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Housing and Real Estate Trends among Americans Retiring in Mexico's Coastal Communities

Executive Summary

For years, U.S. & Canadian retirees have flocked to Mexico as an alternative overseas retirement destination that was affordable, offered desirable weather and was close to their communities of origin in North America. These attributes have made Mexico the top overseas retirement destination for older Americans, resulting in a building boom that reached its peak in 2005/06 and stretched from Playas de Tijuana-Rosarito and Los Cabos along the Baja California peninsula, and from Puerto Peñasco, Sonora to Mazatlán, Nayarit. In southern Mexico, the real estate focus has been on expanding the Cancún corridor to the Riviera Maya.

While Mexico has become a popular destination among U.S. retirees, growing concerns over public safety in Mexico coupled with the credit crisis that was precipitated by the recent global economic recession and the collapse of the U.S. real estate market has resulted in several Mexican real estate development projects going bankrupt or simply being unable to proceed. The collapse of high-profile, coastal development projects in Mexico, such as Trump Baja Ocean Resort and the Villages at Loreto Bay has re-affirmed the perception among some would-be retirees and second homebuyers that Mexico is a risky place to either invest in real estate or to retire.

In an effort to better assess the current landscape of U.S. retiree-focused home buying in Mexico, the International Community Foundation undertook a historical review of real estate investment by U.S. retirees in Mexico and examined perceptions among U.S. retirees now residing in Mexican coastal communities. Research presented in this report is based on the Foundation's recent survey of over 840 U.S. retirees in Mexican coastal communities from July to November 2009, five additional focus groups, and individual interviews.

The survey provides insights covering a wide range of real estate and housing specific topics from the decision to retire abroad, coastal lifestyle preferences, home purchase considerations, type of living accommodations, ownership status, property tax issues, and issues related to infrastructure, safety and health care.

Among the findings is that Mexico remains a viable retirement option for Americans aged 50 years and over, offering a reduced cost of living, lower health care expenses, and proximity to friends and family in the United States. In addition, over half of survey respondents observed that their motivation to purchase a home in Mexico was based on their desire to have a home on or near the coast that would otherwise be unattainable in the United States. Among survey respondents, 77.2% owned their home in Mexico and only 16.4% were renters.

In spite of the fact that there are well-documented cases of Americans that have experienced title disputes and fraud, nearly 68.5% of retirees surveyed observed that such issues can be avoided if one understands the risks of buying a home in a foreign country. 33% of respondents stressed the importance of hiring a good lawyer. According to one survey focus group participant most real property-related errors could be avoided so long as would be American home buyers "do not leave their brain at the border."

As American baby-boomers consider relocating to Mexico for retirement, the global economic recession has hit newly-retired Americans the hardest, especially those now over-leveraged with second homes or time shares in Mexico that they may not be able to sell at their original purchase price. Other unresolved issues are evident across most Mexican coastal communities (e.g: eroding infrastructure, litter problems, growing street crime), which if left unattended, could result in a missed opportunity for Mexico to capitalize on American retirees' interest in retiring overseas.

This report also provides recommendations to real estate developers and federal, local and state policy makers in Mexico and the United States that could, if adopted, help better meet the longer-term needs of aging American baby-boomers who are considering Mexico as a retirement destination (see Appendix A). The report also includes tips and practical advice for would-be retirees considering a real estate purchase in Mexico (see Appendix B).

Background

Since the early 1960s, Mexico's coastal communities have been marketed as desirable retirement alternatives for American retirees seeking beach access and oceanfront views at prices that were more affordable than comparable beachfront communities in California or Florida.

Across the Republic of Mexico, there are many communities that have proven popular for U.S. retirees. Among the most mature are two non-coastal communities: San Miguel de Allende, Guanajuato and Ajijic/Lake Chapala near Guadalajara, Jalisco. Lately, American retirees have increasingly been drawn to coastal regions including the Playas de Rosarito-Ensenada Corridor, Puerto Peñasco, La Paz, Loreto, Los Cabos and Todo Santos on the Baja California peninsula, as well as Puerto Vallarta, Riviera Nayarit, Mazatlán, Cancún and the Riviera Maya, including Playa de Carmen. According to Mexico's tourism ministry, the most popular destinations among American homebuyers are Los Cabos and Puerto Peñasco. [1]

The Mexican market research firm, SOFTEC, reported that during the last quarter of 2009, there were 957 new vacation and retirement-focused development projects across Mexico with the majority being located in coastal areas. Of these projects, there was a total inventory of 49,983 new homes on the market. The firm expects sales of less than 7,000 new vacation homes in Mexican coastal communities during 2010. [2] SOFTEC also reported that sales of beachfront property had dropped by over 20% during the last quarter of 2009 (when compared to 2008) and a recovery was not expected for another 4-5 years.[3]

The Early Years & Initial Property Disputes
Among the first real estate projects specifically targeted to Americans was San Antonio Shores, known today as San Antonio del Mar, located immediately across the San Diego-Tijuana border near Playas de Tijuana. San Antonio Shores was advertised as "a new American colony on the Pacific Ocean just south of the border."[4] In a 1968 promotional letter to potential U.S. homebuyers, the property's developer, Manuel Corzo, advertised: *"a complete two bedroom home on your own lot can be yours on terms for less than $7,500.00. A fully improved home site including water, electricity, private sewer system and black topped contour road can be yours for as little as $3,450.00."* [5]

What Mr. Corzo's letter did not clarify, however, was that ownership of coastal property was illegal for foreigners at that time.

In the case of San Antonio Shores, U.S. investors were offered leases of up to 99 years with the right to pass property rights on to heirs automatically.[6] Unfortunately, these leases, on land owned by Mr. Corzo, were signed in direct violation of the Mexican constitution. Yet, the Mexican government contributed to the problem "due to 'benign neglect' overlooking the constitutional violations." [7] As a result, countless American investors left themselves open to fraud and other abuses.[8] In the early 1970s, the San Antonio del Mar development declared bankruptcy, which was quickly followed by angry investors picketing the Mexican Consulate in San Diego. In response to the political pressure, the Mexican government took over the ownership and management of the San Antonio del Mar development and in 1975 the government came up with a political solution to appease irate American investors by providing 30-year trust agreements to the 450 original American "tenants." [9]

With the enactment of an April 30, 1971 Presidential decree followed by the 1973 Foreign Investment Law[10], foreign nationals have been provided with the legal means to create a *Fideicomiso* as a way to "own" land in Mexico. Although often confused with a "trust" under U.S. laws, a *Fideicomiso* is not a separate legal entity similar to a corporation or trust. Rather, the *Fideicomiso* is a contract that allows a Mexican bank to own land, acting as fiduciary, for the exclusive benefit of a non-Mexican person. This legislation allows foreigners to acquire Mexican property within the "restricted zone" — defined as within 100 kilometers (60 miles) of the U.S. border or 50 kilometers (30 miles) of the Mexican coastline provided that a qualified Mexican financial institution owns title to the land with the foreigners, themselves, as the legal beneficiary. Under this legal structure, the financial institution owns the land or real property and the foreigners have all rights of possession and improvement bequeathed to their heirs, and to mortgage and sell the property.

