

ULTA – Property Tax Proration Best Practice

Part of a settlement agent's duty in most real estate sale transactions is to prorate property taxes. For residential transactions, the standard Utah Real Estate Purchase Contract (REPC) states and directs "All prorations, including, but not limited to, homeowner's association dues, property taxes for the current year, rents, and interest on assumed obligations, if any, shall be made as of the Settlement Deadline referenced in Section 24(d)".

The language in the standard REPC doesn't specify what the proration should be based on. In the absence of specific direction regarding the basis for proration of taxes in the REPC, settlement agents should use the best information available at the time of closing.

The Utah Land Title Association recommends the following as the basis for the proration of taxes for residential transactions when the standard REPC language is used (this recommendation assumes the property was an existing tax parcel for the prior tax year with similar configuration, i.e. finished home in prior year, finished home in current year; vacant lot in prior year, vacant lot in current year, etc.):

- During the first and second quarters of the calendar year, prorations should be made based on the prior year's final tax amounts.
- During the third quarter, prorations should be made based on the proposed tax amounts for the current year when those proposed tax amounts are available.
- During the fourth quarter, prorations should be made based on the final current year tax amounts when the final taxes are available.