

South Carolina Tax Lien Investing Basics – The Penalty Rate

By Tax Lien Pro[®]

This year's South Carolina tax lien auctions are finishing up. But, for those of you heading to the auction or just want to learn more about this great state for tax lien investors, I wanted to summarize how the penalty rate works in South Carolina.

Penalty Rate - Unlike most states, South Carolina doesn't charge a default interest rate on the outstanding tax amount. Instead, they pay a 3% penalty at the beginning of each quarter after the sale. So, if you purchase a lien at the October sale, you'll automatically receive the 3% if it were to redeem the next day. However, you will not receive additional interest until January when you'll earn another 3%. You earn this 3% penalty each quarter for four quarters or a total of 12%.

Maximum Penalty Rate - You may not earn more in penalty than the amount set for the opening bid. This amount is set by the Forfeited Land Commission and is usually the total amount of tax owed. You can estimate this by doubling one year's worth of taxes.

Overbid - At the auction, the opening bid will be this amount set by the Forfeited Land Commission. Then, bidders will bid-up the price in increments set by the auctioneer. This amount is called the overbid. You'll earn interest on the full amount of the initial bid plus the overbid. However, since the penalty rate is capped, you may not receive a full 12% on your interest.

Investment not limited by initial bid

Property Value	\$100,000			
2010 Taxes	\$2,000			
2011 Taxes	\$2,000			
Tax Amount	<u>\$4,000</u>	(Starting Bid)	First Qtr Penalty	3% \$1,020
Overbid	<u>\$30,000</u>		Second Qtr Penalty	3% \$2,040
Total Investment	\$34,000		Third Qtr Penalty	3% \$3,060
			Fourth Qtr Penalty	3% \$4,080

Investment limited by initial bid

Property Value	\$100,000			
2010 Taxes	\$2,000			
2011 Taxes	\$2,000			
Tax Amount	<u>\$4,000</u>	(Starting Bid)	First Qtr Penalty	3% \$1,920
Overbid	<u>\$60,000</u>		Second Qtr Penalty	3% \$3,840
Total Investment	\$64,000		Third Qtr Penalty	3% \$4,000 (Capped)
			Fourth Qtr Penalty	3% \$4,000