

# LAWYERS LINK

## ESCAPED TAX BILLS

*What Every Real Estate Agent Needs to Know*



Have you ever had a transaction go perfectly only to run into an unexpected issue after closing? Escaped tax bills are one of those surprises that can catch both you and your clients off guard if you're not looking for them early.

### What Is an Escaped Tax Bill?

An escaped tax bill is essentially a retroactive property tax bill. It is issued when a county assessor determines that a property was under-assessed or not assessed at all in prior years. In other words, it corrects value that "escaped" taxation.

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These corrections can go back multiple years (up to four years depending on the situation), and may result in additional taxes that no one was planning for.

## Where Do These Come From?

Escaped tax bills are usually tied to issues in the property's history that didn't get properly reported or recorded. For example, unpermitted improvements like garage conversions, additions, or remodels are one of the most common triggers. Changes in ownership or title that weren't formally recorded can also lead to reassessment gaps.

Other situations include entity transfers that weren't disclosed, delays in reporting a death or inheritance, simple clerical errors by the assessor's office, or exemptions that were applied incorrectly or allowed to expire. As an agent, these are the types of details that deserve a closer look whenever something doesn't quite add up.

## How Can This Impact Your Transaction?

An escaped tax bill can significantly affect a transaction in ways that go beyond just the numbers. It can create unexpected financial liability for either the buyer or seller, and if discovered too late, it may lead to uncomfortable post-closing disputes.

Once issued, escaped assessments become a lien against the property and can impact title if unpaid. Even during escrow, the possibility of an escaped assessment can influence negotiations and impact a seller's net proceeds or a buyer's willingness to move forward.

## Who Actually Pays the Bill?

There is no automatic rule that determines who pays an escaped tax bill. Although the bill is typically issued to the current property owner, responsibility for payment is entirely negotiable within the transaction.

In many cases, the seller agrees to cover the cost if the issue relates to their period of ownership. In other situations, a buyer may agree to assume the liability, often in exchange for a price adjustment. Sometimes the parties split the cost. The key point is that if this is not clearly addressed in the contract, it can easily become a source of conflict later.

## Escrow & Closing Complications

One of the biggest challenges with escaped tax bills is timing. These bills don't always show up during escrow and may appear after closing, when the deal is already complete. Unlike regular secured property taxes, escaped assessments are typically not prorated through escrow unless specifically negotiated.

Escaped assessments may not appear in public records at the time of the title search and are typically not covered by title insurance.

## Agent Best Practices

The best way to protect your clients is to be proactive from the very beginning. During the listing process, it's important to ask detailed questions about any improvements made to the property and whether proper permits were obtained. You should also confirm any ownership or entity changes and carefully review all disclosures for inconsistencies or gaps.

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As you move into the contract phase, clear communication becomes critical. This is the time to include specific language that addresses escaped tax bills and outlines who will be responsible if one is discovered later. Strong documentation and transparency help prevent misunderstandings.

During escrow, staying engaged can make a big difference. Working closely with title and escrow to review the property's history can help uncover potential risks. Pay close attention to signs like recent upgrades or missing permits, and make sure your clients understand the possibility of a reassessment.

## The Takeaway

Escaped tax bills are one of the most overlooked risks in real estate transactions, yet they have the potential to create significant financial and legal complications.

Your role as an agent goes beyond simply facilitating a sale. By identifying potential issues early, educating your clients, and structuring contracts thoughtfully, you position yourself as a trusted advisor and help ensure there are no surprises after the deal is done. A little diligence upfront can save everyone a lot of stress later.

*This information does not and is not intended to constitute legal advice; instead, all information is for general information purposes only.*



# MONTHLY INDUSTRY TERMS

## Certificate of Reasonable Value (CRV)

An appraisal issued by the Veterans Administration showing the property's current market value.

## Conventional Mortgage

A mortgage securing a loan made by investors without governmental underwriting, i.e., a loan which is not FHA insured or VA guaranteed.

## Principal, Interest, Taxes and Insurance (PITI)

Also called monthly housing expense.

