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Understanding FIRPTA

FOREIGN INVESTMENT IN REAL PROPERTY TAX ACT

FIRPTA is a key federal law that addresses how foreign individuals and entities are taxed when they sell U.S. real estate. Passed in 1980, its main goal is to make sure foreign investors are held to the same tax responsibilities as U.S. citizens when profiting from real property in the United States.

The law applies to a wide range of foreign parties, including individuals, corporations, partnerships, estates, and trusts, who sell or transfer any interest in U.S. real property. This includes not only direct ownership, like land or buildings, but also indirect ownership through shares in companies that primarily hold U.S. real estate.

FIRPTA was created to close a loophole that previously allowed foreign sellers to avoid paying taxes on real estate profits. By requiring tax withholdings at the time of sale, the law helps ensure compliance and prevents lost tax revenue.

When a foreign seller is involved, the buyer or their representative is typically required to withhold 15% of the total sale price and send it to the IRS. This withholding acts as a prepayment toward any taxes the seller may owe. There are, however, situations where exceptions or reduced withholding rates may apply.

Questions about FIRPTA? Ranger Title can help.

FIRPTA at a Glance

- **Ensures foreign nationals are taxed fairly on U.S. real estate sales**
- **Relevant for foreign nationals involved in U.S. property transactions**
- **Applies to every type of real estate deal**
- **Typically requires 15% of the sale proceeds to be withheld**
- **Sellers should consult an accountant experienced with FIRPTA**
- **Can apply to a single party in complex transactions**
- **Impacts both individuals and businesses**
- **Does not affect U.S. green card holders**