

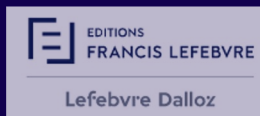


TAKE CONTROL OF YOUR WEALTH

# PATRIMONIAL REFLECTIONS

in partnership

**mazars**



Your wealth project

# INTRODUCTION

Dear Sir,

We trust you are doing well.

Further to our future conference call, we understand that you are interesting to buy a secondary residence in France.

Please note that the information provided below are given with only indicative value. We highly recommend you validating this content with your local advisors and lawyers.

Sincerely Yours,

iNwealth Team

# SUMMARY

## Your wealth project

- Purchasing a real estate in France
- Secondary residence
- On the French Riviera
- Market value: £3M

### Context



UK tax resident and domiciled



3 children : UK Residents



## Your situation

- Marital status
- Resources
- Financial wealth

## Your challenges

- Best way to own real estate in France by a UK tax resident and domiciled
- Acquisition cost and real estate wealth tax
- Transmission of real estate
- Tax rates
- Financing request

## Your patrimonial reflection

- Hold the real estate in France through a real estate company (SCI)
- Hold the real estate in France directly
- Real estate financing

# YOUR SITUATION

## MARITAL STATUS



- **Tax residency:** United Kingdom
- **Nationality:** British
- **Date of birth:** 04/08/1977
- **Marital status:** Married
- **Matrimonial property regime:** separation regime
- **Date of birth (spouse):** 05/11/1997
- **Number of children:** 3 children
- **Tax residency (children):** United Kingdom
- **Wealth outside the United Kingdom:** France



# YOUR SITUATION

## RESOURCES



According to your estimates, the value of your wealth is valued at :

- **Wealth (without liabilities)** : between £5 et £10M

Currency : GBP

Liabilities		Resources	
Annual loan payment*	25,000	Gross annual fixed salary	670,000
Net resources	645,000		

\* Outstanding loan: 250,000



# YOUR SITUATION

## FINANCIAL WEALTH



According to your estimates, the value of your financial wealth is valued at : **£2,640,000**



Currency : GBP

Pension funds		Financial banking assets	
Amount	640,000	Current value	2,000,000
Net resources	2,640,000		

\* Outstanding loan: 250,000





2

# Purchasing real estate in France

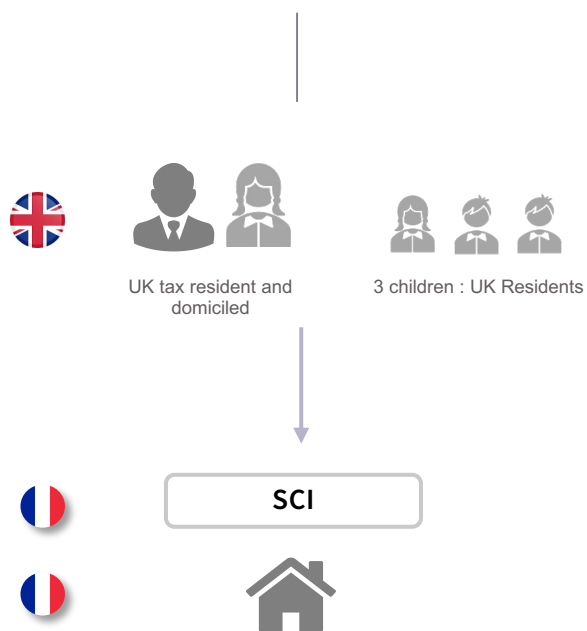
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Your  
challenges

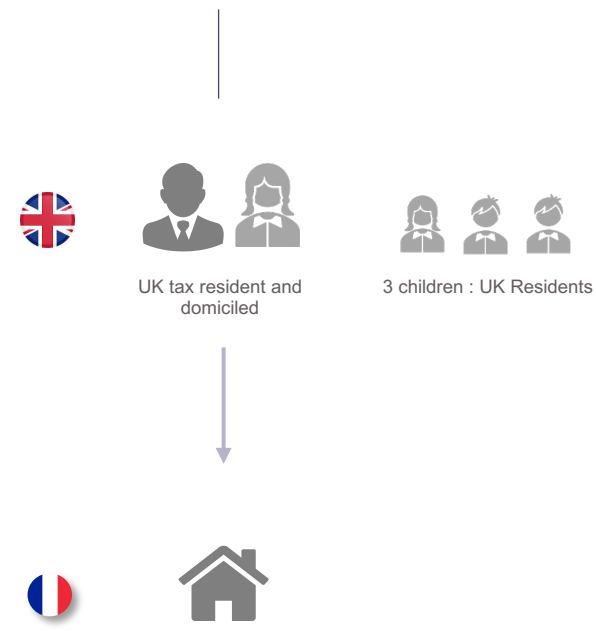
# WHAT IS THE BEST WAY TO OWN REAL ESTATE IN FRANCE?

