affect you at all. But, if you do wish to do either of the two, you will be required to pay a supplemental property tax which will become a lien against your property as of the date of ownership change or the date of completion of new construction.

Q. When and how will I be billed?

A. "When" is not easy to predict. You could be billed in as few as three weeks, or it could take over six months.
"When" will depend on the individual county and the workload of the County Assessor, the County Controller/Auditor and the County tax Collector. The assessor will appraise your property and advise you of the new supplemental assessment amount. At the time you will have the opportunity to discuss your valuation, apply for a Homeowner's Exemption and be informed of your right to file an Assessment Appeal. The County will then calculate the amount of the supplemental tax and the tax collector will mail you a supplemental tax bill. The supplemental tax bill will identify, among other things, the following information: the amount of the supplemental tax and the date on which the taxes will become delinquent.

Q. Can I pay my supplemental tax bill in installments?

A. All the supplemental taxes on the secured roll are payable in two equal installments. The taxes are due on the date the bill is mailed and are delinquent on specified dates depending on the month the bill is mailed as follows:

(1) If the bill is mailed within the months of July through October, the first installment shall become delinquent on December 10th of the same year. The second installment shall become delinquent on April 10th of the next year.

(2) If the bill is mailed within the months of November through June, the first installment shall become delinquent on the last day of the month following the month in which the bill is mailed. The second installment shall become delinquent on the last day of the fourth calendar month following the date the first installment is delinquent.

SUPPLEMENTAL PROPERTY TAXES

Q. How will the amount of my bill be determined?

A. There is a formula used to determine your tax bill. The total supplemental assessment will be pro-rated based on the number of months remaining until the end of the tax year, June 30.

Q. Can you give me an idea of how the proration factor works?

A. The supplemental tax becomes effective on the first day of the month following the month in which the change of ownership or completion of new construction actually occurred. If the effective date is July 1, then there will be no supplemental assessment on the current tax roll and the entire supplemental assessment will be made to the tax roll being prepared which will then reflect the full cash value. In the event the effective date is not on July 1, then the table of factors represented on the following panel is used to compute the supplemental assessment on the current tax roll.

If the effective date is:	The Proration Factor is:
August 1	.92
September 1	.83
October 1	.75
November 1	.67
December 1	.58
January 1	.50
February 1	.42
March 1	.33
April 1	.25
May 1	.17
June 1	.08

EXAMPLE:
The County Auditor finds that the supplemental property taxes on your new home would be $1,000 for a full year. The change of ownership took place on September 15th with the effective date being October 1st. The supplemental property taxes would, therefore, be subject to a proration factor of .75 and your supplemental tax would be $750.

Q. Will my taxes be pro-rated in escrow?

A. 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 30th. The obligation for this tax is entirely that of the property owner.

CAPITAL GAINS TAX

Almost everything you own and use for personal purposes, pleasure or investment is a capital asset. Your main home or investment property is no exception. When you sell a capital asset, such as your home, the difference between the amount you sell it for and your basis, which is usually what you paid for it, is capital gains or capital loss. While you must report all capital gains, you may deduct only your capital losses on investment property, not personal property.

Generally, for most taxpayers, net capital gain is taxed at rates no higher than 15%. Some or all net capital gain may be taxed at 0% if you are in the 10% to 15% ordinary income tax brackets. However, beginning in 2013, a new 20% rate on net capital gain applies to the extent that a taxpayer's taxable income exceeds the thresholds set for the new 39.6% ordinary tax rate ($400,000 for single; $450,000 for married filing jointly or qualifying widow(er); $425,000 for head of household, and $225,000 for married filing separately).
IRS Publication 505

FIRPTA

Foreign Investors Real Property Taxation Act requires a percentage of the sales price be withheld for foreign ownership. This applies to nonresident aliens of USA, including foreign partnerships, foreign trusts and foreign estates. It is the Buyer's responsibility to report and withhold, not the escrow officer. Seller can request a waiver or reduced withholding and there are some exceptions under the IRS Code (IRC 1034). The withholding amounts are as follows:

If sales price is $300,000 or less AND the property will be used by the buyer as a primary residence, the withholding rate is 0%.

If the amount realized exceeds $300,000 but does not exceed $ 1 million, AND the property will be used by the buyer as a primary residence, the withholding rate is 10% on the full amount realized.

If the amount realized exceeds $1 million, then the withholding rate is 15% on the entire amount, regardless of use by the buyer.

FILING

During your escrow process and every time a property is purchased or ownership is transferred for other reasons a Change of Ownership Form (PCOR) must be filled out. You will receive a PCOR with your escrow documents and you will be required to fill it out completely. This allows the county office that asseses taxes to reassess the tax liability when a property is transferred from a seller to buyer.

You will need to supply information on the property such as type of transfer, purchase price and terms of sale etc... The PCOR normally satisfies the change of ownership requirements when filled out completely and accurately by the Buyer. The county assessor may also request other information about a deed or other matters related to the transfer after reviewing the PCOR. The PCOR is confidential and not recorded or available for public inspection.

If the PCOR is not filed at the time of recording, the county assessor will charge an additional $20.00 in most counties. The tax assessor will still require the information and after recording will send a Change of Ownership Statement (COS) to the transferee (buyer). If the COS is not filed by the transferee within 45 days of the county assessor's request, then penalties can ultimately range from $100 to $20,000.

