

# Real Estate Transaction Costs Fact Sheets



A Pathfinder report

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Dear Reader,

As anyone who had ever bought a property will tell you, there's more to it than just handing over the asking price listed in the real estate agents brochure. Additional costs such as attorney fees, notary fees, registration fees...can all have your head spinning!

If you are buying property overseas, things can get even more confusing...particularly if you're not sure of what you should or should not be paying.

That's where we come in.

We have compiled this report, which lists the real estate transaction fees in our favorite countries in Central and South America. We asked attorneys in each of the countries to pull together a factsheet which details the transaction costs you need to know about. Naval land tax in Brazil...annual property tax in Ecuador...capital gains tax in Panama...we've got it covered in this collection of fact sheets.

Our attorneys have also included their contact details should you have any more questions related to the buying, or selling, process in their country of expertise.

Wishing you good real estate investing,

A handwritten signature in black ink, appearing to read 'Ronan McMahon', written in a cursive style.

Ronan McMahon  
Executive Director, Pathfinder Ltd.

# Real Estate Transaction Costs Fact Sheet

## Brazil

### Purchase Costs:

- ITBI - Imposto sobre Transmissão de Bens Imóveis (Property Transfer Tax): 2% to 4% of property's fiscal value depending on the location of the property.
- If Navy Land (beach land within 33m of the high tide line): *Laudêmio* Tax (owed to the Federal Union): 5% of that portion of the property that falls within this zone.

For example: You have a 1,000 square meter plot of land which has 200 square meters that is classed as Navy Land. The purchase price you paid for the property was 100,000 reais. You would then pay 5% of 20,00 reais (corresponding to the one-fifth of the property that is classed as Navy Land), as *Laudêmio*. The same rule is applicable for apartments.

- Notary Fees (Deed, Document Authentication, etc.): this varies from 1% to 2.5%. It is usually approximately 1.5% of property value.
- Real Estate Registrar Fees (registration at *Matricula*): this varies from 1% to 2.5%. It is usually approximately 1.5% of property value.
- Attorney Fees: 0.5% to 2% of property value.

We generally tell buyers that the transfer costs are between 5% and 7% of the property value.

### Sale Costs:

- Capital Gains Tax: 15% of capital gain.
- Attorney Fees: 0.5% to 2% of property value.

### Maintenance Costs:

- IPTU - *Imposto Predial e Territorial Urbano* (Urban Property Tax): 0.5% to 2% yearly.
- ITR - *Imposto Territorial Rural* (Rural Property Tax): usually varies between 0.6% and 2%.  
If Navy Land: *Foro* Tax (owed to the Federal Union): 0.6% yearly. Again, this is only due on the portion of the property that falls within the Naval zone.
- Rental Income Tax: 15% of rental income.

### Inheritance Tax (when due):

#### Value Rate

- Ø Up to 11,102 Brazilian reais: 2%
- Ø Greater than 11,102 reais to 33,306 reais: 4%
- Ø Greater than 33,306 reais to 88,816 reais: 6%
- Ø Greater than 88,816 reais: 8%

The rates vary from 1% to 8%, because this is a State Tax, and the rate varies from state to state. There is an ongoing judicial discussion about this progressive rate and the Brazilian Supreme Court is deciding if this grading of rates is unconstitutional. But to benefit from this, and try to obtain a lower rate, a foreign owner would have to go to court.

**Gift Tax (when due):**

**Value Rate – Varies based on state**

- Ø Up to 55,510 reais: varies from 1% to 2%
- Ø Greater than 55,510 reais: varies from 1% to 4%

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# Real Estate Transaction Costs Fact Sheet

## Costa Rica

### Property Purchase Legal Fees, Transfer Fees and Registry

(**Note:** Legal fees are set by a tariff published by the College of Lawyers in Costa Rica; Transfer Taxes and Registry Fees are set by the Government).

#### The Purchase and Sale Agreement

- Whether a purchase of property is by way of purchasing it as an asset, or by purchasing the shares in a registered corporation that holds the property, a Purchase and Sale Agreement must be entered into between the Purchaser and the Seller. This will set out the terms of the sale, the purchase price and method of payment, closing date, etc. This document is usually prepared by the purchaser's attorney and will cost between US\$350 and US\$500 to prepare, depending upon the detail required.