By a United Kingdom tax resident and domiciled

**Option 1:** Hold the real estate in France through a real estate company (French SCI)



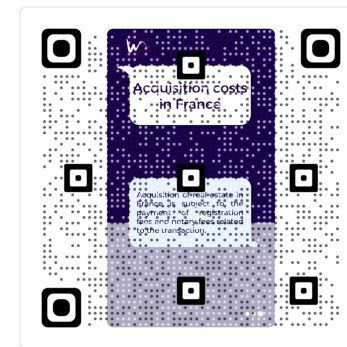
**Option 2:** Hold directly the real estate in France





## 2 ACQUISITION COSTS AND REAL ESTATE WEALTH TAX « IFI »

### Real estate acquisition in France



#### ACQUISITION COSTS

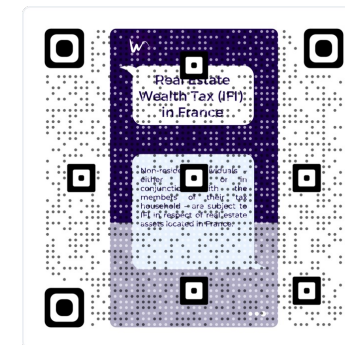
- Acquisition of real estate in France is subject to the payment of registration fees and notary fees related to the transaction.
- The amount of these taxes and fees must be added to the acquisition price – at the buyer's expense.
- Registration fees : circa 6% (depending on the location of the property).
- Notary fees : circa 2%.

#### REAL ESTATE WEALTH TAX « IFI »

- Since 1st January 2018, the “Impôt sur la Fortune Immobilière” (IFI) has replaced the former Wealth Solidarity Tax. As its name indicates, the IFI only refers to real estate assets owned directly or indirectly (throughout a French or a foreign company) by a taxpayer.
- Generally, a non-tax resident is liable for IFI on all property assets or rights located in France owned by the members of its tax household, when their net value exceeds **€1,300,000** on 1st January of the year (except application of double tax treaty signed by France).
- The net value of taxable assets (gross value - deductible liabilities) is subject to a progressive scale whose marginal rate is set at **1.5% (over 10 MEUR)**.

## 2 ACQUISITION COSTS AND REAL ESTATE WEALTH TAX « IFI »

### Key elements on the real estate wealth tax « IFI »



#### TAXABLE PERSONS:

- Non-resident individuals – either alone or in conjunction with the members of their tax household – are subject to IFI in respect of real estate assets located in France.
- The tax household within the meaning of the IFI is different from the income tax household. It is defined as persons subject to common taxation for IFI (married couple, paced couple or notorious cohabiting couple and their minor children).

#### PRICING:

- The tax threshold is set at € 1,3M.
- Real estate and property rights are taxed at market value on 1 January of the year.

#### TAXATION:

- Where the taxable wealth exceeds the €1,3M threshold it is taxed according to the following scale :

FRACTION	RATE
Up to €800 K	0 %
€800 K to €1,300 K	0,5 %
€1 300 K to €2,570 K	0,7 %
€2,570 K to €5,000 K	1 %
€5,000 K to €10,000 K	1,25 %
Over €10,000 K	1,5 %

#### MODALITIES OF DECLARATIVES:

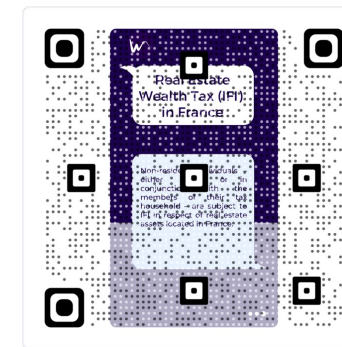
- The debtors must disclose the amount of the gross value and the taxable net value of their assets on their tax return No. 2042-IFI<sup>1</sup>.
- Debtors non-domiciled in France nor in the EEA, have to nominate a representative in France within 90 days<sup>2</sup>.

