

EIGHT

Answers to Some of Your Tax Lien/Tax Deed Questions

"Great things are not done by impulse, but by a series of small things brought together." – Vincent van Gogh

To find answers to your tax sale investing questions, you will need to become familiar with the counties or municipalities where you are going to purchase tax lien certificates or tax deeds. For example, you will need to know where the tax lien sales are held, how much money you may need, if the county will take checks, and if you need to pre-register. Chapter 9 provides specific information on tax sales for each state, as well as for many of the counties. In the meantime, here are the answers to some of the most commonly asked questions of tax sale investors.

Frequently Asked Questions

Question 1: Can anyone buy tax lien certificates?

Answer: Yes, if you have the money you can buy the certificate. There are a few exceptions to this rule. In many states, if you live in the same state where you are bidding, your own property taxes must be paid in full before you can bid on other properties. In some cases, especially at tax deed sales, large institutions may be the first allowed bidders. And finally, some states require the bidder to have a social security number or federal tax I.D. number.

Question 2: Will I get ownership of the property?

Answer: When you are buying tax lien certificates, less than five percent of all delinquent property owners foreclose. So it is rare that you will need to foreclose on a tax lien certificate. However, if you are buying a tax deed, you will be taking possession of the property and you will get ownership of the property.

Question 3: Is there a limit on the number of tax lien certificates I can buy?

Answer: In most cases you can buy as many certificates as you can afford. There are a few counties that set limits, but those are rare.

Question 4: After I buy a tax lien certificate, when do I get my money back plus interest?

Answer: You will get your money back when the delinquent property owner pays his/her back taxes. This could take a month or several years. If the owner does not pay the back taxes within

the redemption period, you will not get your money back until you foreclose on the property, and then you will get the property (versus your investment plus interest). The average time to get your money back is around six months to a year. Once the property owner realizes that the clock is ticking and the final bill is growing, something usually happens. After the property owner pays the taxes and penalties owed, you will get a check from the county after you send your tax lien certificate back. This is called redeeming your tax lien certificate.

Question 5: What do I do with the tax lien certificate?

Answer: Put it in a safe deposit box or somewhere else safe. If you lose your certificate, it can be a hassle to get a new one. You would need to verify some information to prove you are the owner of the certificate. It is better to make sure you do not lose it.

Question 6: What if I want to own property?

Answer: If your goal is to take property ownership, attend tax deed sales. Less than five percent of all tax lien certificates eventually lead to foreclosure.

Question 7: What happens if the delinquent taxpayer does not pay the back taxes owed on the certificate I hold, and a year goes by?

Answer: You can purchase another tax lien certificate on the same property the next year if you can pay the back taxes due. Otherwise, another bidder can purchase a tax lien certificate on that property. In some states, your tax lien would then be redeemed by the new tax lien investor. If foreclosure were to occur, you would both be owners of the property.

Question 8: Can someone else bid for you at the auction?

Answer: It depends on the state. In some states, you can have someone else act as an agent for you and bid on properties. In other states, you must be there in person to bid.

Question 9: Can I buy tax lien certificates without going to the auction?

Answer: In many states you can. Tax lien certificates that are not sold at the public auction can often be purchased by mail (these are normally called "over-the-counter" or "negotiated" sales lists). Be a little careful doing this, especially if you've never seen the property. There are also some counties that are conducting online auctions. Bid4Assets (<http://www.bid4assets.com>) is one company that handles online tax sales for counties.

Question 10: Can I transfer a tax lien certificate to someone else?

Answer: In most states you can transfer a tax lien certificate to anyone you want. There may be a small fee involved. The process is called assignment.

Question 11: What is the best type of property to bid on?

Answer: In most cases, especially for beginners, it is best to bid on residential property, whether it is improved or unimproved. Improved land (e.g., with a house or structure on it) has less risk than unimproved land (vacant land). The latter is more risky, especially in terms of marketability. Commercial property has more risk than residential property and should only be considered by experienced investors. If you are interested in income from the property, then improved land (e.g., with a house you can rent) is your best bet; however, the competition for improved land is usually more fierce and there will be fewer of these properties available.

Question 12: Can you lose money buying tax lien certificates?

Answer: Investing in tax lien certificates is extremely safe. Government entities (e.g., counties, municipalities) handle the sales and liens are backed by real estate, which has been relatively stable in the United States. However, there are a few scenarios where you could lose money. Here are two examples:

You purchase a tax lien certificate during an auction and the interest rate gets bid down to a very low amount. Then the owner of the property pays their back taxes very quickly and the tax lien certificate gets redeemed in less than a month after the auction. When you combine the fees you paid to buy the certificate and travel costs, you could lose some money. You can avoid this problem if you do not get involved in a bidding war. If there are a lot of bidders, go to another sale or wait until the sale is about over and most people have gone home. You can also go to a county where there is less competition. Another alternative is to buy tax lien certificates over the counter, where you will not have any competition.

You did not do your homework and the property you purchased the tax deed to has environmental problems. This situation can be avoided if you focus on residential properties and make sure you drive by the property before you bid. Many states do not want you to have a bad experience, so they will often tell you if a property could have problems. If you are the tax lien certificate holder for this property, in most cases you will not have to foreclose on the property if the owner doesn't redeem the back taxes. You may simply let the lien expire (you would lose your original investment, however).

Question 13: From what I can tell, Fair Market Value (FMV) is determined by the county tax assessor's office and provided for each property in the tax sale list. Is the FMV just the value that it should get on the open market, or are any existing liens/mortgages deducted?

Answer: Fair Market Value is the tax assessor's determination of what a property is worth. Depending on how often the appraiser updates the FMV and how advanced the appraisal department is, the FMV may or may not represent true value. For example, a house that has gone into disrepair because of the owner's neglect could be worth less. On the other hand, we have seen properties that would fetch a much higher price than what the county appraised it at. It's a good starting point, but you should do your own research and verify the number. FMV has nothing to do with mortgages or liens.

Question 14: What happens to the original mortgage on the home when you foreclose on it?

Answer: The mortgage company is like an owner of the property. They receive notification of the taxes due, and can redeem the taxes to avoid foreclosure. If the property goes through tax foreclosure (i.e., to deed), you own the property. However, in some states there is a legal period following foreclosure during which the previous owner (or mortgage company, lien holder, etc.) can challenge the sale. Otherwise, tax foreclosure wipes out the mortgage and most other liens, except federal IRS liens and county or city assessments. In New Mexico, mortgage liens may not be extinguished. In Pennsylvania, mortgage liens are not extinguished on properties sold at the Upset Price Sale. Properties not sold at the Upset Price Sale are auctioned again, free and clear of liens (including the mortgage), at the Judicial Sale.

