Investing in Tax Lien Certificates and Tax Deeds

by Shahid Habib

A Tax Lien is a claim filed by a county tax collector against a property for which the owner has failed to pay taxes. If done right, investing in Tax Lien Certificates and Tax Deeds can be highly profitable.

Tax lien certificates are the ideal real estate investment. They are predictable and safe as they are issued and backed by the US government. When the tax payer pays the government taxes that are past due, you get a check from the government that includes the amount you paid for the tax lien certificate along with a penalty interest paid by the tax payer. In most cases, the tax payer pays the taxes with high interest which can range from 16% to 50% depending on the State you are bidding in.

In some cases you can get the property free and clear of the mortgage if the delinquent tax payer doesn't pay the back taxes and interest within the statute mandated redemption period.

Tax liens can be bought for as little as $10 or less or as high as several million dollars. The high interest rates are fixed and when you buy a tax lien certificate, either you get high interest rate returns or you get the real estate for pennies on the dollar.

The tax lien process begins when the tax payer misses payments on real estate property taxes. The county places a lien on the property that has delinquent taxes and sells the Tax Certificate Lien to an Investor.

The county has a high priority of collecting property taxes as it helps to pay for important government services like police, fire, hospitals and schools. Real estate property taxes help generate the income to run the local government without which it would go bankrupt.

There are two types of tax sales. The first type is a tax lien certificate sale and the second type is a tax deed sale. Some states have certificate sales where the winning bidder buys a tax lien certificate. The homeowner in this case has a state specified redemption period during which time the tax maybe paid back with interest and penalties to the lien holder. On the other hand if the homeowner fails to come up with the payment within the redemption period then property goes free and clear to the lien holder.

The second type is a tax deed sale in which the property is auctioned by the county for the amount of back taxes, interest and penalties owed by the delinquent owner at the end of a specified redemption period.

At the deed sales the winning bidder can get a deed of ownership right away and the delinquent homeowner has no redemption rights making the property yours usually free and clear of any mortgages. The redemption period varies from one state to another. It is important to check with the local county treasurer or tax collector to find out the rules and regulations pertaining to that particular state before proceeding to bid.

California is probably one of the best tax deed sale states and conducts tax sales throughout the year. Each county has different rules and all tax deed sales are by competitive bid. At these sales, sometimes entire properties can be bought for only the taxes owed. Please note that as property values in California are so high, in most cases you will need a lot of money to bid on properties.

How does one go about finding information about tax sales? Well, there are several reports available on tax lien investing that provide information about the where, when, how and who to contact to get property lists for which the county is auctioning off the liens. The lists show the exact tax amount owed by the delinquent property owner and that amount is what the bidder pays to acquire a tax lien certificate against the property.

Sometimes there are too many properties on the list and a lot of them go unsold at the auction and sometimes not many investors show up at the auction. Tax liens that are left over after the auction can be bought by tax lien investors at a later given date that is announced by the county. In a number of counties you can buy these left over liens by mail. It does not necessarily mean there is something wrong with the properties because they got left over, however it is important to check them out beforehand and do your due diligence.

Investors typically request a bidder registration form and W-9 from the county and need to complete these and mail them along with certified funds for the amount of the tax liens being bid on. If no other investor has bought that particular lien, the county treasurer mails you the tax lien certificate.

Most counties hold tax sales once a year, while some hold it more often. The County Treasurer or Tax Collector generates a list of tax liens to be auctioned at upcoming tax sales. The list includes all properties with outstanding property taxes.

The County Treasurer or Tax Collector has to advertise a notice of sale in a major newspaper two or three weeks before the tax sale to allow delinquent tax payers enough time to pay delinquent property taxes, penalty fees, and interest charges. You can check these notices in newspapers on the internet in eight states as of now at www.publicnoticeads.com.

Some tax payers end up paying the back taxes after getting the notice so it is better to get an updated and more accurate list of tax liens to be offered at the upcoming tax sale. You can get this list from the local county treasurer or tax collector.

Real Estate Investors can buy tax lien certificates at local delinquent tax sales auctions and the investor with the winning bid gets the tax lien certificate. It is a win-win situation for all parties as the county gets it's money to run the local government, the tax payer gets a breather to try and raise money to pay their delinquent property taxes, and the real estate investor gets a real estate backed high return investment.

In most cases you must pay for the tax lien certificate with certified funds within 24 hours. Sometimes you may have to pay within an hour.

Bidding processes differ from State to State. Most common are the “bidding up system” and the “bidding down interest rate system”. Some states use the bidding up system, where the price paid to buy the parcel can be bid up or increased by other investors. Other states use the bidding down interest rate system where the interest rate is stated on the tax lien certificate and announced before the auction starts. The investor that accepts the lowest inter est rate is the winning bidder.

It is very important that you do your homework before going to bid at a tax sale. To make sure you are getting good return on your investment you must first contact a local realtor in the area where the parcel or property you have interest in is located. Find out what type of property it is by checking with the county assessors' office. You do not want end up bidding on property that is undeveloped or has other problems. Once a good property has been identified the bidder either bids in person at a county tax sale or buys the tax lien certificate through what is known as over the counter.

A good way to buy tax lien certificates is by using your self directed IRA so you end up with tax free or tax deferred benefits that accumulate in your IRA accounts. A self-directed IRA is a type of IRA that the IRS allows you to invest in real estate.

You can also find a wealth of information on investing in Tax Lien Certificates from author and lecturer Steven E. Waters, who is an expert on the subject. Waters has many years of experience with tax lien certificates and tax foreclosure sales.

Waters has bought tax lien certificates and tax deeds in several states and likes to help new investors simplify the process and procedures of investing in delinquent tax certificates and tax deeds. His report on tax liens is a must for anyone venturing into this highly profitable investment option.

ABOUT THE AUTHOR:

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