CAL WITHHOLDING

This requires that 3 1/3% of the sales price or an alternative withholding amount be paid to the Franchise Tax Board and applies to non owner-occupied property. The Buyer must withhold this amount and is responsible however, the Buyer can request the task be passed on to escrow. Escrow may charge a fee for processing the withholding or waiver. This tax is a prepayment of California State Income tax for Sellers on the taxable gain of California real property.

CAPITAL GAINS & LOSSES

Reporting Capital Gains

In order to educate taxpayers about their filing obligations, this fact sheet, the twelfth in a series, provides information with regard to capital gains reporting. Incorrect reporting of capital gains accounts for part of an estimated $345 billion per year in unpaid taxes, according to Internal Revenue Service estimates.

Almost everything you own and use for personal purposes, pleasure, business or investment is a capital asset, including:

- Your home
- Household furnishings
- Stocks or bonds
- Coin or stamp collections
- Gems and jewelry
- Gold, silver or any other metal, and
- Business property

Understanding Basis

The difference between the amount for which you sell the capital asset and your basis, which is usually what you paid for it, is a capital gain or a capital loss. You have a capital gain if you sell the asset for more than your basis. You have a capital loss if you sell the asset for less than your basis.

Your basis is generally your cost plus improvements. You must keep accurate records that show your basis. Your records should show the purchase price, including commissions; increases to basis, such as the cost of improvements; and decreases to basis, such as depreciation, non-dividend distributions on stock, and stock splits.

While all capital gains are taxable and must be reported on your tax return, only capital losses on investment or business property are deductible. Losses on sales of personal

property are not deductible. More information about increases and decreases to basis can be found in Publication 551, Basis of Assets.

Schedule D

Capital gains and deductible capital losses are reported on Form 1040, Schedule D, Capital Gains and Losses, and then transferred to line 13 of Form 1040, U.S. Individual Income Tax Return. Capital gains and losses are classified as long-term or short term. If you hold the asset for more than one year, your capital gain or loss is long-term. If you hold the asset one year or less, your capital gain or loss is short-term. To figure the holding period, begin counting on the day after you received the property and include the day you disposed of the property.

You may have to make estimated tax payments if you have a taxable capital gain. Refer to Publication 505, Tax Withholding and Estimated Tax, for additional information.

Other Rules

Home –– If you sell your residence, you may be able to exclude from income any gain up to a limit of $250,000 ($500,000 on a joint return in most cases). To exclude the gain, you must have owned and lived in the property as your main home for at least 2 years during the 5-year period ending on the date of sale. Generally, you cannot exclude gain on the sale of your home if, during the 2-year period ending on the date of the sale, you sold another home at a gain and excluded all or part of that gain. If you cannot exclude gain, you must include it in income. To determine the maximum dollar limit you can exclude and for additional information, refer to Publication 523, Selling Your Home. You cannot deduct a loss on the sale of your home.

Property outside U.S. - U.S. citizens who sell property located outside the United States must also report gains from these sales, unless the property is exempt by U.S. law. Reporting is required whether you reside inside or outside the United States and whether or not you receive a Form 1099 from the payer.

Installment sales - If you sold property (other than publicly traded stocks or securities) at a gain and will receive any payments in a year after the year of sale, you generally must report the sale on the installment method using Form 6252, Installment Sale Income. You can elect out of the installment method by reporting the entire gain in the year of sale.

Investment Transactions - Gains from sales and trades of stocks, bonds, or certain commodities are usually reported to you on Form 1099-B, Proceeds From Broker and Barter Exchange Transactions, or an equivalent statement. Your basis, the sales price, and the resulting capital gain or loss is entered on Form 1040, Schedule D, Capital Gains and Losses.

Gains from the sale of business property are reported on Form 4797, Sales of Business Property and flow to Form 1040, Schedule D. See Publication 544, Sales and Other Dispositions of Assets for additional information on the sale of business property.

Capital gain distributions from mutual funds are reported to you on Form 1099-DIV, Dividends and Distributions. Capital gain distributions are taxed as long-term capital gains regardless of how long you have owned the shares in the mutual funds. If capital gain distributions are automatically reinvested, the reinvested amount is the basis of the additional shares purchased.

10 IMPORTANT CAPITAL GAINS FACTS

Here are ten facts from the IRS about gains and losses and how they can affect your Federal income tax return.

1. Almost everything you own and use for personal purposes, pleasure or investment is a capital asset.

2. When you sell a capital asset, the difference between the amount you sell it for and your basis – which is usually what you paid for it – is a capital gain or a capital loss.

3. You must report all capital gains.

4. You may deduct capital losses only on investment property, not on property held for personal use.

5. Capital gains and losses are classified as long-term or short-term, depending on how long you hold the property before you sell it. If you hold it more than one year, your capital gain or loss is long-term. If you hold it one year or less, your capital gain or loss is short-term.

6. If you have long-term gains in excess of your long-term losses, you have a net capital gain to the extent your net long-term capital gain is more than your net short-term capital loss, if any.

7. The tax rates that apply to net capital gain are generally lower than the tax rates that apply to other income. For 2010, the maximum capital gains rate for most people is 15%. For lower-income individuals, the rate may be 0% on some or all of the net capital gain. Special types of net capital gain can be taxed at 25% or 28%.

8. If your capital losses exceed your capital gains, the excess can be deducted on your tax return and used to reduce other income, such as wages, up to an annual limit of $3,000, or $1,500 if you are married filing separately.

9. If your total net capital loss is more than the yearly limit on capital loss deductions, you can carry over the unused part to the next year and treat it as if you incurred it in that next year.

10. Capital gains and losses are reported on Schedule D, Capital Gains and Losses, and then transferred to line 13 of Form 1040.