

Buying a Home With Unpaid Real Estate Taxes Is Risky

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If you've been [looking for a home](#) but find yourself frustrated by high prices or the lack of homes on the market, you may find yourself lingering over ads for properties sold at a tax-sale auction. While all real estate transactions come with a "buyer beware" label, the warning sign should be larger when it comes to purchasing a property at a tax sale.

Tax Deed Sale Basics

Homeowners who fall behind on their property taxes typically are sent notices about the unpaid bill from their local government. The rules about how unpaid taxes are handled vary from one jurisdiction to another, but generally after a certain period of time these homeowners are charged interest on their unpaid taxes. The amount of interest charged is set by each state and then charged by the county government and can range as high as 12% to 24%.

If the property taxes go unpaid for a long time, such as a year or more, the local government has the right to “sell the taxes.” Investors are enticed to buy these tax liens, which are typically sold at an auction, because of the high return on investment.

When you buy the tax lien, you don't immediately become the owner of the home. Instead, the homeowner has another opportunity to pay back their taxes. If the bill is paid, then you get your investment back and you also receive the interest owed on the taxes.

If the owners cannot or will not pay their tax bill, you eventually become the owner of the property for the price you paid for their tax bill.

While this may sound like a great deal—since you will get your money back and you will either receive interest on your investment or own a home—there are plenty of pitfalls to buying a home with a tax lien.

Not for the Novice Investor

The rules are complicated and different in every state, but in nearly every case you should expect to wait months or even years before you can take possession of the property, if ever. The owners could come up with the cash to pay their taxes, but even if they don't, it can take a long time before the government gives up on getting the back-taxes paid and before a title company will issue title insurance.

As with any investment it is extremely important to know what you are buying. While you won't be able to get into the home or have

a home inspection, you should at least visit the property and make sure there's a home on the land and that it hasn't been destroyed by a fire or a storm. Research the local property records to check whether the tax bill was sent. Governments do make mistakes, and if it turns out the taxes were paid, you will eventually get your money back but you probably won't earn any interest on it.

Remember that you will need money upfront to purchase the tax lien and that you need to be ready to compete against other bidders. Your cash could be tied up for months or years to allow the property owners a chance to keep their home, so be sure you are able to part with the investment for that much time.

If your main interest is finding a home to live in within a few months, a tax sale isn't likely to achieve your goal. If you're looking for an investment, be aware that you need to follow specific rules; and, be ready to take the risk that you will end up owning a property that could require significant repairs before it's habitable.