

Investing in Real Estate with Tax Lien Purchases



Like many asset classes, tax lien investing requires specialized knowledge to be successful. It is important to apprise yourself of all the pertinent facts before you venture your retirement capital into a property tax lien purchase.

Get to know the following 5 fundamentals of property tax liens to find out if this is a good real estate investment option for you.

✓ 1. HOW TAX LIENS WORK

Tax liens are a cash-flow management strategy employed by local county or city governments when a property owner doesn't pay the proper taxes. The lien represents the right to foreclose on the property if the taxes are unpaid.

✓ 2. WHERE INVESTORS ARE INVOLVED

Local tax authorities typically sell liens at auction to private investors, which allows the county immediate access to the cash and gives the investor the right to collect the delinquent taxes, plus penalties and interest.

✓ 3. NUMBERS

\$6 billion in tax liens are up for sale each year in the US and can be sold to investors in 28 of the 50 states. Interest rates on payments vary from state to state, ranging from 12 to 16 percent per year.

✓ 4. THE TIMELINE

After you purchase a lien, there will be a redemption period in which the taxes must be paid in order for the taxpayer to redeem the property. Depending on the state and lien type, at the end of the redemption period the investor either gets a payoff from the state or the right to foreclose on the property.

✓ 5. THE NITTY GRITTY

It's important to be sure that you are ready to take on the entire amount of the taxes owed before investing in a tax lien, and remember that redemption periods can be lengthy. Additionally, all lien properties are sold as-is, and may need extensive repairs.

Before considering this investment strategy, you should have a clear idea of what you are committing your capital to, do your research, and consult an expert.

[Contact us today](#) to learn more about investing in tax liens with a self-directed IRA or Solo 401(k) plan.