



Property Tax
International



US TAXATION OF RENTAL INCOME FOR NON-US RESIDENTS

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Many overseas investors are intrigued by the idea of buying investment property in the US. And it's no surprise.

Despite the pandemic, after eight years of steady house price increases, the housing boom in the United States continues. A lot of British residents are buying property in Florida and that's a popular trend right now.

A buy-to-let can generate a substantial, ongoing cash flow, and it's an excellent retirement investment they say. It sounds awesome, and it can be, but did you know you can also save money come US tax time?

If you own a rental property in the US, it's important to remember that you will have a tax-filing requirement.

The non-resident rental income tax in the US can be confusing, and taxpayers frequently struggle to comprehend their tax obligations, and how to avoid fines. US tax on rental income for non-residents gets even more complicated because you must address both the US rental income tax and your own country's tax rules.

With this in mind, you may be asking yourself **what are the tax obligations of non-resident landlords of US rental properties.**

Do foreign investors pay tax on rental income?

Or who can help you file your US property tax return?

In this guide, we are going to outline everything nonresidents need to know about tax if they own a property in the USA.



Do foreigners pay tax on US rental income?

Yes. Let's dive deeper into the rental income tax for non-US residents.

A non-resident who is receiving rental income from **US real property** is **generally subject to a 30% withholding tax applied on the gross amount of each rental payment.**

Non-resident aliens (NRAs), or those who are not US citizens or nationals, who do not have a substantial presence in the US, may be subject to various tax requirements, including the payment of taxes on rental income.

Tax audits and fines may be incurred if the required papers are not filed and taxes are not paid on this income.

But there is a way to reduce the amount of tax you are required to pay (more on this later).

What are the tax requirements for rental income from US property?

When a non-resident alien buys property located in the US, usually there is no initial obligation to pay taxes or file any forms with the IRS.

This changes, as soon as there is any rental income.

The tax rate on this income depends on whether this is considered effectively connected income (ECI) that is associated with a US business/ trade, or passive income (also known as FDAP income).

FDAP income is typically taxed at a rate of 30% of a rental property's gross income. This is the default option. If the landlord chooses this option he/she will pay much more and should provide the tenant with **Form W-8BEN**.

On the other hand, **ECI** is taxed at progressive rates based on the net income earned after expenses and deductions are applied.

This is also the smarter choice because you will be taxed at the standard graduated rates that apply to residents and citizens of the US.



Does a US non-resident alien have to file a tax return for rental income?

Each year that a non-resident landlord earns ECI from a US rental property, he or she must file a **US income tax return for non-residents (Form 1040NR)**.

Failure to file a timely US non-resident tax return will result in a 30% tax rate being imposed on the property's gross income of each rental payment, with no option to claim any deductions or credits.

This may not be beneficial at all if you have any tax deductions related to your US rental property. That's why most landlords choose to report the rental income on a **US tax return - 1040NR (non-resident alien tax return)** by attaching a formal election statement to it.

This election will remain valid in the next tax years unless the taxpayer decides to suspend it. Unlike the first option, all property-related expenses are deductible here.

That's why it's a good idea to keep all of your receipts and payment documents in case of an IRS audit.

So, if the US property owners decide to prepare a non-resident alien tax return and take into account all of the available deductions, they may not have taxable income left, and they will no longer be obligated to have 30% withheld from each rental payment.

That's how you can save from taxes.





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Am I a resident or non-resident alien for tax purposes in the US?

It's essential to determine your residency in the US so that you can file a tax return under the correct status and pay the right amount of taxes.

You may qualify as a **resident alien** if you are a citizen of another country who lives and works in the US. **There are two ways to qualify as a resident alien in the United States and this is described in IRS publication 519:**

- you pass the substantial presence test
- you pass the Green card test

If you don't fulfill the criteria to be a resident alien, you may be classified as a **non-resident alien**.

A non-resident alien is someone who is legally in the US for a limited period of time or does not have a green card. The main distinction between the two is in the paperwork and the taxation of income.

If you qualify as a resident alien, you will owe taxes on your worldwide income. A non-resident alien owes taxes only on income from US sources. Sometimes, you can even be considered a dual-status alien. This means you are both a resident and non-resident alien.

This is usually in the year you depart or arrive in the US. If you are a foreign landlord in the US, **PTI Returns tax experts can help you determine your residency status, file your tax return with all the applicable deductions and answer your questions.**

What rental expenses are deductible in the US?

Yes, you can deduct your expenses in the year in which they are incurred.

As a non-US landlord, you can take advantage of plenty of deductions.

Some of the most common rental expenses that you can deduct in the US are:

- Travel / Auto expenses
- Maintenance and cleaning costs
- Repairs
- Mortgages
- Mortgage interest
- Commissions
- Advertising costs
- Utilities
- Property manager expenses
- Insurance
- Legal and other professional fees
- Utilities
- Real property taxes
- Depreciation expense
- Other costs specific to your rental

What tax form does a non-resident alien file?

As we discussed, If you are classified as a non-resident alien for tax purposes, you should report your US rental income on **Form 1040NR** Non-resident Alien Income Tax Return.

How can non-resident landlords pay less tax in the US?

The good news is, as mentioned above the entire 30% withholding tax obligation can be removed.

How?

As we explained, the non-resident homeowner can save from taxes by filing a US income property tax return and including all the applicable property-related expenses.

