Office of the Assessor-Recorder
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Assessor-Recorder
City and County of San Francisco

VALUE CHANGE DUE TO NEW CONSTRUCTION

March 2016

Making changes to your home? Under State law, your property tax may increase due to "New Construction" activity. In general, New Construction refers to any improvements other than normal maintenance or repair. When new construction is performed, the changed or new part of your home may be reassessed at market value, thus increasing your property's assessment.

What should I expect during and after New Construction? Once construction starts, State law requires owners to **report their progress as of Jan 1st to our office annually** so we can adjust your assessment based on an estimated value of the completed work. After construction is completed, our office assesses the improvement at market value and adds it to your existing assessed value **(Note: market value may be different from the cost of construction).** The following flow chart and example clarifies the process.

CONSTRUCTION BEGINS

PROCESS

Before construction begins, your assessment increases by no more than 2% every year under State Law (Prop 13).

After receiving all necessary permits and approval, substantial additions, improvements or alterations of existing land and building structure begins at a property.

EXAMPLE

John bought a single family house and had an initial base assessment of $490, 196. Next year, John's assessment increases to $500,000 (+2%) per State Law (Prop 13).

John begins construction to add two large bedrooms. The estimated cost of the project is $100,000 (or approximately $50,000 per room).

CONSTRUCTION IN PROGRESS

State law requires our office to assess all in-progress projects yearly as of Jan 1.

In February, you receive an **In-Progress New Construction Assessment Notice** and are required by State law to report your progress as of January 1st. Based on the reported information, our office estimates the value of the completed portion of the construction and adds that value to your existing assessment.

In July, you will receive your annual Notice of Assessed Value which will reflect the original assessment plus the value of the in-progress construction.

This assessment adjustment occurs every year until the project is complete.

As of Jan 1, John finishes only one bedroom.

In February, John receives the "In Progress" notice and reports 50% completion. Based on that information, our office estimates the completed portion worth $50,000 and adds that value to John's assessment.

In July, John received his Notice of Assessed Value at $560,000, which is $500,000 x 1.02 (+2% per Prop 13) +$50,000 (estimated in-progress value)= $560,000

The same process repeats the next year until the project is complete. In July of the following year, after the second room is added, John receives a Notice of Assessed Value at $621,200 = $560,000 x 1.02 (+2% per Prop 13) +$50,000 (estimated in-progress value).

CONSTRUCTION COMPLETED

Our office conducts an analysis to determine the market value of the construction as of completion date (Note: market value may differ from construction cost) and add any difference to your assessment to generate a new base assessment.

A Notice of Supplemental Assessment is mailed to notify you the updated value in our records. The new assessed value is submitted to the Office of the Treasurer & Tax Collector, who is responsible for mailing and collecting tax bills. These bills are issued to "catch up" and tax the difference between the new and the existing assessed values.

After John finishes his project, our office may determine that the market value of having 2 extra bedrooms is worth $200,000. Since $100,000 was added during the in-progress adjustment, our office adds an additional $100,000 to John's assessment, arriving at a new base assessment of $721,200 = $621,200 + $100,000.

John receives a Notice of Supplemental Assessment from our office notifying him $100,000 will be added to his existing assessed value.

John receives a corresponding tax bill from the Office of the Treasurer & Tax Collector. The bill "catches up" and taxes the difference in assessment.

