

# A comprehensive approach to investing in Tax Liens and Tax Deeds.

In this book the author dispels a common, yet mistaken, belief that investing in tax liens and deeds through tax sale auctions is a risky and complicated proposition.

She demonstrates how distinctive investment techniques can yield highly favorable results for the seasoned investor, as well as the beginner.

The new investor will learn how to avoid certain stumbling blocks and pitfalls they may encounter on their journey toward attaining financial success through this investment strategy.

## The Complete Guide

To Investing In Real Estate Tax Liens and Deeds How to Earn High Rates of Return-Safely

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# The Basics of Tax Lien

When property taxes remain unpaid for a certain length of time (varies from state to state), the taxing authority may initiate a course of action that allows an investor to pay the delinquent taxes and obtain a tax lien certificate.

A Tax Lien Certificate does not convey ownership of the property- nor does it grant rights of occupancy or possession. It does, however, give the investor a negotiable lien on the property. If the homeowner does not redeem the property within a specified period of time, in some states, the investor has a right to foreclose on their tax lien certificate and become a tenant-in-common with the property owner.

If the homeowner exercises their right of redemption, they must reimburse the investor for the amount of the delinquent tax, plus interest and penalties as permitted by governing laws. The amount of interest on a tax lien certificate that an investor can collect ranges from 15 percent to 50 percent (after the second year of delinquency).

## States Benefit from Tax Lien Certificates:

By selling Tax Lien Certificates, states are provided with continued funding for community and government services. Tax Lien Certificates are a beneficial enterprise for states whose statutes authorize the sales.

At the time this book was published, the following states were engaging in the sale of tax lien certificates:

- Alabama
- Arizona
- Colorado
- Florida
- Illinois
- Indiana
- Iowa
- Kentucky
- Maryland
- Michigan
- Mississippi
- Missouri
- Montana
- Nebraska
- New Jersey
- North Dakota
- Oklahoma
- South Carolina
- South Dakota
- Vermont
- West Virginia
- Wyoming

Also, the District of Columbia and Commonwealth of Puerto Rico.

Each state has its own system and differing procedures, but the principles of recovering and recouping losses from property tax delinquencies are comparatively similar.

NOTE: Florida and Kentucky are currently the only states that prohibit investors from acquiring a deed of ownership based solely upon payment of delinquent property taxes.

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# The Basics of Tax Deeds:

In states known as Tax Deed States, if you are the winning bidder at the tax sale, you'll receive a "Tax Deed" conveying ownership to you after you have paid the delinquent property taxes plus any related penalties and interest. The redemption period for the tax-defaulted owner varies but can range from six months to two years after the tax deed was issued.

Tax Deed states that permit the property owner a right of redemption are referred to as Hybrid Tax Deed States. They are:

- Connecticut
- Delaware
- Georgia
- Hawaii
- Louisiana
- Massachusetts
- \*Pennsylvania
- Rhode Island
- Tennessee
- Texas

Also, the territory of Guam.

\*As of the date of this book, Pennsylvania's Hybrid Tax Sale process permitted the tax-defaulted property owner to redeem the property providing it was occupied at least 90 days prior to the tax sale.

States that issue tax deeds but do not allow the tax-defaulted owner a right of redemption are considered *Pure Tax Deed States*.

They are:

- Alaska
- Arkansas
- California
- Idaho
- Kansas
- Maine
- Michigan
- Minnesota
- Nevada
- New Hampshire
- New Mexico
- New York
- North Carolina
- Ohio
- Oregon
- Virginia
- Washington
- Wisconsin

Certain states have peculiarities wherein their statutes allow for the sale of tax lien certificates in addition to tax deeds. The procedures vary depending upon the county, municipality or the population. For example, Ohio statutes permit the sale of tax liens in municipalities where the population is greater than 200,000.

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# Tax Sales and Auctions:

Typically, tax deed states will conduct regular though sporadic, tax auctions. Depending upon the taxing authority, tax sales can occur weekly, monthly, quarterly, or biannually. During these auctions, tax lien certificates are made available to the general public. Certain municipalities restrict you to one bid per registration. However, investors have been able to circumvent this restriction by enlisting the aid of family members and associates to bid for multiple certificates.

Some taxing authorities offer what's known as "over-the-counter" sales of certificates not sold at the tax auction. In certain counties and cities, investors can purchase over-the-counter tax lien certificates through mail which greatly reduces the amount of leg work required by the investor.

# Internet Auctions:

Online bidding is a relatively new method of acquiring tax certificates. This technique requires thorough research on the part of the investor to determine each municipality's requirements.

*Investors need to know:*

- If a deposit is required before bidding.

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- If the taxing authority requires payment in full on the day of the auction or if there's a grace period.