To avoid paying the 30% withholding tax, a US non-resident property owner must take the following simple steps:

- 1** Prepare a US property tax return the year after the rental revenue is received.
- 2** Apply for an ITIN number if they plan to sell the real estate in the current year or to receive a rental income and if they do not have a Social Security Number (SSN). File Form W-7 to get ITIN.
- 3** Submit Form W-8ECI to the rental agent or the tenant

PTI Returns can assist you through the whole process.



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When is the US tax deadline?

Tax day in the US is usually **April 15** each year unless the day falls on a weekend or a holiday.

You must pay any tax due for the calendar year 2022, before April 18, 2023, or interest will be charged.

What happens if I miss the US tax deadline?

To avoid potential issues with the IRS, it's best to meet the US tax deadline.

Many people make the mistake of requesting an extension because they are unable to pay their taxes. This method can result in penalties and interest payments.

As a US non-resident property owner, you should know that failure to follow the IRS tax rules can lead to a lien (claim) being placed on your US real estate.





Who can help me file my US non-resident landlord tax return?

Are you looking for property tax specialists?

PTI Returns' tax experts will help you file your US income tax return online if you are a non-resident alien who earns income from a rental property and this will save you time and stress.

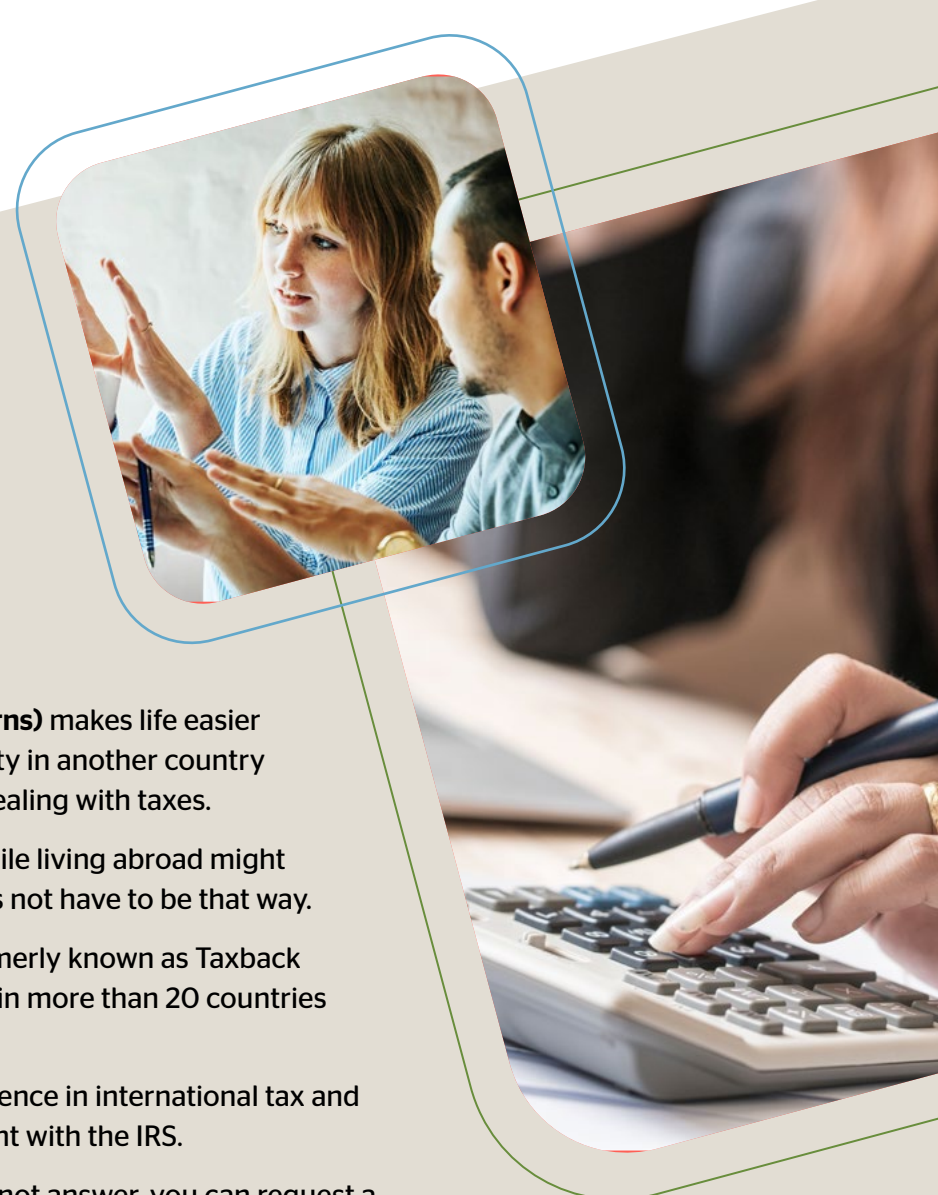
Our team will determine what's the most profitable way of reporting this income, ensuring that you meet your tax requirements and avoid fines. We can also assist you to get your ITIN.



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Who are we?

Property Tax International (PTI Returns) makes life easier for foreign landlords who own property in another country and we aim to remove the hassle of dealing with taxes.

We understand that filing US taxes while living abroad might be complicated, but we believe it does not have to be that way.

PTI Returns is part of CluneTech (formerly known as Taxback Group), employing over 1,500 people in more than 20 countries worldwide.

We have more than 25 years of experience in international tax and our tax experts will keep you compliant with the IRS.

If you have any questions that we did not answer, you can request a free callback from our tax experts at +353 1 635 3722.

For regular Tax Tips, Deadlines, and Reminders follow us on LinkedIn or Facebook.





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