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Elements of Tax Sales in New Jersey

New Jersey law requires all 566 municipalities to hold at least one tax sale per year, if the municipality has delinquent property taxes and/or municipal charges. You can obtain information on upcoming tax sales by contacting the tax collector in the municipality in question, or from the web site of the Tax Collectors & Treasurers Association of New Jersey: www.tctanj.org/taxsale.html. More detailed information on the tax sale process in New Jersey can be found at www.njtaxlieninvestor.com*.

In New Jersey, property taxes are a continuous lien on the real estate. Property taxes are due in four installments during the year: February 1, May 1, August 1, and November 1. Delinquency on a property may accrue interest at up to 8 per cent for the first \$1,500 due, and 18 per cent for any amount over \$1,500. If the amount of delinquency on a property exceeds \$10,000 at the end of the municipal fiscal year, the municipality may charge up to a 6 per cent year-end penalty.

At the tax sale, title to the delinquent property itself is not sold. What is sold is a tax sale certificate, a lien on the property. Tax sale certificates can earn interest of up to 18 per cent, depending on the winning percentage bid at the auction. At the auction, bidders bid down the interest rate that will be paid by the owner for continuing interest on the certificate amount. If the interest is bid down to one per cent, then a "premium," is bid starting at \$0 to whenever the bidding stops to obtain the tax sale certificate. The premium is kept on deposit with the municipality for up to five years. If the tax sale certificate is not redeemed, or the property foreclosed upon within the five year period, then the premium escheats to the municipality. No interest accrues on the premium to the benefit of the buyer of the tax sale certificate.

The winning bidder is the one who bids the lowest percentage of interest or bids the highest premium. Bidders are urged to contact the Tax Collector for local payment restrictions before the sale. At the close of the sale, the winning bidder must immediately pay (pursuant to the local restrictions) the municipality the taxes and interest to date; in exchange the municipality will provide the bidder the tax sale certificate. In order for the winning lien holder to protect their interest in the tax sale certificate, it should be recorded in the Deed Room at the County Clerk's Office within 90 days of the sale.

Taxes continue to accrue on the property after the sale of the certificate. Bidders have the option to pay these subsequent taxes; if they are not paid, a tax sale certificate will be sold at the next tax sale. Any subsequent certificate issued will be paramount to any prior certificate. Subsequent taxes paid by the lien holder earn interest at the rate set by the municipality.

If the certificate is redeemed by the property owner prior to foreclosure, the certificate earns a redemption penalty at the rate of 2, 4, or 6 percent, depending on the amount of the original tax sale certificate, in addition to any interest rate on the certificate.

After two years, a lien holder can begin proceedings in Superior Court to foreclose on the property. If foreclosure is perfected, then the name on the deed is changed to that of the lien holder who can then take possession of the property.

This information is intended only as a short introduction to the tax sale process in New Jersey, and not as investment advice. There is no substitute for learning as much about investing in tax sale certificates from the many sources available, both online and in print. As with all investments, the investor must do his or her due diligence when investing in tax sale certificates. Unlike more "passive" investments, like certificates of deposit, or stocks and bonds, tax sale certificates require "active" follow up and management by the investor. By posting this notice, the State of New Jersey neither recommends nor discourages investment in tax sale certificates, and makes no guarantee of profit or positive result from such investment.

* This information, and the content at www.tctanjanj.org and www.njtaxlieninvestor.com are private organizations; the Division of Local Government Services makes no assurances or guarantees about the reliability of the information. There are provided here only as a potential source of information and does not and is not intended to serve as legal or investment advice.

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