

Withholding on Real Property Conveyances

Form OR-18, Form WC, Form TPV, and instructions

Introduction

Real estate withholding at a glance

Nonresidents who sell Oregon real property are subject to withholding on the gain from the sale. Escrow agents and, in some cases, attorneys (“authorized agents”) are required to withhold and remit the funds to the Oregon Department of Revenue to pay for any taxes that may be due. Taxpayers are entitled to receive credit for any withholding on their Oregon tax returns filed for the year in which the sale was made. These instructions and forms are designed to inform authorized agents and taxpayers of what is required. Note that there are exceptions to the withholding requirement detailed below.

Definitions

The following terms are used in these instructions:

“**Authorized agent**” is an escrow agent licensed under Oregon Revised Statutes (ORS) 696.505 to 696.590. An attorney is an authorized agent if there is no licensed escrow agent involved and the attorney deposits the proceeds of the sale into a client trust account and disburses funds to the transferor.

“**BIN**” is the Oregon business identification number.

“**Exempt transferor**” is a transferor that is:

- A resident of Oregon;
- An entity registered to do business in Oregon;
- A pass-through entity;
- An agency or instrumentality of the United States or the State of Oregon; or
- A city, county, or other municipal or public corporation.

“**FEIN**” is the federal employer identification number.

“**Nonexempt transferor**” is a transferor that is a nonresident of Oregon, including grantor trusts and single-member LLCs, or a C corporation that is not registered to do business in Oregon.

“**Pass-through entity**,” is an entity through which income and expenses flow to the owners of the entity, such as a partnership, S corporation, limited liability company (LLC) that is not a disregarded entity, limited liability partnership (LLP), certain trusts, or estates.

“**Transferee**” is a person who acquires ownership of real property located in Oregon.

“**Transferor**” is a property owner who transfers, sells, deeds, or otherwise conveys their ownership interest in real property to another person or entity.

Information for transferors: Calculating tax withheld

Exempt transferors

Withholding is not required if the transferor is an exempt transferor, such as:

- An individual who is a resident of Oregon (see **Determining residency status** below);
- A C corporation registered to do business in Oregon;
- A personal representative, executor, conservator, bankruptcy trustee, or other person acting under judicial review;
- A pass-through entity; or
- A governmental instrumentality (i.e. city, county, state, or federal agencies).

If the authorized agent has information that indicates the seller is an exempt transferor, the authorized agent is not required to obtain Form WC, *Written Affirmation for Withholding on an Oregon Real Property Conveyance*.

Exempt transfers

Generally, an authorized agent is required to withhold and remit tax to the department on behalf of a nonexempt transferor if the transferor is conveying real property located in Oregon. However, withholding is not required if:

- The consideration (total sales price) for the real property is \$100,000 or less;
- The transferor delivers to the authorized agent a written assurance as provided in section 6045(e) of the Internal Revenue Code (IRC) that the sale or exchange qualifies for exclusion of gain as the seller’s principal residence under IRC section 121;
- The conveyance is pursuant to a judicial foreclosure proceeding, a writ of execution, a nonjudicial foreclosure of a trust deed, or a nonjudicial forfeiture of a land sale contract; or
- The conveyance is occurring instead of foreclosure of a mortgage, trust deed sales contract, or other security instrument, or a land sale contract with no additional monetary consideration.

Principal residence exemption. If the transferor is selling a personal residence and the entire gain qualifies for exclusion under federal law, the transferor must provide a written assurance to the authorized agent that the entire gain qualifies for exclusion under IRC section 121. The transferor does not need to complete Form WC.

If the transferor is selling a personal residence and the *entire* gain is not excludable from federal tax, the transferor must complete Form WC. Situations where the entire gain is not excludable include if the taxpayer claimed business use of home deductions in the past, or the gain exceeds the federal exclusion amount.

