POLICY BRIEF

The Problems with Property Tax Liens and How to Improve Property Tax Enforcement

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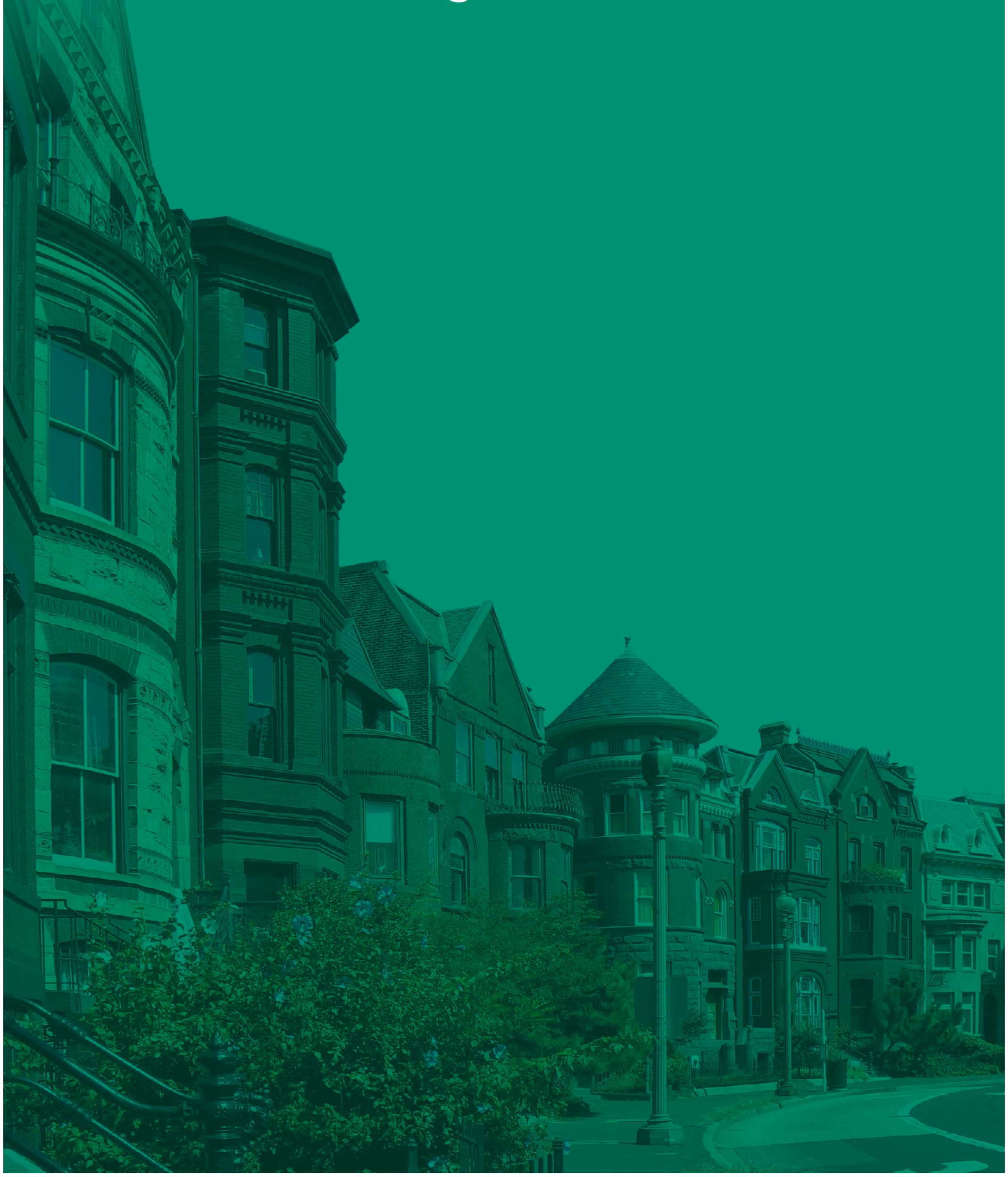

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INTRODUCTION

Imagine losing your 197,000-dollar home because you failed to pay a 134-dollar property tax bill. Many people would find such a circumstance hard to believe. But that is what happened to a retired Marine sergeant who was battling dementia in the summer of 2011. In fact, many homeowners are likely unaware, and understandably so, of the life-changing consequences that can result from failing to pay one's property taxes.[3]

This policy brief shines a brighter light on tax lien sales and their consequences, which, in the worst-case scenario, can lead to taxpayers losing their home and all the equity in the property they have earned to date.

This brief has three central takeaways:

1. The sale of unpaid property tax debts by local governments to private investors raises a host of serious economic, demographic, and legal issues.
2. When profit-driven investors purchase tax debt in an economically booming neighborhood, the demographic and economic changes already occurring in that neighborhood—which tend to negatively affect non-white, lower-income residents—get amplified.
3. Local governments can, and should, do more to prevent existing homeowners from becoming severely delinquent on their property taxes, including engaging in low-cost outreach and financial literacy campaigns, and redistributing at least a portion of sale proceeds back to distressed communities.

The brief proceeds in four sections. The first section explains property tax liens in addition to their legal and financial consequences. The second section describes the tax lien sale process and the participants in the process. The third section summarizes new research by economist Cameron LaPoint that examines how tax lien sales affect the prices of nearby homes and, in turn, accelerate that neighborhood's demographic and economic change.[4] The final section offers policy recommendations.

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3 | *Sallah, Michael, Debra Cenziper, & Steven Rich, "Left with Nothing," Washington Post (September 8, 2013): [link].*

4 | *LaPoint, Cameron (2023): "Property Tax Sales, Private Capital, and Gentrification in the U.S.," SSRN Working Paper, No. 4219360: [link].*

PROPERTY TAX LIENS

What is a property tax lien?