Question 15: Will I be able to rent property during the period in which the deed sale can be legally challenged?

Answer: Yes, you will be able to rent the property as long as you are the legal deed holder.

Question 16: When can I start the eviction process if the owner does not leave the property?

Answer: Once you have your deed in hand and it has been recorded with the county, you can start the eviction process. Check with the sheriff's office for more details.

Question 17: How can I find out how many bedrooms and bathrooms the house has or what the square footage is?

Answer: This information is available from the county assessor's office. The assessor has to base real estate taxes on the value of the house, which includes the number of bedrooms, square footage, etc. Where we live the county sends out an annual tax appraisal with all of that information, including comparisons to other properties.

Question 18: Once I get the deed to the property, will I be able to take out a loan on that house, or will I have to clear the title first?

Answer: You generally will need to clear title before you can take out a loan. If there is a legal challenge period following foreclosure, during which the previous owner or other interested party can challenge the tax sale, you will normally have to wait for that period to expire before you can clear title. In California, for example, the legal challenge period is one year; in Arkansas it is two years. Usually counties/states advise that you not make any major improvements to the property during this time period.

Question 19: What is the bidding process at tax lien sales?

Answer: In some states you will be bidding the interest rate down (e.g., Illinois, Arizona). The person willing to accept the lowest interest rate is the winning bidder. In other states (e.g., Missouri), bidding begins at the minimum bid set, and the price is bid up. The winning bidder is willing to pay the most amount. These two procedures are combined in New Jersey, where premium bidding (bidding a minimum bid up) begins once the interest rate reaches zero percent. Nebraska has a round robin procedure in which the properties are offered to everyone in turn, and the bidder can either accept a property as it comes up or decline it.

Question 20: Which state has the shortest time period during which owners can redeem their property?

Answer: In Nevada, the redemption period for tax liens is 120 days for vacant land, but two years for improved land. Maryland, another tax lien state, has a redemption period that begins at six months; and in Washington D.C., the redemption period for tax liens is also six months. There are several tax lien states whose redemption periods are one year (see table in Chapter 4 titled "Tax Lien Certificate States"). Texas, a tax deed state with a right of redemption, has a six-month redemption period for most properties.

Question 21: We are interested in tax deed sales, but only have so much money to invest. We do not want to wait a year or two to see if an owner is going to challenge the sale. We were thinking that if we bought property over the counter from last year's sale, then a year of the waiting period has already passed, right?

Answer: Over-the-counter tax deed sales in some states still require the same waiting period even if the property was not sold at the public auction. In other words, the legal challenge period does not start until you buy the deed (e.g., Arkansas).

Question 22: Does the tax lien certificate take precedence over the first mortgage?

Answer: Yes (except in some states like New Mexico and Pennsylvania).

Question 23: How can I find out about any additional pre-existing liens against a tax-defaulted property subject to the power of sale by the county? Does it usually cost money to do a "lien search"?

Answer: You can usually conduct a lien search at the county for free. The information is part of the public record and therefore has to be made available. Visit the county clerk's office and ask to see their recorded liens on real property. Every county is a little different. Some will have computerized information, while others will provide the information in large legal binders.

Question 24: Are tax liens available in Canada?

Answer: Tax liens are not offered to investors in Canada. Canada offers tax deed sales. Most sales are conducted by the most populated municipalities of the various provinces. In a province like Alberta, search for information on, for example, the municipalities of Lethbridge and Edmonton.

Question 25: Do properties usually get bid up to retail levels in California, where I live?

Answer: In densely populated counties in California, properties are sometimes bid up to full retail value. We can't understand why, but if that's the case you are better off finding a less populated area or even bidding in another state. Also, don't forget that you can buy foreclosed properties through banks, mortgage companies, and several federal agencies (e.g., Veterans Affairs, Housing and Urban Development, Internal Revenue Service).

Question 26: What if there are three or four properties that you are interested in, but you can afford only one or two? If the ones that you are less interested in come up for bid first, should you hold out and wait to bid on the prime property, or bid on the first property that comes up?

Answer: We usually prioritize all the properties we are interested in. Sometimes it can be a difficult dilemma. One secret that we have noticed is that the bidding is usually more competitive toward the beginning of an auction and it tails off a little later in the sale. You may have a better chance later in the auction than at the beginning. Of course, you never know what type of excitement a particular property will create. You may have to make this judgment on a case-by-case basis.

Question 27: What should the title search include?

Answer: You will want to find out about all liens or any other encumbrances that are on a property. Tax liens take precedence over mortgage liens (except in some states like New Mexico and Pennsylvania), mechanic's liens and many others. Tax liens do not take precedence over federal IRS liens or special county or government assessments. It is also a good idea to check and see if the property owner has filed for bankruptcy.

Question 28: As a non-U.S. resident (I live in Australia), would I be able to purchase U.S. government tax lien certificates?

Answer: Buying tax liens or tax deeds in the U.S. often requires a social security number or a federal tax I.D. number. One way for nonresidents to work around this is to start a small business, such as a limited liability company (LLC) and receive a federal tax I.D. number. Another method is to obtain an Individual Taxpayer Identification Number (ITIN). According to

the U.S. Internal Revenue Service, federal law requires individuals with U.S. income, regardless of immigration status, to pay U.S. taxes. The ITIN, a nine-digit number that begins with the number 9, was created for use on tax returns for those taxpayers who do not qualify for a social security number. The IRS has issued 7 million ITINs since 1996.

For more information, visit <http://www.irs.gov/newsroom/article/0,,id=112728,00.html>.

Any nonresident or U.S. resident alien who is required to file taxes or who can be claimed as an exemption or dependent on a tax return, and who does not qualify for a social security number, can apply for an ITIN. See Publication 501, "Exemptions, Standard Deduction and Filing Information for Exemption Tests" and Publication 519, "U.S. Tax Guide for Aliens" to determine resident status.

You do not need an ITIN if:

- you are a U.S. citizen,
- you were born in the U.S. and do not have diplomatic immunity,
- you have entered the U.S. on a work VISA, or
- you are entitled to a federally funded benefit (stipend/fellowship/grant).