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- What payment methods are accepted (i.e., Cashier's Check, Money Order, Personal Check, Credit Card, etc.)

# Selecting the Most Profitable Tax Lien Certificates:

An investor can, more than likely, expect redemption of tax certificates from owners of the following types of properties:

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- *Single Family Homes* - homeowners rarely lose single-family homes as a result of delinquent property taxes.
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- *Multi-Family Units* - these are frequently owned by companies as income-producing investments. Regardless of the circumstance that led to the tax default, owners of multi-family units are not likely to lose their property because of delinquent taxes.
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- *Properties with Homestead Exemptions* - homestead exemptions are an indication of owner-occupancy and that the property is the principal residence of the owner. Most property owners who homestead their properties plan to live there for quite some time, and are likely to quickly redeem the property.  
Does the book further explain what Homestead Exemption are? If so, it would be helpful to the reader to understand how this differs from any other tax lien in which the owner is still occupying the residence.
- 
- *Mortgaged Properties* - properties encumbered by mortgages are almost always redeemed by the lender. Taxes are a perpetual lien on the property and senior to mortgage liens. Banks will not allow their lien to be endangered by delinquent property taxes.

## Properties to Avoid:

An investor's ultimate objective when investing in tax lien certificates is to realize a profit when the property is redeemed, or gain property ownership in the event the property is not redeemed.

Therefore, it's imperative that investors avoid worthless properties, such as:

- Vacant, unkempt lots
- Abandoned properties
- Dilapidated, ramshackled properties

Tax lien certificates on worthless properties are essentially worthless. A property that is no longer of any value to the owner will not be redeemed. Investors are cautioned to research properties to determine their potential before purchasing the lien certificate.

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# The Bidding Process:

Each state has its own bidding process but as a general rule they all engage in some type of competitive or non-competitive bidding.

- *In competitive bidding* - each bidder increases the amount they're willing to pay in excess of the opening bid until the highest bid is accepted.
- *In non-competitive bidding* - tax lien certificates are sold on a first-come, first-served basis. There are no bidding wars.

Some investors may elect to contact the homeowner whose property is up for tax sale, and negotiate an amicable deal wherein the investor pays the tax delinquency in exchange for a share in the equity of the property.

# How Investors Realize Profits from Investing in Tax Lien Certificates:

- Liberal rates of interest on tax lien certificates can result in an extraordinary return on investment when the certificate is redeemed.
- Investors may assign their certificates to another party for a fee.
- Investors may subsequently acquire ownership of the property secured by the certificate.

# What to Consider When Deciding Where to Invest:

- 1 Familiarize yourself with state laws and regulations governing taxing authorities.
- 2 Select states that offer over-the-counter certificate purchases this means certificates are available long after the tax sale auction has ended.

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- 3 Choose the older certificates before the newer ones (some may be discounted).
- 4 Research to ascertain the bidding system specific municipalities are using.
- 5 Avoid bidding in states where fees to foreclose on the tax lien certificate are considerably high (if an owner fails to redeem the lien certificate, an investor may exercise their right to foreclose on it).
- 6 Obtain a list of tax-delinquent properties and determine if they're likely to be redeemed (most treasurers publish tax-defaulted properties in newspapers. If you send a self-addressed stamped envelope, smaller municipalities may provide you with a list of properties up for tax sale).
- 7 Research and evaluate all potential properties prior to bidding or purchasing over-the-counter.

In addition to the bidding process, the following states also allow purchase of unsold certificates over-the-counter:

- Alabama
- Florida
- Montana
- Oklahoma
- Wyoming
- Arizona
- Kentucky
- Nebraska
- South Carolina
- Colorado
- Maryland
- North Dakota
- South Dakota

## Before Purchasing A Tax Lien Certificate, You Should Determine the Following:

- If the property securing the certificate is a valuable piece of real estate.
- What other liens are on the property.
- If outstanding liens will be discharged through the tax sale process.
- If there are code violations, mechanic's liens or indications of abandonment.
- If the property was an inheritance or gift.
- If the property is occupied.

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- If record owners have out of state or out of country mailing addresses.

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- If property owner is a dissolved corporation, LLC, limited partnership or other fiduciary entity.

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- The estimated market value of the property.

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- Whether neighboring properties have tax lien certificates available for purchase.

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- Whether there are open probate proceedings indicating a deceased property owner.

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- Whether the present owner has other properties for which tax lien certificates are available (this could be indicative of a potential abandonment, in which case the owner is not likely to redeem the property).