A tax lien is issued when one fails to pay one's property taxes on time. The local government files a legal claim against the house, or property, of the owner who has failed to pay their property taxes. The house serves as collateral for the unpaid taxes.

Collateral is an asset that acts as a kind of insurance for whomever is owed money. For example, a house usually serves as collateral for a standard fixed-rate, 30-year home mortgage loan. Now imagine that a homeowner refuses to make their mortgage payments. The bank that extended the loan has a claim to the value of the property. It can seize and sell the person's home at auction to recover the mortgage payments it is owed. The same intuition behind the notion of collateral can be applied to tax liens.

Consequences of a property tax lien

A tax lien is a substantial legal and financial headache for a tax-delinquent homeowner.

On the legal side, it is critical to understand that a tax lien is a claim against property, not a person. Furthermore, a local tax lien receives higher priority than any other claims to the underlying property, including claims made by the IRS for delinquent federal tax debt.[5] A homeowner cannot escape the tax lien by declaring bankruptcy.[6] A homeowner may also find it difficult to refinance or sell their home while a tax lien is imposed.

On the financial side, the homeowner pays a penalty and interest on the unpaid tax amount. In the District of Columbia, the yearly or annualized interest rate is 19.5 percent, or 1.5 percent compounded monthly. The one-time penalty rate is 10 percent. In the case of the Marine who was foreclosed on in 2011 after living in his house for twenty years, he owed a total of 317 dollars at the time the lien was sold at auction to EMBASSY TAX SERVICES, LLC in 2007.[7] Of this amount, the overdue tax debt amounted to a mere 134 dollars, the remaining 183 dollars consisted of accrued interest plus the one-time penalty fee.[8]

5 | *IRS §§5.17.2.6.5.6 Real Property Tax and Special Assessment Liens: [link] (accessed March 5, 2023).*

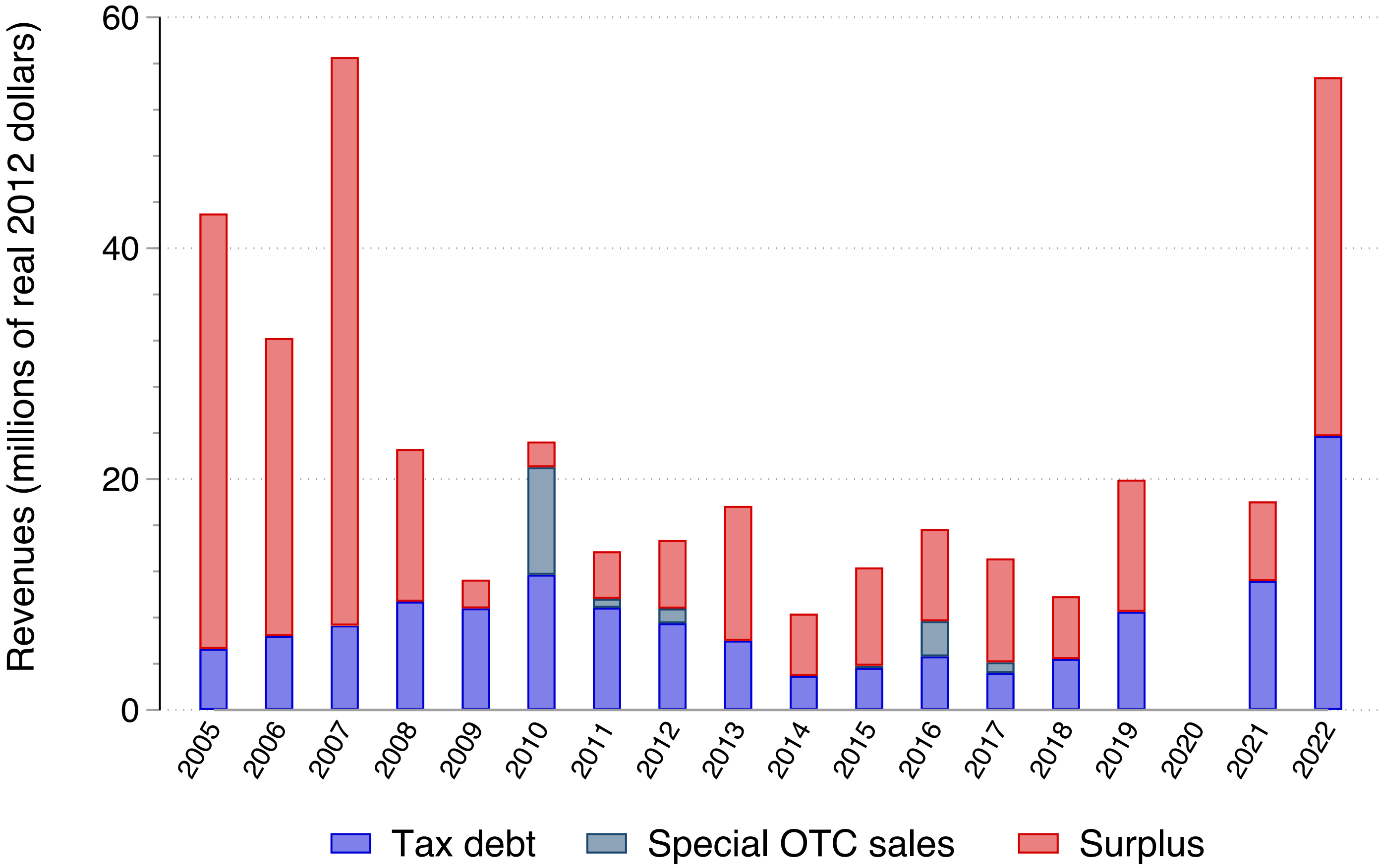
6 | *11 USC §724: Treatment of Certain Tax Liens: [link] (accessed March 3, 2023).*

7 | *This tax lien transaction is recorded on pg. 120 of the 2007 Buyer's Book for the July 12, 2007 D.C. Real Property Tax Sale [link].*