You are eligible for an ITIN if:

- you have entered the U.S. on a non-work VISA,
- you were born in the U.S. and have diplomatic immunity,
- you have applied for and were denied a social security number, or
- you are an undocumented alien.

You can obtain ITIN application forms, W-7/W-7SP, through IRS offices worldwide:

- 1-800-TAX-FORM (1-800-829-3676)
- <http://www.irs.gov>
- Tax Fax Service at 1-703-368-9694
- IRS kiosks.

Submit your ITIN forms and supporting documentation to:

- IRS Taxpayer Assistance Centers (TACS),
- certain U.S. consular offices abroad,
- a Certified Acceptance Agent, or
- mail to:
PSPC ITIN Unit
P.O. Box 447
Bensalem, PA 19020
DP N-280

For ITIN Frequently Asked Questions, visit:
<http://www.irs.gov/individuals/article/0,,id=96287,00.html>.

Download Form W-7, Application for IRS ITIN (see below), at <http://www.irs.gov/pub/irs-pdf/fw7.pdf>.

Georgia has a similar process. The investor receives a deed with a right of redemption for one year. If the property is redeemed, the investor earns a flat 20% on their investment; otherwise, the investor keeps the property.

Question 31: I contacted my local City Hall and no one seems to know anything about tax sales.

Answer: Sometimes it is frustrating trying to find the right person to contact at a municipality or county. We have called many times and had to go through several people before finding the right person with information about tax liens or tax deeds. You just need to be persistent and find someone in the treasurer's or tax collector's office who deals with real estate. It is also important to speak the same language. For example, some states use the term "tax lien certificates" while others use the term "certificates of purchase." The county profiles in Chapter 9 can help you here.

Question 32: What is a legal challenge period? Does this mean we cannot improve or sell the property right away? What happens if the previous owner successfully challenges the sale? Do we lose the investment and property?

Answer: Some tax deed states have a legal period following the sale during which the previous owner or other interested party can challenge the sale. For example, in California the legal challenge period is one year, and in Arkansas it is two years. Challenging the sale is usually not an easy matter. Remember, the owner and lienholders were provided numerous notices prior to the sale. This legal period is a protection mechanism. It was designed to prevent mishaps, such as improper or no notification by the county, one separated spouse defaulting on a property without the other knowing about it, or an individual who is in the military and out of the country defaulting on a property. A sale can also be challenged if it is not conducted properly and in accordance with state law.

The legal challenge period does not stop you from renting the property, leasing it with an option to buy, selling it by owner financing, or employing many other strategies. Actually, you can still sell the property to anyone who doesn't require clear title. Usually the sticking point is the mortgage company of the buyer. Counties/states advise that you not make any major improvements to the property during the legal challenge period.

In the event that a sale is successfully challenged, you will be reimbursed by the county. You also can fight the challenge, and you may have as good of a chance at winning as the challenging party. Legal advice is necessary at this point.

Question 33: If I buy a property, invest some of my own money in fixing it up and then resell it, what are the tax implications? What can I deduct for my expenses – my time, paint, advertising, traveling, etc.? Is rental income taxed?

Answer: You can deduct any expense that you incur as a result of owning and operating rental property. You will need to read up on this and consult an accountant. Basically, you can deduct mileage (there are two different ways), as well as repairs and improvements (these are different according to the IRS). Cleaning, marketing, office supplies, and books related to your business can be deducted. We recommend getting a tax book and reading up on the real estate portion.

Rental income is taxable income. However, you can deduct mortgage interest, insurance and depreciation to offset the income. Your time is not really deductible unless you set up a separate company and have that company bill you (this is a little tricky, so consult an expert). When you sell the property, you will have to consider appreciation of the property, which is taxed as a capital gain, and depreciation recovery, which is taxed at your normal income tax rate.

Question 34: How and when is the interest applied to tax liens?

Answer: The interest is applied annually in most tax lien states. Texas and Georgia (tax deed states with a right of redemption) have a flat interest rate of 25 percent and 20 percent, respectively. In the case of these two states, the investor receives the full interest rate even if the property taxes are redeemed in one month. Some states apply a minimum interest rate (e.g., between 2 and 5 percent) to protect investors in cases where the taxes are redeemed right away (e.g., two weeks after the sale).

Question 35: I am considering buying a tax lien certificate (to earn approximately 16 percent per year interest) from the county after the auction is completed. The sales list shows single homes that did not pay taxes for one or two years. Should I only buy a lien certificate for a house that is one year late on its taxes?

Answer: If you are only looking to earn interest, then one strategy is to avoid the old tax liens because those properties may go to deed. Properties with only one year's back taxes are much more likely to be redeemed, in which case you will earn your interest.

On the other hand, if you are hoping the property will go to deed, a strategy to use is to look for properties that have been delinquent more than one year in order to reduce the redemption period and how long you will have to wait. For example, in Arizona we bid on a few properties that were delinquent for over one year, so instead of having to wait the full three-year redemption period, we only have to wait two years. In Missouri, properties are classified by how long they have been delinquent, which determines the redemption period. We recently bid on several lots that had been delinquent for more than two years. We will only have to wait the shorter 90-day redemption period for these properties, rather than a full year. Remember, if you are looking to acquire properties in this manner, it will require more work in terms of research and actually looking at the properties.

Question 36: Why is Georgia an especially hard tax lien state to invest in?

Answer: In Georgia, you purchase a tax deed and the owner has a one-year right of redemption period (similar to a tax lien certificate). The interest is a flat fee of 20 percent, regardless of whether the owner redeems in 1 month or 12 months. If the owner does not redeem, then you must initiate foreclosure. It is important to obtain the county's procedures for foreclosure and follow them strictly. It may even be a good idea to hire an attorney to help you with the first one. You need to make sure that there are no IRS liens, special county assessments, deed restrictions, or other fees.

Question 37: In California, what liens are we responsible for after purchasing a tax deed?

Answer: Here is the California information that pertains to your question:

Do liens or encumbrances on Tax Sale properties transfer to the new owner through a Tax sale property purchase? Chapter 7, Section 3712 of the California Revenue and Taxation Code states: The deed conveys title to the purchaser free of all encumbrances of any kind existing before the sale, except:

- a) Any lien for installments of taxes and special assessments, which installments will become payable upon the secured roll after the time of sale.
- b) The lien for taxes or assessments or other rights of any taxing agency that does not consent to the sale under this chapter.
- c) Liens for special assessments levied upon the property conveyed which were, at the time of the sale under this chapter, not included in the amount necessary to redeem the

tax-defaulted property, and, where a taxing agency that collects its own taxes has consented to the sale under this chapter, not included in the amount required to redeem from sale to the taxing agency.