The creation of the *Fideicomiso* provided the legal basis for the San Antonio del Mar case to be eventually settled in late 1975 by the State of Baja California in an effort to restore the confidence of American investors in Mexican real estate.[11] Under current Mexican law, the *Fideicomiso* is only required for residential property located in the "restricted zone". Non-Mexican persons can freely own residential and other property in the interior of the country and non-residential property can be owned by a Mexican corporation, the sole shareholders of which are non-Mexican persons.

According to the Mexican Secretariat of Foreign Relations, nearly 37,000 properties were purchased by foreigners in the restricted zone under a *Fideicomiso* between 2000 and 2008.[12] An estimated 5,200 properties were purchased in 2009, accounting for over 42,000 properties sold to foreigners in the restricted zone in the past ten years. While such statistics are one measure of the level of U.S. real estate activity in Mexico, these numbers do not tell the whole story. The exact number of real estate purchases by Americans is much harder to track as since 1994 there is no limitation on Mexican corporations, even those wholly controlled by U.S. citizens, owning non-residential real estate in the "restricted zone" or even residential real estate in the interior of the country.[13]

Title Disputes and Title Insurance

The history of real estate investment in Mexico's coastal region is filled with numerous cases just like San Antonio del Mar. But, beyond outright deception, there are also cases of American retirees acquiring property without properly checking the validity of title. Among the most high profile cases is that of Punta Banda, a beautiful coastal community just south of Ensenada, where 200 mostly American owners faced a mass eviction due to questions about the original title of the acquired land obtained through sub-leases.[14] The properties sub-leased by a Mexican developer to the Americans in Punta Banda were on land leased from an Ejido (a Mexican agrarian cooperative communally owned and operated by its inhabitants) and not through a *Fideicomiso* process. Only later did the

Americans learn that the Ejido itself had been involved in litigation with the original owners since 1973 who argued in Mexican courts that their land had been effectively "taken." In 1995, the Mexican courts ruled that the foreigners' case was invalid and that the original Ejido could retain their title and evict the foreigners, setting in motion the eviction notices of countless American retirees who, in many cases, had invested their life savings into coastal homes south of the border.[15 16]

There were several lessons from the Punta Banda evictions for Americans preparing to acquire real property in Mexico. Among the most important was a failure by these U.S. retirees and second home buyers to discover pending title issues prior to investing. In a *Fideicomiso*, a complete chain of title check is completed prior to the final transaction, which would have hopefully uncovered the title dispute in this case, assuming the historical records were accurate and intact. According to Marianne Eddy-Sorman, a real estate broker with McMillan Realty in La Jolla, "The lesson (on the Punta Banda evictions) is that when you go to a foreign country, you have to realize you're a foreigner, and you have to protect yourself."[17] As Ms. Eddy-Sorman observed, "They were foolish…they built some absolutely gorgeous houses on the land, thinking the Mexican government was going to ignore it and the ejido people were going to let them continue to lease it."[18]

Since 1997, well-known U.S. title insurance companies, such as Chicago Title, First American Title and Stewart Title Latin America, have offered title insurance services in Mexico.[19] First American Title offers escrow account services in Mexico.

"Project Risk"– Looking Beyond the Brand

Beyond questions related to title, there is the issue of "project risk", and the possibility that even a seemingly well thought through real estate project in Mexico by a recognized U.S. or Canadian development company might, in the end, prove to be a questionable investment. Over the past decade, a growing number of U.S. retirees have been drawn to particular real estate projects throughout coastal communities in Mexico due to the reputation or brand of the real estate development firm backing the project. However, as some retirees have learned, a developer's past track record is no guarantee of future success. Such is the case with two highly touted projects-the Villages at Loreto Bay and Trump Ocean Resort Baja that have both experienced economic difficulty in recent years.

In the case of the Villages at Loreto Bay, located in the sleepy, seaside resort town of Loreto, Baja California Sur, Canadian developer David Butterfield sought to build an 8,000 acre residential community with 6,000 homes at a cost of over US$3 billion.[20] With this ambitious plan, the Loreto Bay Company secured one of the largest individual projects that the Mexican government's tourist development agency, FONATUR, had ever approved. Loreto Bay was also marketed as a sustainable development, possibly Mexico's first truly environmentally-sound real estate development project.

In spite of the Loreto Bay's many positive attributes, poor due diligence by the builder regarding construction costs was aggravated by the slump in the U.S. real estate market and resulted in its takeover by its principal creditor, Citicorp Property Investors.[21] Sales continue at Loreto Bay today under its new ownership, albeit at a slower pace than during the project's promotional heyday of 2005-2006 when its original developers had sold over $100 million in homes during the first 17 months.[22] Those retirees and second home buyers who invested in Loreto Bay early in the process have been left with construction loans, unfinished homes and demands for completing basic infrastructure (sidewalks, lighting, streets, etc.).

