CHAPTER 1

What Are Real Estate Tax Liens?

Government claims against property for unpaid taxes are called liens. The federal government can place a lien against your property for unpaid federal income taxes. If you live in a state where there is a state income tax, your state government can place a lien against your property for unpaid state income taxes.

In every state, U.S. territory (Guam, Puerto Rico, the U.S. Virgin Islands), and Canadian province or territory, the local government (city, county, or parish) sets and levies a real property tax. Property taxes are secured by the real property itself. This means that if they are not paid when due, the local taxing authority has the right to place a lien on the property. It could be said that property taxes are always a lien against the title to a property—even if they are current. Technically, property taxes are a lien that is due, but not yet payable.

Once a tax lien is placed against the title to a property, ownership rights are impacted. Lenders will not accept the property as collateral for a loan until the tax lien is paid. Tax liens also have priority over other liens. If there is to be a change of ownership, the tax lien must be paid off before clear title can be given to the new owner. If a property is foreclosed on, the tax lien will have priority over other existing liens. (This is an important point for successful tax lien investing to which we will return.)

Real Estate Tax Lien Investing

Real estate tax lien investing is a real estate arena most people have no idea even exists. Of the few people who have heard of real estate tax lien investing fewer still know anything about how to succesfully make an investment.

The biggest reason for this is each state, territory, or province has different laws and procedures. In fact the laws and procedures can vary county by county! Some states do not even sell tax liens.

Investors who do not know about real estate tax lien investing will continue to invest in an uncertain stock or bond market, put money into certificates of deposit, buy annuities from insurance companies, or, worse, make no investments at all. The sooner you start to invest in real estate tax liens, the more money you are going to make.

There is a simple method to use to make successful real estate tax lien investments. We are going to give you the knowledge and information so you can earn super-high returns with super-low risks.

Number of Properties

There are literally tens of thousands of properties with unpaid and delinquent property taxes. Any of these properties can be available to you as a potential real estate tax lien investment. Some of these properties are quite valuable. Most of these properties are remarkably average.

Investment Strategies

You can choose an investment strategy to buy the real estate tax lien on a property. This can earn you an annual return on your investment from 6 percent to 24 percent in interest alone. When you factor in how quickly your investment may be paid back and the penalties you are allowed to collect as the holder of the tax lien, you easily can have a guaranteed return of up to 50 percent!

Say you buy a real estate tax lien at a county tax lien auction for $4,000. The property owner redeems your tax lien within 30 days after you buy it. How much money will you make? You will receive your $4,000 back plus 1 percent interest for the 30 days if the property is in Kentucky, South Dakota, or West Virginia. This is $40. You will also receive a $125 penalty for the late fee for a total return of $165.

Real Estate Tax Lien	$4,000
Interest	× 1%
	$40
Penalty	+$125
Total Return	$165

What does a $165 return on a $4,000 investment in 30 days represent when computed as an annual return? Of the initial $4,000 investment, $165 is more than a 4 percent return. That return of 4 percent or more in 30 days computes to a 49.5 percent return annually!

$$\$165 / \$4{,}000 = 4.125\%$$
$$4.125\% \times 12 \text{ Months} = 49.5\%$$

Buy the Real Estate

You can choose an investment strategy to buy the real estate itself. You buy real estate tax liens as a way to control real estate with very small amounts of money. This is called leverage.

You may be able to obtain the deed to the property for the cost of the real estate tax lien and any legal fees involved. You may then rent these properties for monthly income and long-term wealth building. You could sell these properties for huge profits.

We are going to focus on the investment strategy of buying the real estate tax liens for maximum yield and profit. Because our strategy in real estate investing is Quick Cash, we want to make money quickly and with a minimum of problems.

We will talk about the benefits of acquiring the title to property by foreclosing on real estate tax liens. If that is your investment strategy, the material we present will give you the information you need to get involved in real estate tax liens and how to foreclose on them.

You may apply the Quick Cash strategy here as well. Once you complete the foreclosure process on your tax lien, you will acquire the deed to the property. You can then immediately sell the property, that is flip it, for quick cash.

We are going to take a deeper look into answering the question "What are real estate tax liens?" We will give you access to the material by presenting different facets or layers for you to digest. See how you do with the next batch of material.

