



## WHAT HAPPENS TO MY TAXABLE VALUE AFTER I PURCHASE MY HOME?

Have you recently purchased your home or other property? Are you aware of how the sale impacts the taxable value? With the passage of Proposal A back in 1994, the creation of two new values were born, Capped Value and Taxable Value.

The State Equalized Value (SEV), aka Assessed, is still approximately 50% of the usual selling price. The new Capped Value (CV) is the value established when the Taxable Value (TV) of the prior year, adjusted for additions and losses, is multiplied by the inflation rate multiplier (IRM).

The calculation for Capped Value is:

$$\text{Capped Value} = ((\text{Prior TV} - \text{Losses}) \times \text{IRM}) + \text{Additions}$$

Taxable Value (TV) is the lesser of State Equalized Value (SEV) or Capped Value (CV) unless the property transferred ownership in the prior year.

In other words, the year after you purchased your home or other property your Taxable Value is uncapped and the Taxable Value equals the State Equalized Value.

Taxable Value is the amount that your property taxes are calculated on. In 2020, over 90% of all real properties have a gap between their SEV and TV. Therefore, when one of these properties sells, the TV becomes uncapped and the new TV resets to equal the SEV. When an individual purchases a property, the first year of taxes are based on the former owners capped TV. Mortgage companies often base the taxes collected monthly and placed in escrow on the capped TV.

To demonstrate what may happen after a purchase:

Assume a property sells on 2/1/2019 for \$200,000

Assume the 2019 values:

- 2019 SEV = \$100,000
- 2019 TV = \$80,000
- 2019 Principle Residence Taxes = \$2,566
- New home owners pay the 2019 taxes based on capped TV

The 2020 values (assuming a 5% increase):

- 2020 SEV = \$105,000
- 2020 TV = \$105,000
- 2020 Principle Residence Taxes = \$3,368; an increase of \$802
- In this example, the SEV and TV would be the same due to the uncapping (property transfer)

New property owners should be aware of when an uncapping occurs, so that they are financially prepared for the change in taxes. Often new property owners do not become aware of the change in the taxes until their mortgage company notifies them that there is a shortage in their escrow account and that they owe money that they were not prepared for.