Similarly, Trump's Ocean Resort Baja, which was to be built on coastal property just south of Playas de Tijuana in the State of Baja California, derived much of its initial success based on the confidence derived from the Trump name. In fact, many U.S. retirees and second home buyers invested in the Trump project primarily due to Donald Trump's direct involvement and endorsement. In late 2006, investors rushed to make deposits on luxury condominiums in three high-rise towers on the Pacific coast. After $32.3 million in deposits was collected, the project lost its financing and Trump's licensee, Irongate Capital Partners LLC, informed buyers in 2009 that not only was the project no longer going forward, but that their deposits had all been spent and there would be no way they could recove their money. In 2007, Ivanka Trump, speaking on her father's behalf, noted that Donald Trump was "involved in every capacity of the development."[24] One of the property brochures even stated, "Mr. Trump is personally involved in everything his name represents." Ms. Trump went on to declare, *"In characteristic Trump fashion, Trump Ocean Resort Baja will be the best of the best, and consequently always in demand."*[25] Ironically, when the project began to experience economic difficulty, the Trump Organization quickly sought to distance themselves from the project, noting that *"we are not the developer of Trump Baja - we are the brand…we never took on the obligations of the developer and we were not responsible for the financing."*[26]

As a result of the project's failure and resulting losses by would be investors, in 2008 a class action suit was filed in Los Angeles Superior Court against the Trump Organization, representing 69 buyers that had purchased or made deposits on 71 units in the Trump Baja development, with deposits totaling $18-20 million.[27] The lawsuit requested unspecified damages and alleged fraud, negligence and breach of fiduciary duty, claiming Trump led buyers to believe that he had an active role and stake in the development.[28]

It is worth noting that the problems experienced by those investing in Trump Baja Ocean Resort were not unique to Mexico. In fact, the Trump organization and its Baja partner, Irongate, are now subject to another law suit in the state of Hawaii due to alleged mis-representations made to would be homebuyers and investors in Honolulu.[29]

Though the pending case against the Trump Organization in Hawaii highlights that acquiring real estate can be risky anywhere in the world if one does not do proper due diligence, the fact remains that throughout Mexico there have been numerous failed or stalled residential projects in which U.S. retirees have been harmed financially. In some cases, investors had put up sizable down payments long before their homes were to be completed without having their money held in an escrow account or without demanding a performance bond.

In the case of the Playa Norte project in Puerto Peñasco, which failed in 2007 after swallowing over $100 million in monies invested by U.S. residents, mostly from Arizona, U.S. Senators John McCain and Jon Kyl were forced to intervene, sending a formal complaint letter to then-Mexican Ambassador Antonio O. Garza Jr.[31] In an effort to protect U.S. investors from future debacles such as Playa Norte, the State of Arizona now requires that developers marketing Mexican projects in that state have full project disclosures on file through the Arizona Department of Real Estate.[32] In fact, Arizona's Department of Real Estate now has a special section on its web page on purchasing real estate in Mexico. This is a policy that other U.S. States should follow, particularly California.

The Calvo Clause: Limits to Legal Recourse
Investors of Trump Baja Ocean Resort have had some initial success with their U.S. class action suit due to a partial out-of-court settlement, but this had more to do with pressure applied in the United States against the Trump Organization than anything else. Such out-of-court settlements are more the exception than the rule due to a provision in international law adopted in Mexico called the Calvo Clause, which strictly limits the legal recourse that foreigners have in filing claims on real estate disputes in Mexico.

Under the current law, foreigners should consider themselves as equivalent to Mexican nationals regarding the rights and obligations they acquire in Mexico and therefore, will not be eligible to request that their own government intervene on their behalf in legal disputes arising from property owned in Mexico. While there have been attempts to eliminate the Calvo clause, this legal restriction has been strictly enforced by Mexico.

What is the Calvo Clause?
The Calvo Clause is a legal doctrine that attaches the following five key provisions to an international investment agreement: 1.) submission to local legal jurisdiction; 2.) application of local law; 3.) assimilation of foreigners to local contracting arrangements; 4.) waiver of diplomatic protection in a foreigner's home state; and 5.) surrender of rights under international law exclusion.[33] Mexico is not the only country that applies the Calvo Clause in transactions involving foreigners. In fact, the Calvo Clause is universally applied

across Latin America, and in Mexico, only NAFTA-related disputes are exempt.[34 35]
In Mexico, the Calvo Clause is typically found in contracts of real property sold to U.S. and other foreign investors. Under Article 27 of the Mexican Constitution, only Mexicans by birth, nationalization or Mexican companies have the right to acquire property in Mexico.[36] Under this same Article, foreigners may acquire property, but only if they agree before Mexico's Secretariat of Foreign Relations to consider themselves as nationals with respect to the property that they purchase and bind themselves to "not provoke the protection of their government in matters related to contract non-compliance or property forfeiture." With regard to Mexican coastal properties, the Calvo Clause is typically found in the *Fideicomiso* document, not in the purchase contract.[38]

However, in one purchase contract provided to the authors by a U.S. citizen with real property holdings in La Paz, Baja California Sur, the specific language of the contact reads as follows:

> *"Governing Law and Severability: This agreement is governed by, and will be construed in accordance with the laws of the State of Baja California Sur, Mexico. The parties hereby waive any right they may have under any applicable law to a trial by jury with respect to any suit or legal action which may be commenced by or against the other concerning the interpretation, construction, validity, enforcement, or performance of this Agreement or any other agreement or instrument executed in connection with this Agreement. If any such suit or legal action is commenced by either party, the other party hereby agrees, consents, and submits to the personal jurisdiction of the State of Baja California Sur, Mexico with respect to such suit or legal action….Each of the parties hereby acknowledges and agrees that the State of Baja California Sur, Mexico has the most significant relationship to any claims arising of this Agreement, within the meaning of the United States Restatement (Second) of Conflicts Law…."* [39]

To date, Mexico has staunchly enforced the provisions of the Calvo Clause under the guise of protecting national sovereignty even though the North American Free Trade Agreement's (NAFTA) investment chapter was to have presumably provided remedies for resolving investment disputes between parties of the United States, Canada and Mexico. Furthermore, Article 27 of the Mexican Constitution continues to reinforce the provisions of the Calvo Clause.[40]

In direct contradiction to the language embedded in real estate contracts that stipulates that foreign buyers will be treated as Mexican nationals, the presence of U.S. title insurance companies and U.S. developers and brokers gives many would-be U.S. retirees the false impression that there will be U.S. legal remedies if issues arise with their planned Mexican real estate purchases. Because U.S. buyers put more trust in transnational agencies,[41] they may not be as meticulous in their research, thinking that they are somehow protected by these agencies.

As a case in point, there are at least 70 active real estate brokerage firms with U.S. nationals acting as individual brokers (out of a total of 100) in the Los Cabos area, some of which have offices in the U.S., Canada, and Mexico.[42] In addition, buyers from the U.S. are targeted by many major Mexican real estate projects with sales flyers and websites in English, sales meetings in the U.S., telephone solicitations for visits, and even U.S. sales offices. It is understandable that U.S. buyers might believe that they were operating under a U.S. legal framework.

