

Hello and welcome to KPMG's Mobility Matters Express. As mentioned previously, this episode will focus on some tax traps that non-US citizens inbound to the US should be aware of.

Once a foreign national establishes U.S. residency, gain from the sale of a principal residence, even if located outside the US, may be subject to tax. The purchase and sale prices must be calculated in U.S. dollars. So, even though there may be no economic gain realized in terms of the home country currency, there may be a taxable gain for U.S. purposes due to exchange rate fluctuations.

Additionally, U.S. residents may be subject to U.S. tax on the repayment of a mortgage that is denominated in a currency other than the U.S. dollar. Again, this is due to the change in the currency exchange rate between the date the mortgage was obtained and the date the mortgage principal was repaid. Thus, under U.S. tax law, a resident of the United States may be subject to tax on both the gain realized on the sale of the residence and on the exchange gain arising from the repayment of the foreign currency mortgage, even if no economic gain was realized on either transaction in their home country currency.

The same principal applies to the refinance of a mortgage that is denominated in a currency other than the U.S. dollar. With the refinance, the original mortgage is paid off and replaced with a new loan. As such, a taxable gain may arise for U.S. tax purposes based on the fluctuation in the exchange rate between the date the original mortgage was obtained and the date the original mortgage was refinanced.

It may seem bizarre that there could be taxable gain when no economic gain is realized (and that is a tough pill to swallow). The takeaway? With respect to a home and loans located outside the US, if you are planning on selling or refinancing, make sure to evaluate the options prior to arrival in the US.

That's it for today and thanks for listening.