Oregon BINs

Withholding on real estate conveyances is not the same as payroll withholding. Payroll withholding is tax withheld from an employee's paycheck. The authorized agent remitting the tax on behalf of a transferor does not need to have an Oregon BIN as is required for payroll withholding. If the transferor is a C corporation, the transferor may have an Oregon BIN. Use the Oregon BIN on the forms as required. If the transferor does not know the Oregon BIN, use the federal employer identification number (FEIN) when a tax identification number is required to be used for a C corporation. Otherwise, if the transferor is an individual, enter the transferor's Social Security number.

Determining residency status

Withholding is required when nonresidents sell Oregon real property (unless the transfer is exempt, see **Exempt transfers** on page 1). If you are uncertain whether or not transferors are Oregon residents, use the criteria below to help make that determination. If still in doubt, authorized agents must obtain a completed Form WC from the transferor attesting to their residency status.

Who is an Oregon resident?

A transferor is a full-year resident of Oregon (even if living outside of Oregon) if all of the following are true:

- The transferor thinks of Oregon as his or her permanent home;
- Oregon is the center of the transferor's financial, social, and family life; and
- Oregon is the place the transferor intends to return to when away.

The transferor is still an Oregon resident if he or she moves out of Oregon temporarily or moved back to Oregon after a temporary absence.

Who is a nonresident?

A nonresident is a transferor that maintains his or her permanent home outside of Oregon all year. Sometimes, Oregon residents are deemed nonresidents if they:

- Maintained a permanent home outside Oregon the entire year; and
- Didn't keep a home in Oregon during any part of the year; and
- Spent less than 31 days in Oregon during the year.

What if the transferor moves into or out of Oregon during the year?

A transferor who moved into or out of Oregon during the calendar year is a "part-year resident." The individual is a resident for part of the year and a nonresident for part of the year. A part-year resident may only claim exemption from withholding if the conveyance occurs and the proceeds are disbursed during the part of the year that the transferor is a resident of Oregon or another exemption applies.

Example 1: Anne moved from Oregon to California on March 31, 2010. She sold her Oregon rental property on July 28, 2010. Even though Anne was a resident of Oregon for the first three months of the year, she was not a resident at the time of the conveyance so she may not claim exemption from withholding as a resident of Oregon.

Determining nonexempt status

Disregarded entities

If a transferor is a limited liability company (LLC) or a grantor trust, special rules apply for tax purposes. Sometimes these entities are disregarded for tax purposes. To determine if the entity is disregarded for tax purposes use the guidelines below:

Limited Liability Companies (LLCs). An LLC owned entirely by a single member is disregarded for tax purposes. If the LLC is owned by spouses or registered domestic partners (RDPs), the LLC is disregarded for tax purposes if the individuals elect to file a joint tax return. In these situations, treat the members as individuals and follow the related instructions.

Grantor Trusts. A grantor trust is not recognized for tax purposes because the grantor retains substantial control. A grantor trust is sometimes referred to as a "revocable trust" or a "living trust." As long as the grantor is living, treat the trust as an individual and follow the related instructions. If the grantor is deceased, the trust is irrevocable and withholding is not required.

Form WC

General

A nonexempt transferor must complete Form WC, *Written Affirmation for Withholding on an Oregon Real Property Conveyance*. This is true even if a nonexempt transferor is engaging in an exempt transfer. Form WC is retained in the records of the authorized agent for six years from the date the transaction closed. The authorized agent also sends a copy of Form WC and any required attachments to the department. The transferor should keep a copy of the Form WC provided to the authorized agent.

Complete the top section of the form for all nonexempt transferors that must complete Form WC. Use the following guidelines to determine which box to check in the "Type of property conveyed" section:

"Specially assessed" is property that has received a special property tax assessment such as a reduced valuation or deferral.

"Rental property" is any real property that is a rental building or structure (including mobile homes) for which rental income is received (commercial, industrial, or residential).

"Undeveloped land" is a parcel of land that is vacant and has not been improved for accessibility to utilities nor has any structures located upon it.