- d) Easements constituting servitude upon or burdens to the property; water rights, the record title to which is held separately from the title to the property; and restrictions of record.
- e) Unaccepted, recorded, irrevocable offers of dedication of the property to the public or a public entity for a public purpose, and recorded options of any taxing agency to purchase the property or any interest therein for a public purpose.
- f) Unpaid assessments under the Improvement Bond Act of 1915 (Division 10 [commencing with Section 8500] of the Streets and Highways Code) that are not satisfied as a result of the sale proceeds being applied pursuant to Chapter 1.3 (commencing with Section 4671) Part 8, or that are being collected through a foreclosure action pursuant to Part 14 (commencing with Section 8830) of Division 10 of the Streets and Highways Code. A sale pursuant to this chapter shall not nullify, eliminate, or reduce the amount of a foreclosure judgment pursuant to Part 14 (commencing with Section 8830) of Division 10 of the Streets and Highways Code.
- g) Any federal Internal Revenue Service liens that, pursuant to provisions of federal law, are not discharged by the sale, even though the tax collector has provided proper notice to the Internal Revenue Service before that date.
- h) Unpaid special taxes under the Mello-Roos Community Facilities Act of 1982 (Chapter 2.5 [commencing with Section 53311] of Part 1 of Division 2 of Title 5 of the Government Code) that are not satisfied as a result of the sale proceeds being applied pursuant to Chapter 1.3 (commencing with Section 4671) of Part 8, or that are being collected through a foreclosure action pursuant to Section 53356.1 of the Government Code. A sale pursuant to this chapter shall not nullify, eliminate, or reduce the amount of a foreclosure judgment pursuant to Section 53356.1 of the Government Code.

A title search initiated at the prospective purchaser's expense should reveal any liens or encumbrances on a property in the tax sale.

Question 38: Investing in a state you don't live in seems to be quite a challenge. Are there ways to invest without traveling?

Answer: Some states offer "over-the-counter" sales, which would allow you to purchase liens or deeds through the mail. These are liens/deeds that were not purchased at the public auction. Try picking up some over-the-counter lists near where you live and see what is available. There are also a few counties in some states that conduct online auctions.

Finally, you can use a tax lien agent or company to help you invest. Right now, there are not many companies that will do this.

Question 39: If you are only investing in residential property liens, the low dollar amount presents a problem. What kind of tax lien investing can you do that involves higher dollar amounts, like \$25,000?

Answer: You can employ a few different strategies. Focus on obtaining liens that are likely to go to deed, or concentrate on tax deed states. That way you can pick up properties like we do – for 50 to 75 percent below market value.

As far as tax liens go, you will need to make sure that you can buy enough properties to make it worth your while. There are liens at many sales that are in the \$10,000 to \$30,000 range, even for residential properties. We have seen commercial liens for over \$500,000, but buying those

involves a little more risk. You can either buy many liens or focus on picking up the more expensive ones.

Question 40: The counties warn that the IRS has the option of redeeming a property in which they have a recorded lien up to 120 days after the sale at the auction. Is this a lien that would be found when searching the records of the particular property, or is it an unknown until the 120 days run out? Also, if the IRS can redeem the property, does that mean the purchaser loses their money?

Answer: Federal IRS tax liens will be recorded with the county. The lien will appear during a simple title search that you can perform yourself at the courthouse or, in some counties, using an online database. A federal tax lien will appear with any other liens on the property. A good way to determine if you are looking in the right place is to make sure you can find the tax lien associated with the property. Any property in a tax sale will have a tax lien on the property. If you can find the record of the tax lien, then any other liens should be recorded in the same area. Most counties will be happy to assist you in your search for outstanding liens on the property.

We recommend avoiding any properties with IRS liens. However, you should know that the government has 120 days to redeem or pay off the tax lien to maintain their interest in the property. If that occurred, you would receive the amount paid for the property, plus any interest at 6 percent per annum from the date of the sale, plus expenses of the sale that exceed any income received from the property.

Advice from a real estate and/or tax attorney would be important. Here is some information from the IRS: <http://www.irs.gov/businesses/small/article/0,,id=108339,00.html#Notice> and <http://www.irs.gov/pub/irs-pdf/p783.pdf>.

Question 41: At a seminar I attended recently, the ability to roll a 401(k) into a tax lien investment and still retain the tax-deferred status was mentioned. Any idea how that is done?

Answer: You cannot roll over a 401(k) that you are currently participating in with an employer. However, you can roll over a 401(k) from a previous employer into a self-directed IRA or solo 401(k) and invest in tax liens, tax deeds, real estate, mortgage notes and any other type of real estate. A few restrictions apply. You will need to contact a company that actually sets up true self-directed IRAs. For a list of these companies, see Chapter 12 of *Rogue Real Estate Investor*. You also can roll over an IRA (traditional or Roth) to a true self-directed IRA. Be aware that you will have more freedom, but the fees will be higher and unless you set up an LLC to work with your IRA, you will not have enough flexibility to make quick purchases. Visit <http://www.selfdirectediraaccounts.com> for more information.

Question 42: In Polk County, Iowa, is the "Real Estate Regular Sale" a sale of tax liens that did not get purchased at the public auction, or is this a tax deed sale?

Answer: The real estate regular sale, which is held on the third Monday in June, is the sale of new tax lien properties. Immediately following that sale, the real estate public bidder sale is held. This is the sale of properties left over from last year's real estate regular sale. On the same day after those two sales, the county also conducts mobile home regular and mobile home public bidder sales. Finally, the county conducts an adjourned tax lien sale on that day. This is a smaller list of liens that have been held over or suspended for some reason and brought back up for sale. The property lists are advertised in May.

Question 43: I plan to purchase tax liens in a specific county in the near future and have been analyzing the list of properties available. The list can be divided into at least two categories. One list would be those properties that are owned by someone other than the current tenants of the

house. The second list would be those properties that are currently housing the owner. What is your opinion about which type of property is more likely to have the taxes redeemed?

Answer: It is hard to know for sure. Sometimes a company will be more likely to default, especially if they own many properties that show up on a tax sale list. For example, you might see XYZ, LLC on many different liens. This could indicate that the company is struggling and may let the properties go. This is especially true for developers and sometimes real estate investing companies that got a little too ambitious.