8 | *At the time of the sale, the annualized interest rate was 18 percent rather than the current 19.5 percent statutory rate. Following a series of property tax code reforms begun in 2009, tax liens can only be sold on properties with tax debt in excess of 2,500 dollars. While the lien in this example was sold to Embassy Tax Services, the ultimate owner of the property remains unclear. Building permits for interior renovations were filed by different individuals in 2011 and 2017 at the same address. Most likely, Embassy Tax quietly transferred the deed certificate to another homeowner —either the new owner bought Embassy Tax or Embassy Tax changed the titleholder through foreclosure action. Google Maps images indicate that the property is still residential.*

THE AUCTION AND ITS BIDDERS

Figure 1: Washington, D.C. Tax Auctions Raise Revenues Equal to Twice the Value of Overdue Tax Debt



Source: The figure shows the breakdown of revenues obtained at D.C. tax lien auctions based on the annual Buyer's Book published by the D.C. Office of Tax and Revenue. The Buyer's Books list information on all properties sold at auction at either the annual July tax sale or at special over the counter (OTC) sales held in 2010, 2011, 2012, 2015, 2016, and 2017. Tax debt refers to the debt the taxpayer owes as of the auction date, which includes any accumulated interest and penalties. Surplus refers to the difference between the final auction bid for the lien and the tax debt. Special OTC sales refers to the revenues earned from back taxes during the non-July special sales. The annual 2020 tax sale was suspended due to public health considerations arising from the COVID-19 pandemic. For full details see: LaPoint, Cameron (2023): "Property Tax Sales, Private Capital, and Gentrification in the U.S.," SSRN Working Paper, No. 4219360.

The local government sends multiple warning notices imploring the homeowner to pay. If a homeowner fails to pay by the final due date, a "tax deed sale" or a "tax lien sale" occurs. The local government sells –or auctions off – the homeowner's tax debt to investors. From the government's perspective, auctions help recover lost tax revenue and even earn a temporary profit. In fact, as shown in Figure 1, through tax lien auctions, the local tax authority in the District of Columbia often recovers more than double the amount that the homeowner owed in unpaid property taxes, penalties, and interest.[9] Put another way, for every one dollar in tax debt owed, the government collects 2.05 dollars in surplus revenues from the auctions.[10]

Curiously, in many states, if the winning bid at the auction exceeds the amount owed by the delinquent homeowner, it would be legally difficult for the delinquent homeowner to recoup any of the difference, sometimes also known as the excess proceeds. This legal difficulty that homeowners face in recouping the difference in some parts of the country, including the District of Columbia, has been described as "home equity theft."[11]

Mechanics of Tax Lien Auctions

Tax sales often occur on an annual or semi-annual basis. An auction usually lasts between two or three days, but the length can vary depending on how many tax-delinquent properties are up for sale. In the District of Columbia, according to the website of the Office of Tax and Revenue, auctions are held in person across several weekdays in July. The exact auction proceedings vary across states. In Florida, for instance, tax lien auctions are primarily conducted online.

Potential tax-debt investors start by placing an initial deposit. This deposit places an upper limit on the potential winning bids for an investor. In the District of Columbia, the deposit must be at least 20 percent of an investor's winning bids. For example, a DC investor who places an initial deposit of 4,000 dollars cannot have winning bids that add up to more than 20,000 dollars. The starting bid on a property is equal to the amount that a homeowner owes—in taxes, penalties, and interest. After the starting bid, bids go up by specified increments until a winning bid emerges. To obtain the lien certificate, winning bidders must pay the remaining bid amount not covered by their deposit within five days after the sale.[12]

Once an investor purchases the tax debt, the investor, in the words of one government notice, "may have the right to file a lawsuit to foreclose on the property."[13] The investor cannot exercise this right immediately. The tax-delinquent homeowner has a grace period of six months to pay off their outstanding debt. If that debt is not paid off during the six-month grace period, the investor can legally file to foreclose on the property. Any legal fees incurred by the investor in moving to foreclose are added to the existing debt.[14] The additional debt makes it more difficult for the previous homeowner or their family members to reclaim the property.

9 | *LaPoint, Cameron (2023): "Property Tax Sales, Private Capital, and Gentrification in the U.S.," SSRN Working Paper, No. 4219360: [link].*

10 | *In D.C., the surplus revenues are eventually rebated back to the investor – but not the homeowner—if the debt is either paid off by the delinquent homeowner, or the investor forecloses. See District of Columbia Municipal Regulations and District of Columbia Register: §§ 9-316 [link]. However, in many deed states (e.g., Massachusetts), the profits generated by the gap between the final auction bid and the underlying tax debt are retained by the local tax authority. See Clifford, Ralph D., "Massachusetts Has a Problem: The Unconstitutionality of the Tax Deed," U Mass Law Review, 13(2): 274-305 [link].*

11 | *Deerson, David, Joshua Polk, & Christina Martin (2023): "Home Equity Theft: Tax Foreclosure Laws in 50 States and the District of Columbia," Pacific Legal Foundation report: [link] (accessed March 3, 2023).*

12 | *District of Columbia, Office of Tax and Revenue: "District of Columbia 2022 Real Property Tax Sale Informational Guide," [link] (accessed March 3, 2023).*

13 | *LaPoint, Cameron (2023): "Property Tax Sales, Private Capital, and Gentrification in the U.S.," SSRN Working Paper, No. 4219360: [link].*

14 | *D.C. Office of Tax and Revenue, "Real Property Tax Rates and Billing FAQs" [link] (accessed March 5, 2023).*