“Farm use” is land that is employed in the trade or business of farming for a profit. The land may be zoned for exclusive farm use (EFU) but is not required to be.

“Acquired as gift” is property that the seller did not purchase. It could be property that was inherited or simply gifted to the seller.

When the property is owned by more than one transferor

To be exempt from the withholding requirement, both transferors must meet an exemption separately. If one transferor is exempt and the other(s) is not exempt, withholding is required on the portion of the conveyance attributable to the nonexempt transferor(s).

Transferor is married or is a registered domestic partner

If both transferors are exempt and the couple intends to file a joint Oregon tax return for the year of the transaction, complete one Form WC explaining why the transferors qualify for exemption. If only one of the transferors is exempt, complete a Form WC for that person. Complete a separate Form WC for the transferor who is subject to withholding. See the instructions for Form WC for more information.

Transferor jointly owns property and is not married nor a registered domestic partner

Complete a separate Form WC for each transferor who qualifies for exemption. Complete one Form WC for each transferor who is subject to withholding. See the instructions for Form WC.

Example 2: Rae, Camille, Joe, and Lane inherited a piece of property from their parents. The siblings chose to sell the property. Camille and Joe are Oregon residents; Rae and Lane are California residents. Camille and Joe are exempt from the withholding requirements and do not need to complete a Form WC. Rae and Lane are not exempt and each must complete Form WC.

Form WC, part A: Exemption from withholding

General information

If a nonexempt transferor reasonably determines the gain from the sale is unlikely to be subject to Oregon tax, the nonexempt transferor may claim exemption. In making the determination, the transferor may not consider other losses or deductions that may be claimed when the tax return is filed. To claim this exemption, the nonexempt transferor must complete part A of Form WC, explaining why tax is unlikely to be due and a calculation that explains the estimate. If more space is needed, a separate page may be attached.

For example, a California resident who sells Oregon property may reasonably expect to be eligible to claim the credit for taxes paid to another state on the Oregon nonresident

return based on the amount of gain that California will also tax. In that case, the nonexempt transferor completes the top part of Form WC and part A, explaining the situation and providing a simple calculation of how the credit will offset any Oregon tax due on gain from the sale of the real property.

Form WC, part B: Calculation of gain and withholding amount

General information

If a transferor is not exempt from the withholding requirements or does not complete part A of Form WC indicating an exemption, the authorized agent must withhold the smaller of:

- Four percent of the consideration (sale price);
- Eight percent of the gain that is includable in Oregon taxable income; or
- The net proceeds disbursed to the transferor.

To determine the proper amount of withholding, the transferor must complete part B of Form WC, “Calculation of gain and withholding amount,” and provide it to the authorized agent handling the transaction in the time specified by the authorized agent. If the transferor does not provide the completed Form WC to the authorized agent as required, the authorized agent must withhold and remit 4 percent of the consideration for the conveyance, or, if less, the entire net proceeds.

Due date for Form WC

The transferor must provide the completed Form WC to the authorized agent on or before the date of the closing.

Calculating withholding

Consideration

The consideration for the conveyance is the amount given to the transferor in exchange for the transferor’s interest in the real property and is generally the sales price. Consideration includes cash, assumed debt, and the fair market value of any property given to the transferor.

Net proceeds

This is the amount from the conveyance that is to be disbursed to the transferor. Generally, this is the amount of “cash to seller” shown on the HUD-1 settlement sheet.

Example 3: Katie sold a small commercial building for \$500,000. She purchased it for \$250,000 10 years ago and still owed \$205,000 on it. Her selling expenses from the property were \$20,000 and included typical costs. The amount on the HUD-1 settlement sheet on the “cash-to-seller” line was \$275,000. The escrow agent is scheduled to disburse \$275,000 from this conveyance. The “net proceeds” related to this transaction used to calculate withholding is \$275,000.

Example 4: Same facts as Example 4, except that Katie entered into a deferred like-kind exchange. The escrow agent forwarded \$200,000 of the amount due to the transferor to a qualified intermediary. The escrow agent is scheduled to disburse \$75,000 to Katie. The “net proceeds” used to calculate withholding is \$75,000.