As you can imagine, nice houses owned by individuals are probably the least likely to go to foreclosure. That makes sense because no one wants to lose his/her house. On the other hand, sometimes land owned by individuals will go to foreclosure.

You may be able to get additional information that helps you decide by befriending someone knowledgeable at the county.

Question 44: Is it possible to invest in a tax lien for its interest-bearing qualities without the "risk" of becoming a property owner?

Answer: For true tax lien certificates, you do not have to foreclose on the lien; however, your certificate would eventually expire and you would lose any money that you invested. Your best bet is to focus on tax liens that are held on residential houses in above-average neighborhoods.

Question 45: Do you recommend investing in less than ideal neighborhoods?

Answer: It is possible to invest in less than ideal locations. Often the best deals are in those areas. However, you need to be careful. You need to realize that you may have trouble selling the property or you may have to price the property at a discount; therefore, don't pay anything close to retail or market value.

Question 46: What is title insurance? Can you get title insurance after you have purchased a property from a deed sale?

Answer: Title insurance is a protection against finding any liens, clouds, encumbrances or problems with the title or deed. Most mortgage companies will require title insurance for a buyer to obtain a loan. In some states like California, you will have to wait until the legal challenge period following the tax sale is over before you can clear title. In other states without a legal challenge period, you won't have to wait. During the legal challenge period, the previous owner or anyone with an interest in the property can bring suit to challenge the sale. To obtain title insurance, contact a title company (e.g., Chicago Title) or hire an attorney to take care of it. You do not have to have title insurance to sell a property, but you will need the insurance if the buyer has to obtain a mortgage.

In most cases, the deed that you purchase at a tax sale will not be a general warranty deed. You will usually purchase a tax deed, sheriff's deed, limited warranty deed or some form of deed that only provides guarantees since the time the county has owned the property. A quit-claim deed provides no guarantees of any kind. A general warranty deed provides the most protection for a buyer and as such many buyers and lenders will require it. You will need to perform a quiet title action to clear the title. This is usually done by an attorney and it will give you a more marketable title.

Question 47: Is it possible to make money by purchasing over-the-counter properties? What states offer these?

Answer: You can make money purchasing over-the-counter properties, but you have to be careful. It is better to see the property and area before investing. Over-the-counter properties are usually left over from the public auctions. That means that in many cases they were not purchased for some reason. It could be that the lien amount was so low that investors were not interested. It could mean that the property has a problem, which makes it useless. An example would be a strip of land that can't be built upon or that has an easement. It could also mean that not enough investors attended the sale and the leftovers are truly worthy of consideration. You will have to judge this on a case-by-case basis.

Arizona and Florida are great places to begin investing in over-the-counter properties. These states offer both over-the-counter tax liens and over-the-counter tax deeds. In Texas, properties left over from the tax deed sales are placed on "struck off" lists.

There are several states that offer over-the-counter liens, including Nebraska, New Jersey, Iowa and Alabama. Wyoming offers over-the-counter liens, but because all liens are normally purchased during the annual tax sales, there usually are no properties left over.

Several other states offer over-the-counter tax deeds. For example, Arkansas has over-the-counter tax deeds that are called negotiated sales, and Alaska offers over-the-counter properties along with possible financing.

This is not a complete list of all over-the-counter possibilities. You should refer to the state-specific information in Chapter 9 for additional details.

Question 48: I recently attended a seminar where it was stated it is impossible to find the names, addresses and phone numbers for the county officials and that you need this information to invest at tax sales. Is this true?

Answer: You can usually find the names, addresses and phone numbers of county officials simply by visiting the county websites, although some counties do make the information more accessible than others. We provide contact information for many counties in Chapter 9. For counties that are not addressed in this book, visit our tax lien certificates website at <http://www.tax-lien-certificates.com> and click on the state and then the county that you are interested in. Once you are on the county's main website, look for a link to "Departments" or "Elected Officials" or "Services," for example, and you will be able to find the office of the tax collector or treasurer (or similar department). Most county websites provide phone numbers and other contact information.

Question 49: Do you start earning interest on tax liens immediately after purchasing them?

Answer: You will start earning interest immediately after purchasing a tax lien, but you don't actually get your money until the certificate is redeemed. The redemption period is the period during which the owner can redeem the property. If the redemption period expires, you have the option of foreclosing on the property.

Question 50: Utah doesn't sell tax liens, only tax deeds. Are they the same?

Answer: They are not the same. A winning bidder at a public auction in a tax deed state takes possession of the property.

In tax lien states (e.g., Arizona), a county places a lien on a property for the amount of taxes that are owed. A winning bidder at a public auction on the tax lien certificate is only buying the debt on the property that is secured by the real estate. If the property owner pays the delinquent property taxes (plus interest, etc.) within the redemption period, the investor receives his/her

money back for the lien purchased plus interest. If the property owner does not redeem the property during that period, the holder of the tax lien certificate has the right to initiate foreclosure and then take possession of the property.

Question 51: I have been researching tax foreclosed properties in Brevard County, Florida. At this point I have already disregarded 60 percent of the properties listed, and information on the first 8 to 10 properties that I have been checking indicate that almost all of them seem to have serious problems. Is this consistent with your experience?

Answer: As you can imagine, you will find many undesirable properties on a tax sale list. I would say that about 50 to 75 percent of the properties will fall into that category, especially if you are talking about a tax deed sale.

Question 52: I live in Massachusetts and am interested in purchasing tax liens. I noticed for the City of Boston that there is information on their website about purchasing municipal lien certificates. Is a municipal lien certificate the same as a tax lien certificate?

Answer: A Municipal Lien Certificate is issued by the town treasurer and states the amount of property taxes that are assessed against a particular piece of property. Whenever someone buys property or refinances, a Municipal Lien Certificate is routinely recorded along with the new deed or mortgage. By recording a Municipal Lien Certificate, the property owner's liability for unpaid taxes is limited to those listed on the certificate. If the town discovers afterwards that more taxes are owed, the new property owner is not liable for them.

Question 53: How much time would I need to research two to four properties for possible purchase at a tax lien sale? Which is more important: doing a drive by of the properties or researching the properties at the tax assessor's office? I want to spend enough time to make a good purchase, but I also wonder if it is necessary to look into all of the properties when about 95 percent of the tax liens are redeemed anyway? I live in Polk County, Iowa.

