

FIRPTA

FOREIGN INVESTOR REAL PROPERTY TAX ACT

The Foreign Investment in U.S. Real Property Tax Act (FIRPTA) of 1980 was enacted to ensure that foreign investors are taxed on the gains from the disposition of their U.S. real property investments.

In early 2014, FIRPTA was amended to now require that a buyer, whether domestic or foreign, purchasing U.S. real property interests from a foreign person, must withhold 10 percent of the amount realized from the total purchase price. The new legislation also exempts liquidating distributions from domestically controlled REITs from FIRPTA tax.

In addition to the federal legislation, the state of California enacted Cal FIRPTA to prevent non-payment of California income and franchise taxes by sellers who reside outside of California, but are selling real property in California. The law currently requires that escrow withholds $3\frac{1}{3}$ (.0333) percent of the total sale price from the buyer's proceeds of any California real property being sold. The statute permits the seller to choose a higher percentage to be withheld based upon the estimated gain on the sale.



If **FIRPTA** and **Cal FIRPTA** both apply to your transaction, Ticor Title will follow instructions of the principals in withholding and remitting the payment to the IRS on their behalf. Additionally, we have a process in place for accommodating a holdback of funds if the seller has applied for a withholding certificate.

