

**INVESTING IN TAX DEEDS AND TAX LIEN CERTIFICATES:
A MANUAL FOR INVESTORS ON TAX SALES**

by:

<http://www.taxlienresearch.com>

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BASICS

Each year, property taxes are assessed against every piece of real estate in every state and county in the United States. This real estate could be residential homes, commercial properties, parking lots, apartment buildings, vacant land etc. The local county needs and uses these taxes to fund day to day operations - such as maintaining roads, salaries for police, funds for libraries, public schools etc.

The local county would rather have the unpaid taxes up front as opposed to the expenditure and process involved in going after delinquent property owners, so these unpaid taxes are sold to investors at **tax sales** in the form of **tax lien** and **tax deed certificates**. This is a much easier and quicker alternative for the local taxing authority to collect delinquent property taxes.

The Investor who purchases such certificates collects penalties and interest levied by the taxing authority from the taxpayer. The Investor acquires the rights of the county or taxing unit. To the Investor, the 2 most important rights are

- 1. The right to collect legal lawful interest (declared by state statute)**
- 2. The right to obtain possession of property by court eviction**

A tax certificate is a first lien on real estate property with interest. This means that the tax lien takes precedence over all other liens, even the bank's mortgage on the property and places the lien holder in first position.

If the property owner does not redeem the certificate by paying the Investor the amount of back taxes owed, plus interest (where applicable) and any other costs such as legal notices etc, the lien holder can force a public sale of the property to get the principal plus penalties and costs.

Property owners have a certain amount of time after the certificate is sold to catch up on back taxes. This period is called the "**redemption period**" and varies from state to state, the range varying from six months to four years.

However, most states give the property owner one to two years to redeem. If the certificate has not been redeemed during the redemption period, the certificate holder can file a judicial suit to foreclose on the certificate for the amounts already paid.

It is important to note that the winning purchaser of a tax lien certificate does not own the property, rather the investor owns a first position lien.

Tax deeds differ from the above process (tax liens), the most important difference is if you purchase a tax deed at a sale, **you own the property immediately** - free and clear of other liens (except any county fees). The original owner of the property **does not get a redemption period**.

Some states operate under a **hybrid system**; the hybrid system works like a tax deed sale - in that the investor owns the property upon receipt of the tax deed - but the original owner gets a redemption period. This could vary from six months to two years, check your state statute.

For the original owner to redeem, they would have to pay all of the back taxes owed, plus any amounts over the taxes paid ("**premium**" - the amount bid over the face value of the lien), penalties (on the taxes and premium) and county costs.

States in the United States will fall into one of three categories:


a. **Lien States** - Investor has **only a lien and no other rights to the property**, receives interest until lien is redeemed by the property owner. Such states are: Alabama, Arizona, Colorado, District of Columbia, Florida, Illinois, Indiana, Iowa, Kentucky, Maryland, Mississippi, Missouri, Montana, Nebraska, New Jersey, North Dakota, Ohio, Oklahoma, South Carolina, South Dakota, Vermont, West Virginia and Wyoming

b. **Deed States** - Investor actually **gets title to the property**, no interest rate since the Investor will be acquiring the property. Such states are: Alaska, Arkansas, California, Idaho, Kansas, Maine, Michigan, Minnesota, Nevada, New Hampshire, New Mexico, New York, North Carolina, Ohio, Oregon, Pennsylvania, Utah, Virginia, Washington, Wisconsin

c. **Hybrid States** - (a deed state that operates like a lien state) Investor **gets title and interest, subject to property owners right to redeem** (i.e., pay unpaid taxes plus interest, penalties and costs) within a specified period (six months to four years). Such states are: Connecticut, Delaware, Georgia, Hawaii, Louisiana, Massachusetts, Pennsylvania, Rhode Island, Tennessee and Texas.

