NORTHWEST TITLE
COMPANY

FIRPTA FACTS

FIRPTA (Foreign Investment in Real Property Tax Act)

The disposition of a U.S. real property interest by a foreign person (the transferor) is subject to the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA) income tax withholding. The transferee/buyer must find out if the transferor is a foreign person.

WHEN IS FIRPTA WITHHOLDING *NOT* REQUIRED?

When the seller provides a certification stating they are not considered foreign under the tax rule

OR

If the purchaser can execute a certification stating that they are buying the property as a residence as applicable under the IRS rule as long as the sales price is $300,000.00 or less.*

WHO HAS TO PAY?

Under the tax rule, the transferee/buyer is the "withholding agent" and must find out if the transferor/seller is a foreign person, and collect the required tax from the transferor/seller, if applicable, so as not to be subject to the withholding.

The buyer who is the withholding agent will work with the title company to collect the amount required, as determined by the buyer and seller, from the sellers' proceeds at closing.

HOW MUCH IS COLLECTED AT CLOSING?

If the seller cannot prove exemption, the seller would have to pay the estimated income tax based on the sales price and calculated on the schedule below*:

RATE OF WITHHOLDING

Buyer certifies that they intend to use the property as a residence:	Yes	No
AND		
Sales price does not exceed $300,000	0%	15%
Sales price is greater than $300,000 but does not exceed $1,000,000	10%	15%
Sales price exceeds $1,000,000	15%	15%
Foreign Entities – Sales price does not exceed $300,000	0%	15%
Foreign Entities- Sales price over $300,000	15%	15%

*Both parties should contact a qualified tax consultant in order to determine exemption and/or rate of withholding.

Note: The withholding tax rate for effectively connected income allocable to non-corporate foreign partners is 37%, and 21% for corporate foreign partners.

IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT YOUR SETTLEMENT AGENT.

Source: www.irs.gov