



Special Report

The Smart Investor's Tax Guide to Buying Property Overseas

**Tax and Compliance Planning for U.S. Citizens
Prepared exclusively for RETA members**

Presented by Copper Beech Financial Group, in partnership with WorthNet

■ About the Author



Michael J. Parise, Esq. is a tax attorney and co-owner of the generational wealth management firm Copper Beech Financial Group.

He has spent his career leading Copper Beech into ever more advanced and nuanced planning strategies intended to help the firm's clients preserve wealth across the generations, balancing control, flexibility, the need to access capital, and the desire to protect it from the many risks life can throw at a nest egg over two or three generations of business, economic, and family dynamics.

Their team works with client families across the wealth spectrum – from \$1 million households to \$100 million-plus family offices – on the challenges of creating multi-generational wealth, with a keen focus on tax efficiency. They are proud to have been invited into the WorthNet partner adviser network. If, after reviewing this report, you wish to consult with them about your own financial plan, connect with the team at worthnet.com/copper.

■ Want to Connect with Copper Beech?

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Why Go Global Now?

Looking abroad for real estate opportunities can be one of the most rewarding, enriching journeys for an investor. Many of our clients who deploy some investment dollars overseas report that the opportunity set often feels earlier and less picked-over than in the U.S., with better lifestyle upside.

After all, who doesn't dream of owning a cliffside villa in Tuscany with that famed Mediterranean climate, or a beachside condo on the Mexican Riviera where an incredible lunch is still \$5 and the sun shines 300 days a year?

These kinds of investments, when you find the right market conditions, can offer a mix of solid **yield**, potential **appreciation runway**, and personal **enjoyment** – a combination that tempts many investors to expand abroad.

For many families we advise, the impulse isn't to leave the U.S. behind – it's to **add a new lane**.

No investment is certain, of course. But here at home, many investors express that prices in prime markets seem like they have been bid up by decades of institutional capital, tax incentives, and near-zero interest rates.

Abroad, it often feels like those forces haven't fully hit as many places. In some countries, everyday carrying costs like insurance, property taxes, and labor run lower than at home. And in several attractive markets, short-term rentals (Airbnb-style tourist stays) remain not just allowed but actively encouraged.

The **lifestyle return** matters too – you can own an income-producing place you actually want to visit, something harder to say about an industrial park or large apartment complex back home. But then the nerves arrive: dealing with two governments, new paperwork, unfamiliar terms.

Will I be taxed twice?

As wealth managers, our team has guided families for decades. And as the tax attorney structuring many of their holdings – for families collectively holding hundreds of millions in real estate assets, domestically and abroad – I can confidently say it's not nearly as complex as most



clients fear. It's quite manageable with the right information and advisors in your corner. Our role isn't to push anyone overseas; it's to make the process, should you choose that route, smooth, well-structured, and well-understood. We help families weigh options for tax efficiency, prepare for differences in foreign tax and estate laws that can surprise Americans accustomed to one set of rules, and shoulder most of the administration so they can focus on the investment itself.

We've lived this reality for years and want to share what we've learned by helping our clients. In the pages that follow, we distill a few of the most important questions to address, misconceptions to dispel, and pitfalls to avoid.

The goal is to give you the confidence and knowledge to move forward with an actionable plan. We start with taxes, because that's where the worry tends to live.

The One Rule That Defuses Most Tax Anxiety

The U.S. has an unusual tax system compared to the rest of the world. It is the only developed nation that taxes its citizens based on their global income without regard to their residency. Unlike Canadians, Britons, and Europeans who can generally "vote with their feet" by simply taking residency elsewhere, only paying taxes based on where they live, the U.S. makes it much harder (and well beyond the scope of this report) to escape the local tax burden.

But that treatment had a very valuable side effect to make sure things remained fair for those who choose to also invest abroad: **the U.S. system is designed to prevent double taxation.**

On the same dollar of rental profit or capital gain, you generally end up paying only one tax – the higher of the two countries' rates. Whether or not a formal tax treaty exists with the other country, any income taxes you pay to the country where your property is located become a dollar-for-dollar credit against your U.S. tax on that same income [1].

In practice, you pay roughly the higher of the two amounts, not both stacked together. Where tax treaties do exist, they further prevent unfair outcomes – for example, clarifying which country gets to tax certain income or reconciling differences in how entities are classified.



Consider two simple illustrations, one with higher taxes abroad than in the U.S., and another with lower taxes abroad:

- **Higher-tax scenario:** Suppose your net rental profit is \$40,000. The host country taxes it at ~30% (say \$12,000). Your U.S. income tax rate on that rental income might be 24% (\$9,600). The foreign tax credit would wipe out the U.S. tax in this case. **Total tax paid: ~30%.**
- **Lower-tax scenario:** Same \$40,000 profit. The host country's tax is ~10% (\$4,000). Your U.S. rate is 24% (\$9,600). You would pay the difference – roughly \$5,600 – to the IRS. **Total tax paid: ~24%.**

These oversimplified cases illustrate the core point: thanks to the foreign tax credit, you generally won't pay more than the higher of the two countries' tax rates on your income. For our clients, who almost invariably find themselves in the higher 32 or 37% federal tax brackets, that generally means that for earned income they don't often pay a higher net rate than they would on an equivalent U.S. property held as a taxable asset.

Furthermore, as we'll explore, there are tools to potentially reduce the tax bite further, especially when investing in those lower-tax jurisdictions. Two implications flow from this principle:

- If you buy in a **higher-tax destination** mainly for the lifestyle – think iconic coasts and capitals like a villa in the south of France, an apartment in London, or a beautiful estate home in Cabo – your U.S. tax on that rental income is often near zero after applying the credit. (Depreciation still matters for timing and for shaping your passive-loss position, creating opportunities to optimize your U.S. taxes with offsets against other income, but the foreign tax credit neutralizes the “double tax.”)
- If you buy in a **lower-tax or territorial jurisdiction**, you will usually owe some U.S. tax – but the upside is that it shouldn't be more than you would have paid in the U.S. on the same income. And much of the familiar U.S. playbook still applies: strategies like using Roth or Solo 401(k) retirement accounts, Private Placement Life Insurance (PPLI), and careful use of depreciation rules (e.g. cost segregation studies and the tangible property regulations) can materially reduce what the U.S. would otherwise take. We'll touch on these tools later.



Two nuances:

- The foreign tax credit covers **income taxes only, like rental income and capital gains**. It doesn't cover one-time transfer taxes, stamp duties on purchases, or annual property taxes abroad. Those are simply part of your carrying costs – deductible expenses against rental income or additions to your cost basis – just as they would be for a rental property in many U.S. states. No credit is needed there because such taxes are accounted for before net income or capital gain is calculated.

The U.S. credit is **federal-only**. State tax treatment of foreign income varies widely. For example, if you are a resident of California (forgive me for picking on California about taxes, which many a resident has heard too often, but it's instructive), know that California offers **no credit** for foreign taxes paid [2]. This means a high-tax state like CA could still try to impose full state tax on that foreign income even though you received a foreign tax credit federally. By contrast, some states do allow credits or other relief for taxes paid abroad. Always check your own state's stance if you live in a high-tax state so you're not caught by surprise.

With that big tax principle in mind, let's walk through the process of investing abroad in four stages – **Acquire → Own → Exit → Inherit** – and discuss how to structure things cleanly at each step.

Your Four-Stage Playbook (Acquire → Own → Exit → Inherit)

Simple beats clever across borders. Use the cleanest ownership structure that achieves your legal, tax, and legacy aims – then run the playbook calmly and systematically. In our experience, a straightforward plan executed well beats a convoluted scheme every time when investing overseas.

Acquire

Start with title simplicity.

In many cases, holding foreign property in your personal name (or via a straightforward U.S. pass-through entity like an LLC that is disregarded for tax purposes) is the easiest solution for U.S. tax reporting and compliance.

We'll get into some of the details as we go, but using overly complex structures – which we've seen promoted for sometimes dubious tax savings claims, like using a foreign C-corporation to hold profits offshore before recognizing them – can ultimately trigger the kind of onerous

reporting requirements that are the source of much of the rumored complexity. Keep it simple, and you can almost completely sidestep those regimes, which were intended to deal with folks using foreign companies and accounts for less than legitimate purposes.

Using a simple pass-through entity can limit liability and streamline taxes, if local law permits it. But if local law requires special title forms, follow the standard local solution.

For example, **Mexico's fideicomiso land trust** is required for non-Mexicans buying residential property in the “restricted zone” near coasts and borders (essentially a bank-administered trust that holds legal title on your behalf). Using the fideicomiso is the norm for those areas; importantly, the IRS has formally acknowledged that a typical fideicomiso is not treated as a foreign trust for U.S. tax purposes in most vanilla cases^[3]. In other words, the IRS views a basic fideicomiso as a nominee arrangement (akin to an agent holding title for you) rather than a trust – so it doesn't trigger the burdensome foreign trust reporting (Forms 3520/3520-A) as long as it has no discretionary powers and just holds the property title ^[3]. This is a relief to U.S. owners of Mexican coastal property: you get the structure you need locally, without creating a U.S. tax headache.

Expect different closing mechanics abroad.

In many countries – especially civil-law jurisdictions in Europe and Latin America – **a civil-law notary** (notario in Spanish, notaire in French, notaio in Italian) takes the lead in real estate closings. This official is a specially licensed attorney who prepares and authenticates the deed, ensures taxes and required withholdings are handled, and records the transfer.

Some other common differences:

- Don't be alarmed when a notary asks to see both buyer and seller at the closing table; that's standard in much of the world.
- Earnest money and escrow norms will vary; you might not use an independent escrow company as in the U.S., since the notary often acts as an impartial overseer.
- Wire transfer timelines and bank “know your customer” checks usually take longer than in a typical U.S. transaction, so build in a bit of patience to the closing schedule.



- Often, as a foreign buyer, you may also need to obtain a local tax identification number (for example, a NIE in Spain or NIF in Portugal, or a Codice Fiscale in Italy) to transact – essentially registering yourself with the tax authorities even if you’re not a resident. This process is usually straightforward but should be started early to avoid delays in the buying process.
- Depending on the country and the type of property you are buying, it can be wise (and sometimes required) to open a local bank account in the country for the transaction. Having a local bank account can simplify currency exchanges and payments, though it will trigger U.S. reporting like **FBAR** and possibly **FATCA Form 8938** on your side (more on those in the Compliance section).

For example, if you are purchasing a resale home from a local owner that is listed in the local currency, it can be smart to use a local bank account to ensure you have exactly the right amounts for closing. Wiring U.S. Dollars in large amounts cross-border can result in exchange rate complexities and in delayed arrival if a transaction is flagged for review (unless you are in the business of making large overseas transfers on the regular, you might as well assume it will be). Better to have the money there with time to spare and already locally denominated with a cushion.

However, if you are purchasing a home directly from a developer, or through a specialty resale agent targeting the U.S. markets, in many cases they will offer pricing and settlement in U.S. Dollar terms to make it more convenient for foreigners to purchase. They may even offer a U.S. correspondent bank to which you wire funds for closing, reducing the risk for delays, as well.

