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Transamerica Life Insurance Company

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“What are some of the tax implications of owning U.S. property as a foreign national?”

By John Greenwall

Foreign investors continue to find value in owning property in the United States, despite a somewhat bumpy residential-housing market. Unlike some other countries, the United States welcomes foreign real estate buyers and offers well-defined property rights, including the right of a foreign purchaser to hold the title to and own property on the same basis as a U.S. citizen.

The benefits of owning real estate here, then, are immediately apparent. However, if you are a *non-resident* foreign national (not a U.S. citizen, and with a primary residence outside of the United States), you need to understand the possible estate tax implications to your U.S. real estate holdings.

How does being a non-resident foreign national affect estate tax liability?

First, consider the difference between allowable estate tax exemptions. Currently, the estate tax exemption for U.S. citizens and foreign nationals who permanently reside in the United States is \$5.34 million.

Conversely, the estate tax exemption for a *non-resident* foreign national

is a scant \$60,000. Such a low exemption limit essentially allows the federal government to collect estate taxes of up to 40 percent of the property's fair market value at the time of death of the property owner.

What are the potential pitfalls when evaluating strategies to mitigate estate tax liability as a non-resident foreign national?

Some individuals set up business entities in multiple countries to mitigate U.S. estate taxes on residential real estate. Be cautious of this strategy, as it may create other tax consequences. An example is the fact that any personal use of the property may be deemed to be U.S. rental income and may trigger a U.S. income tax liability.

Is life insurance a smart choice when planning for potential estate tax liability?

Under the U.S. tax code, insurance on the life of a non-resident foreign national is not subject to estate tax and therefore would not be included in this individual's gross estate for tax purposes. Additionally, U.S. life insurance policies offer a number of advan-

tages that may make them an attractive choice for helping protect against or paying for possible high estate and gift tax assessments.

Some questions you need to think about as a foreign national considering a U.S. life insurance policy:

- How long do you anticipate needing the policy? For example, if you anticipate selling a U.S. investment property during your lifetime, a straightforward term life policy may suit your needs.
- What if you sell a vacation home? There are life insurance policies that offer the option of recovering insurance premiums paid if you choose to surrender the policy when the property is sold.
- Is the coverage guaranteed? You may want to consider a policy that guarantees the coverage will be in force, and at a cost-effective premium, for as long as you need it.

Understanding the tax treatment of U.S. property is crucial to ensuring that your heirs receive what you intend. Talk to your tax, legal and/or financial advisor to make sure you aren't leaving your descendants vulnerable to high U.S. estate tax obligations. ☺

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—John Greenwall

How to reach **Transamerica Life Insurance Company**

John Greenwall and any member of our team can be reached at 877.238.6758. We look forward to hearing from you.



Left to right: Peter Radloff, John Greenwall, Carey Rokovich, John Oliver, Claire Durand, Mike Thaxton

About The Transamerica Experts

Transamerica’s experts leverage years of experience to offer life insurance solutions for the issues that are important to today’s consumers, including complex U.S. tax and estate-planning issues, charitable donation legacies, business planning, and the special needs of a blended family or foreign national client. The firm’s goal is to help independent general agents and producers be the best advocates possible for their clients.

John Greenwall draws from his prior experience as a banking law attorney, when he counseled business executives and litigated in bankruptcy and tax matters. Today, he consults with life insurance professionals on the use of life insurance in various advanced concepts. His expertise includes planning for foreign nationals and case design for premium financing and split-dollar arrangements.

Insurance Services Experience
111 years (combined)

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Website www.transamerica.com

Professional Services Provided

Expert help with: estate/legacy planning, wealth transfer strategies, retirement planning, business succession planning, executive benefits, charitable legacy planning and planning for foreign nationals



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