Figure 2: Tax Auction Policy Differences across the Washington, D.C. Metro Area

	Auction type	Tax debt exemption threshold	Equity theft protection law?	Length of grace period after auction date	Interest rate on back taxes	Penalty rate
District of Columbia	Lien	$2,500	No.	6 months.	1.5% monthly (19.5% annually).	One-time penalty of 10% of back taxes.
Maryland	Lien	Varies by local jurisdiction, from $250 (Anne Arundel) to $750 (Baltimore City)	Yes.	6 months. An exception is 9 months for Baltimore City.	Monthly rate varies by local jurisdiction, from 0.5% (Anne Arundel) to 2% (Baltimore City).	Imposed in four counties as of 2022. Rate varies by tax year.
Virginia	Deed	At the discretion of the county.	Yes, if the delinquent homeowner or heirs file a court claim within 90 days after auction.	90 days after notice of intent to sell served to delinquent taxpayer.	Rate varies by tax year and county, but local government cannot set it to exceed 10% annually.	One-time penalty of 5% of back taxes.
West Virginia	Lien	At the discretion of the county.	Yes, if the delinquent homeowner or heir(s) file a court claim within 2 years after auction.	Anywhere from 30 days to 150 days, at discretion of lienholder.	9% annually before auctions, 12% annually during the grace period after an auction.	Rate can vary by tax year and county.

Sources: District of Columbia Municipal Regulations and District of Columbia Register: §§ 9-317, -318, -335, -337 [link]; District of Columbia Code §§ 47-1382.01, -1332(c)(2) [link]; Md. Code Ann. §§ 14-820, -833, -836, -852 [link]; 2022 Annual Maryland Tax Sale Report [link]; Va. Code Ann. §§ 58.1-3915, -3916, -3918, 3965, -3967, -3975, [link]; Wv. Code Ann §§ 11A-1-3(a), 3-10, -3-52, 3-54, -3-56(a)(1), -4-3, [link].

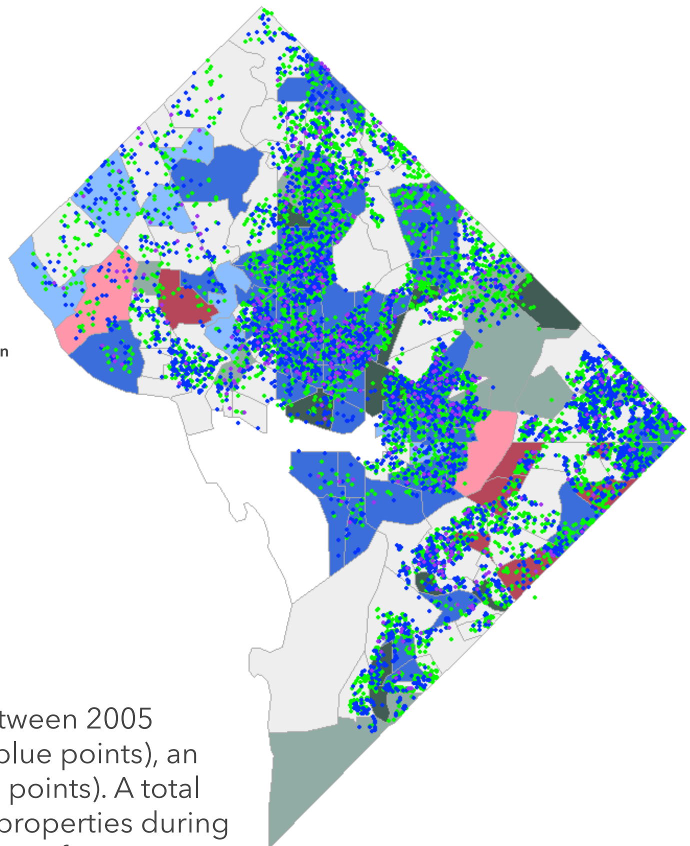
Figure 2 summarizes how key aspects of tax auction policy differ across the District of Columbia and neighboring states. DC, Maryland, and West Virginia hold tax lien sales, while Virginia holds tax deed sales. Of the four tax codes, only DC's does not provide any equity theft protections for delinquent homeowners. All four tax codes allow for a grace period after the auction during which the debt can be repaid to preserve ownership. The interest rate and penalties charged on back tax amounts can vary by tax year and county within states, and annual interest rates tend to be very high – often vastly exceeding average stock market returns, or the 6 percent annual rate set by the IRS for Federal income tax liens.[15]

15 | *IRC §6321.*

Bidders at an Auction

Buyers at a tax lien auction can be individuals, non-profit entities, retail investors, or large institutions. Individuals often purchase tax liens on homes in neighborhoods that are not undergoing gentrification. Meanwhile, retail investors and institutions –who have become more active in the tax lien market since the 2008 financial crisis brought on a wave of foreclosures–often purchase tax liens on homes in neighborhoods that are currently gentrifying.[16] A gentrifying neighborhood is one that, as high-income individuals move in, becomes unaffordable to potential lower-income, and often non-white, homebuyers or renters.

Figure 3: Institutional Investors Predominantly Buy Tax Liens for Properties Located in Gentrifying Washington, D.C. Census Tracts



Source: The map displays Census tracts for D.C. color-coded by population growth patterns between 2005 and 2019 using Decennial Census and American Community Survey (ACS) data from IPUMS. Gentrifying tracts are those experiencing high-income population growth but low-income population decline. Growth tracts where both high-income and low-income population are expanding. Low-income concentration tracts feature low-income population growth and high-income population decline. Unclassified tracts are those with little to no population growth. Each point on the figure corresponds to the location of a tax lien sale in D.C. between 2005 and 2019. For full details on the definition of gentrifying and non-gentrifying Census tracts and classification of investors, see: LaPoint, Cameron (2023): "Property Tax Sales, Private Capital, and Gentrification in the U.S.," SSRN Working Paper, No. 4219360: [link].

