

Tax Lien Investing: Are You Ready to Get Started?

By Joanne Musa

I noticed that many people that come to me to learn about tax lien investing don't really have an understanding of what is involved. They under estimate two things – the amount of money needed to invest in tax lien certificates and the amount of time that is involved in finding profitable tax liens...

Let's talk about the time involved in investing in tax lien certificates first. Tax lien sales in most states are usually held on weekdays at normal business hours, so you will need to have the time to go to the sale to bid on the properties that you are interested in. Even though in some states you may be able to mail in your bid, it's to your advantage to be at the sale.

But this is less than half of the time that you will need to invest in purchasing profitable tax liens. Before you even get to this point you have to do some type of due diligence on the properties that are in the tax sale. The list of properties that you get before the sale from the tax office, in most cases, does not tell you anything about the property. Frequently this list will only consist of the tax ID, owner of record, and amount owed. It doesn't even give you the location of the property!

So the first thing that you have to do is look up the assessment information on the property and find the address. You'll want to physically look at the property to be sure that the assessment information is up to date. You want to make sure that the property is worth considerably more than the amount that's owed for back taxes. Keep in mind that you may have to pay the taxes on this property throughout the redemption period (if it doesn't redeem) before you can foreclose on it or apply for a deed.

This brings up the other factor that a newbie typically underestimates when they get started in tax lien investing, and that's how much money is needed to invest in tax lien certificates. Frequently people tell me that they want to get started with less than \$250.00. This is really not enough. Although you may not need as much to invest in tax liens as you do for tax deeds, you still need at least \$2000.00 to get started. Even though you may be able to purchase a lien for under \$200, you still need to pay the taxes on that property until the lien is redeemed. If you don't, the property could wind up in next years tax sale and another investor could purchase that lien.

Tax lien investing is not like buying a savings bond or putting your money into a CD. You cannot take your money out if you wish to and you do not get paid any interest until the property owner decides to redeem the lien. If the property owner does not pay, than you have to wait out the redemption period and then go through a foreclosure process, or deed application process, before you get the property.

If investing in tax lien certificates is something that you want to do, then I recommend that you have at least \$2000 that you know you will not need to meet any of your expenses to use for this purpose. I also think that you will need to have at least a few hours that you can invest in doing due diligence and bidding at tax sales. If you only have \$2000, you may only be going to one or two sales each year and spending a few hours of your time every six months or so. If you really want to pursue tax lien investing aggressively, it is even better if you have \$5000 - \$10,000, and at least 10 hours per week that you can invest. This way you can attend more sales and purchase a few liens per year instead of just one or two. The more money and time that you can invest, the greater will be your return.