Answer: At tax lien sales in Iowa, the county randomly selects a bidder's number, who then has the choice of bidding on the property or passing. To make matters worse, Iowa has a system in which bidders can bid on the percentage of the property they will own should it go to deed. Nebraska's system is similar to Iowa's round robin process. The round robin bidding makes it difficult to plan ahead and do your research because you don't know which properties you will be allowed to bid on.

We highly recommend spending at least half a day at the tax assessor's office, researching as many properties as you can, especially the more expensive properties that you would consider bidding on. Go through the list and mark off any that are not good candidates based upon location, price or other unusual circumstances such as land that is too small to build on.

What we have done in the past is to ignore properties under a certain value, such as anything below \$300. That is because counties will often charge a fee for the certificate, usually around \$10. If you buy a \$100 lien at 24 percent interest and the interest is compounded daily, that's roughly .07 percent per day. What you want to avoid is purchasing a lien and then having someone redeem within a few days. You will make a few cents each day worth of interest, and you will still have to pay the certificate fee. At that rate a \$100 lien would take about 5 months to break even. If you are familiar with buying stocks and paying a brokerage fee, it is similar. Therefore, from an interest rate perspective it is better to bid on more expensive liens.

Now having said that, you may see a few liens that are interesting from the perspective of possible foreclosure. For example, you might see a landowner or business that has many

properties listed, resulting in thousands of dollars of tax burden. It is possible they may not redeem and you could pick up a property for pennies on the dollar.

If you do not have time to research all of the liens, you may not want to bid on any tax liens that are over a certain amount of taxes owed. This is to avoid the risk of holding an expensive lien on a property that is not redeemed and goes to foreclosure, and which you learn (because you did not research the lien up front) has a problem such as environmental contamination. In this case you could always let the tax lien expire without initiating foreclosure. However, you would lose whatever you paid for the tax lien.

Also, remember that the list you are looking at will be reduced by the time the auction is held because some property owners will redeem at the last possible moment.

Question 54: In Texas, when can you take control of a property you bought at a tax deed sale?

Answer: According to Texas law, you can take possession of the property once the deed that you purchased is recorded. Even though the property owner has a right of redemption period (six months for most properties; two years for homestead or agricultural properties), you are legally the owner of the deed/property. Knowing that the owner has a right of redemption, it would not make sense to spend any money on improvements to the property unless they are done to prevent further damage, such as fixing a leaking roof.

Question 55: Regarding self-directed IRAs, my concern is that if I set up an LLC and use my current IRA for the down payment on the LLC, I am assuming that the LLC is now my retirement account. What happens to the positive cash flow and the excess depreciation that I would normally be allowed to deduct from my personal income tax? If I can't distribute the positive cash from my real estate investments except back into the LLC, and can't take the excess depreciation yearly on my taxes, then isn't this a bad idea?

Answer: It is not a bad idea. It is just like many investment choices: there are pros and cons. On the positive side, you will never have to pay capital gains taxes on a self-directed Roth IRA or the taxes will be deferred with a traditional IRA.

Remember, real estate depreciation is a double-edged sword. Outside of an IRA, it is used to offset income. However, you will have to pay it back when you sell the property and you will be taxed at your standard income tax rate, which is likely higher than a capital gains rate. Under the umbrella of an IRA, you will not need to depreciate the property because any income will not be taxed.

Our experience is that you will probably end up having real estate investments both in IRAs and outside IRAs, because there are limits on your yearly IRA contribution. Also, if this is a full-time business, you may want to use your cash flow to live on.

We recommend speaking with one of the IRA custodians listed in Chapter 12 of *Rogue Real Estate Investor*, an attorney and/or a certified public accountant who has actually heard of investing in real estate through a self-directed IRA. The requirements are a little tricky, so you should use caution.

Question 56: If a friend and I want to invest in tax liens and deeds as a partnership, do we have to legally get established as a partnership and have it documented? If so, what steps do we need to take?

Answer: You generally do not have to become a legal partnership; however, it is a good idea to establish a contract between you and your partner. Setting up a company such as an LLC would

help protect you and your partner's personal assets. It would also be easier to purchase assets using a company name and a company tax I.D. number than to use separate social security numbers for two individuals. Check with an attorney or accountant for more information.

Question 57: Our goal is to own property, sell it at a profit or rent it out for recurring income. If we have a limited amount of money now, say \$20,000, where do you suggest we invest it: liens, deeds or over-the-counter liens?

Answer: Tax liens work best for people who are looking for a stable interest rate and a decent return. If you are trying to build wealth, you may want to look into mortgage foreclosures, rental properties or tax deeds. Check with banks or mortgage companies for foreclosure listings. Talk to a real estate agent for Veterans Affairs (VA) and Housing and Urban Development (HUD) listings. Seller-financed houses, which you can purchase for very little money down, can help you build net worth and, if you are careful, can result in positive cash flow each month. Tax deeds are nice in that you can pick up property for a substantial discount; however, you may have to wait a certain amount of time before you can get clear title.

Question 58: Is there any way to determine if a property has a structure on it (e.g., a house or commercial building) from just the legal description that the county provides?

Answer: No. You will have to contact the county assessor to find out if the property has an improvement on it. Occasionally the tax collector will be able to provide that information.

Question 59: I live in Palm Beach County in Florida, which has some of the wealthiest property owners in the nation. Therefore, property tax liens are commonly \$10,000 to \$20,000 or more. Often the bidders are bidding these properties down to .25 percent – yes, that's a period in front of the 25. What is the purpose of this bidding strategy and why would anyone tie up their money for such a low return and a very small chance of owning these properties? What is the foreclosure process in Florida?

Answer: Florida law guarantees tax lien investors a minimum interest rate of 5 percent, except when an interest rate is bid down to zero. Therefore, even though an interest rate is bid down to .25 percent, the investor is guaranteed 5 percent. For some large institutional investors, that may be enough to make money, especially if the lien gets redeemed early. Earning a 5 percent return in one month works out to an annual return of 60 percent.

In Florida, the tax lien holder still has to take the lien to a tax deed sale if the property taxes are not redeemed, and that person could be outbid by someone else for the tax deed. For example, let's say you buy 30 liens at a tax sale and all of them are redeemed except one. That one lien could be a valuable piece of property. After the required time has passed, you now apply for a tax deed. The property will go to a tax deed sale and you will probably attend because you know about the property. Other investors will also be at the sale, and you will have to bid against them. If someone outbids you, you will receive your money back plus interest as the tax lien holder, but the winning bidder will take possession of the property. If no one else bids, you can take possession of the property by default.

