

What is FIRPTA?

We have been asked this question many times, and this is a basic explanation.

FIRPTA stands for the Foreign Investment in Real Property Tax Act of 1980. It generally applies when a person, who is not a US citizen, sells real property. It allows the US Government to withhold income tax due at the time of the sale. Below is a more complete explanation, directly from the IRS website. We hope it will help you understand the process.

FIRPTA Withholding

Withholding of Tax on Dispositions of United States Real Property Interests

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. FIRPTA authorized the United States to tax foreign persons on dispositions of U.S. real property interests. A U.S. real property interest includes sales of interests in parcels of real property as well as sales of shares in certain U.S. corporations that are considered U.S. real property holding corporations. Persons purchasing U.S. real property interests (transferee) from foreign persons, certain purchasers' agents, and settlement officers are **required to withhold 10 percent of the amount realized** (special rules for foreign corporations) Withholding is intended to ensure U.S. taxation of gains realized on disposition of such interests. The transferee/buyer is the withholding agent. If you are the transferee/buyer, you must find out if the transferor is a foreign person. If the transferor is a foreign person and you fail to withhold, you may be held liable for the tax.

The amount that must be withheld from the disposition of a U.S. real property interest can be adjusted pursuant to a withholding certificate issued by the IRS.

- A disposition includes the sale/purchase of any U.S. real property interests.
- Generally speaking, in reference to the sale/purchase of real estate, the person selling the real estate, the seller, is commonly referred to as the transferor.

- The purchaser/buyer of the real estate is commonly referred to as the transferee.
- Generally speaking, the amount realized is the purchase/sales price of the real estate.
- Generally speaking, the buyer must find out if the seller is a foreign person. If so, the purchaser/buyer must withhold income taxes.
- The purchaser/buyer may be held liable for the tax that should have been withheld on the purchase.

One of the most common exceptions to FIRPTA withholding is that the transferee (purchaser/buyer) is not required to withhold tax in a situation in which the purchaser/buyer purchases real estate for use as his home and the purchase price is not more than \$300,000.

- [Exceptions from FIRPTA withholding](#)
- [Reporting and Paying Tax on U.S. Real Property Interests](#)
- [Withholding Certificates](#)
- [Format for Applications](#)
- [Road Map to Regulations](#)
- [Definitions of terms and procedures unique to FIRPTA](#)
- [Foreign Persons Involved in U.S. Real Estate Transactions](#)

For additional information on the withholding rules that apply to corporations, trusts, estates, and REITs, refer to section 1445 of the Internal Revenue Code and the related regulations. For additional information on the withholding rules that apply to partnerships, refer to discussion under [partnership withholding](#). Also consult IRS [Publication 515](#), Withholding of Tax on Nonresident Aliens and Foreign Entities, section U.S. Real Property Interest.

Additional information may be obtained from: www.irs.gov

Or you may write directly to: Internal Revenue Service Center
P.O. Box 409101
Ogden, UT 84409.