Gain includable in Oregon taxable income

This is the amount of consideration received for the conveyance, less the transferor’s federal adjusted basis in the property or the Oregon adjusted basis, if different than the federal adjusted basis. The result is reduced by the selling costs directly related to the conveyance (if not already taken into account in the basis calculation) and any part of the gain that is excludable under federal law.

To determine gain includable in Oregon taxable income, you must determine your adjusted basis in the property being sold. “Adjusted basis” is generally considered the amount originally paid for the property plus improvement costs and minus depreciation. Transferors may wish to consult a tax professional for assistance if they are unsure how to calculate their adjusted basis. If the adjusted basis is unknown at the time of the transfer, the authorized agent must withhold either the lower of 4 percent of the consideration paid or the net proceeds from the sale.

Example 5: Matt sold his rental triplex for \$750,000. He purchased the property 15 years ago for \$400,000. He immediately renovated the property spending an additional \$200,000. He has claimed straight-line depreciation on the property over the last 15 years totaling \$327,270 (\$21,818 each year for 15 years). His Oregon and federal adjusted basis in the rental is \$272,730 (\$600,000 – \$327,270). He had ordinary selling costs of \$50,000. His gain includable in Oregon taxable income is \$427,270 (\$750,000 – \$272,730 – \$50,000).

Gain that is partially exempt from taxation

If a transferor conveys property that is partially exempt from taxation, the transferor may reduce the gain includable in Oregon taxable income by the exempt amount for this purpose.

Example 6: Steve, a single individual, sold his personal residence for \$690,000. He purchased the property eight years ago for \$225,000. The total gain from the sale of his personal residence is \$465,000. Under IRC section 121, Steve may exclude \$250,000 of the gain from the sale of his personal residence from taxation. He may reduce the gain includable in taxable income by the amount excludable on his federal tax return. The withholding is based on the gain of \$215,000 (\$465,000 – \$250,000).

Gain recognized using the installment method

If a transferor uses the installment method under IRC section 453 to report the gain associated with the conveyance, the transferor reduces the gain used to calculate withholding. Reduce the gain for the year by the amount that is

deferred. Withholding is only required on the first installment of an installment sale.

Example 7: Edward sold a large acreage for \$1 million. His total gain on the sale was \$500,000. He and the transferee entered into a land-sale contract where the transferee pays Edward over five years with 50 percent paid in the first year and the remainder paid evenly each subsequent year. For tax purposes, Edward recognizes \$250,000 of the gain in the year of the conveyance. He calculates withholding only on the portion of the gain recognized in the year of conveyance.

Information for authorized agents: Reporting tax withheld

Form WC and written assurances

An authorized agent must obtain a completed Form WC from the transferor before the transaction closes. If the transferor refuses to provide a completed Form WC, or is unable to return it to the agent by the time the agent requires, the authorized agent must withhold 4 percent of the sales price or, if less, all of the net proceeds.

If a transferor completes a written assurance that the gain qualifies for the principal residence exclusion under IRC section 121, that is all that’s required. If the transferor signs the written assurance, the authorized agent must send that form to us.

The authorized agent must send the completed Form WC (or written assurance) to the department within 30 days from closing.

Form OR-18 and Form TPV

Purpose of forms

If you are an authorized agent, use Form OR-18 to report the amount of withholding the transferor may claim on the personal or corporate tax return. Complete Form OR-18 as part of the closing of the conveyance. Give the top portion of the form showing the amount withheld to the transferor and send the bottom section of the form to the department along with the payment of withheld tax. As evidence of the tax paid on the transferor’s behalf, you may also wish to keep a copy of the Form OR-18 in your records.

Due date of Form OR-18 and Form TPV

You must remit withheld tax to the department within 20 days from the date the proceeds from the conveyance are disbursed to the transferor. Send the payment with the payment voucher, Form TPV, *Payment of Tax Withheld for Non-residents*. We will credit the payment to the appropriate tax year as of the date of the payment.

