



Considerations Before Buying a Home Overseas

BY: ALYSSA MAROV, CFP®

Overseas property ownership has grown in popularity as the world becomes more globally focused and pent-up demand for travel continues to grow. Purchasing a home abroad can be extremely exciting; however, it is important to consider that the process, laws and norms can vary greatly by both country and municipality.

Establishing a Team

A good first step is to establish a team that includes a tax professional, a real estate attorney, and a trusted real estate agent with specializations in your region of focus. This will help to ensure your property rights are protected and that no ownership details are overlooked, as each situation in each locale can be vastly different. Note that local counsel may also be required to assist in the transaction.

Choosing a Home & Valuation

Whether this property is a lifelong goal finally realized, a way to be closer to extended family, or simply an investment, it's important to understand current property valuations and growth prospects for the future if the goal is to hold it over the long term. In addition, while owning property in different domiciles provides geographic diversification to your overall assets, which may help to reduce risk in the event of a market downturn domestically, understanding the niche local market dynamics and risks could help avoid financial hardship.

Lastly, much like you would ensure that your traditional investments are titled efficiently for estate planning purposes, be sure to seek guidance on local inheritance laws to ensure that documentation is in order. This step will prepare you for unexpected situations since local courts may not always accept wills or trusts drafted in the U.S.

Local Laws & Citizenship

In some instances, owning property abroad may provide additional benefits beyond just the enjoyment of having a vacation home or a way to be closer to extended family. Holding a passport from any European Union member country provides the extra benefit of hassle-free travel between all other member countries. Several countries within the EU will either grant residency or provide a passport simply for owning property. Portugal, as an example, provides residency privileges for property owners who meet specific criteria, and residency offers an easier path to applying for a Portuguese passport.

Dual citizenship may also provide favorable tax structures and savings. However, it's important to note that some countries prevent non-citizens from owning land at all, while others have restrictions for non-citizens only on high-demand areas like coastlines. If your target country does allow you to move forward, you may be required to obtain special residence permits or register with a government agency before proceeding with the transaction.

Several factors may influence which legal entity is best used when purchasing the property. For example, if the goal is to obtain residency, it may be best to purchase the property in an individual name. On the other hand, suppose you seek to rent the property to guests or tenants. In that case, a corporation-like structure may allow you the flexibility of generating rental income on top of liability protection. Even a country-specific corporate structure may be prudent because there can sometimes be non-resident fees associated with purchasing property.



Financing

Working with a local bank to secure financing for the transaction is a common route, as most U.S. banks do not offer mortgages on foreign homes. In most cases, U.S. credit history is not accepted by foreign banks, so a foreign buyer working with a local bank might discover they will have to provide a larger down payment on a purchase than what is typical in the U.S. Additionally, the interest rate on the mortgage could also be much higher than the current rates in the U.S., both because of the buyer's lack of local credit and just the typical rate of interest in the country. It's important to remember, however, that there is also the possibility that the cost of living could be lower in that country, offering savings elsewhere in the overall budget. Related to this, local property insurance is sometimes needed depending on the area.

There are also many unique programs abroad designed to lure foreign investment. Italy, for example, lists several properties for sale at only €1 through a government-backed program focusing on revitalizing once robust villages that have recently succumbed to the effects of urbanism. These properties require renovation and other requirements as part of the related program, but they can provide a creative, financially savvy investor with an avenue to cheap property acquisition.

Additionally, in the age of remote work, several countries are offering renewable visas for people to set up shop remotely in certain towns to attract permanent residents. This is a great alternative for those who are hesitant about fully purchasing a property or would like to trial the ex-patriate lifestyle.

Language Barrier

If you're not entirely comfortable conversing in the local language, that shouldn't stop you from moving forward. However, it may be best to focus on properties inside or near larger cities where more of the population is likely to speak English. Even if you are already fluent in the local language, it is still

important to note that legal transaction documents, full of legal jargon, will almost always be created in that language. We would suggest having legal documents professionally translated because “standard” language can vary greatly from the “standard” real estate transaction verbiage.

Ongoing Maintenance / Reporting

Much like your current primary residence, utilities, maintenance, landscapers, etc., will need to be managed on an ongoing basis. These services will most likely need to be paid for in local currency, given local vendors will perform them. While not always required, if a bank account is established with a local bank to hold the local currency, it is important to note that the IRS requires a Report of Foreign Bank and Financial Accounts (FBAR) for any foreign account that exceeds \$10,000, whether that account is owned by an individual or any domestic legal entity. This is yet another reason it is imperative to work with a tax professional specializing in this area.

In conclusion, purchasing your dream home in the Tuscan hills or the seaside villa in Costa Rica cannot only be an ideal way to spend more time enjoying spoils abroad, but it can also be a great investment. However, with that said, it’s important to consider all aspects of ownership and consult experts that are intimately familiar with your country of focus, given the complexity of this exciting next step.

Let’s talk.

For more information call 855-949-5855 or visit www.newedgewealth.com.

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