1/ Non residents who do not complete reporting No 2042 are required to complete a special reporting No. 2042-IFI COV as well as the 2042-IFI reporting deadline specified each year

2/ 90 days starting from the receipt of the French tax authority's request.

## 2 TRANSMISSION OF REAL ESTATE IN FRANCE AS A NON-TAX RESIDENT

### Gift and Inheritance



#### PARENTS UK RESIDENT AND DOMICILED

- In the UK, the standard Inheritance Tax rate is 40%.
- There is normally no Inheritance Tax to pay if either:
  - the value of the estate is below the £325,000 threshold
  - everything above the £325,000 threshold is left to the spouse or the civil partner.
- Note that the threshold can increase to £500,000 if the deceased home is given away to the children (including adopted, foster or stepchildren) or the grandchildren.
- In principle, when the deceased or tax resident donors is domiciled in the UK, the IHT applies on all the global assets transmitted.
- Individuals who are being gifted might have to pay the IHT, but only if the gift exceeds £325,000 and the donor dies within 7 years.

#### FRANCE DOMESTIC LAW REGARDING GIFT AND INHERITANCE

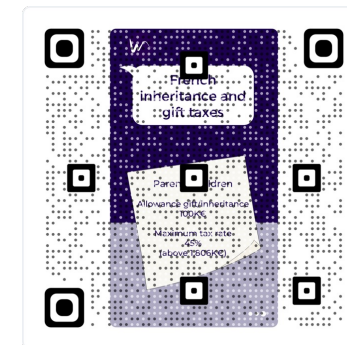
- In French domestic law, when the donor/deceased and the donees/heirs are non-tax resident, only transfers of French assets are taxable under Free Transfer Rights – “DMTG”.
- In particular, the following are considered to be French assets :
  - Real estate located in France
  - Shares with French real estate preponderance (shares of French or foreign company)
- In direct line (parent to children), « free transfer tax » correspond

#### DOUBLE TAXATION TREATY

- The double taxation treaty (DTT) between France and the United Kingdom prevails over France and United Kingdom domestic laws.
- The treaty aim at avoiding double taxation for the taxpayer and set up rules regarding the right to tax between the two countries.
- For real estate, the right to tax is given to the country where the asset is located (non exclusive taxation).
- *E.g. real estate located in France would be submit to the french « free transfer tax » (non exclusive).*

## 2 TRANSMISSION OF REAL ESTATE IN FRANCE AS A NON-TAX RESIDENT

### French inheritance and gift taxes



RELATIONSHIP	ALLOWANCES <sup>1</sup>		MAXIMUM TAX RATE
	GIFT	INHERITANCE	
Parents-children	100K€		45% (above 1,806K€)
Spouses/civil union partner (PACS)	81K€		Exemption (for IHT) 45% (for gift tax)
Sidlings	15,9K€		45% (above 24K€)
To grandchildren	32K€	1,5K€	45% (above 1,806K€)
Nephews/Nieces	7,9K€		55% <sup>2</sup>
Nonrelatives	1,5K€		60% <sup>3</sup>

1/ Allowance applicable for gift and succession renewable every 15 years.

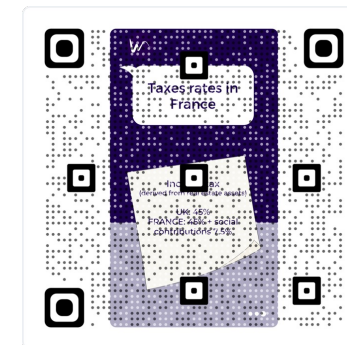
2/ Flat tax rate applicable to parents until the 4th degree of relationship

3/ Flat tax rate applicable to parents until the 4th degree of relationship



## 2 TAXES RATES

### France – United Kingdom



TYPE OF TAXATION (MAXIMUM TAX RATES)	UK	FRANCE	DOUBLE TAX TREATY
Income tax (derived from real estate assets)	45%	45% + social contributions 7.5% <sup>1</sup>	Yes
Real estate wealth tax	None	1.5%	No
Capital gains tax (real estate)	28%	19% + social contributions 7.5% + high capital gains tax up to 6%	Yes
Gift tax (in direct line)	None <sup>2</sup>	45%	No
Inheritance tax (in direct line)	40%	45%	Yes (except for RNDs)

1/ Until 31st december 2020. After Brexit, the social contributions may increase to 17,2% (as applies to all residents residing outside the EEA)