Real Estate Tax Liens

A real estate tax lien is a monetary charge placed on real property resulting from nonpayment of debt or other unperformed duty. There are many types of real estate liens. They can be created by different events. We will be focusing on real estate liens arising from the nonpayment of property taxes.

A real estate property tax lien gives the taxing authority the power to enforce the payment of property taxes. The taxing authority also has the ability to charge interest and assess extra fees on the past due taxes.

The real estate tax liens, interest, and past due fees do not create cash for the taxing authority. They only place more pressure on the property owner to make the payments as soon as possible. If the taxes remain unpaid after a certain period of time, the taxing authority has the legal right to foreclose on the property.

Taxing Authority

The most common form of a taxing authority in the United States is the county government. County and other local government entities derive the majority of their revenues from property taxes. Property taxes are used to fund every type of local government service. These include police protection, fire protection, county court systems, public improvements, public hospitals, and—the big one—public schools. Property taxes that are collected provide the vast majority of funding for these services. Counties set their property tax rates based on their annual budgets. The amount of property taxes assessed equals the amount needed to cover all county expenses for the year.

If property owners do not pay their property taxes, this decreases a county's revenue. In fact a county has increased expenses to pay for enforcement actions to collect delinquent tax payments. It is for these reasons that these taxing authorities have such strong means of enforcement.

Real Estate Tax Lien Certificates

Some states provide a quick cash solution so that needed tax dollars can flow into the local government coffers. This is where your investment opportunity arises. These states allow taxing authorities to sell real estate tax lien certificates at a public auction. The real estate tax lien is sold to an investor. The investor pays off all the property taxes and fees that are due and payable. The investor receives a real estate tax lien certificate from the taxing authority as the paperwork that documents the real estate tax lien sale.

The purchase of a real estate tax lien certificate is not the same as purchasing title to the property. You are purchasing the rights associated with the real estate tax lien and not the rights of property ownership. You may eventually have a right to obtain the deed to the property, but, as we have said, this is another process and involves further action on your part.

After the sale of the tax lien you, the investor, are entitled to any additional interest, penalties, and fees associated with owning the tax lien. The taxing authority has received more of the funding it needs. The tax lien certificate is secured by the property. If the owner never pays up, the investor has a legal right to foreclose on the property, obtaining a deed and all rights of ownership.

Tax Lien Sales

Real estate tax liens are sold at auctions held by the taxing authority. These auctions are usually held once a year. There are several types of auction bidding, depending on your local procedures. We will talk about the different types of bids in Chapter 7.

Tax liens that are not sold at the auction, either through a lack of bidding or because there were no acceptable bids, will be sold by the county over the counter. This means that you can purchase these tax liens at a later date.

Being at the auction is not a condition for being able to make over the counter real estate tax lien purchases. You will even find that some taxing authorities allow you to purchase real estate tax liens by mail!

We recommend, however, that you buy them in person over the counter. There is less room for error when you are dealing face to face than trying to make an investment through the mail.

The Property Owner's Right of Redemption

After you have purchased a real estate tax lien certificate, each state allows the property owner a time period to pay the amount owed to the tax lien holder. Once the property owner pays off the principal, interest, penalties, and fees attached to the tax lien certificate, the tax lien certificate is considered extinguished. This payoff is called redeeming or redemption.

When the tax lien certificate is redeemed, this eliminates any right you may have to obtain the deed to the property. The right of redemption gives the property owner some time to repay the debt before their rights of ownership are lost forever. Each state specifies to its counties how long this period should last.

The Paperwork

As we have said, when you pay the delinquent real property taxes on behalf of a property owner, you receive as evidence of such payment a document called a tax lien certificate. Depending on your area the tax lien certificate may be called a tax certificate, a certificate of purchase, a certificate of sale, or four or five other names.

No matter what the tax lien certificate is called, real estate tax lien certificates are a real estate paper investment similar to buying discounted mortgages. They are also a real estate foreclosure investment.

When you pay the delinquent real property taxes on behalf of the property owner in Indiana you receive a tax certificate. You also receive with the tax certificate an assignment of the real property tax lien. Indiana law states:

> When a certificate of sale is issued under this section, the purchaser acquires a lien against the real property for the entire amount that he paid.