Legend:

Tract Type

- Gentrification
- Growth
- LI Concentration
- Unclassified
- Weak Gentrification
- Weak Growth
- Weak LI Concentration
- NA

Buyer Type

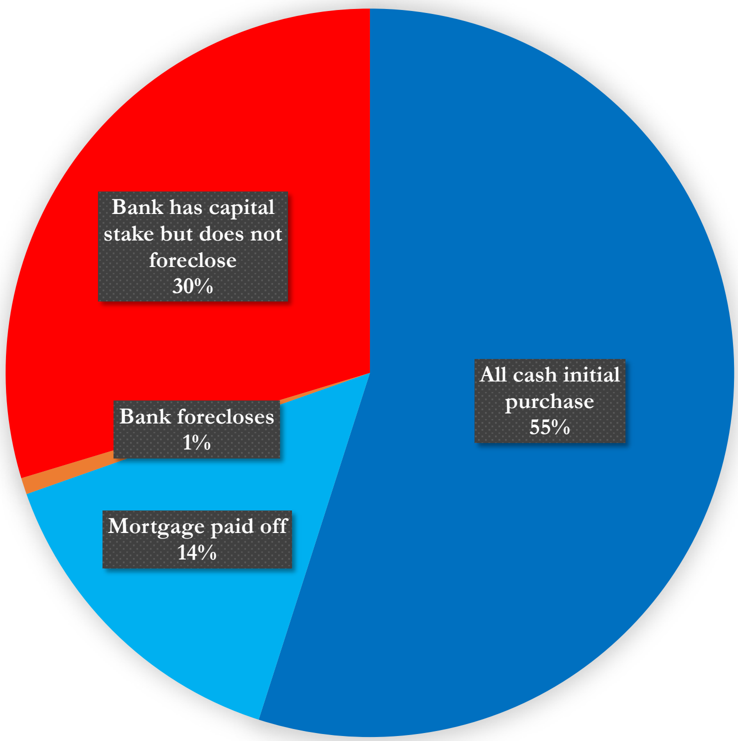
- Individual
- Institutional
- Non-profit

Figure 3 maps the location of D.C. tax lien sales occurring between 2005 and 2019. The figure shows when the buyer is an individual (blue points), an institution (green points), or a non-profit organization (purple points). A total of 18,419 tax liens were sold and attached to 14,094 unique properties during this time. 48 percent of D.C. Census tracts have undergone gentrification over this period. Since the financial crisis, 47 percent of tax lien sales have occurred in gentrifying tracts.[17] Non-individual, for-profit investors have accounted for 76 percent of liens sold on properties in gentrifying neighborhoods.

16 | *LaPoint, Cameron (2023): "Property Tax Sales, Private Capital, and Gentrification in the U.S.," SSRN Working Paper, No. 4219360: [link].*

17 | *44 percent of tracts can be classified as gentrifying while an additional 4 percent of tracts were "weakly gentrifying," where low-income population crowd-out was slightly less severe. Adding the two types of tracts together results in a total of 48 percent of all tracts on the map experiencing some gentrification*

Figure 4: Majority of Homeowners with Properties Auctioned off at Tax Sale Have Either Fully Paid Off Their Mortgage or Initially Purchased the House Using Only Cash

