I Can't Pay My Taxes - What Are My Options?

By Charles E. Brown

If you find yourself unable to pay your property taxes, you are not alone. Each year, over 300,000 Texas property owners are unable to pay their property taxes.

Property taxes were due by January 31st. So why worry about it? The penalties, interest and attorney fees that will be added to your tax bill are huge and they start accruing on February 1. In most counties, these additional charges will increase your tax bill by as much as 47% in the first year. For example, for every $1,000 in taxes owed on January 31, by the end of the year you could owe $1,470. Moreover, if you do not pay your taxes and the accrued penalties, interest and attorney fees, the Tax Collector can bring a lawsuit against you and then foreclose on your property. If this occurs, the Tax Collector will incur costs to bring the lawsuit against you, and then they will charge your account any extra lawsuit related fees. These additional fees will add to the possible extra 47% in penalties, interest and collection fees. If you do not pay the lawsuit judgment, the Tax Collector will have your property sold at a public auction at the court house and will use the proceeds to pay all of the accumulated charges. Unpaid property taxes can be very costly!

A deferment will keep the taxing unit from foreclosing on your property...

If you are unable to pay your taxes at this time, don't worry. You have some options. The next few pages have some possible solutions for you to consider. See which solution best fits your needs:

Your tax office may offer delinquent tax installment plans that may be less costly to you. You can request information about the availability of these plans from the tax office.

1 *Consider whether you are eligible for a tax deferral.* If the property that you owe taxes on is your homestead and you are disabled or age 65 or older, you should go to the chief appraiser for the appraisal district in which your property is located and get what is known as a "deferral" of your tax bill. You are entitled to a tax deferral under Texas law. With deferral status, you can stop paying property taxes, and the taxing unit cannot initiate a lawsuit or foreclose on your property. The interest rate charged to your tax account is reduced to 8% and you will incur no late penalties. The taxes do not go away. They are deferred or postponed until you no longer occupy the property, or until you are deceased. In either event, you or your heirs will have 180 days to pay the accumulated tax bill. If you get a deferment, you should still try to pay what you can on your tax bill to avoid the 8% interest charges. If you cannot make a payment though, a deferment will at least keep the taxing unit from foreclosing on your property, and your total additional cost will only be 8% per year, instead of significantly higher.

2 *Pay with a credit card. You may be able to pay with a credit card.* This option assumes that you are unable to pay the taxes owed within the next month because that is when your credit card payment will be due. If you pay the taxes with a credit card, you will have to pay the credit card bill when you receive it or you will immediately start accruing credit card interest charges. Credit card companies charge interest rates that possibly range from under 10% to over 20%. The advantage of this option is that if you do not pay the credit card bill, the credit card company does not have a lien on the property to foreclose to get paid like the Tax Collector does. However, if the property is not your homestead, the credit card company could get a judgment and foreclose the judgment lien on the property to get their money owed on the credit card debt. This may be a very expensive option for you depending on how long it takes you to pay off the credit card company and how much they charge in penalties and interest. In addition, if you pay your taxes with your credit card, you are using up your available credit that you may need to pay other bills. Finally, many counties have a processing surcharge for payments made by credit card which is usually a percent or two, but some are as high as 5% of the amount charged.

3 *Borrow from a relative or friend.* Perhaps you have a rich uncle or sibling that would be willing to help you out. Going from a friend or family relationship to a debtor-creditor relationship may be a great way to go, or it may strain the relationship. As one person said, "the food at Thanksgiving dinner just doesn't taste as good if I am in debt to the people sitting at the table."

4 *Work out a payment plan with the Tax Collector.* Taxing entities are required by law to offer homestead owners a payment plan. This isn't true for non-homestead property owners, but many tax collectors will also offer them a payment plan, if requested. The payment plans available vary from county to county, and even from taxing unit to taxing unit (school district vs. county). Homestead owners have until March 1 to work out a payment plan during which no penalties will apply on any unpaid balances. But it's best to work out a plan before February 1 as a 7% penalty and interest charge happens on February 1 for any unpaid balance due by January 31.

In Texas, a property owner may borrow the funds to pay their property taxes from a licensed property tax lender.

Generally, payment plans from the Tax Collector require a sizeable amount of the outstanding taxes to be paid in advance to get the payment plan (many look for 25%), and then they set up equal monthly payments for the next year to eighteen months. The minimum repayment period for homesteads is 12 months and the maximum is 36 months. You can do the math yourself to estimate your monthly payments. Homestead payment plans can only be done once every 24 months, so you cannot do one every year. Interest continues to accrue on the unpaid balance during the payment period. If you fail to make the payments or fail to pay other taxes due in the future, you will be considered to have defaulted on your payment plan and will then be subject to retroactive penalties on the entire outstanding amount, a tax lawsuit, and possibly even foreclosure. However, if you feel confident you can pay back the full amount owed within a year, Tax Collector payment plans may well be your best option.