When you pay the delinquent real property taxes on behalf of the property owner in Iowa, Iowa law states:

> The delinquent tax lien transfers with the tax sale certificate.

To attract investors to pay delinquent property taxes, many states offer very high interest rates. For example, the 99 counties in Iowa offer returns of 24 percent annually or 2 percent per month or any fraction of a month. The District of Columbia, Florida, and New Hampshire pay 18 percent annual interest.

This high interest paid on tax lien certificates makes it look similar to real estate discounted mortgages. A real estate discount mortgage investor buys mortgages at a discount from a mortgage holder. This gives the mortgage holder immediate cash. (See our book *The New Path to Real Estate Wealth: Earning without Owning* for information on investing in discounted mortgages.)

In return the investor receives paperwork for their cash. The mortgage holder assigns the promissory note, which is the evidence of the debt, and the mortgage or trust deed, which is the lien against the property title, as the security for the debt to the investor.

After you pay a property owner's delinquent property taxes, you receive paperwork for your cash. The taxing authority gives you a tax certificate, which is the evidence of the property tax payment, and assigns the real estate tax lien, which is the lien against the property title, as the security for the payment to you.

First Lien

The real estate tax lien is always the first lien on property with very few exceptions. Indiana law states:

> When a certificate of sale is issued under this section, the purchaser acquires a lien against the real property for the entire amount that he paid. The lien of the purchaser is superior to all liens against the real property which exist at the time the certificate is issued.

Tax lien certificates are virtually unknown, high-yield, local government issued paper. They would be regarded as junk bonds if the tax lien certificates were issued by a private company. Unlike junk bonds, tax lien certificates are backed by a government agency. Better still, tax lien certificates are secured by real estate.

Super-High Returns

Compare what happens if you invest $25,000 in a bank certificate of deposit for 20 years and if you invest $25,000 in tax lien certificates over 20 years. Suppose you receive 4 percent interest with the bank certificate of deposit. How much money would you have after 20 years?

Certificate of Deposit

Investment	$25,000
Interest Rate	4%
Term	20 Years
Return	$54,778

Your $25,000 investment in the certificate of deposit will more than double. That seems okay, especially because there is no risk in your investment. A bank certificate of deposit is insured by a government agency, the Federal Deposit Insurance Corporation (FDIC) up to $100,000.

Suppose you receive 12 percent interest with Kentucky tax lien certificates. How much money would you have after 20 years?

Tax Lien Certificate

Investment	$25,000
Interest Rate	12%
Term	20 Years
Return	$241,157

Your $25,000 investment in the tax lien certificate will go up in value almost 10 times! Talk about a great return. What about the risk to your investment?

What risk? Your investment is guaranteed by a government agency, the local taxing authority, and is secured by real estate.

Retirement Programs

Consider the difference this would make to your retirement program. Open a self-directed Roth IRA, a SEP IRA, or a Keogh at age 35 and invest in tax lien certificates. At age 70, by investing $3,000 a year with an 18 percent annual return, you would have $5.5 million!

Tax Lien Certificate

Roth IRA

Investment	$3,000 Yearly
Interest Rate	18%
Term	35 Years
Return	$5,500,000

What would happen if you opened a Roth IRA at age 25? We will use the same numbers: $3,000 yearly, 18 percent interest rate, but for 45 years. You better stand up for this.

Tax Lien Certificate

Roth IRA

Investment	$3,000 Yearly
Interest Rate	18%
Term	45 Years
Return	$28,500,000

Too Good to Be True?

Yes, you won the lottery! We know what some of you are thinking. If these tax lien certificates are such good investments, then how come we have never heard about them? The bottom line is it is hard to get information on tax lien certificates. We are going to give you that information.

Banks, thrifts, finance companies, and credit unions do not sell tax lien certificates. In fact, no financial institution sells them. Stockbrokers, mortgage loan brokers, real estate brokers, or any other kind of brokers do not broker tax lien certificates. How come? They do not make a profit on them. You are the one who will make the profit!

Tax lien certificates are available in amounts ranging of less than $10 each to amounts of more than $100,000. Even if you have limited funds to invest, you could buy many small certificates in several different counties in the same state or even in different states.

In Chapter 2 we will show you the areas and entities that are involved in this investment opportunity. You are the one who will profit immensely by investing in tax lien certificates. Are you getting excited?