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# FOREIGN BUYER'S GUIDE

All You Need to Know About Buying in the USA

Source: [www.zillow.com/int/en/foreign-buyers-guide](http://www.zillow.com/int/en/foreign-buyers-guide)



# HOW TO PURCHASE A HOME IN THE U.S.

## global place MARKET



The term “**global marketplace**” has never been more descriptive - particularly when it comes to real estate.

According to the National Association of Realtors, international buyers purchased more than \$68.2 million in U.S. residential real estate from March 2012 to March 2013, across all 50 states. Property sales in the United States to foreign buyers amount to more than 6 percent of total U.S. home sales in value.

Whether you’re an international investor, a Canadian snowbird or a first-generation immigrant living in the United States, purchasing in an unfamiliar market can be daunting. While this guide will help you get started, it is no substitute for the expertise of experienced real estate agents, attorneys, mortgage brokers and accountants you will want to consult along the way.

### 1. DETERMINE HOW THE PROPERTY WILL BE USED

Before you start your property search, it’s important to think ahead to how you’ll use the home once the deal is done.

- Will this be a vacation home?
- A home to stay in while doing business in the United States?
- A home for your children while they attend college in the States?
- An investment?
- An eventual long-term residence?

SIMPLY BUYING REAL ESTATE in the United States does not give foreign owners any rights or privileges regarding legal stay or status. If you’re interested in staying in the states longer than allowed by a standard visa, contact an immigration lawyer.

## What is FIRPTA?

FIRPTA is the Foreign Investment in Real Property Tax Act of 1980. This legislation was enacted as a result of widespread concerns that foreign investors were purchasing U.S. real estate and then selling it at a profit without paying any tax to the United States. To solve the problem, FIRPTA established a general requirement on the purchaser of real estate interests owned by a foreign seller to withhold a percentage of the purchase price and remit it to the Internal Revenue Service at the time of closing unless certain exceptions are met.

### BASIC GUIDELINES

- If the amount realized (generally the sales price) is \$300,000 or less, AND the property will be used by the buyer as a residence, no sums need be withheld or remitted.
- If the amount realized exceeds \$300,000 but does not exceed \$1,000,000, AND the property will be used by the buyer as a residence, then the withholding rate is 10% on the full amount realized.
- If the amount realized exceeds \$1,000,000, then the withholding rate is 15% on the entire amount, regardless of use by the buyer.

DISCLAIMER: For the purposes of the exception from withholding for personal use residences, the buyer or a member of the buyer’s family must have definite plans to reside at the property for at least 50 percent of the number of days the property is used by any person during each of the first two 12-month periods following the date of the transfer. Days the property is vacant do not count as days of use.

By determining the primary use for your property and how long you plan to own it, you'll be able to provide information to your real estate agent that will help guide the search and sale.

## 2. LEARN HOW THE U.S. REAL ESTATE MARKET WORKS

The way U.S. real estate transactions are carried out may differ from your home country. EACH STATE IN THE UNITED STATES has its own set of rules regarding the purchase of real estate, including the type of purchase contract used, the method of closing the sale and even the duties and titles of the individuals involved.

Several important U.S. real estate practices worth noting:

- In the United States, real estate listing information is shared by agents using multiple listing services and consumers can access that same information using real estate sites such as Zillow. In many other parts of the world, real estate is a fragmented business and buyers have to go from agent to agent to find a property.
- In some countries, it is typical to pay a fee to the agents who are scouting properties on your behalf and showing you around. In the United States, the sales commission is paid by the seller, so

buyers don't pay anything to have an agent work on their behalf.

- In the United States, real estate agents need licenses to operate. The licensing laws of each state differ regarding how much education is required, the type and depth of licensing examinations, and whether continuing education courses are required once an agent becomes licensed. The licensing system was designed to ensure real estate agents are qualified to guide consumers through the maze of finding, evaluating and financing real estate. Many other countries like Costa Rica, Mexico, El Salvador and Belize do not require real estate agents to be licensed.

Foreign buyers will also want to give consideration to issues such as currency exchange rates, international wire transfers, banking systems, multi-national taxation and accounting issues, and import/export restrictions regarding currency and household goods.

Taking the time to learn how to convert from U.S. dollars into your native currency will simplify your shopping experience. Review the latest currency exchange rates. IF MATH ISN'T YOUR THING, download a good currency converter app like Converter+ to do the work for you.

## 3. WORK WITH LOCAL REAL ESTATE PROFESSIONALS

Foreign buyers, in particular, should take the time to find qualified and experienced professionals to walk you through the real estate purchasing process. Agents who have taken additional coursework may carry the Certified International Property Specialist (CIPS) Designation.

IF YOU'RE NOT FLUENT IN ENGLISH, or prefer speaking in your native language, choose agents, attorneys, inspectors and bankers who are conversant in your native language. While it may be possible to get translated copies of standard real estate documents, it's likely that you will have to sign the English versions when it comes time to close the deal.

Assembling a qualified team will take some time - ask associates for referrals, do website searches, find locals in real estate directories and check references. In the end, the expertise these professionals bring should make the experience less stressful for you.

