

# **7** STEPS TO BUILDING YOUR PROFITABLE TAX LIEN PORTFOLIO

Updated For 2023



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A Tax Lien **Lady** Special Report

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## Introduction

Let's go over some basics about tax lien investing and then we'll get down to the 7 steps to building your portfolio of profitable tax liens or tax deeds. What is a tax lien anyway and what's the difference between a tax lien, a tax deed, and a redeemable deed?

When you purchase a tax lien, you are paying the taxes on someone else's property in order to receive the interest or penalty amount on your money that the local taxing district would charge the taxpayer. Basically, you're providing the delinquent taxpayer a high-interest loan, which is secured by real property. You do not have any ownership rights to the property. But, if the owner fails to pay the lien in a certain amount of time, then the lien holder can foreclose on the property. This time frame is known as the redemption period. And each state can have a different redemption period.

When you purchase a tax deed, you are purchasing the deed to a tax delinquent property. The property changes hands from the delinquent property owner to you, if you are the highest bidder at the tax sale. A redeemable deed is something that is kind of in between a tax lien and tax deed. You bid for the deed at the tax sale, but there is still a redemption period in which the delinquent property owner can redeem his or her property and buy it back from you. To do so they must pay a penalty which differs according to the state. There are only 7 states and one city that sell redeemable tax deeds.

My students and I have used the following seven steps to buy profitable tax lien certificates and tax deeds. These steps will work regardless of which state you are investing in and whether you are investing in liens or deeds. The details of how you accomplish each step may change depending on which state you are investing in and whether you are investing in tax lien certificates, tax deeds, or redeemable tax deeds, but the seven steps remain the same.

## Step 1: Pick The Right Place To Invest

*Where do you live? How much money do you have to invest? Are you investing for the future or for current income? Do you want to own and manage property, or are you just looking for investment income?*

Your answers to the above questions will determine where the best places are for you to invest and how you will profit from your investment later. Everything that you do to develop a profitable portfolio will be based on your answers to these questions. If you're investing for retirement or future income, you should consider investing through a self-directed IRA. You can invest in tax liens and tax deeds with money from your self-directed IRA, solo 401K or other qualified retirement plan that you control. If you're investing for more immediate goals, however you'll want to use after-tax money to invest with.

If you want to invest in tax liens because of the chance of getting the property, I suggest that you buy tax deeds or redeemable tax deeds instead. Tax lien certificates on good properties will almost always redeem. If you do your research and bid on good properties, your chances of foreclosing on one of your liens are very slim. And in some states, even if you did get the opportunity to foreclose on a tax lien, it could take years (during which you would have to continue to pay the taxes on that property).

You'll need to identify the area or areas that you will be investing in. If you want to invest in multiple areas or more than one state, I suggest that you learn how to be successful in one area or state before moving on to another. Every state has different laws and procedures regarding tax sales. What worked in one state may not work very well in other areas or other states.

## Step 2: Get The Tax Sale Information

*The first thing that you want to do in order to buy tax liens or tax deeds, once you've decided where you're going to invest, is to find out when and where the tax sales are. So how do you find out about tax sales?*

If you are only interested in a few specific counties, you can call the tax collector and find out where and when the tax sale is held and if there is any information available online. If you are investing in different parts of the country, however, or if you really are not sure where you want to start investing and want to see what tax sales are coming up in different states, you can use an online service like [www.TaxSaleResources.com](http://www.TaxSaleResources.com).

Tax Sale Resources is a national database for tax sale information. A subscription to Tax Sale Resources is included with membership to the [Tax Lien Profits Accelerator™](#). With Tax Sale Resources, you can do a custom search to find out what tax sales are coming up around the country. You can also order premium tax sale lists, which make researching tax sale properties much easier or you can download as received list from the county for free. You can search for tax sales in just one state or nationwide. You can search for online tax deed sales, or all the redeemable sales coming up, or only online tax lien sales. You can also search by bidding procedure.

I do a search each month to let subscribers of the [Tax Lien Profits Accelerator™](#) (Tax Lien Lady's member's area) know what tax sales are coming up during our monthly member coaching call. And since members have access to Tax Sale Resources, they can also search for upcoming tax sales any time they want.

There is another way of finding out about upcoming tax sales, but it's doesn't always work. It all depends on whether the county or taxing district has information online. You can google the county

name and the words “tax sale” and see what comes up. The only problem with this is that sometimes you get links to marketers that are selling information on how to invest in tax liens for that county and not the actual county sale information.

A better way to search online for this information is to search for the county tax collector’s web site and then search for the tax sale information. To do this you can start with [www.NACO.org](http://www.NACO.org) which lists all counties for each state. Then you can go to that county’s web site and find a link to the tax collector’s web site if they have one. At the very least you can find contact information for the municipal or county tax collector or treasurer’s office and contact them directly to ask for information about the tax sale.