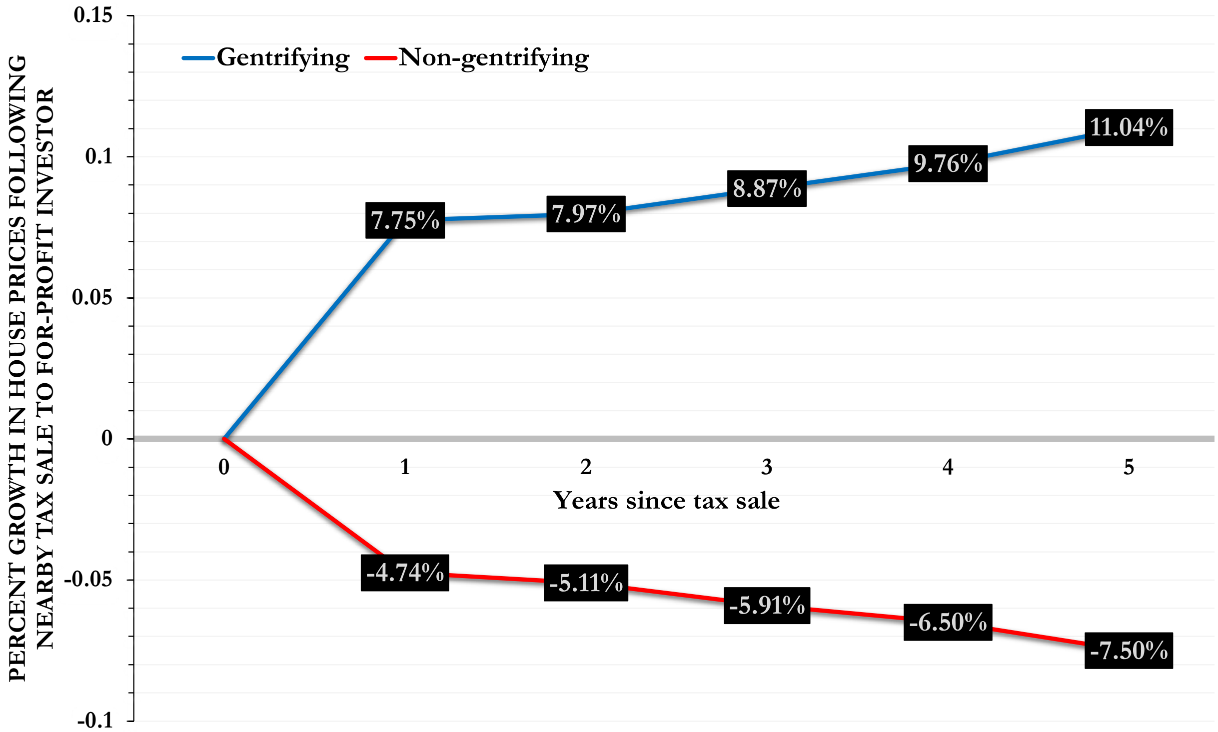


Source: The pie chart classifies tax sale cases into four categories based on the behavior and existence of mortgage lenders tied to the property being sold at tax lien auction in D.C. "All cash initial purchase" refers to properties for which the homeowner originally bought the house without taking out a mortgage. "Mortgage paid off" refers to properties where the homeowner originally bought the house with a mortgage, but completely paid off the loan balance by the time the auction took place. "Bank forecloses" refers to cases where there is a lender who issued a mortgage for the property, and that lender forecloses on the property within the six-month redemption period after the tax sale. Finally, when the "bank has a capital stake but does not foreclose," this refers to cases in which the bank does not foreclose despite having issued a loan with an outstanding balance greater than the outstanding tax debt plus the $3,200 limit in legal fees set by Fannie Mae for judicial foreclosures in D.C. [link]. For full details see: LaPoint, Cameron (2023): "Property Tax Sales, Private Capital, and Gentrification in the U.S.," SSRN Working Paper, No. 4219360: [link].

What role do mortgage lenders play in the tax sale system? It turns out that tax lien sales and mortgage foreclosures are distinct events. Figure 4 shows that the two events rarely coincide. A substantial majority of people who are affected by tax lien sales have paid off their home mortgage (14 percent of cases) or originally bought their house using only cash (55 percent of cases). Mortgage foreclosures overlap with tax lien sales only in 1 percent of cases. Remember that a mortgage foreclosure occurs when a bank seizes one's house because one has stopped making mortgage payments. In the remaining 30 percent of cases, the bank has a capital stake, or a non-trivial amount of money tied up in the loan for the delinquent home. But the bank does not move to foreclose. This latter case can occur either because the homeowner promptly pays off their debt after the auction, or the lender pays off the tax debt and then works with the homeowner to restructure their mortgage repayment schedule.

GENTRIFICATION: THE AFTERMATH OF TAX FORECLOSURE

Figure 5: Tax Lien Sales to For-Profit Investors Amplify Differences in Housing Prices across Neighborhoods

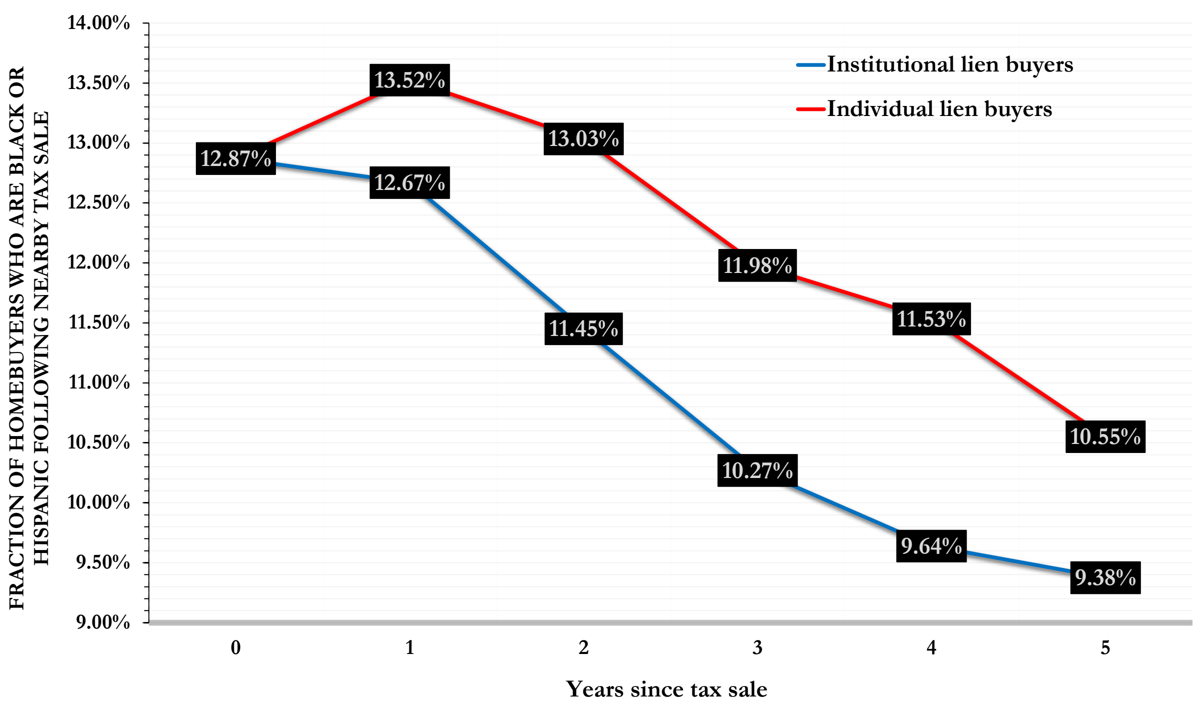


Source: The figure plots the percent change over time in sale prices for homes located within 0.1 miles of a property which was recently foreclosed on by a for-profit, non-individual investor. The points in blue show the effects of these types of tax sales in gentrifying D.C. Census tracts, while the points in red show the effects of tax sales in non-gentrifying D.C. Census tracts. For full details on the calculation of these estimates and the definition of gentrifying and non-gentrifying Census tracts, see: LaPoint, Cameron (2023): "Property Tax Sales, Private Capital, and Gentrification in the U.S.," SSRN Working Paper, No. 4219360: [link].

New research by Cameron LaPoint examines how tax lien sales affect neighborhood demographics and the prices of nearby homes. Consider the case of a tax lien sale in a gentrifying neighborhood, such as Columbia Heights. In this case, the investor will often be an institution, such as an LLC with a non-descript name like "EMBASSY TAX SERVICES, LLC," as in the case of the Marine with a property lien sold in 2007. Figure 5 shows that houses located near a property undergoing foreclosure and transfer to a for-profit investor experience, on average, a 9 percent price increase within the first three years after the foreclosure. In contrast, in non-gentrifying neighborhoods – which tend to have the highest concentration of taxpayers below the poverty line – tax lien sales result in a 6 percent average price decline for nearby properties within the first three years after foreclosure.