In general, make sure you find local counsel or another independent resource you can rely on to familiarize yourself with the local closing processes. They can help you avoid costly mistakes, even some unsavory deal terms (like a “soft closing” for example, which has been foisted on foreign buyers in some countries resulting in no actual title transfer and thus problems down the line). With knowledge of the local process, settlement should be a breeze in most cases, if a little different than you are used to.

Financing is different, but not impossible.

In many overseas markets, real estate purchases are more cash-driven than in the U.S., and mortgage financing to non-residents can be limited.

However, some countries do offer developer financing or local bank loans to foreign buyers. These loans are often **nonrecourse** (with only the property as collateral, not your other assets), which can actually pair well with retirement account investing (since nonrecourse loans won't jeopardize an IRA/401k's standing – more on this later).

If you pursue financing abroad, underwrite any **currency risk** and repayment terms up front. For instance, if you take a loan in a foreign currency, consider how exchange rate fluctuations could affect your cost of repayment, and even the complexity of things like auto-payment. One practical approach is to match the loan currency with the rental income currency when possible, to create a natural hedge. Either way, go in with eyes open about how you'll service the debt and what happens if exchange rates move significantly.

Alternatively, you can borrow domestically for foreign purchases in some cases, either officially or unofficially.

Companies that make loans to U.S. buyers of foreign property are sometimes available, especially for more common target countries like Mexico, and the loans are usually denominated in U.S. Dollars (as they are sold to U.S. banks and other investors). Interest rates tend to be higher than a domestic mortgage because of the relative complexity of navigating laws for foreclosure and liquidity of potential resale in those other jurisdictions – items that matter to those managing portfolios of thousands of mortgages. But, usually, they are within 2-3% of prevailing domestic rates for a jumbo loan.

For those who cannot find a direct lender who will take foreign property as collateral, or simply wish to avail themselves of often more competitive rates in the U.S., and still want to get the benefit of leverage in their real estate returns, we've seen some borrow against domestic assets to achieve the same goal. For example, a resident with significant equity in a U.S. home might simply take out a home equity loan against that property, availing themselves of favorable U.S. rates to finance the foreign purchase. Same with borrowing against investment properties, low volatility securities like a bond portfolio, or an insurance contract. You'll always want to be sure that the use of proceeds conforms with the loan terms. But these loans tend to be easier to secure and are never subject to currency rate volatility.



Understand the local transaction costs.

Some countries have significant transfer taxes or notary fees due at purchase (e.g. many European countries impose a transfer duty of 5–10% built into closing). These are usually not deal-breakers, but you'll want to budget them into your investment analysis.

Beware the “offshore company to defer U.S. tax” myth.

At some point in your journey, you might come across advice that you should hold the property through an offshore corporation and thereby defer or avoid U.S. tax on the rental income – a seemingly common recommendation on the internet or from foreign agents and others unacquainted with U.S. tax law. Some of these schemes apparently work well for residents of other countries. But for passive buy-and-hold real estate by a U.S. citizen, this usually does not work out as hoped.

U.S. Controlled Foreign Corporation (CFC) rules – including the Subpart F income rules and the newer GILTI (Global Intangible Low-Taxed Income) regime – or the separate **Passive Foreign Investment Company (PFIC)** rules tend to force current U.S. taxation of a foreign company's rental earnings **whether or not** you bring the cash back to the U.S.

In other words, merely placing the property in a foreign corporation doesn't shield the ongoing income from U.S. tax; the IRS will generally look through that structure for passive income streams.

Use a foreign holding company only when there is a compelling local rationale (for example, local law might require using a domestic company for certain property purchases, or you might want an entity for liability protection or to satisfy professional licensing rules). Don't do it solely as a U.S. tax strategy, because it's likely to disappoint.

When in doubt, lean toward the simpler structure that doesn't introduce extra layers of U.S. filing complexity unless absolutely needed.

Own

Once you've acquired your overseas property (and hopefully before that), it's time to think about what carrying the property, and its associated rental income, looks like on your tax returns.

Prepare to file both domestic and international returns.

Rental income will face local taxes and possibly some procedural frictions, but these tend to be more bureaucratic than punitive.

Assume the host country's tax law gets the **first crack at your rental income** via either required withholdings or your own local tax filings, or sometimes via an appointed agent or notary who withholds tax when rent is paid. One way or another, you'll pay the local landlord taxes due on that income.

Then, when you report the income on your U.S. tax return, the foreign tax credit will generally wipe out the U.S. tax (to the extent the foreign tax was the higher burden)[1]. If the foreign tax was lower, you'll pay the U.S. the difference up to what the U.S. tax would normally be. The key point is that you'll report the income in both countries, but you won't pay tax on it twice.

For example (subject to change and individual circumstances):

- Spain requires nonresident landlords to file annual tax returns on rental income and generally charges a flat 24% tax (for non-EU owners) on the gross rent, with few deductions. If you were an EU resident, it would be only 19%; measures typical of many developed countries trying to protect local real estate from becoming overly concentrated in the hands of foreign owners.)
- Italy similarly taxes nonresident rental income at a flat rate (currently around 21% on net income if you opt for the cedolare secca flat regime).
- Panama interestingly has a **territorial tax system** – meaning it only taxes local-source income – so if you own a rental in Panama, that rental is local-source and taxed, but any income you earn outside Panama isn't touched[4]. This makes it an attractive tax home for many expatriates from around the world, especially those who own businesses back home or perform remote work outside of Panama (less so for U.S. citizens given that unique global taxation stance mentioned at the beginning, though if you want to go that route there is some small reprieve with the Foreign Earned Income Exclusion, but only for the first \$130,000 per year per person, double for a married couple). However, don't mix up all the online chatter about Panama's zero income tax rate for foreigners with the rates – still low but not zero – for those owning income-generating real estate in Panama.

Each country has its quirks in how rental income is reported and taxed, so getting local CPA advice in year one is wise. And expect that you will have to file and withhold taxes with a regularity like any state in the U.S. where you also own investment real estate. Like those states, once the system is set up for your international investments, it usually just becomes a routine annual or quarterly process.

Depreciation will look familiar.

Depreciation on your U.S. return will look very similar to your domestic properties, with a couple of key tweaks for foreign properties.

First, you must use the IRS's **Alternative Depreciation System (ADS)** lives for any real property located abroad. For residential rental property, that means a straight-line **30-year** life for the structure (instead of 27.5 years under standard U.S. rules)[5]. Commercial property would depreciate over 40 years ADS.

Second, you cannot take accelerated “bonus” depreciation or Section 179 expensing on assets used predominantly outside the United States [5]. As one should probably expect for stimulus laws meant to boost investments in the U.S. economy, those accelerated write-off provisions are disallowed for foreign-use assets. While they change the timing of deductions and thus cash flows, other than as part of a tax offset strategy for other passive or earned income streams their use should not change the overall return calculus on a property investment as they are subject to recapture at sale. So while a mild disadvantage in the early years, these exclusions should not change the investment thesis for a property.

In practice, you'll still utilize techniques like **cost segregation** – identifying components of the property (appliances, landscaping, etc.) that qualify as personal property or land improvements – to assign shorter ADS lives (for example, a 12-year life for certain personal property, 20-year for land improvements). And you'll apply the IRS **Tangible Property Regulations (TPRs)** to determine what counts as a repair (immediate deduction) versus a capital improvement (must be depreciated).

Maintenance and upgrades abroad should follow the same discipline you'd use on a U.S. property. Apply the IRS's Tangible Property Regulations framework: genuine repairs (like fixing a leaky pipe or repainting) can be expensed immediately, whereas capital improvements (like adding a pool or a new extension) must be added to basis and depreciated.

Document any partial asset dispositions (for example, if you replace the HVAC system, you stop depreciating the old one and possibly write off its remaining basis). Keep good records of improvements with dates and costs; these will be useful not only for U.S. taxes but for local taxes (some countries might allow deductions or will consider improvement costs when calculating capital gains at sale).

The main effect of ADS is slightly slower depreciation on the building itself, and the inability to use bonus depreciation. So your annual depreciation deductions might be a bit smaller, but all the standard strategies to maximize deductible expenses still generally apply (just on a slightly longer schedule) [5].

Keep detailed records of your asset components and improvements, just as you would for U.S. real estate, so you can properly claim partial asset dispositions (for instance, if you replace the roof, you write off the remaining basis of the old roof rather than continuing to depreciate it) and properly make use TPRs and cost segregation, as they can have a larger impact on cash flows without the availability of bonuses like those in the “One Big Beautiful Bill Act” or Section 179. These nuances ensure you get the deductions you’re entitled to in the U.S. without running afoul of the foreign-use rules.

Also remember that the U.S. **passive activity loss** rules still apply to your foreign rentals just as they do to domestic rentals. If your foreign rental property generates a net loss (after depreciation and expenses), that loss is generally usable against other passive income. And if you or your spouse qualify as a real estate professional, or your properties meet another exception like the ‘Airbnb rule’ for very short-term rentals, it might be usable against active income sources like W-2 income or a business, too.

You might choose to **group** your foreign rentals with your U.S. rentals as one activity for passive loss purposes, if appropriate, so that profits and losses can offset each other across borders – this is a tax election to discuss with your CPA.

In a nutshell: treat your foreign property with the same business mindset and tax optimization mindset as you would a rental at home. The principles don’t change just because it’s overseas.



Currency deserves respect, not fear.

Investing overseas inevitably raises the question of currency exchange risk. Fluctuations between the U.S. Dollar and the local currency can affect your returns.

But remember that in many popular markets, this risk is naturally limited.

- For example, in tourist-driven areas of Mexico or much of the Caribbean, a large portion of short-term rental demand is actually paid in U.S. Dollars, which dampens currency volatility for your revenue.
- In Eurozone countries (like Portugal, Spain, France, Italy), more of your rental transactions might occur in euros, thanks to strong local demand for the same destinations, but the euro/dollar exchange rate historically has been less volatile than many emerging-market currencies.

The bigger currency questions to ask yourself are practical and long-term: In what currency are your major expenses (and any mortgage) denominated? Do you plan to hold this property for 10+ years or is it a short-term flip? What do you believe about the long-run trend between the two currencies? If you expect to own for decades, short-term forex swings shouldn't distract you – you can think in terms of **diversification** (owning a hard asset in a different currency zone) rather than short-term speculation.

If you anticipate needing to convert large sums (say, to pay off a mortgage or repatriate rental profits each year), you might explore financial hedging products or simply maintain a cash buffer to ride out unfavorable exchange rates until they improve.

In summary, be mindful of currency in your planning, but don't let it paralyze you. Many investors find it's a manageable aspect of owning foreign assets, especially if managed patiently. And if you expect a long-term trend of relative depreciation of the dollar or appreciation of the target country's currency relative to each other, then it could help boost the long-term return.



Exit

When it comes time to sell or divest the property, there are a few key considerations:

1031 exchanges are foreign-to-foreign only.