#### Purchasing Property as an Asset

- When purchasing a property as an asset, rather than the shares of a corporation, the legal or notary fee for the legal due diligence and transfer of registered title to the property is set on a sliding scale based on a percentage of the purchase price of the property.

This legal fee scale translates to approximately 2% on the first US\$100,000 of the purchase price, 1.5% on that part of the purchase price which is between US\$100,000 and US\$200,000, and 1% on any amount over US\$200,000.

In addition, Property Transfer Taxes of 1.5% of the purchase price and Registry Fees of approximately 1% of the purchase price are payable at the time of closing.

#### Purchasing Property by way of shares of the Corporate Owner

- When purchasing the shares of a registered corporate owner of a property, the same legal or notary fees apply as when purchasing property as an asset. The difference is that there is no Property Transfer Tax or Registry Fees to pay at closing, as there is no change in the registered ownership of the property, only a transfer of the shares from the seller to the purchaser.

### Corporate Maintenance Fees, Capital Gains Taxes, Property Taxes, Rental Income Taxes

#### Corporate Maintenance Fees

- The annual corporate recordkeeping fees for an inactive or holding company are US\$150. For an active company, the annual recordkeeping fees are US\$250.

### **Capital Gains Taxes**

- Except for developers of multi-unit housing or condominium developments, there is currently no Capital Gains Tax payable in Costa Rica, on the sale of a property. Each property seller would need to consult their home jurisdiction, regarding the liability for any Capital Gains Tax payable on the sale of a Costa Rica property.

### **Property Taxes**

- Property taxes are payable to the municipality in which the property is located, on a quarterly basis. The property tax is paid annually and is 0.25% of the recorded value of the property in the National Registry, or 0.25% of the municipally assessed value of the property, whichever is the greater.
- Luxury Home Tax is applied to properties which have had building improvements completed in excess of 100,000,000 *colones* (approx. US\$200,080 at the exchange rates in January, 2011). The value of the land does not figure into the initial calculation for the liability to pay the tax, only the appraised value of building improvements on the land. However, once having met the threshold for the payment of the tax, the value of the land is factored into computing the tax payable.

The tax starts at a rate of 0.25% of the tax assessed value for properties in the 100,000,000.00 to 250,000,000.00 *colones* range and on a “sliding scale” basis, and ranges upward to 0.55% for properties having a tax assessed value exceeding 1,500,000,000.00 *colones*.

The tax is payable annually and is initially calculated by the completion of a Tax Return Form (D-179), found on the Ministry of Hacienda web site, by a Costa Rican Engineer, or Architect, who must sign the Tax Return Form.

### **Rental Income Taxes**

- The majority of properties which are rented as an investment property would be held in a Costa Rica corporation. A Costa Rica corporation receives the preferred income tax rate of 30% of the rental net income, allowing for the normal type of business deductions for items such as property management fees, property taxes, maintenance, etc.

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# Real Estate Transaction Costs Fact Sheet

## Ecuador

### REAL ESTATE PURCHASE

Before you buy, be sure to perform a thorough due diligence of the property. Investigate the previous ownership title (by carrying out a title search). Make sure you understand how much you will pay for utilities and how much you will be paying for yearly municipality taxes (municipality taxes are usually are low).

Find out all the expenses that you will incur such as:

- Municipality taxes.
- Public Notary fees.
- Registry of Property

Please notice that for purposes of taxes and expenses the “value of the property” is the value established by the Municipality for each property. That value is not necessarily the commercial/sale value; it is usually is far less than commercial value.

The following is general information on the most important taxes and expenses to transfer property both in Quito and Manta. All other cities in Ecuador will be similar.

### Quito

Municipality Taxes	Percentage
<i>Alcabalas</i> (Purchase Property Tax)	1% of the value of the property
Municipality Works	0.035 % of the value of the property
Capital Gains Tax ( <i>plusvalía</i> )	0.5% of the difference between the price at the time of purchase and at the time of sale.