These higher home prices in gentrifying neighborhoods after the tax lien sale, in turn, reinforce racial demographic changes in that neighborhood. There are two ways in which this can happen. First, Black and Hispanic homeowners who have their property sold at a tax auction are over-represented by 40 percent relative to the overall share of homeowners in the population who are Black or Hispanic.[18] In other words, severe cases of property tax delinquency can result in displacement of underrepresented minority homeowners. The disparate impact of property tax delinquencies on non-white homeowners has been exacerbated by the trend towards higher tax rates imposed on properties in predominantly Black neighborhoods. A recent nationwide study examining property tax bills found that, for the same set of local public goods and services, the median minority homeowner pays over 300 dollars more annually than the median white homeowner.[19].

Figure 6: Prospective Underrepresented Minority Homebuyers Less Likely to Buy in Neighborhoods Where Tax Lien Sales Occur



Source: The figure plots the fraction of Black or Hispanic homebuyers located within 0.1 miles of a property which was recently foreclosed on by a for-profit, non-individual investor. The starting point of 12.87 percent is the average Black or Hispanic homebuyer probability in the year a tax sale occurs in the neighborhood. The points in blue show the effects of tax sales to institutional investors, while the points in red show the effects of tax sales to individual investors in D.C. For full details on the calculation of these estimates and the definition of institutional and individual investors, see: LaPoint, Cameron (2023): "Property Tax Sales, Private Capital, and Gentrification in the U.S.," SSRN Working Paper, No. 4219360: [link].

18 | *LaPoint, Cameron (2023): "Property Tax Sales, Private Capital, and Gentrification in the U.S.," SSRN Working Paper, No. 4219360: [link].*

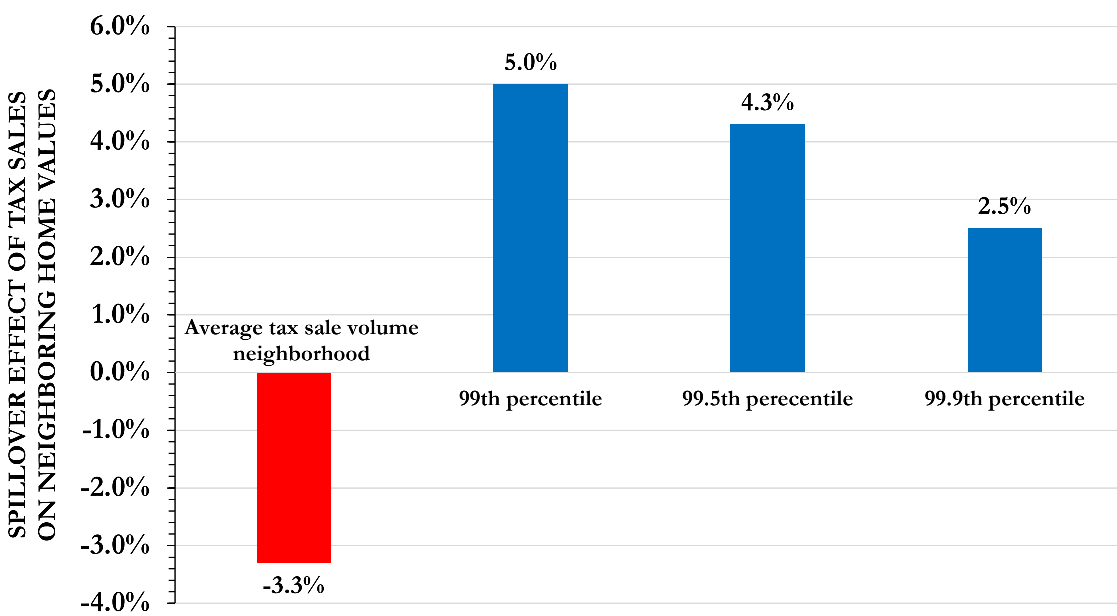
19 | *Avenancio-León, Carlos & Troup Howard (2022): "The Assessment Gap: Racial Inequalities in Property Taxation," Quarterly Journal of Economics, 137(3): 1383-1434.*

Second, as shown in Figure 6, within five years after the typical tax lien sale to an institutional investor, the chance that an incoming homebuyer in the neighborhood is Black or Hispanic drops from 13 percent to 9 percent. This measured effect is still present but weaker in magnitude when the tax lien is instead sold to an individual investor. The probability that an incoming homebuyer in the neighborhood is Black or Hispanic drops from 13 percent to 11 percent.

What is driving this trend of a decline in Black and Hispanic homebuyers in neighborhoods where tax liens are common? Is it the higher prices that accompany gentrification and make home purchases less affordable, as Figure 5 suggests? And, relatedly, why would surrounding properties increase in value after tax foreclosures in the area?

Figure 7 helps answer these questions by showing how the trajectory of home values can vary across neighborhoods depending on the total volume of lien sales. Tax sales are highly geographically clustered. For example, the average neighborhood of a 0.1-mile radius size experiences only two tax lien sales over the course of the typical year. But the top one percent of neighborhoods by tax sale volume experience anywhere from 64 to 94 tax lien sales. Figure 7 shows that for the average neighborhood, home values decline by 3 percent following a nearby tax sale. But for neighborhoods where tax delinquency is quite common, home values instead increase by anywhere from 2 percent to 5 percent.