Those of us with a long history in the real estate industry have become pretty accustomed to the remarkable tax-deferral mechanism that is the U.S. tax law on like-kind exchanges, Section 1031, and its virtual cart blanche rules for delaying capital gains so long as you remain in the asset class.

A vacant raw land parcel in Nebraska can be exchanged for a high-rise condo in Miami. An industrial warehouse can be swapped for a strip mall. A single-family rental in Texas can roll into a short-term vacation property in Colorado. If both properties are held for investment or productive use in a trade or business, they are considered “like-kind”—regardless of location, size, or type.

1031 exchanges still apply to investments in foreign real property. However, if you’ve only invested locally, you might be surprised to learn its only applicable if you exchange foreign real property for other foreign real property.

You cannot 1031-exchange an overseas property into a domestic U.S. property or vice versa – the tax code explicitly separates U.S. and non-U.S. real estate for like-kind treatment [6].

In practice, this means if your long-term plan is to keep that capital invested abroad, you could sell one foreign property and buy another foreign property and defer the U.S. gain recognition (for example, swapping a rental in Paris for a rental in Lisbon, or selling a villa in Mexico to buy a condo in Costa Rica – those would qualify as like-kind).

But if you expect to eventually **repatriate** the money back to the U.S. (i.e. sell the foreign property and not reinvest in foreign real estate), then assume that sale will be a taxable event in the U.S.

The foreign country will likely tax your capital gain as well, but as noted, you’ll generally get a U.S. credit for the foreign capital gains tax paid. Often, the host country’s capital gains tax on real estate is equal to or higher than the U.S. rate, resulting in little or no additional U.S. tax due after credits.

For instance, if France withholds and later assesses ~19% (plus surtaxes) on your property gain [7][8], and your U.S. long-term capital gains rate is similar (say 15% or 20%), the foreign tax credit will offset the U.S. tax in whole or in part.

The main point: plan foreign exits with the understanding that 1031 is not a tool to go from foreign back to domestic without tax. It's a tool to stay overseas if that suits your strategy.

Tax-advantaged “wrappers” can change the game on the U.S. side.

If you hold your foreign real estate investment through a U.S. Roth IRA or a Solo 401(k), or you indirectly invest via a Private Placement Life Insurance (PPLI) policy, you can potentially significantly reduce or defer U.S. taxation on the rents or gains.

These vehicles won't erase the local taxes in the property's country, but in lower-tax jurisdictions they may materially reduce U.S. “drag” and give you tremendous flexibility on redeploying capital.

Some highlights:

- A self-directed Roth IRA can purchase foreign real estate, and all rental income and gains grow completely tax-free, with no U.S. tax on withdrawals in retirement, provided you follow Roth rules, or during inheritance (more on that later).
- Similarly, a Solo 401(k) (available for those who are self-employed or have an owner-only business, perhaps with a spouse) can hold real estate investments and is exempt from the Unrelated Debt-Financed Income (UDFI)/Unrelated Business Income Tax (UBIT) tax that hits IRAs which use leverage [9]. That means a Solo 401(k) can even take on a mortgage to finance a foreign property, and the debt-financed portion of rent or gain will not be subject to U.S. tax (an IRA would normally owe UBIT in that scenario). In short, a Solo 401k lets you use leverage on property inside your retirement plan without penalty [9].

These retirement account “wrappers” are powerful if the host-country tax is modest (so that you're not paying high foreign taxes that go unused as credits). One important caveat however: **you cannot use these accounts for personal enjoyment of the property – it must be purely investment use** – or you jeopardize the account's tax-qualified status. But if it's strictly an investment rental, growing it tax-free in a Roth or tax-deferred in a 401k can dramatically boost your after-tax returns over time.

- **PPLI (Private Placement Life Insurance)** is another advanced tool, essentially a customized life insurance policy where your investments (like real estate or real estate funds) sit inside the policy and grow free of U.S. income tax. It functions like a “super-Roth” – no income or capital gains tax on the growth, and at death the assets transfer to heirs income-tax free (and potentially estate-tax free if the policy is owned by a proper irrevocable life trust).

PPLIs used to require extremely high premiums (and were only for the ultra-wealthy), but minimum contributions have come down in recent years, making them accessible to merely affluent investors as well. They are limited to accredited investors only, and policy minimums generally require between \$500,000 and \$1 million minimum contributions (which can be spread over a decade) to make financial sense.

The key is that growth inside the policy is not taxed by the U.S., allowing foreign investments to compound without annual tax friction.

Like the retirement account approach, PPLI is especially attractive for assets in low-tax jurisdictions (so the U.S. would have otherwise taxed most of the income). Essentially, PPLI can potentially give you the benefit of tax deferral or exemption without the contribution limits of a Roth and with significant estate planning advantages if structured correctly [10].

Using such wrappers can alter your exit strategy because you could sell the property inside the “wrapper” and incur no current U.S. tax at all, then reinvest the proceeds elsewhere (maybe even back in the States) without immediate tax. There is no need for a 1031 to achieve the same deferral, so it becomes a non-issue.

Keep in mind, local withholding taxes or exit taxes still apply abroad. For example:

- Spain imposes a 3% withholding of the sales price when a nonresident sells property [11] – you must file a Spanish tax return to declare the actual gain and either pay any balance or get a refund of the excess 3%.
- France requires nonresident sellers to appoint a fiscal representative for larger transactions and will withhold around 19% (plus social charges) of the gain at closing pending final calculation [12][13].

These foreign procedures don’t vanish just because you used a Roth IRA or PPLI. However, after dealing with them, you could bring the net cash into your U.S. wrapper account and redeploy it tax-free/tax-deferred.

The above is a cursory explanation of the techniques involved. For a more fulsome review of these options, see our [Guide to U.S. Real Estate Tax Strategies](#), also published through WorthNet. It goes into more detail on the upsides and downsides of such approaches to tax-deferral when applied to real property. And make sure to consult a qualified advisor before embarking on any of these strategies.

“Refinance and keep” is the universal Plan B.

If selling would trigger an unfavorable tax situation (perhaps the property has appreciated significantly and you have no way to defer the gain), or if the market is still rising and you don't want to fully exit, remember that you can often tap your equity without selling.

Refinancing the property – taking out a loan against it – is not a taxable event. You can pull cash out and use it for other investments or needs while still owning the asset. This strategy works domestically and abroad alike, as long as local banks are willing to lend or you have alternative lending sources. It essentially defers the sale until a more opportune time. Just be mindful of interest rates, currency if it's a foreign-currency loan, and the viability of carrying the debt.

But many investors use this to harvest gains without triggering capital gains tax, effectively kicking the can down the road (possibly until the ever valuable 'step-up at death,' which we discuss next).

Inherit

One comforting bit of news: a step-up in basis still applies for U.S. tax purposes on foreign real estate you own directly at death. This means if you pass away holding overseas property, the tax basis for your heirs will be stepped up to the property's fair market value as of your date of death (just as it would for U.S. property).

Any built-in capital gains can be wiped out for U.S. tax, so your heirs wouldn't owe U.S. capital gains tax on the prior appreciation if they sell soon after inheriting.

If you own the property outright, it's value is included in your taxable estate for U.S. estate tax purposes. Today's federal estate tax exemption is very high – \$15 million per individual starting

in 2026 – so only very large estates face U.S. federal estate tax (state thresholds can often be much lower so be sure to investigate those for your state of residence).

If you believe you will find yourself in the position of owing estate taxes, there are many options to potentially reduce that exposure, including the use of trusts to remove assets from your estate. See our [Guide to U.S. Real Estate Tax Strategies](#) for more details on those techniques.

And if both the U.S. and the foreign country impose estate or inheritance tax on the property, once again the U.S. provides a **foreign death tax credit** to offset the double taxation at the estate level (IRC §2014).

The existence of the foreign property doesn't usually create a worse outcome for U.S. estate taxes, and the step-up in basis is a big benefit.

The more challenging estate issues are usually on the foreign side. Many countries have what's known as **forced heirship** – laws that dictate that certain relatives (like children or spouses) are entitled to specific shares of an estate, regardless of what your will says. This is common in civil-law countries such as **France, Spain, Italy, Portugal, Mexico and Panama, among others** [14].

Additionally, some countries simply don't recognize U.S.-style living trusts or other estate planning tools. If you go in unaware, your carefully crafted U.S. estate plan could be partially thwarted by local law that says, for example, "a child must inherit at least 50% of a parent's property." To avoid such conflicts, plan your ownership structure from the start with estate outcomes in mind.

Sometimes a local will or specialized deed can solve the issue easily. For example, in Mexico you may be able to add a named beneficiary to a fideicomiso to inherit the property interest directly, bypassing probate.

Another common strategy to preserve your wishes is to hold the foreign real estate **through a local entity** (like a corporation or other vehicle) and have your U.S. living trust (or heirs) own that entity, rather than owning the real estate directly in your name. The idea is to transform

the asset from immovable property (land/real estate, which is subject to forced heirship under local law) into movable property (shares of a company), which often are not subject to forced heirship in the same way [10].

For example, suppose you buy a property in a country with strict forced-heirship rules (let's say an Italian villa or a home in France). If you hold it in your own name, when you die local law might require a big portion go to a child or relative you didn't intend.

Instead, you set up a locally-recognized company in that country to hold the title to the villa. You, or better yet your U.S. revocable living trust, own all the shares of that company. When you pass away, what transfers to your heirs (via your U.S. trust) are the shares of the company – not the real estate directly. Local law often treats the transfer of shares as outside the scope of real estate heirship rules[10]. The property itself doesn't change hands – the company still owns it – so forced heirship can be bypassed, and your U.S. trust can direct who gets the company shares according to your wishes. This can also simplify the local transfer process: it may be easier to transfer shares of a company than to retitle real estate in some jurisdictions.

The trade-offs here are additional **complexity and cost**. A foreign company may introduce entity-level taxes (some countries levy annual fees or taxes on companies, or higher transfer taxes when companies own property). And for U.S. tax, if you personally own that foreign company, it's likely a Controlled Foreign Corporation, and you'll have to file an annual IRS Form 5471 reporting its balance sheet and income[10]. (If your living trust owns it, that still counts as you owning it, since a revocable trust is "looked through" for tax purposes.)

These are not insurmountable burdens – we do this kind of structuring for clients, coordinating with outside resources like in-country counsel – but you'd only go this route if the estate planning benefits meaningfully outweigh the compliance costs.

In cases where forced heirship is a serious concern and the family situation demands control, it can be well worth it. In other cases, if forced heirship isn't an issue (for instance, you're investing in a country like the UK or Canada that doesn't impose forced heirship, or you don't have children/heirs that local law would compel shares to), then keeping it simple (holding in your name and relying on the U.S. will/trust) might be fine.

Another tactic if you become a **resident** in a foreign country (particularly in the EU) is that some countries allow expatriates to elect that their home country's law applies to their estate (for example, under the EU Succession Regulation, an American living in France can elect U.S. law to govern their French assets). This can override forced heirship. But that typically requires you to reside there and make a proper election in your will. For purely non-resident owners, local entities are the more common solution.

