UNDERSTANDING FIRPTA

FOREIGN INVESTMENT IN REAL PROPERTY TAX ACT

FIRPTA is a crucial piece of legislation that governs the taxation of foreign investment in real estate. Enacted in 1980, FIRPTA aims to ensure that foreign investors pay taxes on their gains from U.S. real estate investments, similar to how U.S. citizens are taxed. The Act requires foreign individuals, partnerships, estates, and trusts to pay taxes on the disposition of U.S. real property interests. This includes both direct and indirect interests, such as ownership of shares in U.S. corporations that primarily hold real estate assets.

One of the primary reasons behind the enactment of FIRPTA was to prevent tax evasion by foreign investors who were profiting from U.S. real estate transactions without fulfilling their tax obligations. Prior to FIRPTA, foreign investors could sell U.S. real estate without paying taxes, leading to significant revenue loss for the government. By subjecting foreign investors to taxation, the government aims to maintain fairness in the tax system and generate revenue from real estate transactions involving foreign parties.

When a foreign investor sells real property, the buyer or the buyer's agent is required to withhold a portion of the sale proceeds and remit it to the IRS to cover potential taxes owed by the foreign seller. This withholding rate is typically 15% of the gross sales price, although certain exceptions and reduced withholding rates may apply in specific circumstances.

Contact your local HSTX Title to navigate FIRPTA. We can help!

HELPFUL HINTS

+ DESIGNED TO CREATE EQUITY OF TAX TREATMENT
+ APPLIES TO FOREIGN NATIONALS SELLING U.S. REAL ESTATE
+ APPLIES TO ALL REAL ESTATE TRANSACTIONS
+ TYPICALLY REQUIRES 15% WITHHOLDING OF GROSS PROCEEDS
+ SELLER WILL NEED AN ACCOUNTANT THAT UNDERSTANDS FIRPTA
+ CAN APPLY TO ONE PARTY IN A MULTI-PARTY TRANSACTION
+ APPLIES TO INDIVIDUALS AS WELL AS BUSINESSES
+ DOES NOT APPLY TO GREEN CARD HOLDERS