## Foreclosing on Un-Redeemed Tax Lien Certificates:

Tax Lien Certificates that are not redeemed before the redemption period expires may be foreclosed. There is, however, a caveat the investor should be aware of. Foreclosing on a lien certificate does not automatically guarantee title to the property. There are basically two types of foreclosures:

- *An Administrative Foreclosure* - The foreclosing investor obtains title to the property. In the Administrative Foreclosure the investor should:
  - Notify the Taxing Authority of their intention to foreclose.
  - Pay the administrative costs involved.
  - Complete the necessary paperwork.
  - Send notice of intent to foreclose to the property owner.
  - Publish notice in the local paper (the notice must be detailed and include an accurate description of the property, when the foreclosure proceedings will be held, where the proceedings will be held, name of the record owner, and the type of taxes that are delinquent.

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- *A Force of Sale Foreclosure* - ? The foreclosing investor sells the property at a tax deed sale.

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In the Force of Sale Foreclosure the investor should follow the same procedures as outlined in the Administrative Foreclosure with a couple of exceptions:

- The Taxing Authority issues all notices - not the investor.
- The Taxing Authority sets the dates and times for the sale.
- The investor is given preference over others at the sale (to purchase the property).

*The following costs are customary with each proceeding:*

- ✓ Attorney fees
- ✓ Filing fees
- ✓ Court costs
- ✓ Treasurer or other Taxing Authority fees
- ✓ Title fees

The following is an outline of each state's general procedures with regard to Tax Lien Certificates and Deeds. Keep in mind that some states' procedures vary depending on the municipality:

State	Type of Sale	When Sales are Held	Redemption Period
Alabama	Tax Lien Certificate	May	3 years
Alaska	Tax Deed	Varies	Up to 1 year
Arizona	Tax Lien Certificate	February	3 years
Arkansas	Tax Deed	May	30days
California	Tax Deed	Varies	2 years
Colorado	Tax Lien Certificate	November	3 years
Connecticut	Hybrid Tax Deed	June	1 year
Delaware	Hybrid Tax Deed	Varies	60 days
Florida	Tax Lien Certificate	June	2 years
Georgia	Hybrid Tax Deed	Varies	1 year
Hawaii	Hybrid Tax Deed	June & November	1 year
Idaho	Pure Tax Deed	May	N/A
Illinois	Tax Lien Certificate	Varies	2-3 years
Indiana	Tax Lien Certificate	August-November	1 year
Iowa	Tax Lien Certificate	June	1 year & 9 mos.
Kansas	Tax Deed	Varies	N/A
Kentucky	Tax Lien Certificate	April-May	1 year
Louisiana	Hybrid Tax Deed	January-April	3 years

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State	Type of Sale	When Sales are Held	Redemption Period
Maine	Tax Deed	Varies	N/A
Maryland	Tax Lien Certificate	Varies	6 months
Massachusetts	Hybrid Tax Deed	Varies	6 months
Michigan	Tax Deed	May	1 year
Minnesota	Tax Deed	Varies	N/A
Mississippi	Tax Lien	April & September	2 years
Missouri	Tax Lien	August	2 years
Montana	Tax Lien	July	3 years
Nebraska	Tax Lien Certificate	March	3 years
Nevada	Tax Deed	Varies	120 days (vacant)
NH	Tax Lien Certificate	Varies	2 years
NJ	Tax Lien Certificate	Varies	2 years
NM	Tax Deed	Varies	N/A
NY	Tax Lien Certificate	Varies	1 year
NC	Tax Deed	Varies	N/A
ND	Tax Lien Certificate	December	3 years
Ohio	Tax Lien Certificate	Varies	1 year 15 days
Oklahoma	Tax Lien Certificate	October	2 years
Oregon	Tax Deed	Varies	N/A
Pennsylvania	Hybrid Tax Deed	Monthly	1 year
Rhode Island	Hybrid Tax Deed	August	1 year
SC	Tax Lien Certificate	December	1 yr. & 18 mos.
SD	Tax Lien Certificate	December	3-4 years
Tennessee	Hybrid Tax Deed	Varies	1 year
Texas	Hybrid Tax Deed	Monthly	6 mos. - 2 years
Utah	Tax Deed	May	N/A
Vermont	Tax Lien Certificate	Varies	1 year
Virginia	Tax Deed	Varies	N/A
Washington	Tax Deed	Varies	N/A
W. VA	Tax Lien Certificate	Varies	18 months
Wisconsin	Tax Deed	Varies	2 years
Wyoming	Tax Lien Certificate	July September	4 years
Wash. D.C.	Tax Lien Certificate	July	6 months
Guam	Hybrid Tax Deed		1 year
Puerto Rico	Tax Lien Certificate		1 year

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# IN CONCLUSION

States are continually seeking to recoup losses they sustain each year due to delinquent/unpaid property taxes. This creates a golden opportunity for the well-informed investor.

Through research, experience and diligence, the author has been able to set aside the fear of this investment technique that besets many new investors, and forge ahead to overwhelming success.

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