Bottom line: plan ahead for inheritance. Ensure your U.S. estate planning advisor knows about the foreign property, and consult a local attorney in that country to see what the default succession rules are. Each country is different. With the right structure in place, you can spare your heirs from headaches, legal surprises, and unnecessary taxes. And as noted, the U.S. tax system provides some relief in the end: if a foreign country does levy an inheritance or estate tax, the U.S. estate tax credit for foreign death taxes can prevent double taxation of that value.

Tools – A Quick Reality Check

The right planning tools can reduce U.S. tax drag and improve control over your investments; they **do not** erase the host-country taxes. It's important to set realistic expectations. Here's a quick recap of tools and their role:

- **Roth IRA / Solo 401(k):** Excellent vehicles for eliminating or deferring U.S. tax on rental income and capital gains from foreign real estate. If you hold property in a Roth IRA, all the income and gain can eventually be distributed tax-free (since you contribute after-tax dollars and follow Roth rules). A Solo 401(k) (for eligible self-employed individuals) is uniquely powerful because it has an **exemption from UDFI/UBIT** rules on leveraged real estate [9]. That means even if your Solo 401(k) uses a nonrecourse mortgage to buy a property, the portion of income attributable to the financed portion is not taxed (whereas it would be in an IRA).

These retirement wrappers work best when the host-country tax on the income is low to moderate (so that the foreign tax credit isn't already eliminating U.S. tax). In those cases, the Roth or 401k basically wipes out what U.S. tax would have been due.

But keep that personal use prohibition in mind; it can be a costly mistake to make should you violate it.

- **Private Placement Life Insurance (PPLI):** Not just for billionaires anymore. PPLI is essentially a custom designed life insurance contract where you choose the investments and the investments grow tax-free inside the policy. Unlike retail variable universal life, PPLI is typically institutionally priced and can accommodate alternative investments (like foreign real estate projects, REITs, private equity, etc.). The minimum contributions can be in the low-to-mid six figures these days, putting it within reach of high-net-worth but not necessarily mega-wealthy investors.

The benefit is that income and gains inside the policy aren't subject to U.S. income tax. If you also have the policy owned by an **Irrevocable Life Insurance Trust (ILIT)**, the death benefit can be structured to be estate-tax free as well, providing a double benefit (income and estate tax mitigation).

PPLI is essentially a portfolio-level solution – it doesn't change how the property is taxed locally or the fact that the property is producing income, but it changes who is considered the owner of the income for U.S. tax purposes (the insurance company). As long as the investments remain inside the policy, the U.S. taxes don't touch them. We often refer to it as a "Super Roth," because you can receive similar tax treatment but with virtually no contribution limits or age restrictions and potentially achieve much longer periods of tax-advantaged growth.

The tradeoffs can include: lack of direct control (investments must be manager-managed because of control rules so you cannot pick individual properties to buy and sell yourself), a requirement to keep the assets adequately diversified (under section 817(h) rules), and the insurance costs (which are generally low relative to the investment size, but still present). But for those with estate planning needs and long investment horizons, it's a compelling tool.

Each of those specialized tools have their limits and drawbacks, as you can see. And they apply best when investing in an otherwise low tax country. In general, wherever you invest, keep the basics in mind and the overhead should be minimal and your foreign real estate should behave much like it does on your U.S. investments.

- **Foreign vs. Domestic Entities:** As noted earlier, using **foreign corporations** or other foreign entities usually will not create U.S. tax deferral for passive real estate income, due to Controlled Foreign Corporation (CFC) and Passive Foreign Investment Company (PFIC) rules that essentially pass any income from such entities right to your U.S. return. These rules have been strengthened in recent years, especially through the Global Intangible Low-Taxed Income (GILTI)



rules added in 2017 under Trump's first major real estate tax reform bill, the Tax Cuts and Jobs Act (TCJA). Use entities for local reasons – like complying with local titling requirements, limiting liability, enabling easier inheritance as discussed, or meeting legal necessities (for instance, some countries require a local LLC for renting to tourists in certain cases).

Often, using a plain U.S. **pass-through entity** (like a U.S. LLC treated as a partnership or disregarded entity) can be beneficial: you get liability protection and ease of transferring interests, without adding a second layer of tax or a complex foreign filing. If you do form a foreign company, be prepared for annual U.S. informational filings (Forms 5471, 8865, or 8858 depending on entity type) and possibly more complicated tax accounting.

In many cases, individual ownership (or through a look-through trust or U.S. LLC) is the cleanest route.

- **Tangible Property Regs (TPRs) & Cost Segregation:** Even though you can't use bonus depreciation abroad, **cost segregation** and the TPR rules still allow you to maximize deductions on your U.S. return. By identifying short-life assets, you'll depreciate things over 12 or 15 years instead of 30 (under ADS). The TPRs help you decide what can be expensed immediately (repairs, maintenance, certain safe harbor items) versus capitalized.

These tools can reduce your *current* U.S. taxable income from the property. In a high-tax foreign country, this might create a U.S. passive loss (since the foreign tax credit zeroed out your U.S. tax anyway) that you carry forward. In a low-tax country, these deductions could actively save you U.S. tax by offsetting the portion of income the foreign country didn't tax.

One thing to watch is the interaction between losses and credits: if your foreign income is completely eliminated by a big depreciation deduction, you might have unused foreign tax credits that year (since there's no U.S. income to apply them against). Those credits can carry forward, but they might expire after 10 years if unused. So it's a balancing act – you don't necessarily want to over-do depreciation in years you're paying high foreign taxes, or you just bank losses and can't fully benefit from credits.

On the flip side, in years or jurisdictions with low foreign tax, maximizing depreciation helps reduce the U.S. tax.

This is a great example of why **coordination** with your U.S. tax advisor matters: to optimize the use of foreign tax credits and U.S. losses across your whole portfolio. Sometimes the best

answer might be to slow depreciation down (elect out of bonus, etc.) if foreign credits would otherwise go wasted – but since bonus is not allowed abroad anyway, it often sorts itself out.

In short, continue to use smart tax planning on the U.S. side, just be aware of the global picture.

Compliance – It’s Just Paperwork

Investing abroad does add some **compliance tasks**, which we’ve briefly mentioned in the earlier chapters (like the reporting requirements on CFCs and PFICs). We like to think of it as a checklist you go through once a year – not as a burden to fear. Compliance is not a tax; it’s just reporting.

For U.S. purposes, your additional filings will depend on what you own and how you own it. Here’s a quick summary of common requirements:

- **FBAR (FinCEN Form 114):** This is the Foreign Bank Account Report that you file with the U.S. Treasury (not the IRS) if you have foreign financial accounts that exceeded \$10,000 aggregate at any point during the year. **This isn’t a tax, just a disclosure of accounts.** If you buy property overseas, you might end up with a local bank account for collecting rent or paying expenses – so ensure you track the *maximum* balance and include it in your FBAR if applicable. If instead you are mostly renting to U.S. persons through sites like Airbnb or VRBO, and you collect rent directly with your U.S. bank accounts, this will likely not apply. Keep in mind though, you will still need to pay your foreign taxes and service providers in the local currency, so a local bank account could be helpful regardless.
- **FATCA Form 8938:** Part of your tax return, this form reports foreign *financial* assets if they exceed certain thresholds (for example, for a married couple filing jointly living in the U.S., Form 8938 kicks in at \$100,000 total foreign assets on the last day of the year or \$150,000 at any time; the thresholds are higher for those living abroad). Notably, the **ownership of foreign real estate itself does not have to be reported on Form 8938** – real estate is not a “financial asset.” However, if you own that property through a foreign entity or have a foreign bank account, those are financial assets that might need reporting. For instance, if you set up a foreign LLC or trust to hold the property, that interest would likely be reported here (and via other forms below). Again, FATCA is not a tax, just a reporting requirement, this time with the IRS.
- **Form 5471 / 8865 / 8858:** These are informational returns for foreign business entities that U.S. taxpayers own. These forms report the entity’s income statement, balance sheet,



and certain transactions – but again, **they do not themselves cause tax**. They're purely informational for the IRS to know what you own. The penalties for failing to file them can be steep (starting around \$10,000 each), so it's important to get them right. If you keep your structure simple – personal name or a U.S. pass-through owning the property – you avoid these particular entity filings altogether. If you do use entities, make sure your CPA is aware and experienced in foreign reporting. They are each just flavors of the same reporting for different entity types, and your accountant should be able to direct you on which applies:

- **Form 5471** is for foreign **corporations** where you meet certain ownership or control thresholds (e.g., you own 10% or more, or you and U.S. persons collectively control the company – very common if you set up a foreign corporation just for your property; you'll likely own 100% and need to file this).
- **Form 8865** is the analogous form for foreign **partnerships** (less common for a single investor, but if you and others co-invest via a foreign partnership or LLC treated as a partnership, you'd file this if you own a significant interest).
- **Form 8858** is for foreign **disregarded entities or branches** (for example, if you, as an individual, own a foreign single-member LLC that is disregarded, or you elect to treat a foreign company as disregarded).
- **Other forms:**
 - If you have a foreign trust, there's Form 3520/3520-A (but as noted, a standard Mexican fideicomiso typically doesn't count as a foreign trust requiring these).
 - If you pay or receive foreign gifts or inheritances, there may be Form 3520 reporting for that as well.
 - If you transfer cash into a foreign corporation, there might be a Form 926, etc. These are less common for a straightforward real estate investment scenario, and the list is not exhaustive.

The key message is: it's just part of the playbook when you invest abroad. You'll have a few extra boxes to check each year so that Uncle Sam knows what you own. Once your accountants have it set up, it usually becomes a routine annual set of schedules that go alongside your normal tax return.



On the foreign side, you should also expect some local paperwork. For example, when you buy in a foreign country, you will register the property with the local municipality (often handled by the notary or lawyer at closing). Each year, you'll likely pay annual property taxes to the local government (many countries have a municipal property tax similar to U.S. counties – often much lower in amount than the typical U.S. property tax, but it varies).

If you rent the property out, you'll file the required **landlord tax returns** in that country – maybe annually, or quarterly, or via an agent withholding – whatever the local law dictates. If you do short-term vacation rentals, some places require you to register for a VAT or lodging tax and file those returns. It sounds like a lot, but a good local accountant or attorney can walk you through it the first time. After that, it's often the same repetitive filings each period, and not much different than what you will find in many U.S. states and municipalities. Many investors find that after the initial learning curve, spending a few hours a year on compliance (or simply paying professionals a modest fee to handle it) is a small price for successfully owning foreign assets.

