



Should Foreigners Use Entities for US Real Estate Purchases?

Due to the current U.S. estate tax system, it is often extremely advantageous for a foreign investor who purchases real estate with considerable value to take title through an entity.

Under the current law, if a foreign individual dies owning U.S. property in an individual name, he or she will generally be subject to U.S. estate tax on the full fair market value of the property (not just the appreciation, if any) at time of death and will only be entitled to a mere \$60,000 estate tax exemption. This is contrasted with U.S. citizen and residents who are entitled to a \$5.45 million exemption.

Therefore, any foreign investor acquiring several hundred thousands of dollars in the US real estate market, either for personal or commercial use, should seriously consider using one or more entities as vehicles for ownership. This is extremely prudent from the point of view of investment if the buyer intends to keep the property for a significant period of time or the buyer is an older person.

For example, under the current estate tax for a foreigner owning a one million property will be taxed at approximately \$400,000, while if the foreigner had taken title via a foreign corporation there will be no estate, or death, tax.

Furthermore, purchases through an entity will provide a higher level of confidentiality, which is an important factor for residents of certain countries when it comes to investing abroad: high net worth individuals may become targets for kidnapping and/or criminal activities in their own countries.