## 4. FIND FINANCING

Qualified foreign buyers with a 30 to 40 percent down payment can often obtain financing for their U.S. real estate purchases. MANY BANKS REQUIRE FOREIGN BUYERS to have a specific amount (\$100,000 or more) on deposit with the bank while others set loan limits of \$1 million to \$2 million. You may also be required to present a minimum of three months of bank statements.

The U.S. home loan market offers an array of safe, affordable mortgages, including some that will allow Muslims to buy a home without violating Islamic laws against paying interest.

Before applying for a U.S. mortgage, you must first establish credit and earn a good credit score. You can start building your credit score by opening U.S. bank and credit card accounts. You'll also want to be sure to report all income on your tax returns. Lenders use this income information to determine how much money they're willing to loan you to buy a home.

When the time comes to apply for a mortgage, consider major banks with global operations. These lenders will have the experience necessary to verify credit established in other countries and to guide you through the U.S. home-buying process.



“ International buyers purchased more than \$68.2 million in U.S. residential real estate. ”

## Questions ANSWERS

### **Do I need to become a citizen to buy a home in the U.S.?**

No, you won't need your citizenship or a green card, but you will need an Individual Taxpayer Identification Number (ITIN). That's a tax-processing number assigned to foreign nationals who are required to have a U.S. taxpayer identification number, but do not have one and are ineligible for Social Security numbers.

An ITIN can be issued by the Internal Revenue Service or by a Certified Professional Accountant approved by the IRS. You will have to fill out a Form W-7 (in English language) or a Form W-7(SP) (in Spanish language) in order to request your ITIN. On the W-7 form you will be required to give a valid reason for your application.

Depending on your nationality, you may also need a valid foreign passport, visa and two or more current photo identifications, such as a driver's license.

### **What should I expect from my first meeting with my real estate agent?**

This is the perfect time for you to tell your agent exactly what you're looking for in a property and your budget. It might also be a good idea to take the time to tell your agent how the home-buying process works in your native country and ask about any differences in the U.S. market.

The more you know, the less stressed you'll be when you enter into the negotiation process.

### **Will I need to hire a real estate lawyer?**

Although not mandated, you may want to seek the services of a real estate attorney to help with any legal issues or questions you may encounter along the way. A real estate lawyer can review the sales contract for you, check the title and other documents relating to your purchase, and advise on legal and tax issues concerning your property.

### **Is there a type of property I can't purchase in the United States?**

Foreign buyers are eligible to buy single-family homes, condominiums, duplexes, triplexes, quadraplexes and townhomes.

Housing cooperatives or co-ops often have rules prohibiting foreign ownership. That's because co-ops generally require that a buyer's source of income be from the United States and that most of the majority of the buyer's assets be kept in the U.S.

### **Should I purchase U.S. property in my name?**

Foreign investors can purchase property directly - in their own names - or through some sort of business entity, such as a domestic corporation, foreign corporation, limited partnership, joint venture, real estate investment trust or limited liability company.

How the property will be used should play into your decision. Additionally, the structure through which you purchase your property can have dramatic tax consequences. Your real estate attorney and accountant should be able to provide counsel concerning your options.

### **Can I pay for my property in cash?**

Yes, all-cash purchases are permitted, but U.S. law mandates that cash transactions over \$10,000 be reported to the federal government. The requirement for reporting involves everyone connected to the transaction (purchaser, real estate agents, attorneys and title companies). The government wants to know how you earned the money and that it was legally obtained.

Cash buyers can potentially save money on mortgage application fees, loan origination fees, appraisals and title insurance.

### **Are there specific states in which foreign buyers should look for properties?**

International buyers are attracted to different parts of the United States for different reasons. Some want to be close to business interests or family, while many others are drawn to warmth. In 2012, Florida had the largest number of

international buyers at 23 percent, followed by California at 17 percent, Arizona and Texas both at 9 percent and New York at 3 percent. According to the National Association of Realtors, about half of 2012's foreign buyers purchased homes in suburban areas and 25 percent opted for homes in more urban areas.

### **Do I have to travel to the U.S. for the closing?**

While you may very well want to attend your real estate closing, it is not necessary. In the event that you cannot or choose not to attend your closing, you must execute a "Power of Attorney." This is a written document authorizing another person to represent you and sign on your behalf.

### **Are there additional fees I will need to pay at closing?**

Yes, the buyer typically is responsible for paying for the title search and insurance, legal fees and recording fees, amounting to an additional 1 percent to 2.25 percent of the total cost of the transaction. On a \$300,000 home, that amounts to another \$3,000 to \$6,750.

### **How will a U.S. real estate purchase affect my taxes?**

A foreign property owners' tax liability in his home country will vary depending upon where the purchaser is from and whether that country has a tax treaty with the United States. Consult a tax attorney familiar with your home country's treaty to get answers to tax-related questions.

The United States government requires that foreign nationals pay U.S. income taxes (state and federal) on any net income (rental revenues less expenses) received from rental property. If tax returns are not filed in a timely fashion, a tax of 30 percent of the gross rental income may be assessed. Even if you're incurring losses in the early years of your investment and you don't owe any taxes to the government, you still must file your tax returns in a timely manner or be subject to financial penalty.