Let's address the **Mexican fideicomiso** one more time in the compliance context, because it's a common scenario: If you own Mexican coastal property in a bank trust, does it create a foreign trust filing requirement? The IRS has effectively said **no** – not for a plain fideicomiso that just holds one property and doesn't have complex trust-like provisions [3]. In a 2012 ruling, the IRS likened it to an Illinois land trust – the trustee bank merely holds title and acts on your instructions, and you retain all burdens and benefits of ownership [3]. Therefore, it's not considered a trust for tax purposes. This means **you do not file Forms 3520/3520-A** for it, as long as it meets the standard pattern (no discretion for the trustee, etc.). You would still report the rental income on Schedule E of your 1040, and if you have a Mexican bank account for it, report that on FBAR, etc., but the trust itself doesn't need a separate disclosure. (If the fideicomiso had unusual terms – say it had other assets or gave the trustee active duties – then it could be treated differently. But the vast majority are boilerplate and fall under the ruling's guidance.)

Compliance isn't a penalty; it's just part of operating in another jurisdiction. With the right help, it can be handled routinely. Many seasoned investors block off a day or two each year to “do the foreign paperwork” with their accountants – and otherwise, they enjoy the benefits the rest of the year. Don't let fear of forms deter you from international investment; just budget a bit of time and professional cost for it.

Next, let's look at some **country-specific nuances** – to give a flavor of what's different in six popular destinations for U.S. investors: **Mexico, Panama, Spain, Portugal, Italy, and France.**

Country Spotlights: Key Considerations in Top Destinations

Every country has its own blend of opportunities and red tape. The overall strategy remains the same – find a good deal, structure it simply, follow through with compliance – but you’ll want to understand the local quirks of any country you invest in. Below, we summarize key points for six countries that often attract U.S. real estate investors. We’ll highlight their purchase process, legal structures, taxation, short-term rental (STR) regulations, and general investor-friendliness, and compare them along the way.

Keep in mind: while we have experience assisting clients with foreign real estate management, we are not local law experts or licensed in those jurisdictions. We work closely with clients’ advisor teams and can assist in finding qualified advisors. The information offered reflects our best knowledge, and we believe it to be accurate, but it should not substitute for professional local counsel.

Mexico

Process & Title: Mexico is one of the most popular destinations for U.S. buyers, particularly for vacation rentals and retirement properties. The buying process is overseen by a Notario Público (notary public), who is responsible for drafting the deed, collecting taxes, and ensuring a clear title. Foreigners can own property **fee simple** in their own name in the interior of Mexico. However, if you’re buying near the coasts or borders (within the “restricted zone”), Mexican law requires you to hold the property via a **fideicomiso**, which is a bank trust. This is a well-established system: you (and even subsequent buyers) are the trust beneficiary with full rights to use, rent, or sell the property, while a Mexican bank holds legal title (but the property is not an asset of the bank). It adds a bit of cost (setup and annual trustee fees, typically a couple of thousand dollars for the initial setup and on the order of several hundred dollars a year in annual maintenance fees [15]), but it’s a normal part of coastal real estate transactions. The IRS has indicated a standard fideicomiso is not treated as a foreign trust for U.S. purposes, so owning through it doesn’t trigger extra U.S. reporting beyond the basics [3].

Taxes: When you buy, you’ll pay a purchase tax (around 3% to 4% of value, depending on state) plus closing costs. Owning the property, you’ll owe **predial** (local property tax), which in Mexico is quite low (often only a few hundred dollars per year, depending on property value). Rental



income is subject to Mexican income tax. If you rent long-term to locals, you'll report and pay tax annually (and can deduct expenses). For short-term rentals to tourists, an **IVA (VAT) of 16%** is generally applicable to the rental charges [16][17], plus a local lodging tax in some states (~3%). Platforms like Airbnb now routinely withhold these taxes from guest payments and remit to the Mexican authorities [16], but ultimately, as the owner, you must ensure it's handled correctly. You should register with SAT (the tax authority) for a tax ID (RFC) if you're earning rental income. The income tax on rentals for nonresidents is often a flat 25% on gross rents unless you opt to pay on net income by registering a more formal tax status. It's wise to hire a local accountant to file your annual Mexican tax returns (and monthly VAT returns if applicable).

When you sell the property, Mexico imposes a **capital gains tax** either at 25% of the gross sale price or roughly 35% of the net gain (whichever calculation yields less tax, usually). The notary will calculate and **withhold the required tax at closing** [18][19]. The notary is actually legally liable for collecting the tax, so they are very thorough about it [18]. Make sure you save documentation of your purchase cost and any improvements, because those can be used to reduce the taxable gain – otherwise the default may be 25% of gross, which is usually higher.

Legal & Ownership: Aside from the fideicomiso (which is essentially mandatory in restricted zones), Mexico doesn't require any special entity for foreigners – you can own in your personal name or via a Mexican company if there's some reason to (most casual investors don't). Title insurance is available in Mexico, but not as commonly used as in the U.S.; instead, the notary's role includes title examination. Many properties, especially in tourist areas, are sold **fully furnished**, and sometimes the furniture is invoiced separately to minimize transfer tax (though officially one should pay tax on the real estate portion; some buyers negotiate an allocation of price to furnishings).

STR Regulations: Short-term rentals in Mexico are generally allowed, but larger cities and tourist hotspots may have local regulations. For instance, **Mexico City** recently implemented a registry for short-term rentals and imposed a 180-day annual cap for non-owner-occupied rentals in certain areas [20][21], plus safety requirements and a requirement to obtain a permit number. In beach destinations like Cancun, Playa del Carmen, Los Cabos, or Puerto Vallarta, STRs are widespread and a major part of the tourism economy, though you should check if a local business license or tourism tax registration is needed. Also note that Mexico enforces tax payment on Airbnb rentals (Airbnb withholds taxes as mentioned). Some condo associations (HOAs) in resort areas might have their own rules about rentals (occasionally banning nightly rentals or requiring guest registration). Always review the community rules before buying if rentals are part of your plan.



Investor-Friendliness: Mexico is relatively friendly to foreign investors. Aside from the trust mechanism near international borders and coasts, there are **no restrictions** on foreign ownership of property. Transactions can be done in English (though the official deed will be in Spanish). In popular areas, you'll find plenty of bilingual realtors, attorneys, and notaries. Carrying costs are low (property taxes and insurance are modest). One challenge can be financing – most foreign buyers pay cash or use financing from their home country or seller financing, as Mexican banks rarely lend to nonresidents except in high-end developments via cross-border programs. But developer financing is sometimes available for new condos. Politically and economically, owning a couple of rental condos in Mexico is common for Americans and not generally controversial. Just ensure you use reputable professionals and remember that **Mexican law will govern your property rights**, so engage local counsel as needed for disputes or questions.

Before investing in Mexico, it's prudent to **ask local counsel or advisors about:** *the total costs and terms of setting up the fideicomiso; any permit or registration required for short-term rentals in that specific town (and whether an additional 3-4% lodging tax applies); and the precise capital gains withholding rate and procedure at sale (so you can plan to claim any refund or make any additional filings if your withheld amount exceeds the actual tax due).*

In summary, Mexico offers a familiar climate for U.S. investors with good yields and lifestyle potential – just familiarize yourself with the fideicomiso process and stay compliant with the fairly reasonable tax obligations.

Panama

Process & Title: Panama actively encourages foreign investment and is known for its streamlined processes for overseas buyers. Foreigners can own property outright in Panama (with very few exceptions for sensitive border areas). Transactions are handled by **notaries** as well – a Panamanian notary will formalize the deed transfer. Many properties, especially new developments in Panama City or resort areas, are marketed directly to international buyers with English-speaking sales teams. It's common to buy pre-construction condos with a deposit and a payment schedule. Panama uses the U.S. Dollar as its de facto currency (the Panamanian Balboa is pegged 1:1, and Panama has no independent paper currency), so U.S. investors face **no currency exchange risk** – a big plus [22]. You will need to obtain a Panamanian tax identification number (often your passport number can serve, or a simple registration) to pay property taxes and any income taxes.



Taxes: Uniquely, Panama has a **territorial tax system**, meaning it only taxes income that arises within Panama. For a foreign owner of Panamanian real estate, the rental income from the property is considered Panama-source (since the property is in Panama), so it will be taxed in Panama. But any income you have outside Panama is irrelevant to Panama. Rental income tax for nonresidents is generally a flat rate (approximately 15% on net income, plus a small education tax of 2.75% [23]). In practice, many foreign owners find their Panama income tax bill is low because Panama offers various incentives and deductions (and sometimes condos are rented in ways that qualify as foreign-source if paid from abroad – though caution should be used in such aggressive interpretations). Property taxes: Panama once had an exemption on certain new construction – many new homes or condos came with a 5 to 20-year exemption from property tax as an incentive. Those rules have been repealed in recent years, but it is still possible to find properties on the market that have some remaining, transferrable exemption. Otherwise, property tax rates are graduated, roughly 0.6% to 0.8% on values above certain thresholds [24]. The first \$30k of property value is often exempt, then a low rate on the next band, etc., resulting in fairly low annual taxes (for example, a \$200k condo might have a few hundred dollars a year in property tax). At sale, Panama until recently did not tax capital gains for nonresidents if the property **sale** was considered foreign-source (there was debate because of the territorial system). However, generally there is a transfer tax of 2%, and a capital gains tax of 10% (often satisfied by a 3% withholding on the gross sales price as a sort of advance tax) [25]. It's wise to have a local attorney confirm current practice. Panama does not have an estate or inheritance tax, so if you hold property there and pass away, Panama won't impose a tax on the transfer to your heirs (but your heirs would need to deal with local probate unless you plan ahead).

Legal & Ownership: You can hold Panama property in your personal name. Many foreign investors also choose to use a **Panamanian corporation** or foundation to hold title, for ease of transfer or liability protection. Panama corporations are easy to form and have no nationality restrictions on shareholders. If you plan to rent out actively, a corporation might make sense (also some residency visa programs encourage creating a corporation). However, using a corporation will mean you have to maintain that entity (annual renewal fees, resident agent, etc.) and report it to the U.S. Treasury and IRS as a CFC. If holding personally, be sure to have a Panamanian will or use ownership structures like joint tenancy that can avoid a lengthy probate for heirs. Panama recognizes “**possessory rights**” in some rural/beach properties (as opposed to fee simple ownership) – be cautious to buy only properties with proper title unless you fully understand those scenarios.

STR Regulations: Short-term rentals in Panama can depend on the location and building. Panama City passed regulations limiting short-term rentals (less than 45 days) due to pressure from the hotel industry. In practice, many condo buildings in the city center have bylaws that prohibit rentals under 45 days. However, there are buildings specifically designated as “apart-hotels” or tourism-zoned where Airbnb is allowed within the city. In beach areas or smaller cities, short-term rentals are generally permitted, but some homeowner’s associations may impose their own rules. Always ask about any HOA or local laws regarding tourist rentals. If you do operate short-term, you might need a tourism license and to charge a 10% hotel tax on stays under 30 days (this can vary; some developers get a tourism license for the whole project). As an investor, if STRs are part of your plan, focus on properties explicitly marketed as allowing them. Otherwise, long-term rentals to locals or expats (with 6-12 month leases) are straightforward and have no special requirements beyond a standard lease contract.

