

“Three Ways To Collect Rents After They Move!”

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PUT A LIEN ON EX-TENANT’S CAR

While your resident is still with you, always write in your records information about any automobiles owned by your resident(s). Update this list annually. The information should include the license plate number, make and model.

If the resident skips out on you and you get a judgment for money owed, in some states you are able to put a lien on the resident’s car until past due rent is paid. Consult with your attorney about the possibility of placing a lien on personal property for money owed. If you are not sure where your resident and automobile moved to, contact the department of motor vehicles and use the license plate number to get a new address for the ex-resident.

GARNISHEE WELFARE CHECKS

Landlords seeking to collect damages and back rent from irresponsible welfare tenants in Michigan now have some recourse under a measure recently signed into law. Public Act 235 permits the Department of Social Services to garnish up to 10 percent of a recipient’s cash assistance until the outstanding debt is paid. Benefits can only be withheld through a court judgment.

This law holds those on public assistance to the same standards as everyone else. In the past, a tenant on welfare could refuse to pay rent and there was not much a rental owner could do to collect. Now, through the court system, the state deducts payments directly from an individual’s welfare check.

Public Act 235 prevents recipients from breaching lease agreements without any recourse from the rental owner. It also encourages landlords of low-income housing to rent to those on public assistance. For landlords in states other than Michigan, check with your attorney, to see if your state has passed legislation allowing garnishment of welfare checks.

(Information from Real Estate Investors of Oakland, MI.)

IRS AS YOUR COLLECTION ENFORCER

One final thing to do, before you totally give up collecting past-due rent is to give an ex-tenant 30 day advance notice that unless payment is promptly made you will forgive or cancel the debt. Let your ex-tenant know that if you cancel the debt, you are required to report the cancellation of debt to the IRS and this will probably trigger a letter and/or audit by the IRS into his affairs. The objective of this strategy is that many residents will want to pay you instead of answering to the IRS. Again give your resident advance notice that you will be canceling the debt before you actually notify the IRS, so that the resident will have time to pay you.

If your resident does not respond, file a form 1099-C with the IRS. This is a miscellaneous income statement called a “Cancellation of Debt.” You are telling the IRS that the resident received income in the form of unpaid rent, a debt owed to you. If the resident has failed to declare this as income on their return, which is unlikely, the act of you filing the 1099-C automatically triggers an IRS audit, or, at least a letter from those friendly folks. Remember, your original intent in warning the resident was not to get revenge for the frustration they put you through, but many landlords do savor the thought of getting back at residents with the help of the IRS.

Just make sure you get the social security number when residents submit their rental application. You will need the number should you ever have to file a 1099-C in the future. It only takes a few minutes to fill out the form, which is supplied by the IRS. You mail it to the last known address of the resident. You also need to send a copy to the IRS along with a form 1096 which gets the information into the IRS and state computers. This should have no effect on your tax liability because you have not received the income. Keep good records this year of any outstanding debts. In December, send out warning notices that you will be canceling debt if payment is not made. Then in January follow through and send forms to the IRS on residents who didn’t pay their accounts.