Tax Lien Lady's

<u>TAX LIEN INVESTING</u>

5-Point Checklist

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The Truth about Tax Lien Investing

What is tax lien investing anyway and why is it such a good investment?
What is the difference between tax lien and tax deed investing and what are some of the misconceptions about this type of investment?
Read on to find out…

What is a Tax Lien and Why is it a Good Investment?

Counties and municipalities depend on money from property taxes to meet their budget. When property owners don't pay their taxes, the county or municipality will sell the taxes to an investor. The investor is not buying the property but paying the taxes and putting a lien on the property. Why would an investor want to do this? Two reasons; first they are getting a decent interest rate on their money and secondly a tax lien comes before most other liens, so if anything should go wrong the investor is first in line to get paid, even before a mortgage in most states.

What's the Difference Between a Tax Deed and a Tax Lien?

In some states, when a property owner does not pay their taxes, instead of selling a lien on the property, the county or municipality will sell the property at a tax deed sale. In states that sell tax deeds you are buying the property. In some states the property is sold for back taxes and penalties, in other states the property is sold for a certain percentage of assessed value and in other states the property is sold at market value. A tax deed can be a good investment, especially in states that sell the property for the back taxes because the investor has a chance to buy real estate at under market value.

Some states sell redeemable tax deeds, in which the county sells the deed to the property at the tax sale. However, there is a redemption period in which the delinquent taxpayer can come back and redeem the property. To redeem the property, the delinquent taxpayer must pay the investor either a penalty or interest on their investment. Some redeemable deed states have a penalty, and some have an interest rate. In some states the penalty or interest can be quite high, making it very attractive to the investor, and harder for the owner to redeem their property.

Clearing up Some Misconceptions

Because people have been told that tax liens are a great investment and that they can make such good interest rates, they assume that interest is paid out by the county or municipality on a regular basis. The truth about tax lien investing is that you do not get paid a cent until the delinquent property owner decides to redeem the lien. If they do not pay during the redemption period (which is different for every state) then the lien-holder can foreclose on the property.

Another misunderstanding about tax lien investing is that after the redemption period is over, the lien holder will automatically get the deed to the property. The truth about foreclosing on a tax lien is that in most states you need a lawyer in order to foreclose and get the deed to the property, and in other states (Florida for example) the property will be sold in a tax deed sale, and will be auctioned to the highest bidder, so your chances of coming away with the property for what you have invested in it are not good. But as long as you bought a lien on a good property, you will be paid on your investment whether the property is sold at the deed sale, or the lien is redeemed during the process.

Some people have the misunderstanding that tax lien investing is a good way to buy properties for pennies on the dollar. The truth about tax lien investing is that this does not happen very often. Especially in states where the value of real estate is very high, the tax lien will almost always redeem sometime during the foreclosure process. Tax lien investing is a way to get a high return on your money. If you are interested in buying property for under market value, you are better off with tax deeds or redeemable tax deeds.

Is Tax Lien Investing for You?

Tax lien investing used to be something that only the wealthy knew about and took advantage of. For decades it was a little known, high yielding investment vehicle. All of this has changed in the past couple of decades as more and more people become aware of the high yields and minimal risk of investing in tax lien certificates. Many people are now learning about investing in tax lien certificates but they're not sure if it's really something that they can do. Read on to find out if this is an investment vehicle for you.

Tax lien certificates are an attractive investment for the small investor because you don't need thousands of dollars to start and you don't have to pay any brokerage fees. There are drawbacks, however. You almost need to become an expert in tax lien investing to invest profitably. This is an investment that you must be able to devote some time to. It's not like you can call your broker and tell him to buy some tax liens for your portfolio. Tax lien certificates are sold at tax sales conducted by a county or municipal official. These sales are usually auctions that are held at least once a year. Counties with very large populations may hold tax sales quarterly or even once a month. In order to invest properly, you need to find out when and where these tax sales are held, do due diligence on the properties in the sale and attend the tax sale to bid on properties. When you are the successful bidder, you are issued a tax lien certificate and must record this certificate with the county clerk. You are then responsible for maintaining accurate records and submitting the proper documents to safeguard your investment.

If you have the time to spend investigating properties and you enjoy the challenge of learning something new, then perhaps investing in tax lien certificates could be a good way for you to increase your bottom line. If, however, you don't have the time to spend researching properties and finding out about tax sales, then this is probably not the right investment vehicle for you. Another thing you want to consider is where you live. Some states do not sell tax liens, and if you do not live in a state that has tax lien sales, you may have to spend a considerable amount of money traveling to tax sales to buy tax lien certificates. Although some counties have online auctions or sell tax lien through the mail, you still have to do due diligence on the tax sale properties before you place any bids. If you don't, you may wind up losing money by buying a tax lien certificate on a worthless piece of property.

5-Point Checklist

#1: Find the Right Place for YOU to Invest?

Here are a couple of questions that I get asked quite often about tax lien investing: "Where is the best place to invest in tax liens" and, "What are the best states to invest in." But the truth is that the best place for me might to invest might not be the best place for you to invest. The best state for you to invest in depends on your answers to these questions:

- Are you looking for a high return on your investment or do you want to own property?
- What state do you live in?
- Where do you like to vacation?
- How much money do you have to invest?
- Are you investing with money from your retirement account?
- Are you looking for a short term or long-term investment?