5 ***Borrow from a reputable property tax lending company.*** In Texas, a property owner may borrow the funds to pay their property taxes from a state-licensed property tax lender. The tax lender pays the Tax Collector the total amount owed on the property and then gives the property owner a payment plan to pay back the money. The payment plans are usually a long enough period of time to allow for very low and affordable payments. The closing costs (attorney fees to prepare the loan documents, filing fees, etc.) are usually rolled into the loan so that there is no "out-of-pocket" expense to get the loan. Most property tax lenders also offer loans with no pre-payment penalty, which is the law for property tax loans made on homesteads. This means that you can pay the loan off at any time without a penalty or you can pay extra at any time so the loan is paid back faster. With no down payment, you can conserve your cash for your other financial needs. With low monthly payments, you can start putting aside funds for next year's taxes so that you avoid future penalties and interest. Property tax loans are generally not reported to any credit agencies, so a loan would not hurt your credit rating.

The tax lien held by the taxing unit is transferred to the property tax lender and that lien is their security for payment. The property tax lender has the right to foreclose that lien under the same procedure that the Tax Collector would if you do not make the tax loan payments. Because the property tax lender will hold a lien on the property, you should only consider a property tax loan from a reputable property tax lender. (Remember, this is not a new lien, but it is the same lien that the county transferred to the lender.) The State of Texas requires all property tax lenders to be licensed. All of their loan officers must have both a national and state license to make such loans. You can check to see if a lender is licensed by calling the Texas State Office of Commissioner of Consumer Credit at 1-800-538-1579. After you pay off the property tax loan, the lender releases the lien.

Many tax bills are delinquent because the true ownership of the property is in doubt. Sometimes people die without a will and the true heirs are either unclear or perhaps can't be found. Such title issues are not uncommon, and many property tax lenders can assist you in curing the title problems.

6 ***Some things you can do next year.*** The Tax Code allows a couple of other options to help property owners in paying their tax bill. However, these options will only help you for next year and do not help you for taxes that you already are delinquent in paying.

Installment Payments

Texas law requires taxing units to provide for installment payment of certain homestead taxes. If you are disabled or 65 years of age and the property is your homestead, you may pay under a payment plan with certain restrictions. Before the delinquency date (February 1), you have to pay at least one-fourth of all of the taxes accompanied by notice to the taxing unit that you will pay the remaining taxes in installments. You can then pay the remaining taxes without penalty or interest, in three equal installments. The first installment must be paid before April 1, the second installment before June 1, and the third installment before August 1. If you fail to make a payment before the applicable date, you incur penalties and interest on the unpaid amount. The problem with this option is that it is limited to only those taxpayers whom it applies (homestead owner over 65 or disabled) and the short payment period will give you very high payments. If you qualify for this payment plan, you would probably be better off getting a deferment as described in section 1 above.

Split Payment of Taxes

Some taxing units will allow a split payment arrangement. If you pay one-half of the taxes before December 1 and pay the remaining one-half of the taxes before July 1 of the following year, you will incur no penalty charges. Remember, not all counties allow for split payments so you have to confirm this is allowed in your county before you act on it.

Escrow Accounts

Texas Tax Code provides that the Tax Collector for a taxing unit may enter a contract with a property owner under which the property owner deposits money in an escrow account maintained by the collector. The account functions to provide for the payment of property taxes collected by the collector on any property the person owns. A contract may not be made before October 1 of the year preceding the tax year for which the account is established. The property owner must pay in the amount the Tax Collector estimates will be imposed on the property for the year and cannot be less than what the taxes were in the preceding year. You can only withdraw the money if you do so before the date the tax bill is prepared, or October 1 of the tax year, whichever occurs earlier. Again, not all Tax Collectors provide this option, so it may not be available in your county. Given the restrictions on this arrangement, you are probably better off just setting aside 1/12 of the estimated taxes into a bank account each month. You then have control over the funds and may earn interest on the funds as well.

7 ***Do nothing.*** That's right. Doing nothing is also a choice. By not choosing one of the other options, you are choosing this option. An old saying goes "there is nothing for certain in life, except death and taxes." One of these applies if you do nothing. If you do nothing, you know with certainty that the tax bill will increase substantially as described above. You also know with certainty that at some point in the future, the Tax Collector will foreclose on the property, and you will lose ownership. You have the right to repurchase the property but with a significant penalty and with a time limit. Doing nothing is a decision, but not a good decision.

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