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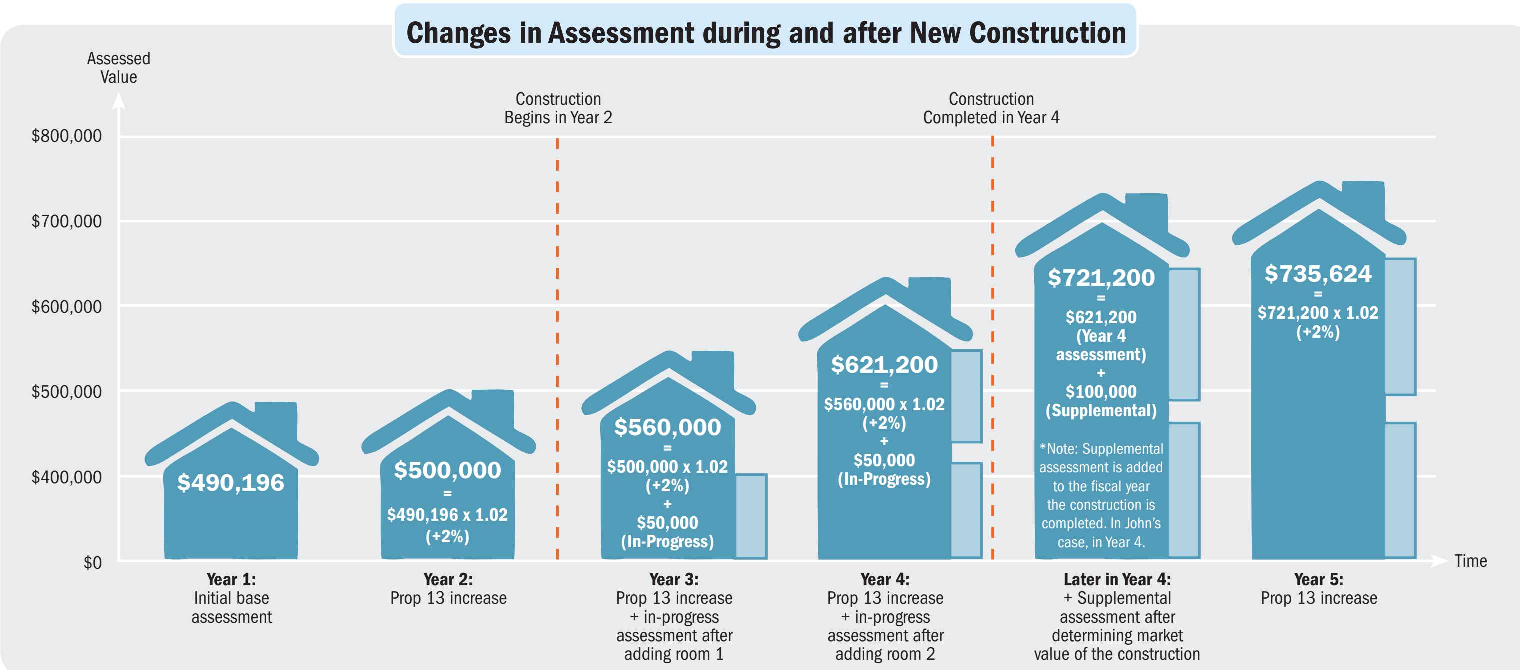
State law requires we add the market value (not necessarily construction cost) of new construction to your base assessment. Since it takes time for our office to analyze and process the information, it is important you plan for the eventual "catch-up" bills (supplemental and/or escape tax bills) that come later. The graph below helps explain the changes in John's assessment during and after his construction project.



The above graph is a simplified scenario to help explain the concept of assessment change during and after construction.

** If we are unable to complete the market analysis before the next cycle of property tax bills (which are mailed by the Office of the Treasurer & Tax Collector), you will first see a bill based on the most recent in-progress assessment. Once we have completed the new assessment, supplemental and/or escape tax bills will be issued to catch up the difference between the new and the in-progress assessment.

FREQUENTLY ASKED QUESITONS

Q1: Why am I receiving Supplemental and Escape tax bills after new construction?

A1: State law requires owners to pay property taxes based on their new base assessment on the very first day new construction is completed. However, it takes time for our office to analyze market data to determine the fair market value added by the construction. By the time we update our record, you may have already paid your property taxes based on the prior value.

Therefore, supplemental and escape tax bills are issued to "catch up" on those taxes. Supplemental tax bills capture the difference between what you were billed and what you should be billed in the tax year of your completion date. Escape tax bills capture the same difference but for the subsequent years after completion.

Q2: Will all construction activities lead to reassessment?

A2: No. If the projects are part of normal maintenance and repair, such as replacing a leaky window, then they are likely not considered assessable. There are also exemptions from reassessment for solar energy system installations and for seismic retrofitting improvements (see our website for more info).Common assessable projects include adding a new room or bathroom, or converting part of a garage to a living room. Remember, only the changed or new part of your home may be reassessed at market value, not the entire property. The scope of each project varies and our office reviews each project individually.

Q3: How are legalized in-law units assessed?

A3: It is handled like any other new construction project. Changes in assessment varies on a case-by-case basis and we would consider what was part of your original base assessment and the additional construction carried out to legalize or upgrade your unit. Please keep in mind that our office does not provide a preliminary estimate of assessed value because we need to review what actually changed and determine the additional assessed value.

Disclaimer: Information on this document is not constructed as legal advice, but is designed merely to inform the public on change in assessment processed by the Office of the Assessor-Recorder. If you have any questions regarding your personal finance, it is recommended that you consult with an attorney or a certified accountant.