Other Taxes	Percentage
<i>Consejo Provincial</i> (Municipal Office Tax)	0.01% of the value of the property (\$1 for each US\$1,000)

Annual Taxes	Percentage
<i>Impuesto Predial</i> (Annual Property Tax)	0.07% to 0.3% of the value of the property

### Manta

Municipality Taxes	Percentage
<i>Alcabalas</i> (Purchase Property Tax)	1.6% of the value of the property
Capital Gains Tax ( <i>plusvalía</i> )	0.5% of the difference between the municipal value at the time of purchase and at the time of sale. Some discounts will apply.

Other Taxes	Cost
Fire Department	\$60 to \$100 (Depending on the cost of the property)
Fire Department Certificate	\$7

Annual Taxes	Percentage/Cost
<i>Impuesto Predial</i> (Annual Property Tax)	0.15% of the value of the property - can increase 25% of this value per year
Fire Department	\$60 to \$100 (Depending on the cost of the property)

Registration of Property	Costs
Title Investigation / Certificate	\$15
Register Tax	From \$300 to \$560

Notary Expenses	Costs
Seller's Promise Deed	\$150 to \$300 (Average)
Purchase Deed	\$350 to \$700 (Average)
Certified Copies	\$75 (Average)

**Important:**

- ü When purchasing a property all taxes are paid by the buyer, except the Capital Gains Tax (unless agreed otherwise between the parties).
- ü The Annual Property Tax (*Impuesto Predial*) should be already paid by the seller at the time of property purchase.
- ü People of 65 years and over have a special exoneration of payment of all taxes including municipal taxes.

**A note about legal fees:**

Your legal expenses for buying property will vary depending on the size and type of the deal. It will also depend on the services your attorney provides. For example, some buyers will request that their attorney also acts as Power of Attorney in the purchase agreement.

For a simple closing on a \$100,000 property, you can expect to pay your attorney between \$600 and \$1,000.

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## Real Estate Transaction Costs Fact Sheet Mexico

The following is a list of taxes/fees that must be paid at the closing of an acquisition of property in the so-called restricted zone in Mexico. See the notes below the fees for a definition of “restricted zone”.

Any fees with a zero value are not relevant, in the majority of cases, to real estate closings or are paid for by the developer/seller. They are included here as a reference.

<b>TAX/FEES (Amounts shown are in Mexican pesos)</b>	<b>COSTS</b>
IVA (VAT on purchase of <u>commercial property</u> : 16%, but 11% in Quintana Roo/Baja California)	<b>11%</b>
ISR (Seller pays this; it is Capital gains tax and the rate is 30% (deductions allowed for inflation and improvements)	<b>30%</b>
ISAI (Acquisition tax )	<b>2%</b>
Property taxes (paid by seller until date of sale – varies by state)	<b>0 .001%</b>
Public Registry issuance fee	<b>600.00</b>
Registration fee - some states have a fixed price or sliding scale	<b>1%</b>
Public Registry/Payment of Rights for credit	<b>1%</b>
Public Registry/Payment of Rights for POAs	<b>700.00</b>
Public Notary Fees for elaboration of POAs	<b>2,500.00</b>
Bank Trust (fideicomiso)Permit	<b>14,500.00</b>
One annual fee in advance for fideicomiso	<b>6,500.00</b>
Register of the property National Dept. Foreign Invest.	<b>3,000.00</b>
Acceptance of contract	<b>6,200.00</b>
IVA (tax of 11% of the acceptance and the annual fee in advance)	<b>1,397.00</b>
Local Authority Certificates	<b>900.00</b>
Deed Costs	<b>400.00</b>
Appraisal Fees. (On a US\$250,000 property it is US\$5,500)	<b>2.2%</b>
Catastro	<b>500.00</b>
Registration costs	<b>1200.00</b>
Municipal Cooperation Tax	<b>N/A</b>
Estate Cooperation Tax	<b>500.00</b>

Cedula Form	<b>500.00</b>
Water certificate	<b>100.00</b>
Administrative Costs (copies)	<b>400.00</b>
Normal Public Notary Fees	<b>.01%</b>
Attorney's fees	<b>.75%</b>

Restricted zone property:

If you are purchasing land in the “restricted zone”—that is, 100 km from any border, or 50 km from any coast—it must be bought through a *fideicomiso* (trust) or a foreign-owned Mexican corporation.