Figure 1 Example of a Tax Deed

Stephen C. Lewis, Esq.
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 8530 Mayland Drive
 Richmond, VA 23294



DEED

(Property Acquired Thru Tax Sale)

THIS DEED, made this 26th day of September, in the year Two Thousand and Six by and between Anthony A. Williams

Mayor of the District of Columbia, party of the first part, and THE ELY GROUP, LLC parties of the second part, witnesseth:

WHEREAS, in compliance with law certain property, located in the District of Columbia and known for purposes of assessment and taxation as lot numbered 0003 and improvement in square numbered 5161 according to the records in Department of Finance and Revenue, District of Columbia, was duly assessed for taxation in the name of NATCO DEVELOPERS, INC. ET AL

for the fiscal year 2003 hereinafter mentioned and the taxes herein described duly levied hereon:

AND WHEREAS, the said taxes together with the penalties, interest and cost accruing thereon, being unpaid, and the said property in arrears for the same, the Mayor of the District of Columbia duly published said-described property, as required by law, giving due notice thereof by advertisement;

AND WHEREAS, the Mayor did on the 16th day of July, 2004, the day named for the sale of said property in arrears, offer for sale and sell the same to THE ELY GROUP, LLC

the highest bidder therefor, at and for the sum of Seven Thousand Seven Hundred Dollars AND 80/100 (\$ 7,722.80) that being the highest sum bid for said described property, and said amount being sufficient to meet the taxes, penalties, interest and costs due thereon; the said lot in said square being sold to satisfy taxes.

Interest thereon from _____ in the amount of _____ \$ 0.00

Tax due the District of Columbia for support of the government thereof for the fiscal year ending September 30, 2003 in the amount of Four Thousand Nine Hundred Ninety-Five Dollars AND 02/100 \$ 4995.02

Penalties accruing thereon in the amount of Two Thousand Seven Hundred Fourteen Dollars AND 78/100 \$ 2,714.78

Costs accruing thereon in the amount Thirteen Dollars AND 00/100 \$ 13.00

Surplus paid in the amount of _____ \$ 0.00

Total amount due Seven Thousand Seven Hundred Twenty-Two Dollars AND 80/100 \$ 7,722.80

AND WHEREAS, immediately after the said sale to said THE ELY GROUP, LLC




Figure 2 Example of a Certificate of Sale for Taxes

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER - OFFICE OF TAX AND REVENUE
941 NORTH CAPITOL STREET, NE, WASHINGTON, DC 20002**

CERTIFICATE OF SALE FOR TAXES

I, Martin A. Skolnik, acting under authority of the Chief Financial Officer (CFO) of the District of Columbia, certify that on July 14, 2006, the real property described as Square 5990, Suffix _____, Lot 0809, and assessed to MOORING TAX ASSET GROUP, was offered at public tax sale for the sum of One Thousand Five Hundred Eleven Dollars and 28/100 for the periods and amounts of taxes and costs, to wit:

Taxes (including a \$150.00 Tax Sale Fee) due for the tax year ended	September 30, 2005	1,293.94
Penalties and interest thereon		217.34
Capitol Hill		0.00
Water and Sewer		0.00
Public Space		0.00
Clean City Fee		0.00
Special Assessment		0.00
Mental Health		0.00
DCRA		0.00
New York Avenue		0.00
MTB		0.00
Vacant & Abandoned		0.00
Title Search Fee and Recording Fee	Deed 2007018188 Fees: \$0.00 02/07/2007 11:31AM Pages 1	1,511.28
Amount for which sold, less surplus	Filed & Recorded in Official Records of WASH DC RECORDER OF DEEDS LARRY TODD	7,000.00
Surplus		8,511.28
Total amount for which sold		8,511.28

I further certify that on July 14, 2006, with the amounts specified above totaling \$ 8511.28 (including surplus), I sold to JAMES C. ABELY the said real property for the sum of One Thousand Five Hundred Eleven Dollars and 28/100, plus surplus in the amount of Seven Thousand Dollars and 00/100. The real property described in this certificate is subject to redemption.

