Tax Overbids

This chart summarizes tax overbids under the pre-overbid statute, current statute and proposed statute. The following considerations are noteworthy:

- HB47 (Clouse) encourages redemption of property by taxpayers. By encouraging redemption, HB47 (Clouse) protects taxpayers from (i) third parties taking advantage of them by claiming the overbid on the taxpayer's behalf without the taxpayer understanding they are losing their property, and (ii) taxpayers walking away from property for substantially less than their interest in the property is worth.

- Practically, a tax purchaser who pays an overbid will usually not overbid more than 15% of the assessed value of the property because interest may not be earned on any portion of an overbid that exceeds 15% of the assessed value (Ala. Code §40-10-122). Unless redeemed, this procedure often allows the tax purchaser to get the property for 15% or less than the property's assessed value.

- HB47 (Clouse) protects taxpayers who do not have the cash to cover the overbid when redeeming. The voucher provided for in HB47 (Clouse) protects taxpayers from having to come up with cash in the amount of the overbid when redeeming. This protects taxpayers from having to get a bridge loan or drain their savings until the taxpayer receives their overbid check back after the redemption.

- A taxpayer's right of redemption in the property can be assigned to a third-party. This right of redemption is often worth more than the overbid.

- Under current case law interpreting Ala. Code §40-10-28, a mortgagee is not entitled to the overbid, and must pay the full amount of the overbid, among other amounts, to redeem.

- This bill does not permit a taxpayer to receive the excess overbid, but encourages redemption of property on a more efficient basis.

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	Pre-Tax Overbid Statute	Current Statute	Proposed Statute
Price to Redeem	(i) Amount of delinquent taxes and penalties; plus (ii) 12% interest on delinquent tax.	(i) Amount of delinquent taxes and penalties; plus (ii) Overbid amount; plus (iii) 12% interest on delinquent tax; plus (iv) 12% interest on amount of taxes and amount of overbid.[1]	(i) Amount of delinquent taxes and penalties; plus (ii) 12% interest on delinquent tax; plus (iii) 12% interest on amount of taxes and amount of overbid.[1]
Time to Redeem	3 years[2]	3 years[2]	3 years[2]
Process to Redeem	(i) Remit cash in the amount of taxes, penalties and interest on taxes.	(i) Remit cash in the amount of taxes, penalties and interest on taxes. (ii) Remit cash in the amount of overbid and interest on overbid.	(i) Obtain voucher from Judge of Probate in amount of overbid. (ii) Remit cash in the amount of taxes, penalties and interest on taxes and overbid.[3]

[1] Taxes on an overbid accrue at 12% on the amount of the overbid up to 15% of the assessed market value of the property.
[2] As a general rule, a property owner has 3 years to redeem from the time of the tax sale. Certain exceptions exist to this general rule, such as the property owner having a right of redemption so long as they remain in possession of the property, and mortgagees may have additional time to redeem based on when demand is made upon the mortgagee by the tax purchaser.
[3] Except for the additional interest on the overbid, the out of pocket expenses for the taxpayer under the proposed statute are the same as under the pre-tax overbid statute.

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