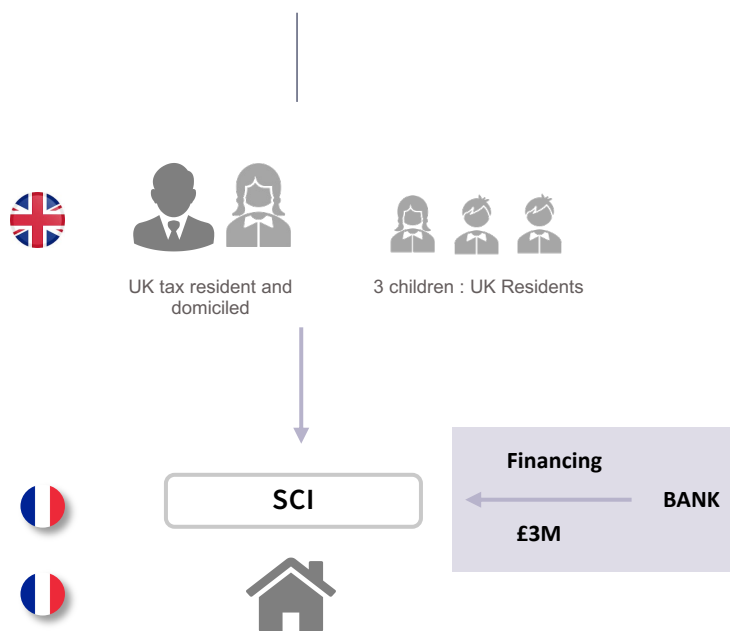
2/ Capital gains tax may apply to the unrealised gain and inheritance tax may apply if donor dies within 7 years of the date of gift

## Financing request

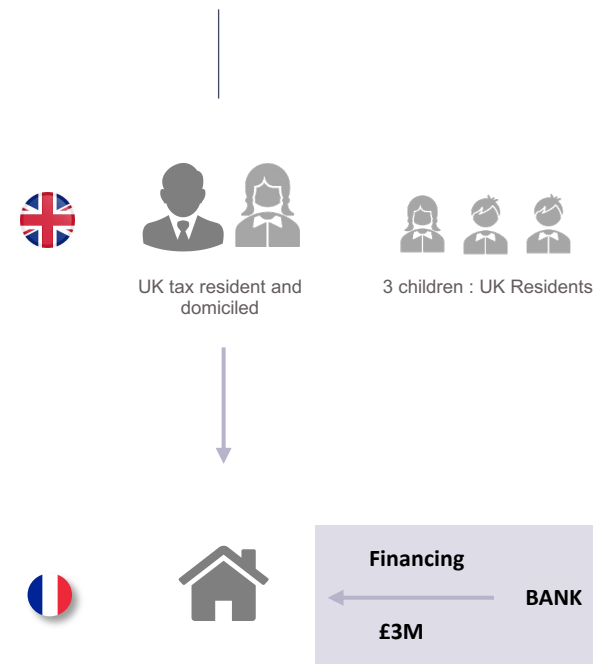
€3M

Market Value  
Real estate in France

### Option 1: Hold the real estate in France through a real estate company (French SCI)



### Option 2: Hold directly the real estate in France



## 2

# Your patrimonial reflections



## 2 YOUR PATRIMONIAL REFLECTIONS

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### HOLD THE REAL ESTATE

Hold the real estate in France through a real estate company (SCI : subject to income tax)

2

Hold directly the real estate in France

3

### FINANCING

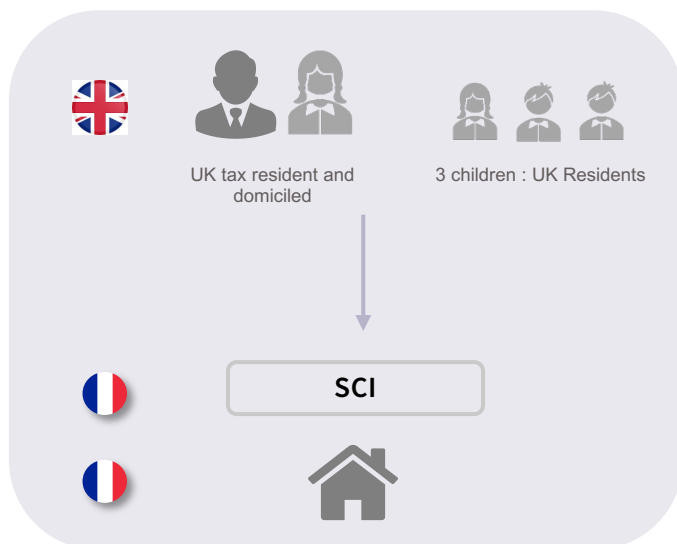
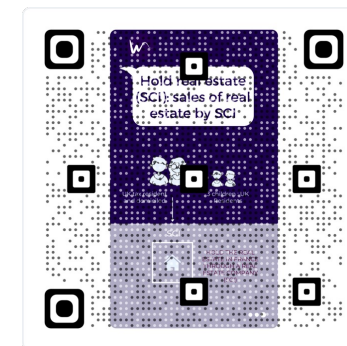
Financing request



