

REVERSE CAPITAL GAINS..... WHAT IS THIS? ANOTHER TAX?

by Linda Jones Neil

Yes, most definitely the Reverse Capital Gain Tax can be a buyers surprise!.

A basic rule of real estate is that the true value of a property is based upon the "willing buyer-willing seller" concept. In other words, the fair value of any property is that which a seller is willing to accept and a buyer is willing to pay, without outside pressures.

Sometimes, however, the seller is in great need of money, or the Buyer is a super negotiator, or the market is down. Then the appraisal, which is required by law and is made by a government appointed appraiser comes in with a value that is higher than the price agreed upon between buyer and seller.

This means the Buyer must pay a higher acquisition tax which is a municipal tax and generally two percent (2%) of the appraised value. That is probably OK and not a huge expense. What does cause the groans is when the appraisal exceeds by 10% the selling price of the property. At that point the Buyer will then be liable for a Reverse Capital Gain tax. The Buyer then pays 25% Capital Gain Tax on the overage.

Example: Buyer Smith agrees to buy from Seller Jones a home for \$450,000. USD. The appraisal comes in at \$550,000.00 USD. That's 100,000. difference!

\$550,000.00	appraisal value
<u>450,000.00</u>	actual sales price
\$100,000.00	difference
<u>45,000.00</u>	10%
55,000.00	overage, taxable at 25%

The Reverse Capital Gain tax is \$13,750.00 USD

The good news here is that the new basis in the property for tax purposes is \$550,000. USD instead of the 450,000.00 USD actually paid. So the Buyer earns an additional 100,000. USD value for a 13,750.00 USD investment. Not such a bad investment which can benefit the Buyer substantially when he sells the property.

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about the author:

LINDA JONES NEIL is the founder of The Settlement Company, which specializes in real estate transfers and escrows. Licensed as a California real estate broker, she has pursued her profession in Mexico for over forty years. Her skills and experience in negotiating

contracts between parties from three distinct cultures have placed her services in demand as a consultant and for speaking engagements on Mexican law and customs in Mexico, the United States and Canada. She has been widely published on the subject of real property in Mexico. Memberships; FIABCI, AMPI and NAR. Linda is a former member of the National Advisory Council of AMPI and has served as Presidential Liaison for Mexico to the National Association of Realtors®. She is also co-founder of Global Mexico Real Estate Institute (IIGM), an educational institution which provides international real estate classes and designations.

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