

***Should towns file an IRS Form 1099 INT when property sold at tax sale is redeemed?***

Yes. Although we are unaware of any towns that have reported such payments or of any penalties that the IRS has assessed for failure to do so, towns should file an IRS Form 1099 INT on any interest they pay upon redemption, if they have held the proceeds from a tax sale in escrow.

When the collector of delinquent taxes receives payment from the successful bidder at tax sale, the collector first pays the town all taxes, interest, fees and costs owed by the delinquent taxpayer. Towns may place any excess in an interest-bearing escrow account for the one-year redemption period. After the redemption period concludes, the escrowed money is released to the delinquent taxpayer. Alternatively, the delinquent taxpayer has one year from the day of the sale to redeem the property by paying the sale price, plus interest of 1% per month, or fraction thereof from the day of sale to the day of payment. This payment is made directly to the collector of delinquent taxes who conducted the sale. The collector of delinquent taxes then pays this money to the successful bidder.

Why, then, must a town file an IRS Form 1099 INT when it is merely serving as the middleman for the transaction between the redeeming delinquent taxpayer and the successful bidder at tax sale? The answer is that the escrow account from which the check to the successful bidder is drawn is in the town's name.

Generally, any interest a person receives is considered taxable income and any interest payment of \$600 or more must be reported to the IRS. Under IRS regulations, the payer of interest must file Copy A of IRS Form 1099 INT with the Internal Revenue Service and send Copy B to the owner of the interest, which under this scenario would be the successful bidder at tax sale. When the collector of delinquent taxes pays the successful bidder the sales price plus accumulated interest, the IRS sees it as the town making the payment. Consequently, the town is responsible for reporting it.

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