

Calculating Real Property Taxes Adjustments in New Brunswick

Each year, the calculation of real property taxes causes confusion among purchasers and vendors alike in New Brunswick. In reading this simple guide, it is important to keep the following in mind:

- Real Property Taxes are assessed as of January 1st of each year and are invoiced for the **current calendar year** (January 1 to December 31).
- Invoices are mailed in March with payment due by May 31st. Penalties are assessed monthly, commencing on June 1st of each year and accumulate until paid in full.
- New Brunswick law requires that all real property taxes due **must** be paid prior to completing **any** real property transfer affecting the property.

When calculating your real property tax adjustment, your solicitor will use Formula I, II, III, or IV in Section 1 below. Using the one that describes your transaction and you can determine your property tax adjustment responsibilities in advance. You may move on to Section 2 if you intend to: a) pay your taxes through your mortgage, b) you are purchasing a non-owner occupied property that will become owner occupied or c) you are purchasing an owner-occupied property that you intend to make non-owner occupied, or a percentage thereof.

SECTION 1 - The Calculation

There are 4 possible scenarios to start with - your transaction will fit into **ONE** of these.

I. Purchase before May 31st and the current years taxes are not paid

Ie. If the property taxes are \$2,500.00 for the year and the closing is on January 30, the credit is calculated as follows:

$$\text{(Current Tax Levy) / (Days in the Tax Year) X (Days owned by the Vendor)} \\ \$2,500.00/365 \times 30 = \underline{\underline{\$205.48}}$$

You will receive a \$205.48 credit, shown as a deduction from the purchase price on closing but you would then be responsible to pay the full \$2,500.00 on or before May 31st.

II. Purchase before May 31st and the current years taxes are paid

Ie. If the property taxes are \$2,500.00 for the year and the closing is on January 30, you will reimburse the vendor for your share as calculated below:

$$\text{(Current Tax Levy) / (Days in the Tax Year) X (Days to be owned by the Purchaser)} \\ \$2,500.00/365 \times 335 = \underline{\underline{\$2,294.52}}$$

You will pay \$2,294.52 in addition to the Purchase Price on closing, shown as a credit to the Vendor. There should be no property taxes payable until May 31st of the following year unless the property is reassessed by Service New Brunswick.

III. Purchase after May 31st and the current years taxes are not paid.

- Ie. If the property taxes are \$2,500.00 (plus \$150.00 in penalties and arrears) for the year and the closing is on June 30, the credit is calculated as follows:

$$\text{(Current Tax Levy) / (Days in the Tax Year) X (Days owned by the Purchaser)} \\ \$2,500.00/365 \times 181 = \underline{\mathbf{\$1,239.72}}$$

The amount of the penalties and arrears are not used in the adjustment calculation as they remain the full responsibility of the Vendor. You will pay \$1,239.72 to the purchaser, as your share of the current year levy. The vendor would contribute their share, **plus** the full penalty, and the current years taxes would be paid in full on closing.

IV. Purchase after May 31st and the current year's taxes are paid.

- Ie. If the property taxes are \$2,500.00 for the year and the closing is on June 30, you will reimburse the vendor for the credit, as calculated below:

$$\text{(Current Tax Levy) / (Days in the Tax Year) X (Days to be owned by the Purchaser)} \\ \$2,500.00/365 \times 181 = \underline{\mathbf{\$1,239.72}}$$

You will pay \$1,239.72 to the Purchaser in addition to the Purchase Price on closing. There should be no property taxes payable until May 31st of the following year unless the property is reassessed by Service New Brunswick before the end of the current year.

SECTION 2 - Non-Owner Tax Levies & Banks

What if the Vendor is taxed as "Non-Owner Occupied" and I intend to live in part/all of the property as "Owner Occupied" after closing?

Unfortunately, property taxes are adjusted based on the "actual tax levy." As such, the formula's above are used in every scenario. Any adjustment for owner occupied property taxes will occur **after** the closing and will be strictly between the Purchaser and the Province of New Brunswick.

