ACT 7.0 AND PRORATIONS

This document discusses how ACT 7.0 calculates pro-rations as defined in section 26.11 and section 26.111 of the tax code.

A tax payer account can be pro-rated when the taxable status changes from taxable to exempt, or exempt to taxable. The tax code provides for two different rules depending on the status change and the underlying reason for the pro-ration. If the pro-ration is due to a "government acquisition", then the rules of section 26.11 apply. If the pro-ration is due to a "charitable organization acquisition", then the rules of 26.111 apply.

Section 26.11 pro-rations (governmental acquisition). If the amount of taxes imposed for the year of transfer has not yet been determined, the tax collector is directed to use prior year information. If the transfer year information is available, then it is used. For users of the ACT 7.0 system, this is taken to mean that if the "receivables" have been loaded for the transfer tax year, than that year's taxes are used. If the transfer year has not been loaded, then the prior year tax information is used to calculate the tax liability. The mechanics of the pro-ration process are simple. ACT inserts a PRO exemption value into the system, forcing the reduction of the taxable value of the account to the appropriate amount. The amount of the PRO exemption is calculated as follows:

> Start with the taxable value for the jurisdiction to be prorated. The exemption amount is calculated as the taxable value times the number of days exempt divided by 365. The new taxable value is then determined to be the full year taxable value minus the newly calculated PRO exemption. The tax levy is then recalculated using the new taxable value.
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> For example, assume an account in the ACT Independent School District. The Gross Value is 200,000. ACT ISD grants a local option homestead of 20 percent. The ACT ISD tax rate is $1.72. The information above is for the 2003 tax year. The property is being taken by the government on 7/2/2004. Because the taking is occurring prior to the calculation of 2004 taxes, we will use 2003 information. The taxable value for ACT ISD is $145,000.00 ($15,000.00 state mandated homestead plus 40,000 local option homestead). The taxes are $2494.00. The property was taxable 182 days in 2004. The property was exempt 183 days in 2004. The pro-ration exemption (PRO) is calculated as 145,000 x 183 / 365 or 72,699. This will make the new taxable value = $72,301 (145,000 – 72699). The pro-rated levy is then calculated at 72,301 * .0172 or 1243.58. Note that this is the same result as taking the original taxes imposed ($2494) and multiplying times the number of days taxable (182) and dividing that result by 365 ($1243.58).
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> The amount of 2004 tax liability determined above is the final determination. The account will be loaded for 2004 processing from appraisal district supplied data. Any additional liability recorded due to differences in 2004 data will be removed by administrative action.

Section 26.111 (charitable conversion) pro-rations are calculated in a similar manner. If the transfer year's data is not available, the user will use prior year data to "estimate" the taxes for the transfer year. These calculations are only an estimate. The final tax liability will only be determined once complete certified data is received from the appraisal district, the appropriate jurisdictions have set their tax rates, and the tax assessor has assessed the taxes.

Partial Pro-rations. The discussion above described a "whole taking." ACT recognizes that in many cases, only a percentage of the account is pro-rated. This situation is not directly addressed in the property tax code. ACT makes the assumption that a pro-ration percentage can be determined. This percentage is then used in the calculation to determine the amount of the PRO exemption amount. In the example above, instead of taking the entire property, assume the government was only taking a portion of the lot, say the first 10 feet across the front (maybe an easement because of widening the street). If the lot size was 60 feet by 100, and the taking dimensions were 60 X 10, then a percentage of the land value to pro-rate would be 600/6000 or 10%. Assume the land value in our example was 30,000. The taxes on just the land would be calculated at 30,000 x .0172 or $516. The taxes on 10% of the land yields $51.60. The pro-ration of these taxes (taxable for 182 days) would equal a tax due of $25.73. ACT would calculate a PRO exemption amount of 30,000 x .10 x 183 / 365 or 1504. Notice that this $1504.00 reduction in taxable value will cause a decrease in taxes due of $25.87(1504 x .0172). Both methods yield the same result.

Users can use the Levy What-If screen to determine this "reduction in taxes" due to the pro-ration. The user would first enter the value of the land being converted. In my example this is $3000.00. The user would not enter any value in days exempt. The system would calculate the taxes for a full year on this portion of the parcel at $51.60. The user would then enter the 183 days exempt and have the system re-compute the levy. The new answer for the taxes due for 182 days is $25.63.

Users could subtract $25.63 from $51.60, yielding $25.87. This $25.87 is the pro-ration levy and should be subtracted from the full levy of $2494 to get the tax amount due for the pro-rated portion.

Future Enhancements to the What If screen for Pro-rated Exemptions. ACT supplies the "levy what if" tool to use to calculate pro-rated taxes. The intent is to use this tool to calculate an amount and generate a "pro-rated statement". Payments which are tendered for pro-rated accounts should be posted to an appropriate escrow jurisdiction associated with the pro-rated account. The "transfer" tool should be used to allocate the escrowed funds to the new year receivables (after certified processing has occurred). In the case of 26.11, any remaining unpaid balances should be removed. The ACT "special payments" screen can be used to accept a zero dollar payment, with the "writeoff remaining levy" option selected to remove any excess taxes.

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