The *fideicomiso* creates a trust agreement for the benefit of the foreign buyer, and the bank takes on a fiduciary obligation to the owner. The owner retains all the benefits of ownership and has the legal right to lease the property, sell the property, and will the property to their heirs. The one-time cost for establishing a trust is currently around US\$ 2,650. There is also an annual bank fee for the maintenance of the trust. The annual fee is based on a percentage of the value of the home, and is US\$500 to US\$550 approximately. There is little consistency with regard to what banks charge for this fee, so it is a good idea to shop around. A home in the US\$ 200,000 range will have a yearly fee of approximately US\$ 550 per year.

Trusts are currently 50-year documents and they can be renewed at the end of the 50-year term for an additional 50 years. There is no limit to the number of times the trust can be renewed. The renewal fee is currently approximately US\$ 900.

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# Real Estate Transaction Costs Fact Sheet

## Nicaragua

Attorney/Notary Fees.....1%\*

### Closing Costs:

- Ü Transfer tax.....1%-3%
- Ü Municipal Revenue tax (IMI 1%).....1%
- Ü Property Registration Fees.....1%\*\*
- Ü Broker commission..... 6%-9%

\*Approximately (depends on each lawyer/notary)

\*\* Maximum US\$1,370

#### Ü **Transfer tax**

Transfer of the property's ownership is subject to a withholding tax or "transfer tax" of 1% to 3%, depending on the value of the transferred property. This is considered an advance payment corresponding to the income tax due on profit made by the seller. The rate of the withholding tax will be the highest value between the price of the property established in the transfer deed and the cadastral value established by tax authority. It is important to mention that it has been common practice that the buyer pays the "transfer tax" in order to proceed with registration of the property.

If the value of the transferred property is from US\$0.01 to US\$50,000, the transaction will be subject to a transfer tax of 1%. If the value of the property is US\$50,000.01 to US\$100,000, a transfer tax of 2% will apply. If the value of the property is US\$100,000.01 or higher, the applicable tax would be 3%.

#### Ü **Municipal Revenue Tax (IMI)**

In most municipalities of the country, the transfer of property is also subject to a municipal revenue tax of 1% over the highest value between the purchase price established in the transfer deed and the cadastral value established by municipality.

#### Ü **Registration fee**

A property conveyance will not be enforceable before third parties until it is recorded before the Public Registry. The process of successfully registering the transfer deed of real estate transaction is simple and it takes approximately 3 to 6 months. The cost of registration varies depending on the value of the transaction of the property. The fee is 1% of the purchase price established in the transfer deed and it cannot be less than C\$100 (approx. US\$ 4.55) or higher than C\$30,000 (approx. US\$1,365.)

### Ü **Real property tax**

A property is subject to a yearly real property tax (IBI) of 1%. The tax base of the IBI is 80% of the cadastral value of the property established by the local municipality. The cadastral value is set each year and is amended following any improvement to the property; such value tends to be in the region of 30% to 60% of the market value. The IBI must be paid in arrears each year in two installments: 50% by March 31, and the remaining 50% by June 30. If the tax is paid in full before March 31, a discount of 10% will apply.

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# Real Estate Transaction Costs Fact Sheet

## Panama

**Closing costs:** Normally 1% to 2% of the sale price.

**Attorney fees:** 1% of the sale price.

**Notary fees:** This is included in closing costs.

**Transfer taxes:** 2% of the sale price or the updated value of the property, whichever is higher.

### **Property taxes:**

Properties with a registered value of \$30,000 or lower do not pay property tax.