Investor-Friendliness: Panama remains one of the most investor-friendly countries in Latin America. It still operates on a U.S.-dollarized monetary system, enjoys a relatively stable political environment, and has long catered to Americans because of its Canal-centric history. Panama actively markets itself as both a retirement destination (the well-known Pensionado visa is still one of the world’s most generous for retirees) and a regional business hub.

Opening a local bank account as a foreigner is possible but slow – Panamanian banks enforce strict anti-money-laundering standards, so be prepared for a heavier documentation lift than in years past. The real estate purchase process remains straightforward, and the national public registry is considered reliable; most buyers simply work with reputable local counsel rather than obtaining title insurance.

One policy shift worth noting is the Friendly Nations Visa. The program still exists in 2025, but the days of obtaining residency with a minimal bank deposit or simple employment offer are over. It now requires a more substantial qualifying investment – often through real estate – and processing is more formalized. It’s still a legitimate “Plan B” residency route for Americans looking to change their tax home, but no longer an easy or low-friction one.

Infrastructure remains strong. Panama City offers U.S.-level amenities, and well-known expat communities such as Coronado and Boquete continue to attract retirees and investors alike. As always, retaining a trusted attorney for due diligence and closings is essential, but overall Panama continues to stand out as a stable, business-oriented jurisdiction where foreign buyers can operate with confidence.

When considering Panama, **ask local experts** about: *what filings a nonresident landlord must do (Panama might require an annual income tax return even if much of the tax is withheld or negligible); whether the condo or area you're buying in has any restrictions on short-term rentals in practice; and whether opening a local bank account is advisable for collecting rent (and what's needed to do so). Also inquire if Panama requires any tax withholding or escrow when you sell as a foreigner* (some countries require buyers to withhold a percentage from nonresident sellers – Panama's procedure has been evolving). Overall, Panama offers relatively low taxes, no currency hassle, and a welcoming environment, making it an attractive place for a first international property investment.

Spain

Process & Title: Spain is a very popular market for lifestyle investors – whether it's a finca in Andalusia, a beach apartment on the Costa del Sol, or a pied-à-terre in Barcelona. To buy property in Spain, you must obtain a **NIE (Número de Identidad de Extranjero)**, which is a tax identification number for foreigners. It's easy to get (through a police station or consulate) and is used on all official documents. Spanish property sales are executed in front of a Notario, who will draft the escritura (deed) and ensure taxes are paid. The buyer typically pays a transfer tax on resale properties – this Transfer Tax (ITP) ranges by region (commonly around 6-10% of the purchase price) [26]. On new construction from a developer, instead of transfer tax, the buyer pays **VAT (IVA)** (currently 10% on housing) plus a stamp duty (~1-2%). Thus, transaction costs in Spain are on the higher side (total ~10-13%). Spain has reliable title registration; most people do not get title insurance (it's generally not customary in Europe). A local lawyer can be very helpful to perform due diligence, especially if buying rural property (ensuring it was built with permits, etc.).

Taxes: Spain taxes nonresident owners on rental income at a flat rate – 24% on gross rental income for non-EU residents [27]. (EU/EEA owners get to deduct expenses and pay 19% on net income, but Americans currently don't have that benefit post-Brexit and absent a similar agreement.) If you do not rent out the property at all, Spain still levies a small annual “imputed income” tax on nonresident owners – basically a tax on the theoretical rental value, often about 1.1% of cadastral (assessed) value times 24%. It often comes out to a few hundred euros per year on an average home. You file an annual **Non-Resident Income Tax (IRNR)** form to declare either your actual rental income or this imputed income. If you rent, Spanish law now requires tenants or rental platforms to **withhold 19%** of rent and remit to tax authorities in many cases (if you have a long-term tenant, they might withhold tax from your rent – though if you use

an agent, they often handle it). Make sure you clarify with a gestor or lawyer how to pay your taxes; Spain is strict about chasing unpaid taxes from foreigners (they can put a charge against your property). **Annual property taxes (IBI)** are modest, levied by local councils based on cadastral value. For an apartment, IBI might be a few hundred euros a year. There's also usually a small annual garbage fee or community fee by the town.

When you sell as a nonresident, Spanish law requires the buyer to withhold **3% of the sale price** and pay it to the Spanish Treasury as a deposit toward your capital gains tax [28][11]. You then file a special tax form to calculate the actual gain and tax (standard rate 19% on the gain for nonresidents) [29]. If 3% of the price exceeds the 19% of gain due, you get a refund of the difference; if it is insufficient, you pay the balance. This system ensures Spain collects its tax. Spanish capital gains tax for nonresidents is a flat 19%, with certain tapering exemptions if held long-term (after 5 years, small reductions start applying, but effectively only after 20 years does the gain get significantly reduced; however, these details change, and primary residence exemptions don't apply to nonresidents). Social charges do not apply to capital gains for nonresidents in Spain (unlike France).

Legal & Ownership: Foreigners can own property in Spain without restriction. Many Brits and Europeans own second homes there, so the legal system is accustomed to foreign buyers. Ownership is typically individual; you can buy via a Spanish SL company, but that only makes sense in limited cases (it won't save tax, and actually incurs an asset tax on companies). Inheritance laws in Spain do have forced heirship for residents – if you become a Spanish resident, your Spanish assets could be subject to forced heirship (children's shares, etc.), though under EU rules, you can elect your nationality's law to govern your estate if you are a resident. **If you remain nonresident, Spanish forced heirship doesn't automatically apply to your Spanish property.** Spain does impose an **inheritance tax** on assets in Spain passing to non-immediate family; the rates and allowances vary by region and relationship (spouse/children often have large exemptions, but more distant heirs could face significant tax). This is a complex area, so estate planning with a local attorney is advisable if the asset is large.

STR Regulations: Short-term rentals are a hot topic in Spain. Regulation is done at the regional and municipal levels. Some regions (like the Balearic Islands and Catalonia) have very strict rules, even moratoriums on new tourist rental licenses. For example, Barcelona has essentially stopped issuing new licenses for entire-home rentals and actively polices illegal listings [27]. Madrid has regulations that, among other things, disallow renting an apartment for short stays if it doesn't have a separate entrance in some cases, and they require registration.

Andalusia requires registration with the tourism authority and certain amenities to be provided. Generally, if you plan to do Airbnb in Spain, you must research that specific city's rules: Are licenses available? What are the requirements (e.g., air conditioning in each bedroom, etc., in Andalusia)? Is there a cap on the number of licenses or a zoning exclusion? Some places (like San Sebastian, Valencia, etc.) have designated zones where new STR licenses are not allowed. Fines for illegal rentals can be steep (in Barcelona, tens of thousands of euros). On the other hand, if you comply, tourist rentals can be lucrative. Many investors in Spain opt for **mid-term rentals** (32+ days) to avoid STR laws, or just do long-term leasing due to the hassle. If STR is part of your model, focus on properties that already have a license or are in jurisdictions still friendly to it (some coastal resorts actively welcome STRs). Also note that rental income for nonresidents is taxable regardless of duration – but if you rent short-term, you also must charge guests a **tourist tax** in certain regions (e.g., Catalonia charges a per-night per-person fee). Airbnb collects some of these automatically now in Spain.

Investor-Friendliness: Spain is moderately friendly. The ownership rights are strong, the market is transparent (with lots of data and agents), and financing is available to nonresidents (Spanish banks may lend around 60-70% LTV to foreigners, typically requiring presence in person to open accounts, etc.). Mortgage rates in Europe have been lower than U.S. historically (though that's shifting with rate increases). The downsides are the high transaction taxes and fairly complex bureaucracy (setting up utility accounts, dealing with slow banks, etc., requires patience or a local property manager). Also, landlord-tenant law in Spain favors tenants significantly for long-term leases – if you sign a standard lease, a tenant can have a right to stay for up to 5 years (or 7 years if the landlord is a company) under current law, and eviction for non-payment can be slow. This is why some foreign investors prefer short-term or tourist renting to avoid creating a long-term tenancy. Spain also has a wealth tax that might hit expensive properties owned by nonresidents – each region sets its own exemption (some have none; some like Madrid have 100% relief). For example, if your Spanish property is worth over €700k (after mortgage), you might owe a small annual wealth tax on the excess. This is something to check if you're buying luxury real estate.

When investing in Spain, **be sure to ask and verify:** *what is required to obtain a tourist rental license in this region, and are there any caps or moratoriums currently? Also, what ongoing tax filings will you need as a nonresident owner (expect the annual nonresident income tax return, even if not renting, and quarterly filings if you have renters withholding tax)? And how does the 3% sale withholding process work in practice, including how to claim a refund if too much was withheld* – a Spanish tax advisor can handle the paperwork so you get any refund in a few

months after sale [11][30]. Spain's bureaucracy may be a challenge, but the appeal of its lifestyle and rental demand (Spain is one of the world's top tourist destinations) keeps investors coming.

Portugal

Process & Title: Portugal has seen a huge surge in foreign real estate investment over the past decade, fueled in part by its **Golden Visa** residency program (which, until recent changes, allowed a residency visa for a €500k property purchase – but unfortunately ended for residential buys in 2023 [31]). Buying property in Portugal requires getting a **NIF (Número de Identificação Fiscal)**, which is a tax number (easily obtained via a fiscal representative or at a Finanças office). Closings are handled by **notaries** or lawyers, with an official **escritura** signed. Purchase costs include **IMT (Municipal Transfer Tax)**, which is a sliding scale tax on the purchase price (for example, 1% to 8% for many properties, with lower rates for primary residences and a reduced rate for properties in designated interior regions). There's also a **Stamp Duty** of 0.8% on the purchase. So total buyer closing costs are around 4.5-8.5% typically. Properties are registered in the Land Registry (Conservatória) and the Cadastre. Title insurance is not common; instead, a lawyer will verify title and ensure no liens (and a notary won't complete the transfer if the title isn't clear). Portuguese law is protective of buyers when it comes to hidden debts on the property (e.g., if the seller owes property tax, it stays with the seller, not the property), but your lawyer will check those.

Taxes: Rental income for nonresidents is taxed at a flat 28% on net income (you can deduct expenses) in Portugal. If you rent to tourists (short-term rentals under the local *Alojamento* Local regime), you are considered to be doing a business activity and slightly different rules apply: Portugal currently only taxes 35% of the gross short-term rental income at the 28% rate (in effect, a ~9.8% tax on gross, because they assume 65% of income is expenses – this is an incentive for tourism rentals, but the government has been adjusting these figures). Long-term rental income is taxed on net after actual expenses at 28%. Portugal has modest **annual property taxes**, called **IMI (Imposto Municipal sobre Imóveis)**, which are assessed by municipalities – typically around 0.3% to 0.45% of the cadastral value (which is often lower than market value). A €300,000 apartment might have a cadastral value of €150,000 and an IMI rate of 0.35%, for an annual tax of ~€525, as an example. If the property is your primary residence, there's an exemption for low-value homes; nonresidents don't get that and must pay IMI. Portugal also has a "Wealth tax" called AIMI (Adicional IMI) that is 0.4% on real estate holdings above €600k (for individuals) – so if you own Portuguese property valued over that,

you pay extra on the amount above €600k (or €1.2M for a couple). Many typical investments won't hit that threshold, but luxury buyers should be aware.

