

By ANNA CHANG-YEN | Green Shoot Media

You might call property taxes a necessary evil. Though the annual bill can tax our home buying power, the money raised by property taxes pays for schools, roads, parks and other public services that are vital to the life of a community.

WHAT DO I GET?

According to the U.S. Department of the Treasury, property taxes were collected in the United States as early as 1646. Though the large price tag can make you do a double take, property taxes pay for a wide range of services that make our communities safe and livable. Property taxes are collected and distributed differently in different states and counties, but in general, the money generated is used to pay for services such as sewers, emergency services like fire and police, road maintenance, libraries, animal control and courts.

That means you probably won't get a bill for having animal control catch a feral cat making a mess of your garbage cans or enrolling your children in public schools. It also means everyone has to pay into the system and do their part.

HOW THEY'RE CALCULATED

Property taxes can take a small nibble or a major bite out of our budget. WalletHub.com ranked states by effective property tax rates for 2016, using U.S. Census Bureau and state motor vehicle department information. New Jersey



topped the list, with homeowners shelling out 2.29 percent of their home's value each year, and Illinois followed closely behind at 2.25 percent. At the bottom of the list were Hawaii (0.28 percent) and Alabama (0.43 percent).

Real estate taxes usually are calculated based on the value of your property. Taxing entities usually include an arm of its operations that values property on a regular basis. That value is then multiplied

by the tax rate, which can change from time to time when voters approve new taxes.

Some property taxes are based on the square footage of the property, while others may be a flat fee assessed to each property in the taxing district. For example, large residential developments may use a "special assessment" to recoup costs of adding parks and public roads to the area in order to accommodate residents.

AT CLOSING

Property taxes can play heavily into the cash you need to bring to closing when purchasing a home. You may need to bring several months worth of property taxes to closing to be placed in an escrow account, from which your lender pays the taxes each year. In states where property taxes are highest, this can amount to many thousands of dollars out of pocket. Ask your lender or real estate attorney about how

REAL ESTATE 101

Highs and Lows

Here are the highest and lowest property tax rates in the country, based on WalletHub.com's rankings. HIGHEST: New Jersey (2.29%), Illinois (2.25), New Hampshire (2.10%), Wisconsin (1.97%) and Texas (1.93%); LOWEST: Hawaii (0.28%), Alabama (0.43%), Louisiana (0.48%), Delaware (0.53%) and Washington, D.C. (0.57%). Read the full list at <http://bit.ly/1YfZris>.

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THROUGHOUT THE YEAR

Many homeowners pay their property taxes through an escrow account. That means they don't have to worry about saving up large sums of money for the annual tax bill, because a portion of the taxes are added into your mortgage payment each month. In states with high tax rates, this approach may make the most sense. The legal consequences of missing a tax payment can include having your home sold at public auction to cover the tax bill, so it's never a good idea to take chances with missing a payment. If your lender does not require an escrow account, you can request it during the application process.

Alternatively, you could be expected to make the payment yourself each year. This makes the most sense when the bill is only a few hundred dollars a year.

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HOMESWISE GLOSSARY

Tax service fee: a fee that covers the cost of your lender engaging a third party to monitor and handle the payment of your property tax bills. This is done to ensure that your tax payments are made on time and to prevent tax liens from occurring.

Tax certificate: Official proof of payment of taxes due provided at the time of transfer of property title by the state or local government.

SOURCE: Consumer Financial Protection Bureau

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