Luckily, across the United States, most states (including Arizona, California, New York) have protections in place against deceptive marketing and full disclosure requirements for foreign (defined as out of state) real estate sold in-state.[43] While this is so, in the case of many Mexican real estate properties sold to Americans, potential home buyers are not provided up front with full disclosures of their legal limitations as a foreigner in Mexico, nor are the documents provided to them in English, their primary language. In fact, when homebuyers sign on the dotted line, they are put at a distinct disadvantage with provisions, such as this one, that states, *"the buyer represents that s/he either received information about the project while the buyer was in Mexican territory or independently solicited the developer while s/he was in the developer's office in Mexico."* [44] Developers deliberately include such language because it demonstrates that the marketing activity took place out of the United States and is exempt from U.S. Federal and State laws related to disclosure and registration.

Consumer Protection for Americans in Mexico
As noted above, the vast majority of real estate purchases in Mexico by Americans are subject to the Calvo Clause whereby buyers waive all legal rights to have disputes adjudicated by courts outside of the Mexican jurisdiction where property is purchased. Given the travel, cost, and language constraints of pursuing a case in this manner, such legal claims by Americans are rare.

In recent years, however, the Government of Mexico has established a new federal consumer protection agency, Procuraduria Federal del Consumidor (PROFECO) and its protections extend to not just Mexican nationals but foreigners as well. While this is so, with the exception of time share properties, real property disputes are outside of the agency's jurisdiction. According to PROFECO, 90% of all cases brought forward by American and Canadian consumers are related to disputes involving time share purchases with each case taking between six months to a year to resolve.[45] Real estate complaints have also been filed, but these have been referred to corresponding state governmental authorities where the claim was brought.

Returning to the case of Puerto Peñasco, negotiations between the State of Arizona, the Mexican State of Sonora, and disgruntled homebuyers in 2007-2008 have failed to produce any results. At least six civil actions have been filed in Mexican courts for breach of contract or fraud. But, this obscures an important codicil, which is that the developers were involved in legal battles long before U.S. buyers signed purchase contracts for Playa Norte. These were not disclosed to buyers, but they did have a negative effect on the development - the partners sued each other, named the Playa Norte developments as co-defendants, and a judge ordered all construction, sales, and title processing to be stopped in 2004.[46]

Furthermore, despite interventions by the U.S. Senators mentioned above and Arizona officials, the situation cannot be resolved outside of the Mexican court system as dictated by the Calvo Clause. Although this is outlined in the Arizona Department of Real Estate's consumer's guide to purchasing real estate in Mexico,[47] U.S. citizens purchasing real estate in Mexico may not realize that political pressure or legal actions at the U.S. Federal or State level will make no difference to their case. As of this writing, the Playa Norte situation remains unresolved.

Cross-Border Mortgage Financing

The wave of U.S.-style title insurance in Mexico has been followed by U.S.-style real estate financing. Initially, such mortgage financing was limited to 30-year, fixed-rate loans that were collateralized by assets in the United States with a minimum of 30% down payment, but the terms and conditions of such products has since evolved. [48 49] Today, U.S. homebuyers in Mexico can obtain financing collateralized on their Mexican real property. The required down payment is now as low as 20% with a minimum loan amount of $100,000. Also, all types of traditional loan terms are now available including 3-, 5- and 7-year adjustable rate mortgages (ARMs) as well as 10-, 15-, 20-, 25-, and 30-year fixed rate loans.[50] Such financing was until recently available by both Mexican and U.S. financial institutions alike, including Bancomer/Compass Bank, Scotiabank, GE Money, and HSBC. Not all of them offer dollar-denominated loans, but they all require substantial disclosures on the part of the buyer and the lender.[51] The special type of *Fideicomiso* used by GE Money Bank provides that the lender is the secured party with special foreclosure rights if the owner fails to make payments on the loan.[52]

In 2007, less than 5% of all sales of second and vacation homes purchased by Americans in Mexico were obtained through mortgage financing. Before then, the majority of American baby boomers and retirees were acquiring Mexican property on an "all cash" basis, either with lump sum payments or cash deposits and installments. However, with the recent economic downturn many of the common capital sources once used to buy Mexico real estate have dried up, including home equity lines and second mortgages on U.S. residences as well as other private U.S. loans. This has forced a growing number of recent home buyers to take a closer look at Mexico mortgage financing programs.[53] As a case in point, one of Mexico's largest banking institutions, Grupo Financiero BBVA Bancomer SA, has seen the volume of its mortgage business with foreign home buyers continue to grow with the bank expected to close almost $150 million in financing in 2009 up from $100 million in 2008 and $65 million in 2007.[54]

According to La Paz retail estate broker, Linda Neil, "In past years when buyers had equity in their U.S. and Canadian homes, they simply refinanced or took an equity line of credit and paid for the home in Mexico in cash. Now that the equity has vanished, some are selling their homes and moving to Mexico, paying cash for their Mexico home, with a reserve left over. Others retirees have refinanced their U.S. homes and are renting them, hopeful of an increase in value, while the rental covers the mortgage payment…with what savings they have, they pay cash, or finance a portion of the purchase."[55]

Infrastructure Deficiencies
When U.S. retirees seek out coastal destinations in Mexico for the scenic views, crashing oceans, and laid-back lifestyle, they often assume that their adopted home will be able to provide utilities, services, and infrastructure as municipalities do in the United States and Canada. While this is so, many Mexican coastal destinations suffer loss of services and negative impacts to infrastructure as a result of out-of-control growth. In some cases, the very reasons that retirees relocated to the area are severely compromised by poor enforcement of local municipal regulations, as well as the desire to increase profits in the private and public sectors. Infrastructure in Mexico has not caught up with the resort and retirement community development - landfills, wastewater treatment plants, new power sources, and even desalination facilities are urgently needed in many coastal tourism and retirement destinations in Mexico. And, when projects fail and infrastructure commitments made by the developer are not completed, such as with the Villages of Loreto Bay, the homeowners are left negotiating with the new owners and the municipality to assign responsibility and finish them.