For tax purposes, Portugal treats non-resident sellers differently from its own residents, and this distinction matters—especially because the rules have changed in recent years. If you are a Portuguese tax resident, only 50% of your property's capital gain is subject to tax, and that portion is then taxed at Portugal's progressive income tax rates. Non-residents – including Americans – do not receive this 50% reduction. Instead, Portugal applies a flat 28% tax on the full gain (after subtracting purchase costs and documented improvements), with no primary-residence exemptions or rollover relief available to non-residents.

This may differ from what you read online because the rules have shifted multiple times. For several years, Portugal applied the 28% full-gain rule to non-EU citizens, while EU and EEA residents could benefit from the 50% method. After the Hollmann case at the Court of Justice of the European Union (C-443/06) clarified the need for equal treatment of EU residents [46], Portugal temporarily aligned the regimes. But subsequent legislative updates – most notably changes incorporated into the 2023 and 2024 State Budget Laws – reaffirmed that non-residents are taxed at a flat 28% on 100% of their gain, regardless of nationality [47]. The Portuguese Tax Authority (AT) has since updated its guidance to reflect this position. As a result, U.S. investors should model their exit assuming a straightforward 28% tax on net profit, even if older online sources suggest otherwise.

However, unlike some countries, Portugal does not withhold a part of the sale proceeds upfront for taxes – the nonresident seller is expected to file a tax return the following year and pay the tax. (Ensure you have a Portuguese fiscal rep after sale if you might owe, otherwise the authorities could come after the asset or buyer if not paid – usually the notary or lawyer will caution about that). Note: Portugal's Golden Visa program (which was one reason many invested) was restructured in 2023 – the government announced an end to the real estate component as a means to get residency [31], to curb housing price growth. This might slow some investment, but Americans often were moving for lifestyle anyway (or using the D7 “digital nomad” visa, which doesn't require buying).

STR Regulations: Short-term rentals in Portugal operate under a registration system called **Alojamento Local (AL)**. You must register the property with the city/town council to get an AL license number in order to legally rent to tourists. In recent years, popular urban centers like Lisbon and Porto have started **restricting new AL licenses** in certain central districts through

temporary moratoriums [32][33]. In early 2023, Lisbon stopped issuing new licenses in the city (as part of the “Mais Habitação” housing law) [32]. Existing licenses remain valid, but new ones are on hold (except in less populated interior regions). Some other municipalities have also paused AL licenses in over-touristed areas. If an area is saturated or locals complain of housing shortages, an AL freeze or quota might exist. On the other hand, in rural areas or smaller towns, AL registration is usually straightforward: you must meet certain safety requirements (fire extinguisher, emergency lighting, etc.) and pay a small registration fee. AL properties in Lisbon and Porto also face a tourist tax charged per night to guests (Airbnb collects it). For now, if you plan on Airbnb in Portugal, either aim for areas that still allow new registrations or purchase a property that already has an AL license (licenses can sometimes transfer with the property, though the rules on that can vary, so be sure to verify if it can be transferred before closing). Long-term rentals remain easy and are even being incentivized (the government introduced tax breaks for switching from short to long-term leasing).

Investor-Friendliness: Portugal has been extremely friendly to foreign investors – perhaps too friendly, as locals now face higher housing costs, prompting some backlash. The country has no restrictions on foreign ownership. Transaction costs are moderate (cheaper than Spain’s). Real estate agents typically charge 5% commission (paid by seller). Legal fees ~1%. One can finance through Portuguese banks; nonresidents can often get 60-70% LTV loans if they have good credit, though the process can be slow. Interest rates in euros have risen but were low for a long time, and as of this update to the report, still remain lower than equivalent rates in the US.

The Non Habitual Resident (NHR) regime in Portugal – which for many years attracted expats with ten years of special tax treatment (for example, a flat 10% tax on foreign pension income or exemption for certain foreign-source income) – has been **closed to new applicants and replaced** by the Incentive for Scientific Research and Innovation (IFICI) programme (often called “NHR 2.0”). Under the new regime, individuals cannot simply relocate and receive broad tax relief for passive income, such as foreign pensions or foreign-sourced investment and rental income. Instead, eligibility is focused on **qualified professionals, entrepreneurs**, or those employed in specific innovation/research/high-added-value economic sectors in Portugal. Rental income from Portuguese property remains taxed under the standard Portuguese personal income tax rules in both regimes (and, under IFICI, the foreign-sourced income exemption does not extend automatically to all types of passive income, such as pensions). This change took effect for new residents from **1 January 2024**, with the old NHR application window closing by the end of 2023 (and transitional applications in early 2024) [48].

Portuguese bureaucracy is notorious – obtaining a NIF, opening a bank account, and dealing with utility companies may require patience or a local facilitator. However, the quality of life and relatively low cost (compared to say Western Europe) are the draws.

Note also that Portugal has forced heirship in its civil code (children are reserved a portion). If you are not a resident, your home country law might apply instead, but there could be complications for your heirs. And Portugal does impose inheritance tax on certain recipients (close family is exempt, but distant heirs might pay 10%). Most Americans investing here set up a basic local will to cover Portuguese assets, and/or rely on U.S. law via EU Succession rules if they become resident.

Before buying, ask: *Is an Alojamento Local license currently available in this location? If not, what are the restrictions or moratoriums?* If STR is critical, focus where it's viable. Also, get an estimate of **IMT and IMI** from the lawyer before you buy, so you know the one-time and yearly taxes upfront. And clarify any **inheritance formalities** – for example, it might be wise to have a Portuguese will even as a nonresident, to streamline things for your heirs (it can prevent assets from being frozen while waiting for U.S. probate). Portugal remains one of the most attractive destinations for the combination of climate, safety, and investment potential – you just have to navigate a changing regulatory climate for short-term rentals and stay on top of the paperwork.

Italy

Process & Title: Italy offers charming properties and has drawn Americans with village restorations and city apartments alike. To purchase in Italy, you obtain a **Codice Fiscale**, an Italian tax code (like an ID number) [34]. This is easy (through the consulate or at the revenue office) and will be used in all transactions. A **Notaio** conducts the closing – as in other civil law countries, the notary is a neutral party who prepares the atto di **compravendita** (deed) and ensures taxes are paid, and the transfer is registered. Italy's process often involves first a preliminary contract (*Compromesso*), usually with a 10% deposit, which legally binds the parties and is signed some weeks or months before the final deed. The final closing is when the notary reads the contract aloud in Italian (with translations if needed), and the parties sign. Italy maintains a **cadastral system** – every property is categorized in a cadastral register with an assigned category (residential, agricultural, luxury, etc.) and assessed value. These categories affect tax rates. For instance, Italy distinguishes between **prima casa** (first/home residence) and **seconda casa** (second home). If you become an Italian resident and declare the property your

primary residence, you get significant tax breaks on purchase (minimal registration tax) and lower annual taxes. As a foreign investor likely buying a second home, you will be treated as such: typically a 9% registration tax on the cadastral value (often much lower than market price) [35], or 2% if you somehow qualify for *prima casa* (which requires residency in that comune within 18 months and not having other homes in Italy). If buying from a developer (new build), you pay 10% VAT instead of registration tax (or 22% VAT if the property is classified as luxury – Category A1, A8, A9 cadastral categories are considered luxury). The notary fee might be around 1-1.5% of the price. So, purchase costs for a second home are roughly 10% (9% tax + notary, etc.), somewhat high. Keep in mind Italy sometimes has special incentives – e.g., “€1 homes” in depopulating villages (which come with required renovation commitments), or reduced purchase taxes for renovations in certain circumstances.

Taxes: Annual property taxes in Italy are known as **IMU (Imposta Municipale Unica)**. Currently, Italians do not pay IMU on their primary residence (except luxury categories), but second homes do incur IMU. Each town sets a rate (commonly around 0.4% to 0.76% of the cadastral value). The cadastral values are typically far below real values, so IMU might be a few hundred to a couple thousand euros depending on property type and location. Italy also has a garbage tax (TARI) and possibly a small services tax, which homeowners pay annually. **Rental income** for nonresidents is taxable in Italy: you can choose to be taxed on net income at progressive rates (up to 23-43%), or opt for a flat “**cedolare secca**” rate of 21% on gross rental income (no deductions allowed). Many landlords opt for *cedolare secca* because it’s simple and often beneficial if expenses are low. Short-term rentals in Italy (stays under 30 days) don’t require a business license, but you must register guests with local authorities and likely pay a **city tourist tax** on their behalf (e.g., Rome charges up to €3.50 per person per night). Platforms like Airbnb in Italy are supposed to withhold 21% from payouts to hosts and remit to the tax authorities as a prepayment of tax (applicable to hosts who are individuals renting short-term). This was a law enacted in 2017, but not all platforms complied initially. As an owner, you still need to file an Italian tax return to declare the income and either pay the remaining tax or indicate that the withholding satisfied it. Also, Italy requires that you get a “**SCIA (Certificate of Commencement of Business)**” from the municipality if doing short-term rentals systematically, and you might be considered running a small hospitality business if you provide additional services. However, if it’s an occasional Airbnb of your place, it’s often treated as rental income. There’s nuance.

On sale, capital gains tax in Italy for individuals is 26% if you sell within 5 years of purchase (and it’s not your primary residence) – after 5 years, a sale by an individual is exempt from



Italian tax on the gain. However, nonresidents have to pay attention to their home country tax (the U.S. would tax the gain, and you wouldn't get a foreign credit if Italy didn't tax it due to the 5-year rule, since no Italian tax was paid). For sales with tax, Italy doesn't have withholding by buyers; you either pay a substitute tax of 26% at the time of sale via the notary, or report it in your tax return. The rules can be complex if, say, you inherited the property or built it.

STR Regulations: Major Italian tourist cities have been tightening rules. Rome currently requires hosts to register and obtain an identifying code (CIR) to list on platforms. Florence and Venice have been considering limits on the number of days or zones. At a national level, Italy hasn't (as of 2025) imposed outright bans, but cities are allowed to regulate. There's talk of an Italy-wide rule that if you rent more than a certain number of properties or days, you are a business and need a VAT number. Already, if an individual rents more than 4 apartments short-term, the law considers them a professional landlord (with different tax implications, potentially needing to register as a business). Condominiums in Italy can also prohibit short-term rentals in their bylaws if a majority votes so (this has been debated, but some case law allowed condo boards to ban "bed & breakfast activity" in the building). Always check the condo rules before planning Airbnb. And ensure you or your agent can handle the **police notification requirement** (all guests must be registered with local police within 24 hours via an online portal – failing to do so can result in fines).