For properties of higher value they pay as follows: 1.75% from \$30,000 to \$50,000; plus 1.95% from \$50,000 to \$75,000; and 2.10% over any property value above \$75,000. This is a combined scale. For example, a property valued at \$100,000 would pay the following **annual** tax:

From \$30,000 to \$50,000: \$350.00

From \$50,000 to \$75,000: \$487.50

From \$75,000 to \$100,000: \$525.00

**Total** **\$1,362.50**

There is also a special property tax rate which is applicable if a voluntary re-assessment is approved by the tax department. The rates are:

- \$0 to \$30,000 = 0%
- \$30,000 to \$100,000 = .75% plus
- \$100,000 and up = 1%

### **Property Tax exemption:**

Houses or apartments for residential use where the construction permit was issued before **1<sup>st</sup> July 2009** and for which the completed construction is registered before **31<sup>st</sup> December 2011**, get a 20-year property tax exemption from the date of their registration or their occupancy permit, whichever is earlier. This exemption is transferable during the exemption period to any new buyer.

New houses or apartments which do not qualify for the 20-year exemption will have the following exemption on property tax:

- Value up to \$80,000 20 years exemption
- Value from \$80,000 to \$100,000 15 years exemption
- Value from \$100,000 to \$250,000 10 years exemption

· Value over \$250,000

5 years exemption

The **land** itself is not exempted and would continue to pay property tax at the appropriate rate if its value above \$30,000. The land on which condos are built is subject to 1% property tax over the value of the land which is designated for each unit until the tax exemption is finished.

All other land and condos once the tax exemption is finished pay property tax after the first \$30,000 in value.

**Maintenance fees:** This fee will vary widely depending on the amenities of each building or development. The average range is \$1-\$1.50 per square meter, per month, in new condos.

**Capital gains tax:** 10% . You pay 3% of the sales price at the time of the sale and if this amount is higher than the 10% capital gains applicable, then you are entitled to ask for a refund or a credit. The obtainment of the refund is a lengthy process.

**Rental income tax:** Roughly 10% -25% if the property is owned by an individual and 25% for income generated from January 1<sup>st</sup>, 2011 onwards if the property is owned by a corporation or foundation.

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# Real Estate Transaction Costs Fact Sheet

## Uruguay

As a buyer, a good rule of thumb is to assume that the total transaction cost will be just over 8% of the sales price if you use a real estate agent, or a little above 5% if you don't. As a seller, it costs somewhat less: You'll pay just over 4% if you use a real estate agent, and 1% if you don't.

The following is a breakdown of real estate transaction costs in Uruguay.

### **Costs when purchasing property:**

- Property transfer tax (ITP): 2% of the property's fiscal value (which is usually substantially lower than the market value, so the tax, on average, is 0.5% to 1.5% of the purchase price).
- Notary (*escribano*) fees: 3.66% (composed of 3% fee plus 22% value added tax) of the purchase price.
- Deed registration duties (*montepios*): 0.55% of the purchase price.
- Registry, tax certificates, stamps: \$300 average.
- (Optional, if a real estate agent intervenes): Real estate agent fee: 3.66% (composed of 3% fee plus 22% value added tax) of the purchase price. Total costs with real estate agent: estimated 8.5%.

### **Costs during the ownership of the property:**

- Ø Municipal Property Tax (*Contribucion Inmobiliaria*) and Municipal street taxes (*Impuestos de Puerta*): 0.25% to 1% of the purchase price (the rate varies by area, given the different appraisal values according to the geographical area).
- Ø Public Schools Tax (*Impuesto a Enseñanza Primaria*): 0.1 to 0.3% of the purchase price.
- Ø Lease (rental) income tax: 12% of gross lease amount (it can be reduced to 10.5%, through deductions).
- Ø Asset Tax (IP): Not applicable to properties under US\$400,000 (approximately) of market value (if owned by a couple) or US\$200,000 (if owned by a person). After that, the rate is 0.7% for first US\$280,000 (for a couple)/US\$140,000 (if owned by a single person) of market value. (Note: the tax is gradually being phased out and will be a flat 0.1% by 2017).
- Ø (Optional): Management fee for real estate manager managing the property: US\$40 per month, on average.

### Costs when selling property:

- Property transfer tax (ITP): 2% of the property's fiscal value (which is usually substantially lower than the market value, so the tax, on average, is 0.5% to 1.5% of the purchase price).
- Capital gains tax: 12% of the increase in price, that is: the difference between the original purchase price plus improvements, and the final sale price.
- (Optional, if a real estate agent intervenes): Real estate agent fee: 3.66% (composed of 3% fee plus 22% value added tax) of the purchase price.

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