Capital Gains Tax Issues in Mexico
In the past, Mexico allowed a tax exemption of up to $500,000 on real property if an owner could prove that they had resided on-site for over six months (through utility or property tax bills), in effect a "residency" exemption. This did not apply for those using the property for investment or vacation purposes only.[56]

In 2010, the Mexican government revised the *Impuesto Sobre La Renta* (or a tax on profit, more commonly known in the U.S. as a capital gains tax) to impose a five-year requirement for the exemption, including a review of immigration status by a *notario público*, who has typically enjoyed tremendous flexibility in how those requirements were applied.[57] The *notario público* is also responsible for verifying with Hacienda that the seller has not asked for the exemption in the past five years. The stakes are high. If the tax is applied, it can be up to 30% of the profit on the sale.[58]

Key Findings

In order to better understand some of the key trends and drivers for U.S. retirees in Mexico's coastal areas, the International Community Foundation conducted an online survey between June-November 2009, resulting in over 1,000 total responses. The Foundation targeted U.S. retirees over 50 years of age that are residing part-time or full-time in Mexican coastal communities. These communities included Puerto Vallarta, the Riviera Maya, Cabo San Lucas, Rosarito, La Paz, Loreto, Puerto Peñasco, and many smaller villages along Mexico's extensive coastline. After filtering out non-target respondents, the Foundation had over 840 survey participants, resulting in a high degree of confidence that results correctly reflect this targeted group (please see methodology section below). The following were key real estate-related market preference and perceptions observed:

Decision to Locate Abroad
In selecting Mexico, the following were the key factors identified by U.S. retirees as influencing their decision to retire south of the border:

- #1: Lifestyle: 78.5%
- #2: Economics/Cost of Living: 74.9%
- #3: Weather: 69.1%
- #4: Proximity to the United States: 63.4%

While Mexico was ultimately where those survey respondents ended up retiring, it was not the only locale that U.S. retirees

If you were to purchase a home in Mexico, what key considerations do you consider important?

	Very Important	Somewhat Important	TOTAL
Availability of water and other basic utilities	68.2%	15.3%	83.5%
Legal including clarity of title	74.9%	7.4%	82.3%
Price	58.3%	19.5%	77.6%
Safety	56.1%	22.3%	78.4%
Ease of day to day living	47.1%	30.5%	77.6%
Environmental considerations	28.3%	37.9%	66.2%
Proximity to local Mexican community	25.4%	36.1%	61.5%
Proximity to natural habitats	23.5%	31.8%	55.3%
Proximity to cultural amenities	15.4%	33.6%	49.0%
Proximity to other US/Canadian expatriates	15.2%	33.3%	48.5%

Source: International Community Foundation, 2009.

considered. Of those surveyed, 40.6% considered another U.S. domestic location while 17.1% considered Costa Rica. 7.7% considered Panama, and another 9.3% considered Belize as possible retirement destinations options.

Somewhat surprisingly, only a relatively low percentage of respondents (37.4%) felt that locating in a planned unit development was either "very important" or "somewhat important." A majority of respondents (62.6%), however, were either neutral on the subject or did not consider it to be an important factor of consideration.

Ownership status
Among U.S. retiree survey respondents, the vast majority (77.2%) owned their home. Only 16.4% were renters. Though survey respondents were not specifically asked if their home was purchased 100% in cash or was financed, many focus group participants confirmed that they had purchased their retirement homes with cash.

Type of Living Accommodations
Most respondents live in a detached home (49.5%) or an attached home (13%), rather than a condo unit (20.1%). This is consistent with preferences mentioned by focus group participants, who sought out Mexican-style colonial architecture and the "village" concept as opposed to high-rise urban living.

How would you describe your current living unit?

High-rise Condo/Apartment	4%
Mid-rise Condo/Apartment	19.7%
Single-story home (attached)	5%
Single-story home (detached)	27.1%
Two-story home (attached)	8%
Two-story home (detached)	22.4%
Other (boat)	6.5%
Did not Respond to Question	7.3%

Source: International Community Foundation, 2009.

Survey respondents also showed a preference for connecting with the local community, instead of separating in a gated community. This is reflected in survey responses about public safety, which were reported in the Foundation's previous publication, "U.S. Retirement Trends in Mexican Coastal Communities: Lifestyle Priorities and Demographics," **(http://www.icfdn.org/publications/retireeresearch).** Although public safety was a consideration

	Yes	No	Don't Know/ No Response
Does your community have a Homeowners' Association?	45%	39.7%	15.3%
Do you live in a gated community?	38.5%	54%	7.5%

Source: International Community Foundation, 2009.

for many buyers when selecting their property, recent press about the H1N1 flu virus, narco-violence, and security issues have not reduced the frequency or duration of our respondents' trips to Mexico (see public safety section below). In focus groups, respondents reiterated that they felt safer in Mexico than they did in the U.S.

Regarding the trend toward organization of homeowners' associations, this has been a strategy for U.S. homeowners to present formal petitions to municipal and state governments for additional infrastructure (roads, sewer, lights, etc.) and services (beach patrols, police, trash collection, etc.). In more mature retirement communities such as Mazatlán, these organizations also act as a community voice in government forums. [59]

Survey respondents sought out environmentally-friendly options for their homes and lifestyles:

- 63.4% of respondents said that issues of environmental sustainability were “somewhat important” or “very important” to them when they selected and purchased their home. Only 7% said that these issues were “not important.”

- Yet, in searching for a home in Mexico, 56.4% of respondents indicated that they did not feel that they had any “green” or environmentally friendly options.

- 19.4% of respondents didn't know if the property was marketed as “green” or environmentally sustainable.

- 31% of respondents recycle already and 46.0% of respondents would recycle if they could, as no recycling programs are available in their communities.

In fact, more evidence points to second home buyers and retirees seeking outdoor opportunities in their “adopted” communities, such as jogging trails and nature paths, as well as organized environmental activities, like guided nature walks, fly-fishing, plant identification, and birding. Sea kayaking, hiking and a master naturalist program are also popular options with second-home buyers. [60]

Among survey respondents, some practical advice given to would-be U.S. retirees considering a move to Mexico included:

- 68.5% of survey respondents mentioned the need to understand the risks of buying a home in a foreign country.

- 33% indicated that it was important to hire a good lawyer.

- 15.2% of respondents advised would be retirees to “take the leap of faith” and that everything will work out okay.

Property Taxes
61% of U.S. retirees surveyed indicated that they would be willing to pay higher property taxes if they could be guaranteed better municipal services (including zoning enforcement, water, police, fire).

Coastal Lifestyle

- 51.7% desired to a have a home on or near the coast that would otherwise be unattainable in the United States.

- 81.1% identified ocean views as #1 aspect of coastal life they found most attractive followed by 55.9% highlighting the water-related leisure activities that were possible in Mexico (including fishing, boating, swimming, surfing, or diving).