Figure 7: Neighborhood Redevelopment to Upscale Residential Properties Occurs Through Purchases of Tax Liens in Bulk



Source: The figure shows the effect of an additional tax lien sale on home values of properties located within a 0.1-mile radius for different neighborhood types. The red bar displays the effect on nearby home values within the average neighborhood. The blue bars display the effect on home values within neighborhoods where tax delinquency is very common. A neighborhood at the 99th percentile experiences 47 tax sales in a typical year, while neighborhoods at the 99.5th and 99.9th percentiles experience 54 and 64 tax sales, respectively. For full details see: LaPoint, Cameron (2023): "Property Tax Sales, Private Capital, and Gentrification in the U.S.," SSRN Working Paper, No. 4219360: [link].

What explains this divergence in house prices across neighborhoods? The most active investors at tax lien auctions tend to buy in bulk. In D.C., the top 50 buyers of tax liens accounted for over half of all tax liens sold between 2005 and 2019; all but four of the top 50 buyers were institutions. Similarly, in Baltimore County, just nine institutional bidders accounted for over half of the 13,050 liens sold between 2015 and 2022.[20] Buying large batches of liens located near each other is a common strategy of tax lien investors who are looking to redevelop tax-delinquent homes into upscale residential and mixed-use commercial properties. This kind of redevelopment caters to the demands of new, higher-income residents at the expense of current residents, who tend to be predominantly lower-income, non-white, and elderly individuals.

POLICY RECOMMENDATIONS

Proposals For Tax Sale Reform: Outreach and Profit Rebates

Given the evidence presented that tax sales can displace long-time residents from their neighborhoods and widen housing inequality between neighborhoods and demographic groups within a city, many have called for reforms to the property tax system.[21] Tax sales exist because local governments rely on property tax revenues to support the budget. Severe tax delinquency may require the government to reduce spending on public goods and services if revenues cannot be recouped through auctions. Curtailing the use of property tax sales may also result in increased reliance on other, highly regressive local taxes, such as retail sales taxes. Such taxes disproportionately affect low-income individuals who spend a larger fraction of their income on necessities, such as food or clothing.[22]

There is a relatively low-cost, proven method of reducing tax delinquency and its disparate impacts on marginalized communities that does not involve drastically overhauling the use of tax lien auctions. In 2015, Philadelphia ran an experiment in which the government mailed letters threatening auction foreclosure to a random sample of overdue taxpayers. Each letter cost the city only 1 dollar to send but returned, on average, 65 dollars in tax revenues for the same fiscal year.[23] A research team supported by Housing and Urban Development (HUD) ran a similar experiment. The research team sent quarterly reminders to pay property taxes to a random sample of elderly homeowners with reverse mortgage loans. The regular reminders reduced the probability of defaulting on payments by 30 percent.[24]

20 | *Tabulations based on LaPoint's analysis of tax lien sale records from D.C. Office of Tax and Revenue and Baltimore County Government [link].*

21 | *Rao, John (2012): "The Other Foreclosure Crisis: Property Tax Lien Sales," NCLC National Consumer Law Center report: [link] (accessed March 5, 2023).*

22 | *Besley, Timothy J. & Harvey S. Rosen (1999): "Sales Tax and Prices: An Empirical Analysis," National Tax Journal, 52(2): 151-323.*

23 | *Chirico, Michael, Robert Inman, Charles Loeffler, John MacDonald, & Holder Sieg (2019): "Deterring Property Tax Delinquency in Philadelphia: An Experimental Evaluation of Nudge Strategies," National Tax Journal, 72(3): 479-506.*

24 | *Moulton, Stephanie, J. Michael Collins, Cäzilia Loibl, Donald Haurin, & Julia Brown (2022): "Property Tax Compliance and Reverse Mortgages: Using Nudges to Improve the Market," National Tax Journal, 75(1): 33-59.*

But some cities like D.C. already mail regular letters threatening to sell off claims to the property if the tax debt remains unpaid. D.C. even offers translation services in six languages for its taxpayers and includes a disclaimer in bold red font at the top of the first page of each delinquency notice:[25]

FAILURE TO PAY TAXES IMMEDIATELY MAY HAVE SERIOUS CONSEQUENCES, WHICH MAY INCLUDE LOSS OF TITLE TO THE PROPERTY.

Even with reminders and clearly stated consequences, there are still taxpayers who lack the financial means or cognitive function to be able to pay off their tax debt. So, what else can be done? One option is public investment in financial counseling services and door-to-door outreach to other interested parties with a legal affiliation to the delinquent taxpayer to help make debt redemption more likely. In the 4,368 cases where the previous owner loses their house following a tax sale, ownership stays within the family only 37 percent of the time.[26] Counseling-based "nudges" would complement existing D.C. government programs offering tax payment deferrals for low-income elderly homeowners, thus helping to preserve home equity for future heirs.[27]

And what about surplus revenues generated by tax sale auctions? Reforms regarding whether these revenues ought to be rebated back to the original homeowner may come about soon through the United States Supreme Court. In an upcoming Spring 2023 case that involves a 94-year-old widow who lost her 40-thousand-dollar home in Minnesota for failing to pay a 15-thousand-dollar tax debt, the Justices will decide whether such a seizure is permissible under the Constitution.[28] Given the large gap between the underlying tax debt and the assessed values of tax foreclosed homes obtained by investors through the tax auction process, cities like D.C. can rebate the 238 million dollars in cumulative auction surplus revenues (*see Figure 1*) back to the delinquent taxpayers, rather than to the investors who foreclose on homeowners, without breaking the municipal budget or significantly harming those investors' returns.

25 | *D.C. Office of Tax and Revenue, Real Property Tax Sale 2022 Tax Sale Notice [link] (accessed February 15, 2023).*

26 | *Tabulations based on LaPoint's analysis of title transfers in CoreLogic Deeds linked to tax lien sale records from D.C. Office of Tax and Revenue.*

27 | *D.C. Office of Tax and Revenue, Real Property Tax Relief and Tax Credits: [link] (accessed February 15, 2023).*

28 | *Tyler v. Hennepin County, Minnesota: [link].*

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