New Brunswick is the only Canadian province with a 2 tier real property tax system. In reality, there is only 1 rate of property tax, with discount(s) available to the homeowner in certain situations:

1. If the property is **owner occupied** as a principal residence by at least 1 owner on title (even a 1% owner): a. Occupied **186 days** per year, b. you must be a **“permanent resident”** of Canada, c. you are **not claiming any other property** as your principal residence.
2. Child in School - although this is not contained in the Act, it has been a policy of SNB to allow the credit to people who own property that their child is occupying while going to school. **SNB is not required to give the credit and you are required to apply each year with proof of enrollment.**
3. There are other discounts for seniors which can be applied for directly at any SNB or online at snb.ca.

Generally, your solicitor will prepare and file your application for **owner occupied residential tax credit** for you along with your transfer. If you qualify for the credit, Service New Brunswick will send out a notice with a new real property tax statement for the current tax year. There have been occasions when the province does not apply the credit and will advise you that no application has been filed by the lawyer. In that case, you may simply reapply at that time.

In the formulas above: a) if you purchased a property which is taxed at the non-owner occupied rate, and b) you had to pay the vendor your share of the higher rate, and c) you or one of the other purchasers intend to occupy the property as a principal residence, and d) the property qualifies for an owner occupied credit, then Service New Brunswick will advise you by mail as to the amount of the credit that has been calculated. You may then choose to leave the credit in the tax account or have the credit mailed to you in cheque form.

NOTE: In a multi unit situation, Service New Brunswick will assess the owner occupied credit based on the percentage of the property used by the owner along with common areas.

- ie. If you purchase a 4 unit building and you intend to occupy 25% of the property and the common area(s) (laundry room etc.) equal 10% of the property, you will apply to have 35% of the property taxed at the owner occupied rate and 65% taxed at the non-owner occupied rate.

NOTE: In the event that you are buying an owner-occupied property and making it a non-owner occupied property, the Province generally leaves the current years levy at the owner occupied rate, **but** reserves the right to reassess the property at any time and impose a new levy from the date the property became non-owner occupied to the end of the current year.

What if I am paying my property taxes through my Bank?

When your financial institution collects, and pays your real property taxes for you, they are simply creating a **real property tax savings account** from which to pay your actual invoices due.

The amount the bank collects is generally set as 1/12 of the estimated annual levy (1/26 if you are paying your mortgage bi-weekly).

If there are insufficient funds in the account when the levy comes due on May 31st of each year, the bank generally pays the entire amount due and “adjusts” your installment amount for the following year.

Some financial institutions will deduct funds from your mortgage advance to “catch you up in advance.”

- Ie. You are buying a property with a current annual tax levy of \$2,400.00. If your closing is in July with your first mortgage payment due on August 1st with a \$200.00 property tax portion, the bank may deduct \$400.00 from the mortgage advance so that by May 31st of the next year, they would have the full \$2,400.00 estimated to pay your real property tax levy in full. As such, you would need to add the \$400.00 to your closing costs.

The way each bank deals with real property taxes varies greatly as does their policy on whether you may manage your own property taxes. If you plan to pay your real property taxes through your financial institution, it is important to discuss the **exact method** of dealing with property taxes to avoid issues. There are similar installment payment options with the Province of New Brunswick that may carry some additional benefits as well.

NOTE: When purchasing a non-owner occupied property that you intend to occupy as a principal residence, your bank may still insist on calculating your property tax payments on the current year levy (even though the levy may be reduced once the province has approved your residential property tax credit application and reduced the current levy). In this instance, you may have to wait until the new levy is created before your bank will lower the monthly payment. Once the notice of the reduction is received, you should provide your bank with the confirmation immediately to have your installment payments adjusted. When you pay out your mortgage, any balance remaining in your tax account will be released to you or deducted directly from any balances owed to the bank.

When in doubt, speak to your mortgage specialist, realtor, or solicitor.

Note:

Please visit snb.ca for SNB assessment office phone numbers. Fredericton is 453-2831

Please visit snb.ca for common forms by department for property tax credits.

- Ie. If you are applying for a refund of an overpayment as a result of paying non-owner occupied amounts to the vendor on closing, you fill out the form located at snb.ca. Search forms by department, finance, real property taxes to locate the appropriate form.