Question 60: How do we find county tax sale lists?

Answer: Chapter 9 provides information on tax sales in many counties, including links to tax sale lists online or contact information for requesting a list. If there is a county you are interested in that's not covered in the chapter, visit our tax lien certificates website at <http://www.tax-lien-certificates.com>. Click on the link for the state you are interested in. Once you are on the state page, click on the link for the county you are interested in. You will be taken to a page on the National Association of Counties' website with information on that county. From that page, click

on the link to the county's website. Every site is different, but look for a link to "Departments," "Elected Officials," or "Services," for example, to find the office of the tax collector or treasurer (or similar office). Once you find that page, look for any information regarding "tax defaulted property," "tax sales," etc.

Some counties will not publish their lists online. You may have to call and ask how you can obtain the list. In some cases, the county will mail you the list for a fee. Often the county only publishes the list in the local newspaper. In that case, ask for the name of the newspaper and their phone number. You can then call the newspaper and request that they send you the issue containing the tax sale list.

Question 61: How do I protect myself from making a bad investment at a tax deed sale? I plan to visit the county to research any liens against the property, and to talk with a local realtor. I think a title search would be good, but costly. What about having a property inspection done?

Answer: For tax deed sales, make sure you know the area and property values. Check with the county assessor and see what they have the property appraised at. They are usually a good judge of values because they want their tax money. You can search for liens and assessments with the county – it is public information that is free. Do a drive by of the property and make sure you understand the location, neighbors, etc. You cannot access the property until it is yours, so you won't be able to walk the property or go inside a house. If it is land, check and see whether it can be built on, where the nearest utilities are, etc. Make sure there is no on-site or off-site contamination. Make sure the property is marketable – in other words, can you sell it? You will find that it is too costly to perform a title search on every property that you are thinking about bidding on. You will usually need to bid on several properties before the right one comes along at the right price. Or a property you are interested in could get in a bidding war and become too expensive for you to bid on.

Question 62: If I buy a tax deed, is there still a period during which the taxpayer can redeem the property and get his property back? It seems like too much risk to buy into tax deeds if this is so.

Answer: When you purchase a tax deed, you are the owner. In some states like Texas and Georgia, the properties can be redeemed through a right of redemption process. If redemption occurs, you would receive a flat interest rate on your investment (25 percent and 20 percent, respectively), similar to a tax lien. In most other tax deed states, you own the property and it cannot be redeemed. In a few states, a legal challenge period exists primarily for gross mistakes in the sale process. In California, for example, the challenge period is one year; in Arkansas it is two years. To challenge a sale, the previous owner or entity with an interest in the property must show that the sale was not proper or that they were not notified, etc. This is a legal process, usually involving an attorney and the court. During the challenge period most states/counties recommend that you do not make any major improvements. If the sale is challenged, that does not mean that you automatically lose – your chances may be just as good at winning. If you are forced to relinquish a property, you are entitled to what you paid for it.

Question 63: How does competitive bidding work at a tax lien sale?

Answer: Every state is different. In Florida and Arizona, you bid the interest rate down, starting at the state-mandated interest rate. The winning bidder is the person willing to take the lowest interest rate. In Missouri and Indiana, you bid up the price of the property, starting at the county-set minimum bid. The winning bidder is the person willing to pay the most. Iowa and Nebraska have a round robin process where the interest rate is held constant, but you can only bid on the properties that come up when your turn is called.

Question 64: We have been looking at the San Bernardino County (California) tax deed sale, and have seen many plots of land available. What should we know about investing in land? Also, is it typical to see bids that end up being much higher than the assessed values?

Answer: Land can be a great thing to invest in, but make sure it is marketable. Call a real estate agent and see what land sells for in the area. Find land that is in a nice area or by something that would make it valuable. Look for land near a lake, river, mountainside, golf course, nice neighborhood, etc. In other words, if you buy land make sure there is a reason that someone else will want to buy it from you.

In some parts of the country (California is one of them), properties are being bid up to insane levels. Don't get caught up in this. If the prices are too high, don't buy. There are other sales and other states where you can find better deals. These buyers are speculators. Not too long ago, these same people were buying Internet stocks at prices beyond reason.

Because you live in California you might have a hard time finding good values. We recommend testing a few areas and attending at least one or two public auctions. If you decide California is not a good place right now, try Arizona or Nevada. Be patient. You will have to attend several sales in order to find an area and a way of investing that works best for you. When you do, you will be more than happy.

In California there is a one-year regulatory challenge period that will have to occur before you can clear title. It is also a good idea to hold property for one year to reduce your taxes.

Question 65: In cases where tax lien bidding starts at taxes owed plus fees, penalties and interest, is the interest paid to the tax lien holder determined on this amount or only on the taxes owed?

Answer: You earn interest on the total amount that you pay at the sale, which probably includes taxes owed and fees assessed by the county. You often will have to pay a certificate fee (roughly \$10), which you will not earn interest on. Not all states require this fee, which can vary in amount.

Question 66: If I purchase a tax deed and the owner is still on the property, do I have to evict him/her at my own cost?

Answer: You usually will be responsible for eviction. Contact an attorney and the sheriff's office and make sure everything is done correctly.

Question 67: I am looking at tax lien certificates in Maricopa County, Arizona, and have the following questions. Some properties have liens dating back to 198x, and have many liens opened. Wouldn't the county ask for a foreclosure on those properties? Most of the properties are vacant land, while some are commercial properties. I saw a few properties owned by churches. Are there any special factors I should watch out for if I want to purchase the tax lien certificates for these properties?

Answer: The county won't ask for a foreclosure normally. They just want the tax money. You should know that liens that are that old and have not been purchased are usually not worth anything and should be looked at with much skepticism. On the positive side, if you do find a decent lien and it is over three years old, you should be able to purchase it and take it to foreclosure if you wish.

Make sure you research church properties just like you would any other property. We are not aware of any special concerns related to church properties.

Question 68: What county offices are supposed to know about purchasing tax deeds or liens, location of auctions, specific process, etc.?

Answer: Tax sales are usually handled by the tax collector's office. Some states handle it through the treasurer's office and in some locations the sheriff's office actually handles everything. In Florida, tax liens are handled by the tax collector, while tax deeds are handled by the clerk of the court. In Arizona, tax liens are handled by the treasurer, and tax deeds are handled by the Board of Supervisors. Start with the tax collector's office if the county or municipality has one. They can direct you to the appropriate office if they don't handle the sales.

