

## New Construction

"What happens when I build.  
If I add a room, will my taxes go up?"

This pamphlet, produced by the San Benito County Assessor explains what happens to the assessed value of property when a parcel is improved.

### What happens when I build a new home on my vacant property?

New construction is appraised at fair market value as of the date of completion. Fair market value is often times the cost of construction. This cost represents all necessary costs that must be incurred in placing the building or component in the hands of the ultimate consumer, including the following:

- Excavation for foundations, piers, and other structural foundation components.
- Materials
- Labor
- Architects fees
- Engineers fees
- Supervision
- Normal permits, etc.
- Normal utility hook-ups
- Overhead and profit
- Contingencies
- Carrying charges during construction
  - Taxes
  - Interest
  - Insurance
- Legal Expenses
- Typical sales commissions or costs and transfer fees.

### How does this affect my existing assessment?

The land portion of the property is protected by Prop 13. The only change to this value would be a result of land improvements (septic, sewer, etc.) which would be added to the existing land value.

### Do you reappraise my property every time I do a little home improvement?

Yes and no. Under the rules of Prop. 13, the Assessor reappraises new construction at fair market value on January 1 lien date. However, only the new construction is appraised. If you are simply adding a room, expanding an area, building a shed, etc., the existing assessed value of all other improvements will not be subject to reappraisal.

### Does the assessor pick up the value of every little bit of work that I do on my property?

No. The State Board of Equalization has offered seminars on the topic: "What constitutes new construction?" It really boils down to the value of the improvement, and its newness. Our office receives copies of permits from the various jurisdictions in the county on a regular basis. Many of these permits are purged up front (miscellaneous electric, special inspections such as re-roofs, hot water heaters, etc.) and are considered not reappraisable. In addition, remodeling and routine repair is not considered new construction. As a rule of thumb, unless a structure is extensively improved, we consider such work to be normal maintenance and, therefore not subject to reappraisal.

### How do you determine the value of my construction?

Our professional appraisal staff uses standard appraisal methods to value new construction. In the majority of cases we use standard cost factors. Of course, each appraisal has its own unique variable components of quality, utility, size and context. The appraiser will sometimes request a cost breakdown from the owner. When a general contractor has done the work, such costs are usually quite accurate. In the case of the owner/builder it's not quite as simple. Owner/builders don't normally include their own labor, overhead, supervision, insurance, and other soft costs that are found in a typical contract. **Market value, for purposes of tax assessments, does include all of these items.**

### How is the increased value of my property reflected in my taxes?

When construction continues after the January 1 lien date, any value added for partial completion of the new construction is added to the total assessed value of the property. When construction is completed the remaining value is added to the assessment roll and a supplemental bill is generated. This supplemental amount is then prorated from the month following completion to the end of the fiscal year (June 30). For example, if you finish adding a \$25,000 room to your house on September 15th, the assessment would be calculated as follows:

$$\text{..... } \$25,000 \times .01 \times .75 = \$187.50 \text{ .....}$$

### Do I have to pay this supplemental all at once?

No. Once the value is processed the additional tax will be split into two separate bills. These will be mailed out with due dates clearly indicated.

### Do I pay this tax the following year?

Not on a separate bill. Once the supplemental bills are paid the added value becomes a part of your total property value and is reflected in your yearly tax bill.



**Should you have any further questions,  
please contact the County Assessor at:  
(831) 636-4030**

Tom J. Slavich  
San Benito County Assessor  
440 Fifth Street, Room 108  
Hollister, CA. 95023-3893  
[www.san-benito.ca.us/departments/assessor](http://www.san-benito.ca.us/departments/assessor)

LAST UPDATE 10/08



**What  
happens  
when I build  
on my  
property?  
If I add a  
room, will  
my taxes go  
up?**



# “The Supplemental Journey”

*If You Buy New Property  
Or  
Complete New Construction...*

...between June 1st  
and December 31st

...between January 1st  
and May 31st

1

1

...you will receive a **Supplemental Tax Bill** for the remainder of the *current* fiscal year, based on the difference between the new and the prior assessed values...

➔ **REMEMBER:** Each year, on January 1st, assessments are established for the coming fiscal year (July 1st—June 30th). This is typically a 2% increase over the prior year's value. **Re-assessable** events (change in ownership, completion of construction), which occur after this date, will therefore not be reflected on the **Annual Tax Bill** for the coming year, so...

2

....and the **Annual Tax Bill** for the *coming* fiscal year, which will reflect the new assessed values.

**NOTE:** Taxes based on the change in assessed property value due to a change in ownership or the completion of new construction are calculated as of the first day of the month following the date of ownership change or construction completion.

2

...you will also receive a 2nd **Supplemental Tax Bill** for the entire *coming* fiscal year, reflecting the differences between the new and prior assessed values...

3

....with the **Annual Tax Bill** for the *coming* fiscal year still reflecting the value of the January 1st annual assessment. (In the case of a transfer of ownership, this is based on the “seller’s” assessed value as of January 1st.)