- Only 16.9% of respondents owned a boat, with less than 2% living aboard the boat that they own.

- The preferred leisure activity among American retirees living in coastal communities of Mexico was walking on the beach with 70.1% of respondents indicating that this was their favorite pastime, followed by general relaxation, 65.2%.

- More U.S. retirees in Mexican coastal communities enjoyed bird watching - 15.1% - than played golf-14.1%.

- The #1 aspect of coastal life in Mexico that was found most unattractive was the litter on the streets and beach, with 55.1% of American respondents highlighting this as a key concern; followed by 48.1% identifying sewage runoff to the beaches and/or ocean/sea as a key issue of concern.

Public Safety Issues

- Growing narco-violence on the U.S.-Mexico border has not deterred U.S. retirees from going to Mexico. An overwhelming 82% of U.S. retiree respondents indicated that such concerns have not deterred their visits to Mexico.

- In fact, 59.9% indicated that their perception of the security issues in Mexico have not changed in any way.

- When asked if growing U.S. concerns over the narco-violence and security concerns in Mexico has led to a noticeable reduction family and friends visiting, 42.4% indicated affirmatively with an additional 13.7% that were not sure.

- When asked what key factors would lead U.S. retirees to leave Mexico, the #1 reason noted by 57.6% of respondents would be a noticeable increase in crime targeted towards U.S. retirees or tourists, followed by 44.5% who identified declining environmental quality of their adopted community due to increased sewage runoff, litter, and water pollution).

Health Care
Although lifestyle was the biggest draw, almost 55% of American retirees responded that access to health care was the single biggest concern when they decided to move to Mexico. 51% ranked "health care access" as a "very important" factor in choosing a home in their "adopted" Mexican community.

In the recently-released "Health Care and Americans Retiring in Mexico" report (**http://www.icfdn.org/publications/healthcare/index.php**), the Foundation outlines the opportunities for real estate developers to develop and/or retrofit existing complexes to accommodate assisted living, long-term care facilities, and health clinics to allow U.S. retirees to "age in place" in their "adopted" communities in Mexico. Although only 2% of respondents are currently accessing home care or assisted living facilities, over 25% are considering options for long-term care now.

Discussion of Key Findings

While there has been considerable attention to the real estate market demand among U.S. baby boomers and retirees considering a move to Mexico, the recent economic turmoil coupled with growing narco-violence has altered the dynamics of this home-buying wave resulting in a dramatically reduced volume of retiree and second home sales. Another key driver in the reduction of home sales has also been the marked decrease in U.S. tourism volumes to Mexico. [61]

The data represented in this report has a survey bias towards those who have already made a decision to purchase homes in Mexico and is not a predictive indicator of what U.S. baby boomers or retirees are likely to do in the future. Nevertheless, much can be learned from the consumer perceptions and preferences of those U.S. baby boomers and retirees that have already opted to retire in Mexico.

Based on the survey data, it is clear that the majority of those that have purchased a home in a coastal community in Mexico have found it to be a decision that made sound economic sense, providing U.S. retirees with greater economic security and expanded lifestyle choices for coastal living. According to survey data, 77.2% of respondents were home owners. Only 16.4% were renters. Among those interviewed in focus groups, the majority of homeowners purchased their homes with cash and owned their properties free and clear.

Of course, a key factor here is when people purchased their homes. The foundation's survey findings reveal that 83.5% of our respondents had lived in Mexico for a minimum of 3 years. 56% of our survey respondents had lived in Mexico 5 years or more. Only 16.5% had lived in Mexico less than 3 years. Given this fact, there is an inherent sample bias among those that purchased homes before 2008. Accordingly, additional research will be required to better assess the impacts of the real estate market among those recent home buyers in Mexican coastal communities, particularly among those that bought at the height of the market.

While the majority of those U.S. retirees surveyed were homeowners, this did not mean in all cases that retirees did not face financial stress or issues with their Mexican home purchases. Those that have purchased their homes on an all cash basis are, of course, the most financially secure.

Some retirees that have purchased homes with mortgage financing and/or equity drawn from their primary residence in the United States are, on the other hand, saddled with "underwater mortgages" on their Mexican home and the harsh realities of re-paying debt on a property that might take years to recover its original value. Similarly, others that committed a deposit but were unable to complete the purchase left a growing number of Mexican real estate developers with additional financial pressures. We also have the case of those who committed a down payment or deposit, but the development was never completed, leaving them with nothing.

Besides those Americans that are feeling pressure to pay a mortgage that they may not be able to afford, a growing number of American retirees with properties in Mexico no longer have the disposal income or the time to enjoy their newly purchased retirement home. Due to losses in retirement savings, would-be retirees are working longer hours and foregoing retirement plans including the possibility of retiring abroad in Mexico.

Given the changing economic climate, a growing number of those that do decide to move to Mexico might opt to rent instead of buy. After all, there is currently an over-supply of residential units in Mexico and a growing number of those individuals that own units have a need for rental income. Should a U.S. owner of Mexican real estate decide to rent their home, however, this income must be registered with the U.S. Internal Revenue Service. Interestingly, in the past two years, the U.S. IRS has made an effort to catalog all *Fideicomiso* contracts and properties owned by U.S. taxpayers abroad. This will help them track offshore revenue from these properties should they ever be rented. [62]

Those would-be retirees still in a position of purchasing a home in Mexico need to be more mindful of whether they buy and under what terms. Given the number of American retirees that have lost their deposit money because these funds were not placed in an escrow account, there is a strong case to be made for regulatory reforms in Mexico that require any developer to hold earnest money in trust until a project is completed. Such a policy shift, which must be enacted at the state level of government, would help instill greater confidence among future potential home buyers. (See Appendix A for additional recommendations for real estate developers and policy makers.)

Given that most home buyers traveled to their retirement destination of choice several times before making a decision to buy, the current drop in tourism volumes to Mexico is a troubling indicator. According to the Mexican Migration Institute, while tourism to Mexico has recovered somewhat since the Spring 2009 H1N1 related decline, tourist travel is still below average. In October 2009 the volume of tourism travel to Mexico was 45% below previous volumes the previous year.

The near- to medium-term prognosis for U.S. real estate market demand remains uncertain, so real estate developers and municipal and state officials in Mexico will, in some cases, need to re-think their prior assumptions about the types of development projects to construct in the future. As a case in point, developers need to re-think the logic of including golf courses as a standard amenity in their development projects. As noted in the study findings, more respondents preferred walking on the beach or bird watching than golf. Might this argue for residential development projects that were more mindful of the recreational and natural opportunities beyond a golf course?