Question 69: I have been researching tax deed sales for the past seven months, and have decided to start in Georgia. What do I need to be aware of?

Answer: Make sure you pay the next year's taxes so another tax sale investor doesn't purchase a deed on the same property. Georgia's rules are fairly complex. You will have to do a lot of work to foreclose, such as contacting the sheriff's office and advertising. It is a good idea to speak with an attorney to help you with the process until you are comfortable. Of course, you will only have to go through foreclosure if the property owner does not redeem. If the property owner does redeem, you will have to issue a quit claim deed to transfer title back.

Question 70: How can we determine if the property owner has filed for bankruptcy?

Answer: As far as bankruptcy is concerned, you can never be 100 percent sure. A homeowner could file for bankruptcy during the redemption period. If a bankruptcy is filed, you will receive information from the court along with every other creditor. You will likely receive your money back, but it could be tied up for a while.

Question 71: Suppose I hold a tax lien on a property in Florida, and a hurricane blows the house away. Do I still have a guarantee on my lien?

Answer: This is a good question. Even if the house blows away, you will still have a lien on the real estate, which includes both the land and the house. If a property owner rebuilds, he/she would most likely have to pay off the lien before obtaining financing. If the previous owner never pays the back taxes, you can still apply for foreclosure and bid on the property at the tax deed sale. If you are the winning bidder, you would receive ownership to the property. Depending on what you paid originally, the land might still be valuable even without the house. (If you were not the winning bidder, you would receive your investment back.) If the situation looked horrible, you could just let the lien expire and not apply for foreclosure. You would lose the money you invested in the lien, but you would not be liable for the property. This is because you only bought a lien, which is debt, and not the actual property.

Question 72: I will be buying properties in Indiana, where there is a one-year redemption period. I have the following questions. What limit do you recommend bidding up to? Knowing the different interest rates on the minimum bid and overbid amount, and the generally low probability of acquiring a property (5 percent), is it better to spend a given number of dollars on several properties by bidding only a little above the minimum bid to acquire the certificates, or is it better to bid on fewer properties by bidding them up aggressively if needed to acquire them?

Answer: As far as how high to bid, common sense prevails. Find out the county's assessed value for each property and then check that against reality by doing a drive by and calling on some other properties nearby to determine the market value. You will then have to decide your cutoff. We like to keep our bids below 50 percent of the property's market value. Sometimes we will go higher, but usually no more than 75 percent of the market value. The reason is that you have to leave room for expenses such as paying subsequent taxes, fixing problems, paying to

clear a title, paying a realtor to help sell the property, etc. Of course, if the property is redeemed in Indiana then the overbid is not as important. In fact, we know some individuals who overbid in Indiana on purpose. You just need to be careful and protect yourself against those cases where a property is not redeemed and you take ownership.

Your strategy for bidding may depend upon the county. Be careful about investing all of your time on only a few properties. You should always go to a sale with a list of at least 5 to 10 properties to bid on, perhaps more if you have the time and money. Why? That's because last minute redemptions will erase several of your prospects. Also, some properties will be aggressively bid on for whatever reason. You need to have a backup plan in terms of other properties to bid on.

Question 73: I am interested in finding an agent or company that would be able to assist me with the purchase of tax deeds and tax liens. Do you know of anyone that might be able to help?

Answer: Most companies that we were aware of are no longer taking on any more clients. If you are a high net worth individual, we may be able to refer you to a company. Please contact us by email for more information.

Question 74: How much money does one need to get started investing in tax liens or deeds?

Answer: The more money you can set aside toward this type of investing, the greater your potential is for success. Tax liens and even deeds can be purchased for less than \$50 to several thousand dollars. At a typical tax lien sale, most liens go for roughly \$100 to \$2000. Tax deeds may be more expensive depending upon the state. Tax deed sales usually require a little more than \$1,000 to get started (\$5,000 to \$10,000 is better), but sometimes you can pick up lots for relatively little. Don't forget to factor in your travel and business expenses.

Question 75: Because I live in Columbus, Ohio, I was researching tax lien sales in Frank County, and learned that Ohio only sells tax liens in one bundle, all at once, to one investor. That leaves almost everyone out of the game. Are all states like this?

Answer: In Ohio, counties with populations of 200,000 or more can collect delinquent property taxes by selling tax certificates on delinquent properties to private parties by public auction. Tax liens are not sold individually, but are sold in bulk. These sales are not designed for individual investors.

This is not how most sales are conducted in other states, where liens are typically sold individually, so check out the tax sale procedures for other states in your area. You could also invest in tax deeds in Ohio. Properties not sold the first time are offered again at a tax deed sale three weeks later, but are not re-advertised. Properties unsold after two attempts may be forfeited to the State of Ohio. The county auditor, who acts as an agent of the state, conducts Forfeited Land Sales of these properties.

Question 76: Would you recommend that we buy tax liens or deeds online without viewing the property?

Answer: I would not recommend buying tax deeds without viewing the property. Many people buy tax liens without viewing the property, but that is a personal decision based upon risk tolerance. Some states like Iowa and Nebraska make it hard to view lien properties before the sale, because the bidding is done by round robin. In other words, bidders will not know which liens they will have an opportunity to purchase until their bidder number is called.

Question 77: How much does a foreclosure process cost?

Answer: Foreclosing on a property can range from approximately \$1,000 to several thousand dollars, depending upon where you live and any complexities to the foreclosure.

Question 78: What payment method would you recommend, besides cash, at a tax sale?

Answer: You usually will have to ask the county about their payment requirements. Most will gladly accept a money order or cashier's check. Most will not accept checks.

Question 79: Is there any way to purchase a tax deed and then immediately sell the property for a capital gain?

Answer: The quick answer to your question is not really. Even for deeds, many states have a redemption period following the tax sale. We work in Arkansas a lot and they have a 60-day redemption period after the sale. So, you won't even receive the deed for at least 60 days. In addition, most states have a regulatory challenge period (usually one to two years). You can still sell the property during this period, but you can't get clear title. Also, remember that your capital gains tax will be much lower if you hold a property for at least one year.

Question 80: How and when is the interest applied to tax liens? Is it compounded?

Answer: In most tax lien states, the interest is applied annually. Texas and Georgia have a flat interest rate of 25% and 20%, respectively. In those states (and a few others like that), you get the full interest even if the lien is redeemed in one month. Some states have a minimum fee such as 2% or to 5% to protect investors from buying a certificate and having it redeemed two weeks later.