### **Step 3: Do Your Due Diligence**

***Researching the tax sale properties to find the right ones to bid on, based on your goals, is the most important step in the process. Doing this properly or not could mean the difference between being extremely profitable and losing money on your investment.***

Once you have a list of properties that are in the sale, you need to do your due diligence on these properties before you bid. The exact procedures that you follow will vary depending on which state you are investing in and whether you are investing in tax lien certificates or tax deeds. You need to do a little more due diligence for tax deeds than you do for tax liens.

When buying a tax lien, you are not purchasing the property, you’re paying the taxes and putting a lien on the property. But you still need to make sure that the property is valuable. You want to make sure that it’s worth a few times more than the taxes that you are paying, otherwise, the lien will not be redeemed, and you may have more money into it than it is worth.

It's even more important to do your due diligence on tax deeds since you are purchasing the property. You'll want to do more than just check the value of the property and make sure that it is worth what you're paying for it. You'll also want to check that any current lien holders were properly notified of the tax sale. If they were not notified, they could later have a claim on the property and nullify the sale. You'll also want to check that there are no liens or judgments on the property that might survive the tax sale. This will take some research on your part to find out which liens if any survive a tax sale in your state, because every state has different laws regarding what survives the tax sale.

And for both tax lien and tax deed properties, you'll want to make sure that there are no environmental problems. This information can be found online for most states but sometimes you will have to go to the county assessment office or county hall of records to get the information that you need.

## **Step 4: Prepare To Bid At The Auction**

*Preparing to go to the sale includes registering to bid at the sale and making sure that you have all your paperwork and payment in order. In most states, you need to register before the sale in order to bid.*

Depending on which state and county you are investing in, you may need to register days or even weeks before the sale. Some counties and municipalities do not require you to register ahead of time, only that you submit the proper paperwork if you are the successful bidder on a property. Some counties will require a deposit in order to register. The deposit amount could be anywhere from \$100.00 to a few thousand dollars (as in the case of many online tax sales). Large deposits are usually returned to the investor if nothing is purchased at the auction. Smaller deposits are sometimes returned and sometimes not returned, depending on the county. Sometimes there is a cost for participating in the tax sale,

regardless of whether you win any bids or not. It's best to check out the terms and conditions of bidding in the tax sale before you register to bid.

You also need to make sure that you have the proper funds for payment before you go to the sale. For most tax sales, only certified funds are accepted. Many counties expect payment the day of the tax sale. If you don't have proper payment when expected, not only will you lose a successful bid, but you'll also be banned from future tax sales. It's important to find out what the acceptable forms of payment are and arrange to have the right payment on the day of the sale.

## **Step 5: Bid At The Tax Sale!**

*It's important to know what the bidding procedure is and what your bidding strategy is before you bid at a tax sale. You'll have to decide beforehand just how much you are willing to pay for each property that you want to bid on, or how low (in interest) you will bid.*

I suggest that you attend at least one tax sale before you bid so that you are aware of the bidding procedure and what the competition is like. There are 4 different common bidding procedures and some states may use a combination of these. Here are the four most common bidding procedures:

- Bidding down the interest rate
- Bidding up the cost (known as Premium or Overbid)
- Bidding Down the Percent Ownership Interest
- Random Selection and/or Round Robin

Tax lien sales can be very different from state to state or even from county to county within a state. Tax deed sales are pretty much the same around the country. At a live tax deed auction, the properties are read off by the auctioneer in the order that they are listed, and the



price of the property is bid up.

In states that have online tax deed auctions, like some counties in California and Florida, you must register online and put up a deposit before your bids will be submitted. The properties are usually listed in batches and a time frame is given for each batch. You put bids in on the properties that you want to bid on, but you don't know who else is bidding and what the other bids are. You may not even know if you are the successful bidder on a property until after the sale.

Tax lien sales can differ greatly from state to state. In some states, the interest rate is bid down. This happens in Florida and Arizona, (two of the most popular tax lien states) Illinois, and in Nassau County, NY.

In other states, the interest rate is kept constant and the price of the lien is bid up. The amount bid up from the amount due is referred to as "over-bid" or "premium" and each state handles it a little differently. In some states, you receive interest on the premium paid for tax liens (Alabama and Indiana are two states that give you interest on your premium). And in other states where premium is bid, you do not get any interest on the premium amount (West Virginia is one of these states). Some states do not pay interest on the premium amount and do not return the premium to the investor should the lien redeem (Colorado and Vermont).

New Jersey is the only state where both the interest rate and premium are bid. The interest rate can be bid down to 0% and then the premium is bid in \$100 increments. If the premium is bid, the investor doesn't get any interest on the premium or the certificate amount (remember interest was bid down to 0%). But they will get a penalty on the lien amount, plus they will have the ability to pay all the subsequent taxes and receive the statutory interest rate on all their sub payments. They will receive the premium back if the lien is redeemed within five years.

In states that bid down the percent ownership interest in the property, the tax lien certificate is awarded to the bidder willing to accept the lowest percent ownership interest in the property. As you can imagine, this makes for some sticky situations should you have to foreclose on a lien, and it is not the ideal situation for the investor. Tax lien sales are conducted in this way in Rhode Island, Nebraska, Louisiana, and Iowa.