The feedback by existing U.S. home buyers in Mexico was compelling regarding their desire to improve municipal services. As noted in the survey findings, over 61% would be willing to pay higher property taxes if they received improved service delivery of water, electricity and were able to have their community free of litter and stray dogs and cats. Focus group participants emphasized that property taxes should go up for everyone, including Mexican citizens, to increase quality of life and services for the whole community.

Security matters. While the majority of respondents do not perceive themselves to be at risk and feel safe in their adopted Mexican community, if a noticeable increase in crime and assaults is observed targeted towards the American or expat community, it could lead to many U.S. retirees leaving Mexico for good. Among those issues of immediate concern to many focus group participants was the noticeable increase in government officials, particularly police, asking for a *mordida*, the Mexican term for a bribe. While such payments are not life threatening, they reinforce a feeling of insecurity among U.S. retirees. Accordingly, if Mexican communities desire to foster a climate of security among existing and would-be expatriate retirees, there is a pressing need to professionalize their police force.

> *"Infrastructure development will be the major challenge for Mexico in order to access the potential retirement market of the United States."* [63]
>
> *BBVA Bancomer,*
> *Situación Inmobiliaria México*
> *Septiembre 2007*

Though opportunities do exist in Mexico for future development targeted at older Americans, there is much that Mexico needs to do to improve its basic municipal infrastructure. A key concern identified by focus group participants was the frustration over the "trip and fall" risk on sidewalks in many Mexican coastal cities with protruding concrete or pot holes. As trips and falls are one of the primary causes for serious injury among older Americans, greater attention must be placed on improving the walkability of streets in Mexican coastal communities if there is a desire to have U.S. and other expatriate retirees "age in place."

Implications for the Future

While the current economic picture remains murky and there are on-going perceived fears among a growing number of Americans about traveling or living in Mexico due to the current media attention on the narco-related violence, the fact remains that Mexican coastal communities will remain an attractive destination for U.S. retirees because of the lifestyle options offered, affordability, weather, and the relative proximity to the United States.

Due to the loss of net personal wealth among U.S. baby boomers, it is possible that more U.S. retirees may opt to rent their retirement homes in Mexico in the future, than in years past when paying cash for a home was the standard. Still, the expanding availability of Mexican mortgage financing to foreigners will also translate into more U.S. retirees borrowing to purchase the retirement home of their dreams.

Based on the current economic realities, real estate developers will need to ask hard questions about whether their underlying assumptions specific to U.S. baby boomer home buying preferences are still valid. Are golf courses, for example, a vital necessary for any new development project? Would a nature trail be a better draw for a sophisticated buyer? Would incorporating a "healthy lifestyle" aspect to the development add to its appeal for older U.S. retirees?

Research Methodology

The International Community Foundation's survey included both quantitative and qualitative methods. First, a thorough literature review of tourism- and retiree-related literature on Mexico was undertaken. The research also included a thorough review of government statistics from multiple sources (U.S. State Department, INEGI, Mexican Migration Institute, and OECD) to assess the size of the population of US citizens in the Republic of Mexico. Based on these data sources, the Foundation estimates that there is a permanent and floating population of U.S. residents in Mexican coastal communities of 200,000-300,000.

In addition, between August 1 and November 15, 2009, the International Community Foundation carried out a survey utilizing purposive sampling (snowball) technique to secure participation and a representative sampling of U.S. citizens and U.S. permanent residents 50 years of age and older residing in Mexico either on a full-time or part-time basis. For the study in question, a total of 1,003 individuals elected to participate, responding either using an online survey tool or printed questionnaires. Survey respondents self-identified their "adopted communities" as Baja California, Baja California Sur, Sonora, Nayarit, Jalisco, and Quintana Roo (among other locations).
Once the participants were filtered to include only the targeted profile, a total of 842

surveys were able to be used (76%). If it is assumed that some degree of random participation was achieved amongst the target group, results would reflect a confidence level of 95% +/- 3.4%.

Concurrent with the Foundation's literature review, survey, and subsequent analysis, five focus groups were organized between August-December 2009 in Rosarito, Baja California (BC); La Paz, Baja California Sur (BCS); East Cape, BCS; San José de Cabo, BCS; and Todos Santos, BCS. Each focus group consisted of 10 to 15 participants all of which were self-identified U.S. retirees living in Mexico. The focus group sessions were 2 hours in duration, allowing the Foundation to assess the viewpoints of participants on a wide range of issues impacting the U.S. retiree community in Mexico. For their participation in the focus groups, each participant and their spouse were invited to a lunch hosted by the Foundation. To avoid a possible sample bias, spouses were asked not to participate in the focus group sessions.

A thorough discussion of the research methodology is available at: http://www.icfdn.org/publications/retireeresearch/?page_id=192.

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A full reference list is available at: http://www.icfdn.org/publications/retireeresearch/?page_id=169.

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About the International Community Foundation

Among U.S.-based community foundations, the International Community Foundation is unique in that unlike other community foundations that serve a defined geographic region in the United States, the Foundation is dedicated to assisting American donors to charitably support their communities of interest internationally. Approximately 22% of the International Community Foundation's donors are immigrants; close to 50% of the International Community Foundation's donors are retirees living abroad either full- or part-time with the majority of these American expatriates residing in coastal communities in Northwest Mexico. For more information regarding the International Community Foundation, visit: www.icfdn.org.

About the Retiring Responsibly in Mexico Initiative

With a growing number of Americans now retiring in Mexico, there is a need to better respond to the needs of this fast-growing expatriate population Through its "Retiring Responsibly in Mexico" initiative, the International Community Foundation seeks to inform, educate, and engage would-be retirees, targeted buyers, real estate developers, nonprofit organizations and policymakers at the local, state and federal levels of governmental in both the United States and Mexico about issues related to environmental sustainability, financial and environmental transparency, and responsibilities for stewardship related to coastal tourism residential developments with an emphasis on the 50+ population from the United States seeking to retire in Mexico. The Foundation's "Retiring Responsibly in Mexico" Initiative has three key objectives:

1) Undertake timely and relevant research on the demographic patterns of U.S. retirees in Mexican coastal communities to better understand the impacts of current north to south migration trends as they relate to emerging issues of economic security, health care and public safety.
2) Understand the impacts of recent coastal development in Mexico fueled by the influx of U.S. retirees, assessing the impacts on surrounding ecosystems, documenting trends in sustainable retirement communities, and recognizing the legal/financial risk for homebuyers.
3) Assess the level of social capital among U.S. retirees residing in Mexico with a focus on volunteerism, charitable giving, and civic engagement in their adopted communities.

