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Do's and Don'ts of Buying & Selling Foreign Property as a U.S. Expat: Ask an Expert

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By [DAVID MCKEEGAN](#)



House with an ocean view in the Dominican Republic —iStock Photo

David McKeegan, co-founder of [Greenback Expat Tax Services](#), weighs in on the issues U.S. expats should consider when buying and selling foreign property.

Whether American expats are looking to buy overseas property as an investment, vacation home, rental or residence, taxes should always be top of mind. Regardless of the potential return on investment, beauty, or the property's fit into your expat lifestyle dream, consider these tax do's & don'ts to ensure your purchase is one you don't regret.

Do consider setting up a Limited Liability Company (LLC) to purchase the property

As a U.S. expat, if you are purchasing a foreign property primarily for investment purposes (either in your expat country or elsewhere outside of the U.S.), doing so as an individual may be the easiest but not the most *advantageous* decision. While tax time will be less complex (simply reporting rental income/expenses on your 1040), individual ownership offers you no liability protection. For LLCs with only one owner, the LLC is considered a

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"disregarded entity" for tax purposes, and all of the activity will be reported on the individual's personal U.S. tax return. This eliminates the burden of filing separate business tax returns and avoids the increased accounting fees associated with a business tax return.

Don't ignore foreign-exchange rates

When you purchase a foreign property, you will likely transfer a large sum of money into your foreign bank account for the initial down payment. Before you do, find out the foreign-exchange rates and fees associated with the transfer and even seek a professional broker who can ensure you obtain the most beneficial exchange rate possible —this could save you thousands of dollars when you buy and can impact your profit when you sell.

Remember that the U.S. may tax you on any resulting gains when you sell your property. The exchange rate gain from paying off a mortgage is calculated by converting the amount of the loan to USD using the exchange rate at the time the loan was originated and the exchange rate at the time the loan was paid off. The resulting gain is taxable as ordinary income using your marginal U.S. tax rate. If you have held the property for more than a year, however, you'll be taxed at the long-term capital gains rate of 0%, 10% or 20%, depending on your marginal U.S. tax bracket.

Do deduct your mortgage interest and points from your U.S. Federal Tax Return filing

Mortgage interest and points are deductible on your U.S. expat tax return, even though the property is in a foreign country. But the deduction can only be taken against income that has *not* been excluded by the Foreign Earned Income Exclusion. So if you exclude all your foreign income, you'll need to have U.S.-sourced income or non-excluded foreign income to use this deduction.

Don't forget to reduce gains taxes with the Foreign Tax Credit

The gain on your foreign property sale may be taxed by the country in which the property is located, as well as the U.S. For U.S. tax purposes, this gain is considered foreign-sourced income, so you may be able to use the Foreign Tax Credit to reduce your resulting U.S. tax liability. However, the gain isn't considered foreign *earned* income, so it cannot be excluded using the Foreign Earned Income Exclusion.

Do try to keep the home for 2-5 years

As a U.S. expat living the life of a digital nomad or bouncing around for your career, planning to live in a residence for 2 or more years may not be possible. But regardless, you not to sell for at least two years. The reason is that when you live in the home for 2-5 years, you will be eligible to exclude a gain of up to \$250,000 (or \$500,000 for those filing married jointly) from U.S. taxation. If not, the full gain will be taxed at the applicable capital gains rates.



David McKeegan is Co-Founder of **Greenback Expat Tax Services**, which specializes in the expert preparation of U.S. federal tax returns for Americans living abroad.

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