



## International Real Estate Transactions

Canadians selling personal use property in the U.S.

Phone: 520-568-3303

### When are taxes due?

Tax returns are filed the year following the sale.

Returns can be filed starting in mid-February and are due by April 15<sup>th</sup> if taxes are owed, or by June 15<sup>th</sup> if no tax is owed or a refund is due.

Taxpayers that have an ITIN can file electronically, which greatly speeds up and simplifies the filing process. All other returns must be paper filed.

### How much does this cost?

For the 2022 Tax Year:

Tax return only - \$400 per person

Tax return with ITIN application - \$600 per person

Our fees are tax deductible if paid in the same year as the sale.

We can submit our invoice to the title company to be paid at the time of sale if submitted at least 7 days before closing.



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Please contact us early in the sale process for a free consultation to minimize your tax liability.

## Do I need to file a tax return?

Yes, a tax return is required to be filed even if no tax is owed.

Each seller listed on the title files a separate Federal and Arizona tax return to report their share of the sale and gain.

## Capital Gains

The gain is calculated by subtracting the purchase price, cost of improvements, real estate commission and other closing costs from the sale price.

The first \$41,675 of gain is tax free to each seller on the Federal return. The rest of the gain is taxed at 15%. If there is FIRPTA withholding, the federal taxes owed are kept by the IRS and the excess withholding refunded to the seller when a tax return is filed.

For tax year 2022, Arizona gives each seller \$12,750 tax free (or \$14,950 if age 65+). An additional 25% of gain is tax free for purchases after 2011. The remainder of the gain is taxed on a graduated scale starting at 2.59%.

\*Subject to changes in tax laws.

## What is an ITIN?

An ITIN is an Individual Taxpayer Identification Number which is needed for each seller so that U.S. Tax returns can be filed.

The IRS determines when an ITIN can be applied for

- If there is FIRPTA withholding, the ITIN can be applied for any time after the sale is complete.
- If there is no FIRPTA withholding, the ITIN is applied for with Federal tax return.

## What is FIRPTA?

**Foreign Investment in Real Property Tax Act** imposes income tax on foreign persons selling U.S. real estate.

Sales over \$300,000 require 10% of the sale price to be withheld at the time of sale and sent to the IRS.

Withholding goes up to 15% If the buyer is not going to use the property as their primary residence. 15% also applies to sales of land.

Any withholding not needed to pay the actual tax is refunded to the seller once a tax return is filed.

There is no FIRPTA withholding on sales less than \$300,000 where the buyer is purchasing for their primary residence.

## I already have an ITIN

An ITIN stays active if used on a U.S. Tax return at least once every three years. If you have an ITIN but have not used it in more than three years, it will need to be renewed.

## I need to apply for an ITIN or renew an existing ITIN

Documentation needed:

- Passport
- Maiden name (for women)
- Canadian address and phone number
- Settlement Statement from the sale
- FIRPTA Withholding Forms (8288 and 8288-A)
- ITIN (if renewing)



## What is tax deductible?

- Purchase and selling closing costs
- Cost of improvements
- Real Estate commission
- Tax prep fees if paid in the year of sale
- Travel required for purchase or sale
- Seller credits to buyer
- Any other selling expenses such as inspections, repairs or warranties.

Items not deductible include:

- Property Taxes & Insurance
- Homeowners Association dues
- Regular maintenance
- Utilities

## What is an improvement?

Anything done to permanently increase the value of the home can be deducted as an improvement. These include, but are not limited to the following:

- New appliances, water heater, or AC
- New flooring
- New paint (interior or exterior)
- New landscaping
- Installation of pool or spa