If you don't have much money to invest than you really need to be looking at investing in tax liens and not tax deeds or redeemable deeds. If you would like to get the property and not just high interest on your money than you are better off investing in tax deeds or redeemable tax deeds - not tax liens. I don't think it's very wise to invest in a state just because they are one of the most profitable places to invest, especially if you live a few thousand miles away and that state does not have online tax sales. The first thing that you need to do is to find the closest state to you, where it would make sense for you to invest, based on your answers to the questions above.

#2: Get the Tax Sale Information

Once you know where you want to invest, you need to find out all you can about the tax sales in that state or in that county. Most counties only have a tax sale once a year. Many counties have a lot of information about their tax sales, including the tax sale list, online.

You'll need to get all the tax sale information; the bidding procedures for the tax sale, the location and time of the tax sale, the terms of the sale, and the tax sale list. There are resources and tools available to help you with this, but you can usually get the information that you need by calling the party responsible for the tax sale. Usually it's the county treasurer or county tax collector.

If you can't get the information that way, then there are tax sale list providers that will provide enhanced tax sale lists for a fee. These lists have a lot more information than the lists that you typically get from the county and will cut down the time it takes for you to evaluate the properties in the tax sale (step #3). **Tip: use the Sweet 16 Tax Sale Websites swipe file to find information about tax sales.**

3: Evaluate the Tax Sale Properties

Now that you have the list of properties that are in the tax sale, and know the rules and procedures for the sale, you need to do your due diligence on the tax sale properties. You want to make sure that any properties that you bid on are valued at much more than what you bid (in the case of a deed or redeemable deed) or what the lien amount is (in the case of a tax lien). You need to check the tax records to find out as much information about each property as you can and determine a rough estimate of the value of each property that you plan to bid on. For tax deeds you will want to do some type of title search to check for liens or judgments that might survive the tax sale. For vacant land (both liens and deeds) you'll need to check any zoning laws to make sure that the property is buildable.

At the very minimum you'll want to know the tax assessed value of the property and see what the property looks like from the street. It's also nice to know when the property was last sold last, what price it sold for, and whether there is a mortgage on it. For tax deed properties you'll also want to know if there are any liens, judgments, or encumbrances on the properties. And for both tax lien and tax deed properties, you'll want to make sure that there are no environmental problems. This information can be found online for most states, but sometimes you will have to go to the county assessment office or county hall of records to get the information that you need.

#4: Prepare for The Tax Sale

Now that you've done your due diligence and determined which properties you will bid on, it's time to get ready to go to the tax sale. Make sure you know how soon before the tax sale you need to register in order to be able to bid at the sale. For online tax sales, you may need to have money deposited a few days before the sale for your bids to be counted.

Now is the time to make sure that you have the proper form of payment for any bids that you win at the sale. Make sure that you understand the terms of the sale and bidding procedures and that you complete any necessary paperwork. You'll need a tax ID number (social security, EIN, or ITIN number), and you'll need to supply a W-9 form. (Foreigners, if allowed to bid, will need to complete a W-8BEN form).

#5: Bid At The Tax Sale!

Once you've done all your homework, it's time to show up and bid. If the sale is live make sure that you arrive early, in plenty of time to get any updates of liens or deeds that have been removed from the list, and a good seat. See that you don't have any distractions, things happen very fast at an auction. It helps to have a bid sheet that lists all the properties in the sale, with the ones that you've decided to bid on highlighted, and the amount that you are willing to pay for each one indicated. Do not get carried away and bid more than your pre-determined amount for a property, and don't bid on any properties that you did not investigate first! Pay for any successful bids on time or they may be re-bid and you may be barred from future tax sales.

There are different bidding procedures in each state, in some states the interest rate is bid down, in others the price of the lien is bid up (they call that premium bid). Some tax lien states that bid premium don't give it back to the investor when the lien redeems, some do, and some will give the premium back to the investor with interest on redemption. Other states have different methods of bidding, and some don't really have any bidding at all, but conduct the tax sale like a lottery.

Always make it a point to know what is being bid ahead of time. You should know what the bidding procedures are before going to the sale and have enough funds to pay for all the deeds or liens that you win. You must also be aware of any other costs and fees that you'll have to pay when you win a bid (find that out in step 2).

Follow these simple 5 steps to quickly create a profitable tax lien or tax deed portfolio.

Need More Help?

If you need more help I have just the thing – my newly updated bestselling book, *Tax Lien Investing Secrets: How You Can Get 8% - 36% Return on Your Money Without the Typical Risk of Real Estate Investing or The Uncertainty of the Stock Market*. The book is $19.95 and you can order it directly from Amazon, plus when you purchase the book, you can get over $100 in bonuses. Find out more at www.TaxLienInvestingSecrets.com.

About the Author

Joanne Musa is the Author of Amazon Best Seller, ***Tax Lien Investing Secrets: How You Can Get 8% - 36% Return on Your Money Without The Typical Risk of Real Estate Investing or The Uncertainty of the Stock Market***, and the founder of TaxLienLady.com. She is a tax lien investing expert and consultant who has helped thousands of investors, entrepreneurs, and small business owners around the world to profit from high yielding, real estate secured, tax lien certificates. She is known online as the TaxLienLady and is one of the most trusted authorities in the industry.