Investor-Friendliness: Italy is notorious for bureaucracy, but incredibly rewarding culturally. Rental yields in tourist centers like Florence or Rome can be good with Airbnb, but regulations and saturated markets are a risk. Long-term rentals have lower yield, and Italian tenants have strong protections (it can be hard to evict for nonpayment, and contracts are typically 4+4 years). Many foreign investors in Italy are more focused on personal use and long-term appreciation (which has been modest historically). One advantage: Italy has run tax incentive programs to attract wealthy expats, like a flat €100k annual tax on all foreign income for new residents (for 15 years) or a 90% income tax exemption for foreign professionals moving to work in Italy. These don't directly affect a pure investor, and for an American resident not willing to formally excommunicate themselves from the U.S., only serve to bring their generally higher taxes in line with American norms, but do show Italy's willingness to woo foreign capital.

Up until 2023, Italy also had huge renovation bonuses (Superbonus 110%) that effectively paid for improving properties (through tax credits) – those have been scaled back due to cost, but some bonuses (50% for renovations, 65% for energy improvements) may continue. If you plan to restore an old home, you could benefit from tax credits or reduced VAT on building works (10% instead of 22%).



Foreigners can easily buy; there are no citizenship restrictions (except maybe near some military zones). Financing is possible – Italian banks might lend around 50-60% to nonresidents, and sometimes only on shorter terms. Many foreign buyers pay cash or get an overseas mortgage instead.

Before investing in Italy, ask: *Are short-term rentals permitted in this city, and what registrations do I need?* (Your agent or lawyer should detail the registration with Questura for guests, and whether you need a VAT position for running multiple rentals.) Also, *what are the applicable tourist taxes in the area?* And if you plan renovations, *will you need special permits, or could you qualify for any tax incentive programs?* Italian properties often come with surprises like historic preservation constraints (especially if it's a protected building or in a UNESCO city center). Due diligence with a geometra or surveyor is key if you are buying an older home to renovate.

France

Process & Title: France is a well-established market for overseas buyers (Paris apartments, Provence farmhouses, etc.). Purchases are handled by **Notaires**. Typically, a buyer signs a **Compromis de Vente** (preliminary contract) and puts down a 5-10% deposit, with a cooling-off period of 10 days. Completion usually in ~3 months, where the Notaire executes the **Acte de Vente**. **Registration (stamp) duties** called Droits de mutation are about 5.8% on existing properties (slightly less in some departments) [36]. New-build properties have 20% VAT but are exempt from the mutation tax. The Notaire's fees (which include some taxes) are usually around 7-8% total for an older property (so often one just says ~7-8% closing costs, which mostly comprises those transfer taxes). The buyer pays the Notaire's fees (which are set by statute). So the overall transaction cost is ~7-8% for existing homes. Foreigners can buy freely except for some agricultural or sensitive land (in rare cases).

France has a very comprehensive land registry and also a system of property info (each property has a cadastral reference). Title is secure; few get title insurance. Mortgages in France are available to nonresidents; rates have been low (though rising now); banks might lend 60-80% LTV if income supports it. France often requires life insurance with mortgages (to pay off the loan if you die).

Taxes: Owning French property, you pay two main annual taxes: **Taxe Foncière** (land tax, paid by the owner) and **Taxe d'Habitation** (a residence tax, historically paid by the occupant). Taxe d'habitation has been abolished for primary residences as of 2023, but it still applies for second homes (often with a surcharge in areas like Paris) [37][38]. Many cities (Paris, Nice, etc.) have implemented the maximum 60% surtax on taxe d'habitation for second homes to discourage vacant pied-à-terres [39][38]. The actual amounts vary: Taxe foncière could be a few hundred to a few thousand euros depending on size/value; taxe d'habitation similarly. For example, a Paris apartment of 50m² might have €500/year taxe foncière and, if a second home, maybe €600 taxe d'habitation (including the surtax). These taxes are local and fund communal services.

Rental income: If you rent out furnished property, you can choose a special regime (Micro-BIC) if revenue under €77k/year, which gives a flat 50% deduction, then apply tax on the rest. Or you can opt for réel (actual expenses) and depreciate the property, etc. If you rent unfurnished, it's taxed as property income (Microfoncier regime allows 30% flat deduction if under €15k revenue). As an American, you'll pay French tax on French rental income (and use the foreign tax credit in the U.S., since the tax treaty generally gives France first right on real property income). French tax rates depend on your other French source income, but if you have none, you might pay a flat 20% on net income as a nonresident (that's the minimum rate for nonresidents) [40]. France also charges **social contributions** on rental income (and most investment income) for residents, and up until 2019, they charged non-residents too. After litigation, now EU residents pay 7.5% social tax on real estate income, non-EU residents pay the full 17.2% (this has been contested; currently, I believe non-EU, like Americans, do face 17.2%). However, the U.S.-France treaty may allow a credit for CSG/CRDS (this is a gray area; the IRS wasn't allowing it, but some changes occurred after the EU court case – consult a cross-border tax pro on that).

When you sell French property as a non-resident, France imposes capital gains tax at a flat 19% on the gain, plus social charges. For most non-residents, social charges apply at 17.2%, so the combined headline rate is 36.2% before any reliefs [7][8]. However, if you are affiliated to a compulsory social security system in an EU or EEA country (including Iceland and Norway), Switzerland, or the United Kingdom, you are exempt from the CSG and CRDS components and instead pay only a 7.5% solidarity levy, for a combined 26.5% rate [7][8]. On top of this, very large gains can attract an additional surtax of 2-6%. France then applies generous holding-period reductions: there is no relief during the first five years, but from year 6 onward, the taxable base for the 19% capital gains tax is gradually reduced until it is fully exempt after 22 years, and the base for social charges is reduced until full exemption after 30 years. In practice, if you hold the

property for 30 years or more, no French capital gains tax or social charges are due.

To ensure collection from non-residents, France often requires the appointment of a fiscal representative (représentant fiscal) on the sale. A tax representative is generally required if you are a non-resident outside the EU or EEA, your share of the sale price exceeds **€150,000**, and you have owned the property for less than **30 years**. EU and EEA residents are exempt from this requirement, but after Brexit, UK residents are treated as non-EU and typically must appoint a representative again if the thresholds are met [41][42]. The representative is usually an accredited firm and may charge a fee, and the notaire will withhold and remit the tax (and social charges) from the sale proceeds to the French authorities. For U.S. investors, French tax paid is usually creditable against U.S. capital gains tax under the U.S.-France tax treaty, so in many cases, there is little or no additional U.S. tax due once the French liability is taken into account, but this should be modeled with a cross-border tax advisor.

STR Regulations: Paris is one of the strictest cities in the world for Airbnb. If you rent a property that is not your primary residence short-term (less than 1 year lease, or 120 days for furnished rental to transient tenants), Paris requires you to obtain a change of use authorization with compensation – essentially, for each square meter you convert to short-term rental use, you must purchase and convert an equivalent amount of commercial space into residential in the same arrondissement [43][44]. This is so expensive and cumbersome that it effectively bans new vacation rentals in most of Paris’s popular districts. Owners can only legally do short-term rentals in their **primary residence** for up to 120 days/year (and must register and get a number). Secondary residences in Paris basically cannot be legally rented short-term unless you go through that commercial conversion (or if the property is classified as a *résidence de tourisme* with a permit). Enforcement is active: Paris has inspectors and has levied large fines. Other French cities also now limit Airbnb: e.g., Nice, Bordeaux, Lyon have rules like registration and 120-day caps for second homes, etc. Some smaller towns allow it freely, but any tourist-heavy locale likely has some rules. Always research current local law. Many investors in Paris pivot to medium-term rentals (e.g., 3-10 month stays to students or expats, which are not subject to the 120-day rule and don’t require special authorization). These can be lucrative and legal.

Investor-Friendliness: France has high taxes and heavy tenant protections (for long-term rentals, an unfurnished lease is 3 years, and the tenant can only be evicted for very specific reasons with long notice, and winter eviction moratoriums apply). However, it’s very stable and transparent, with good infrastructure. Foreign investors continue to buy, especially in Paris (capital appreciation is historically good) and ski or coastal areas. The key is compliance: one must follow

the rental regulations to avoid fines, and file taxes properly. On inheritance: France has forced heirship – reserved portions for children. If you die owning French real estate, French law *can* apply forced heirship *unless* you specifically elect your U.S. nationality law under EU regulation (France did sign that EU rule, so an American can elect their U.S. state law to govern, which can override forced heirship for French assets). It's recommended in your will to do that. France will also impose inheritance tax on your heirs (even nonresident heirs) for the French property. Spouses are now exempt from French inheritance tax, but children are taxed on amounts above ~€100k at progressive rates (up to 45%). If leaving property to children, forced heirship will apply absent that election, and they will pay tax unless you plan around it (like putting property in an SCI company and maybe gifting shares gradually, etc.). It's a complex area.

If you plan to hold long-term and pass it on, consider consulting a French notaire for estate planning – they may suggest a **tontine clause** (survivorship clause for spouses), or an SCI (a company that can be used to own French property, helpful for multiple heirs or estate planning). The U.S.-France estate tax treaty does allow a credit for French inheritance tax against U.S. estate tax, to avoid double tax.

Before buying in France, ask: *Is the property in an area with short-term rental restrictions or quota systems?* In Paris, as noted, it's essentially impossible to legally do STR on a second home [44]. Also ask: *Are there any “surtaxes” as a second-home owner in this city?* (Yes, likely a 60% taxe d'habitation surcharge in most desirable cities [39].) And how does the sale process work for nonresidents? (The Notaire can explain the need for a fiscal rep or pre-payment, and how long refunds, if any, take.) Generally, nonresident refunds (if you overpaid tax due to cost deductions, etc.) can be applied for after sale via the tax office, but usually the notaire will calculate precisely so no refund is needed. Also, if you plan to rent long-term, *will you be subject to rent control?* Paris has rent control setting ceiling rates for long-term leases based on location and size. Furnished rentals can exceed by a certain amount but must be justified. Breaking those can lead to tenant disputes and penalties. So, know the local rules.

Each of these countries offers its own blend of opportunity and red tape. The key is understanding those local flavors while sticking to a solid strategy. If you've noticed common themes: **get local advice, follow the rules, keep it simple**, you're on the right track. In the next section, we wrap up with how to bring it all together.

Conclusion

Bigger opportunity + manageable rules + the right team = calm ownership abroad. You really can own an income-producing property you love, in a market with real appreciation potential, without losing sleep over taxes or legal snafus. The U.S. Foreign Tax Credit system ensures you won't be taxed twice on the same dollar of income [1]. A simple, well-chosen ownership structure keeps your filings and compliance sane. And following the right playbook – acquire cleanly, own efficiently, exit intentionally, and plan for inheritance smoothly – turns what seems “daunting” into something very doable.

We encourage you to **dream big but plan pragmatically**. If you have a target country or two in mind and a rough timeline, bring those ideas to your advisors ([or to us](#)). We'll help map out your personal playbook, assemble the on-the-ground experts, and optimize the plan so you can confidently move forward. With the correct preparation, your overseas property investment can be not only financially rewarding but also an immensely satisfying personal venture – one that broadens your horizons in every sense. Here's to your successful journey in global real estate investing!

Want to Connect with Copper Beech?

If you'd like to consult with Copper Beech about your own financial plan, [connect with them now »](#)

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