Example 8: Hanna conveyed her real property on August 15, 2008. The authorized agent completes Form OR-18. We will credit Hanna’s tax account with the payment for the third quarter of 2008 as of the date the payment is made.

Important addresses

Mail **Form TPV** with payment within 20 days from disbursement to:

Oregon Department of Revenue
PO Box 14950
Salem OR 97309-0950

Mail **Form WC** within 30 days from closing to:

Oregon Department of Revenue
PTAC Compliance
955 Center Street NE
Salem OR 97301-2555

Taxpayer assistance

General tax information.....www.oregon.gov/dor
Salem 503-378-4988
Toll-free from an Oregon prefix 1-800-356-4222

Asistencia en español:
Salem 503-378-4988
Gratis de prefijo de Oregon..... 1-800-356-4222

TTY (hearing or speech impaired; machine only):
Salem 503-945-8617
Toll-free from an Oregon prefix 1-800-886-7204

Americans with Disabilities Act (ADA): Call one of the help numbers for information in alternative formats.

Form WC

Written Affirmation for Withholding on an Oregon Real Property Conveyance

Fill in Tax Year

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Name(s) of individual or C corporation transferring property (transferor)			Transferor is (check one) <input type="checkbox"/> Individual <input type="checkbox"/> C corporation	
Transferor's address		City	State	ZIP code
Transferor's Social Security number (SSN)/BIN		Transferor's federal employer identification number (FEIN)		
Percentage of ownership interest in property	Date acquired	Transferor's daytime telephone number ()		
Address of property conveyed				
Type of property conveyed	<input type="checkbox"/> Specially assessed	<input type="checkbox"/> Undeveloped land	<input type="checkbox"/> Acquired as gift	
	<input type="checkbox"/> Rental property	<input type="checkbox"/> Farm use	<input type="checkbox"/> Other: _____	

Part A: Exemption from withholding

I (we) hereby affirm that I am (we are) the transferor(s) of the property described above, and that as of the date of closing, I have (we have) knowledge (or have received advice from a tax professional) that there is no tax likely to be due under Oregon Revised Statutes (ORS) Chapters 118, 316, 317, or 318. Enter explanation and calculation below, or attach separate page.

Part B: Calculation of gain and withholding amount

Use this section to calculate Oregon tax required to be withheld on transfers of real property. The amount of tax sent to the Oregon Department of Revenue by the authorized agent will be credited to the Oregon income tax account of the transferor as an estimated payment.

1. Consideration. Amount of seller's share of sales price	1	
2. Multiply line 1 by 4% (0.04).....	2	
3. Net proceeds. ("cash to seller").....	3	
4. Your federal or Oregon adjusted basis in the property, whichever is greater (attach separate basis calculation).....	4	
5. Selling costs directly related to this conveyance not already included in the basis calculation.....	5	
6. Add lines 4 and 5	6	
7. Taxable gain. Subtract line 6 from line 1	7	
8. Reduce gain by applicable nonrecognition section under federal law. Enter IRC section	8	
9. Subtract line 8 from line 7	9	
10. Multiply line 9 by 8% (0.08).....	10	
11. Withholding. Enter the least of lines 2, 3, or 10	11	\$

I (we) certify under penalty of perjury the above statements are true. I (we) understand that the amount shown on line 11 is being remitted. If the amount on line 11 is zero, no withholding is being made. [Corporate officers, fiduciaries, or other qualified persons signing on behalf of the taxpayer(s): By signing, I also certify that I have the authority to execute this form.]

Signed under penalty of perjury:

Transferor's signature	Date
Spouse's/RDP's signature (if applicable)	Date

KEEP THIS FORM IN AUTHORIZED AGENT'S RECORDS FOR SIX YEARS FROM DATE SIGNED

Mail to: Oregon Department of Revenue, 955 Center St NE, Salem OR 97301