TITLE TIP 8

What is FIRPTA?

FIRPTA stands for “Foreign Investment in Real Property Tax Act” of 1980. Contrary to popular belief, this act is not a tax at all; it is a withholding. This withholding was designed by the U.S. Internal Revenue Service (IRS) to ensure foreign owners of U.S. property pay their share of taxes on the profits (or gain) when they sell.

Who is Responsible for the Withholding?

FIRPTA regulations require that a buyer withhold 15% of the gross purchase price of the property, at the time of closing, when they purchase U.S. real property from a foreign person.

Who is Considered A Foreign Person?

You are considered a foreign person if you, the “Seller”, of U.S. real estate are a non-resident individual, a foreign corporation that has not made an election to be treated as a domestic corporation, a foreign partnership, a foreign trust, or a foreign estate.

Please note, a resident alien, electing to be treated as a U.S. resident, is NOT considered a foreign person according to FIRPTA regulations.

*Whenever there’s a question about FIRPTA, please seek advise from your tax accountant or CPA.