On redemption, the purchaser will be refunded the sums paid on account of the purchase price, together with interest thereon at the rate of 18% per annum (1½% per month) from the date the real property was sold to the date of redemption; provided, that the purchaser shall not receive interest on any surplus. On redemption, the purchaser shall also receive expenses permitted by Chapter 13A of Title 47 of the D.C. Code, 2001 Ed., that may have been collected by the CFO. Before a deed can be delivered to the purchaser, all taxes as defined in Chapter 13A with interest thereon, and including taxes with interest thereon for years for which the District or a third party purchased the real property at any tax sale and expenses reimbursable under Chapter 13A, shall be paid to the D.C. Treasurer except as provided in D.C. Code, 2001 Ed. § 47-1361(b).

After January 14, 2007, an action can be brought to foreclose the right of redemption in the real property. This certificate will be void unless such an action is brought and diligently pursued within one year from the date of this certificate. If this certificate becomes void as provided in D.C. Code, 2001 Ed. § 47-1355, all monies paid for the real property will be forfeited to the District. An assignee of this certificate shall notify the CFO within 30 days of the assignment and provide to the CFO the assignee's name, address, and telephone number.

Given under my hand and official seal, this 14th day of August, 2006.

Return to:
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Martin A. Skolnik
Martin A. Skolnik
Director, Real Property Tax Administration

Most people know very little about investing in tax lien certificates because resources on tax lien investing are scarce, and obviously so - because:

- This type of investment does not involve brokers, therefore you will not find ads in any financial magazines. Since Banks & Big Wall Street firms do not get any broker's fees, they really do not have any incentive to get involved. However, these same Banks and Wall Street firms are some of the most active investors at tax sales, purchasing certificates in hundreds of thousands if not millions of dollars. Think about the interest rates some of these certificates earn and you will soon see why this is such a desirable investment for banks and wall street firms.
- Auctions are held by the government, either via the county or city and most often does a very poor job of advertising the tax lien auction. Governments are not very good at marketing and most times will not go out of it's way to advertise. They will announce a notice of the sale, at least twice in local newspapers - but most often the Investor will not know the exact date the list will be included in the local paper, and the government will not give you this information. Think I'm kidding? Just pick up the phone and call your local treasury department and ask. Even when the tax list is published it's often buried in the back of the newspaper somewhere. Most people will not even recognize the list when they see it and will just dismiss it as a legal notice of some sort.
- Most people, due to a lack of knowledge don't really bother. Some might assume they need to have legal expertise or a real estate background to purchase liens, or some might believe such investments to be too risky.

Here are a couple of reasons why you should consider investing in tax liens.

- Tax lien investors can perform better than the stock market, getting 10 - 300% returns (By investing in states that levy penalties)
- Tax lien investors have control over the whole process from start to end
- Tax lien certificates are a first position lien, putting the tax lien investor ahead of all other liens (with a few exceptions).
- Tax lien certificates make a very stable investment
- Anyone can invest in tax liens with any amount of money and receive excellent returns, provided that you are knowledgeable and perform your research BEFORE you go to the auction
- Tax lien investments are 100% legit, they are administered and enforced by the county/city and part of the statute and local codes!
- Tax lien certificates make excellent investments, because the certificate is secured by the underlying real estate, most time 90% worth more than the actual certificate.

For an example of how a tax lien is created; let's say a homeowner owes \$2,000 in county property taxes and is declared delinquent. The county will place a lien on the property, then will sell it at an auction in the form of a tax lien certificate.

Investors at the auction pay the taxes and possibly some other costs. Starting at the time you buy the lien, interest starts building on the unpaid taxes. Winning Investors pay the unpaid taxes plus any premiums and are issued a certificate, which will start earning interest until either the property owner pays the taxes or the winning Investor can foreclose on the property.

Tax Sale announcement and lists are usually published in newspapers a few weeks before the sale. Tax Sales are held all across the United States. Tax Sales may take place online, or in person at the local county/city department of treasury. At the time of this writing, a lot of counties are moving their auction sales online. Check with your local department of revenue / taxation to see what the norm is where you reside or wherever you are interested in investing.

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