In states that use the random selection process, the tax collector or auctioneer randomly selects bidders, usually by bidder number for each parcel as it is read out at the sale. With the round robin procedure, the tax collector will go around the room, offering the next parcel on the list to the next bidder in line. The downfall to these procedures is that you cannot pick which properties you want to bid on and only do your due diligence on those properties. Here you do not know which properties will be offered to you and you can only accept or decline what is offered to you. The random selection process is used in Wyoming. The round robin procedure is used in some counties in Colorado for liens under a certain amount (the amount differs by county).

## **Step 6: Protect your investment**

***Once you purchase a tax lien certificate or tax deed, you need to take steps to protect your investment and maximize your profit.***

Depending on whether you are investing in liens or deeds and which state you are investing in, these steps may include:

- Recording your lien or deed with the county clerk
- Paying subsequent taxes
- Clearing the title to the property

Both tax lien certificates and tax deeds need to be recorded with the county clerk in order to be legal and valid. In some states, the

recording is done for you when you purchase the lien or deed and in other states, you are responsible for recording your lien or deed. Some tax lien states require the investor to give notice of the tax lien to the property owner and any lien holders.

When you purchase a tax deed, you have bought the property and are now the owner of record, so you must continue to pay the taxes unless you want the property to be sold at another tax sale. When you purchase a tax lien you are not obligated to pay the taxes, but in some states, you can pay the subsequent taxes if the owner doesn't pay them on time. Some states will give you the maximum interest rate on your subsequent tax payments, making it more advantageous for you to pay them.

Most counties do not issue a warranty deed at a tax sale. That means that if you purchase a deed at a tax sale, you will most likely have to clear the title on the property before a title company will issue title insurance. Since title insurance is very important to most buyers, you'll need to clear the title on a tax deed property before you can sell it.

## **Step 7: Cash in on your investment**

*This is the step where you make money. Up to now, you've been investing your money, but this is the step where you take your money out and make your profit.*

To make your money on a tax deed property, you can sell, develop or rent the property. There are also three ways that you can profit from your tax lien certificate. The property owner could redeem your lien, in which case you will get your initial investment back plus interest and penalties. If the lien does not redeem during the redemption period, you can foreclose on the lien, and in some states take ownership of the property. The third way that you can profit from a tax lien is by "assigning" your lien or selling it to another investor.

Tracking your lien to keep track of your profit and redemption values is an important part of cashing in on your investment as well. You'll want to keep track of when you purchase your lien, as well as how much you pay for your lien, what the interest and/or penalties that you are earning are, and any other expenses that you incur. This is what you will need to figure out your yield and your ROI (return on Investment).

## Want My Help?

The fastest, easiest way to build your own profitable portfolio of tax liens or tax deeds is to have someone who has done it show you how. If you want someone with 20 years of experience to take you by the hand through these 7 steps, I do have mentoring programs that do that. If you have money to invest, but you'd like to shorten your learning curve and avoid the mistakes that can cost you money, this might be right for you. Find out more at [www.GetProfitableTaxLiens.com](http://www.GetProfitableTaxLiens.com).

## Are you a Self-starter?

If you are a self-starter and would like to do this on your own, but need some guidance and the right tools, you'll find the help and the resources that you need (plus monthly trainings and group coaching) in the Tax Lien Profits Accelerator™ (Members Area at TaxLienLady.com). You can find out more about the Members Area at <https://taxlienlady.com/membership>.

## Not Sure if Tax Lien Investing is Right for You?

I suggest that you attend a tax sale in your area and see what it's like. If you don't understand what is going on, then join me for Ask The Tax Lien Lady on my [Facebook Page](#) every Tuesday at 2pm Eastern time. Bring your questions and I'll answer them for you live. Or if you aren't on Facebook, you can post your questions as comment on my YouTube Channel at <https://YouTube.com/Taxlienlady>, and I'll answer them on my

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## About the Author



Joanne Musa is a tax lien investing mentor and consultant who works with investors who are ready to build their own profitable portfolio of tax lien certificates or tax deeds. Her very informative and straightforward articles about tax lien investing appear all over the internet.

Joanne has been featured on internet radio and a national financial online magazine. She was mentioned in the January 2013 issue of Forbes, and is the author of the Amazon best-selling book, "Tax Lien Investing Secrets: How You Can Get 8%-36% Return on Your Money Without the Typical Risk of Real Estate Investing or The Uncertainty Of The Stock Market."

As CEO of Tax Lien Consulting LLC, and founder of TaxLienLady.com, she has helped investors from all over the world to profit from tax lien certificates and tax deeds. She interviews experts from around the country on all aspects of tax lien and tax deed investing and has been invited to speak to real estate investing groups throughout the US. Known online as the Tax Lien Lady, her brutally honest, no-nonsense style sets her apart and has earned her the title of being America's most trusted authority on tax lien investing.