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Appendix A

Recommendations for Real Estate Developers and Federal, State & Local Policy makers

Based on the International Community Foundation's recent study of U.S. retiree preferences and perceptions, the following are key recommendations and considerations for existing and future real estate developments in Mexican coastal communities:

1. **Local municipalities and/or state officials in Mexico should seriously consider requiring real estate developers to hold all home buyer deposits in a secure escrow account precluding the use of such monies to be used until a development project is completed.** This will dramatically reduce the number of unfinished real estate projects along the Mexican coastline and minimize the number of disgruntled U.S. and Canadian real estate investors. This option may require a change in federal- or state-level real estate laws as the concept of escrow is not yet codified.

2. **In coastal areas, view corridors and beach access matter to U.S. retirees so Mexican local and state policymakers should take steps to protect coastal beach access and view corridors. Using the model of the California Coastal Commission and the California Coastal Act would provide a good legislative beginning.[64] Re-think the emphasis of real estate development projects with golf courses as a key amenity, or at a minimum, require reclaimed water use for golf courses.**

   a. Golf is not the primary reason why U.S. retirees travel to Mexican coastal communities.
   b. Among residents surveyed, more U.S. retirees preferred bird watching than playing golf.
   c. Many Mexican coastal communities are water scarce and golf courses consume lots of water.

3. **Promote land use policies that allow retirees to "age in place."** Most Mexican retirement communities, like others in the United States, do not have land use policies that consider the changing lifestyle needs of aging adults. Current deficiencies include:

   a. Lack of home design features that serve residents across life spans.
   b. Dominance of automobiles as the primary transportation source.
   c. Lack of community support for land use policies that encourage safe places to walk.
      i. Unsafe sidewalks increase the likelihood of trips and falls.

  - ii. Walking is neither encouraged or facilitated.
- d. Rigid separation between residential, commercial and recreational uses in a community.
- e. Inadequate road design impedes mobility.
  - i. There is little connectivity between different modes of transportation.

4. **Consider increases in local property tax to meet the growing infrastructure needs of Mexican coastal communities.** The majority of U.S. retirees were willing to pay additional property taxes if the municipal government could guarantee basic infrastructure, and services including consistent water delivery, paved streets, reduction in potholes, and elimination of litter.

5. **In the spirit of NAFTA, exemptions to the Calvo Clause should be considered by Mexican policymakers when sales of Mexican real estate were initiated in a foreign country, such as the United States and Canada, and when such sales involved senior citizens and the potential for elder financial abuse.**

6. **With the growing number of U.S. residents now seeking mortgage financing for Mexican real estate, there is a need to ensure that protections are in place to require full disclosures to prospective U.S. homebuyers seeking financing for their Mexican home purchase specific to the risks and limits to legal remedies in the United States.** Such disclosures should be required on all marketing and related advertisements published and/or distributed in the United States as well as in any loan documents provided to U.S. residents. With the recent passage of Senate Bill 3217 and House Bill 4713 establishing, among other things, the Consumer Financial Protection Agency, it is hoped that this agency, when created, will expand its authority to regulate mortgage financing products offered to US residents for the purchase of real estate overseas including Mexico.

7. **The Departments of Real Estate in U.S. states should consider stiffer legal and/or financial penalties on companies that use deceptive marketing when foreign real estate is marketed in their states that results in elder financial abuse.**

8. **Clean up Mexican coastal communities.** Litter was seen as the most undesirable aspects of Mexican coastal life for American retirees. Local officials and real estate developers must make an extra effort to make litter clean up and environmental education a top priority if they wish Mexico to remain a top destination for U.S. retirees.

9. **Environmental considerations matter.** The majority of retirees surveyed did not have the option of considering environmentally friendly designs when purchasing their retirement home in Mexico, nor do they have the option to recycle.

10. **Health care considerations must also be factored into the design of future retirement communities** targeted to U.S. and Canadian retirees with an emphasis on providing the ability to "age in place."

11. **Codify good development practices, using published resources such as the "Guía del Desarrollador para el Desarrollo Costero Sustentable en Baja California Sur," "Modelo para un Turismo Sustentable en el Noroeste Costero de México," and the new zoning plan in Quintana Roo as the basis for new legislation.** At the state level, Mexican government agencies are taking the lead in legislating better development practices. The State government of Baja California Sur released a development guide in 2009 that outlines best practices in coastal tourism and real estate development; the State government of Quintana Roo is finalizing its zoning plan, which incorporates regulations for green buildings. The nonprofit alliance, ALCOSTA, has also published basic criteria for sustainable tourism practices. These publications should be reviewed and incorporated into law by Mexican decision-makers in coastal communities.

Appendix B

Tips for U.S. Retirees Considering Purchasing Real Estate in Mexico

Based on direct input and feedback from U.S. retirees that have purchased homes in Mexican coastal communities:

1. Do your homework before buying. Familiarize yourself with Mexican laws and regulations, which are quite different than the laws of the United States. Don't assume that laws are uniform across Mexico as real estate conventions, laws and costs for closing vary on a state-by-state basis, just like in the U.S.

2. Make sure that you have been provided all pertinent disclosures specific to the property you are purchasing including non lien certificates, proof of property tax payment, condo regime documents, legal suits or other legal actions that might otherwise impact your property title.

3. In coastal areas, make sure that the property you are purchasing is in a development that is in compliance with the Mexican Federal law for mangrove protection to avoid possible legal actions.

4. Make several trips to your retirement destination of choice before making a decision to buy.

5. Don't try to do a deal on your own. Retain licensed Mexican and U.S. real estate agents, attorneys, and accountants.

6. Get title insurance. Make sure the seller has clear title.

7. Require that all documents to be translated into English and read them carefully.[65]

8. Place deposits in a neutral, third-party escrow account.

9. If you own coastal property in Mexico through a *Fideicomiso*, your trust must be reported to the U.S. Internal Revenue Service to avoid potential tax penalties. For additional details on IRS rules and guidelines on foreign trust reporting requirements please refer to: http://www.irs.gov/businesses/international/article/0,,id=185295,00.html

10. As in any country, including your own, if it is too good to be true, it probably is.