



## International Real Estate Transactions

## Foreign Residents with rental property in the United States

Phone: 520-568-3303

### Do I need to file a tax return?

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

Each owner files a separate Federal and Arizona tax return to report their share of the rental income and expenses.

### When are taxes due?

Tax returns are filed each year 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 - Starting at \$400 per person for 2 or fewer rentals.

Tax return with ITIN application - Starting at \$600 per person for 2 or fewer rentals.



**CS CPA GROUP**  
TAXES & ACCOUNTING

21300 N. John Wayne Pkwy

Suite 110

Maricopa, AZ 85138

Phone: 520-568-3303

Fax: 520-568-3361

[info@cscpagroup.com](mailto:info@cscpagroup.com)

## What is an ITIN?

An ITIN is an Individual Taxpayer Identification Number which is needed for each owner so that U.S. Tax returns can be filed. An ITIN is not needed if you have a US Social Security Number.

The ITIN is applied for with the filing of the Federal tax return.

We are certified IRS acceptance agents and will complete the ITIN application as well as certify all required supporting documentation.

## 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 (if applicable)
- Canadian address and phone number
- ITIN (if renewing)

## Short Term Rental and Personal Use

If the property is used part of the year as a rental and part of the year for personal use, only the portion of expenses related to the rental are tax deductible.

The number of days the property was available for rent, as well as the number of personal use days are reported on the tax return.

## Reporting Income & Expenses

The rental income and expenses are reported separately for each property.

Deductible expenses include but are not limited to such things as:

- HOA Dues
- Insurance
- Management Fees
- Mortgage Interest
- Property Taxes
- Maintenance and Repairs
- Tax Prep Fees
- Travel
- Utilities
- Depreciation

## What is Depreciation?

Depreciation is the systematic writing down of an assets value based on its useful life. The IRS has determined that rental property is to be written off over 27.5 years. The cost of a property includes the cost of the land and the cost of the house, but only the cost of the house is depreciated. So, each year  $1/27.5$ , or 3.636% of the cost of the house only is taken as a depreciation deduction.

## Loss Carryforwards

It is important to file a tax return for each year the property has been a rental. Any rental losses can be carried forward to be offset against the Capital Gain when the property is sold, but only if a tax return has been filed each year. It may be beneficial to go back and file multiple years of returns to capture prior losses.



## When it's time to sell

Computing the Capital Gain is a little more complicated with a rental property. Normally the gain is calculated by subtracting the purchase price, cost of improvements, real estate commission and other closing costs from the sales price. The first \$40,000 of gain is tax free on the Federal return and \$12,550 is tax free on the Arizona return (subject to annual changes in tax law).

With rental properties, the \$40,000 Federal gain exemption is reduced by the total depreciation taken since purchase, and the current year's rental income, or increased by the current year's rental loss.

The total depreciation is taxed as regular income (because it reduced cost basis). The rest of the gain is taxed at the 15% capital gains rate.

In 2021, Arizona gives each seller \$12,550 tax free (or \$14,750 if age 65+). An additional 25% of gain is tax free for purchases after 2011. The remainder of gain is taxed at about 3%.

Sales over \$300,000 are subject to 10% (or 15%) FIRPTA withholding. Any withholding not needed to pay the actual Federal tax is refunded to the seller once a Federal tax return is filed.