

# WHAT YOU NEED TO KNOW ABOUT PROPERTY TAXES BEFORE BUYING A HOME

By Ted Lanzaro, CPA

As a tax strategist with vast experience in residential real estate I am often asked questions by my clients regarding real estate taxes on their personal residences. Here are the nine most common questions and the answers.

## **1. Why is it important for potential home owners to know what the property taxes will be on a house before they buy it?**

It is very important to potential home buyers to know about the property taxes on a house because:

- Most mortgage companies will make the property owner escrow the property taxes and therefore it becomes part of their monthly payment which needs to be factored in to access affordability.
- Property taxes can rise due to reassessment of value after a home is purchased.
- Property taxes differ from town to town which allows consumers to compare them to get the best housing value for their dollars.

## **2. What factors are used to assess property taxes?**

Property taxes are commonly assessed based upon three factors:

- The assessed value of the home as determined by the local government tax appraiser
- The budget of the local government
- A mill rate – a dollar amount assessed in tax for every thousand dollars of assessed value which is determined by dividing the total budget amount over the total assessed value amount of a town. For example a mill rate of \$20 on a 250,000 assessed value would equal \$5,000. ( $\$250,000 \div 1,000 \times \$20$ )

## **3. How often are property taxes assessed?**

Property taxes are assessed every year based upon the budget of the local government. Depending on the growth of value in the housing market of an area, the assessed value of home may be re-assessed every year or every few years in slower growth areas.

**4. I am building a house. How are property taxes on new construction handled?**

Property taxes on new construction are based upon the assessed value of the land until a certificate of occupancy for the home has been issued by the local government. Once this occurs the property will be re-assessed as a home for the next complete property tax billing cycle.

**5. Are there differences in the amount of property taxes in different markets?**

Property taxes can vary widely from market to market based on various factors that affect the budget of the local government such as number, condition and quality of the area's schools, police force, fire department, recreational areas and other services provided by the local government. Property taxes can also vary widely within markets due to the different needs of different communities. An example would be a town that needs a new high school would have higher taxes than the neighboring town whose high school was built ten years ago. Also, within the same town, a colonial style house may pay more taxes than a ranch style home because the colonial is assessed at a higher value.

**6. If I disagree with the amount of my property taxes, is there anything I can do about it?**

Property taxes are generally disputed because of the assessment of the property value. While the procedures for dispute differ from area to area, generally you request that your home be re-assessed based on the assessed value of comparable homes in your local area. See question 8 for further clarification.

**7. Where does the money I pay in property taxes go to?**

Money collected from property taxes goes to pay for the services provided by the local government such as schools, police, fire department, sanitation, recreation and other services. Property taxes are necessary because without them, local governments would have no way to fund the services people want them to provide without federal or state assistance (which would be a disaster, by the way).

**8. I just got a large increase in the assessed value of my home. What should I do?**

Any large increase in assessed value of your home should serve as a red flag to prompt you to dispute an assessment. Generally speaking, you would want to research what comparable homes in your area were assessed at to see if a marked difference was apparent. The difference would constitute a legitimate dispute.

**9. Is there any type of limit on the amount my property can be reassessed for?**

Some states and local areas have laws that cap the amount that a property can be reassessed for. For example, Florida has a homestead law that caps reassessment of the value of primary residences to 3% a year. This was designed to keep senior citizens on fixed incomes from being taxed out of their homes. Good luck on this article and feel free to contact me anytime you need information on anything to do with real estate or taxes.

*Ted Lanzaro, CPA “The Millionaire Tax Advisor” owns and operates Lanzaro CPA, LLC, a tax strategy, accounting and business advisory firm with offices in Shelton, CT. The firm concentrates on providing advisory services, education and products design to promote business development, tax savings and wealth creation. He can be reached by phone at 203-924-5760 or via email at [Ted@lanzarocpa.com](mailto:Ted@lanzarocpa.com). You can subscribe to “The Millionaire Tax Advisor” Newsletter at [www.millionairetaxadvisor.com](http://www.millionairetaxadvisor.com). You can also get a copy of Ted’s special report “10 Proven, Totally Legal and Effective Tax Strategies That Will Put Thousands In Your Pocket Every Year” at his website [www.lanzarocpa.com](http://www.lanzarocpa.com)*

**You should consult a tax professional prior to implementing any of the tax planning strategies to make sure it fits your specific situation.**