## 2 HOLD THE REAL ESTATE IN FRANCE THROUGH A REAL ESTATE COMPANY (SCI)

### About : sale of real estate by SCI

Care must also be given to the management and control of the SCI, as where the RD could be shown to be managing and controlling the SCI in the UK, it could potentially be regarded as resident in the UK for UK corporation tax purposes. If the SCI holding company is regarded as UK resident, then there are also potential income tax charges arising through use of property by RND shareholder or his family

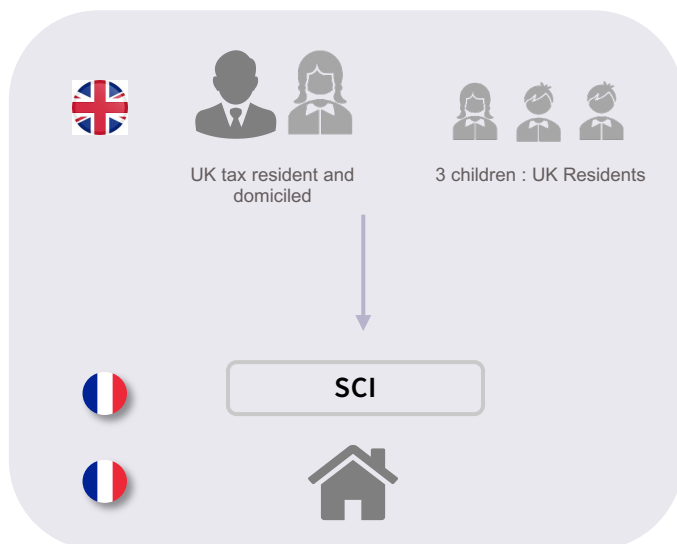
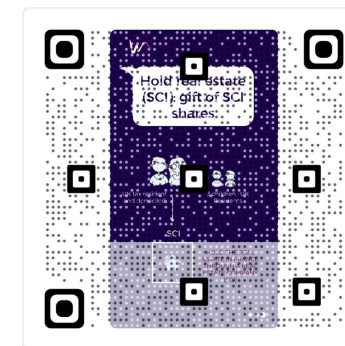


COUNTRIES	TAXATION	COMMENTS
FRANCE	YES	<ul style="list-style-type: none"><li>• <b>Capital gains tax</b> is due at a flat tax of 19% + social contributions (7.5 %) + eventual tax on high capital gain ( up to 6%) on the net gain. No tax on distribution of the sales proceeds</li></ul>
UK	YES	<ul style="list-style-type: none"><li>• <b>Capital gains tax</b> : RD (&gt;25%) shareholder is subject to UK capital gains tax (up to 28%) on any gain realised by the SCI on French real estate, with credit for any French capital gains tax (no credit for French social contributions)</li><li>• Additionally, the RD shareholder is also subject to either income tax (potentially at up to 38.1%) or capital gains tax at up to 20% on the distribution of the sales proceeds to the RD shareholder</li><li>• Credit for the tax suffered on the gain realised by the SCI is available to set off against the liability arising on the distribution, but in order for the credit to be available the gain must potentially be distributed within 3 years of realisation</li></ul>
DTT	YES	<ul style="list-style-type: none"><li>• DTT in place dealing with capital gains</li></ul>

## 2 HOLD THE REAL ESTATE IN FRANCE THROUGH A REAL ESTATE COMPANY (SCI)

### About : Gift of SCI shares

Care must also be given to the management and control of the SCI, as where the RD could be shown to be managing and controlling the SCI in the UK, it could potentially be regarded as resident in the UK for UK corporation tax purposes. If the SCI holding company is regarded as UK resident, then there are also potential income tax charges arising through use of property by RND shareholder or his family

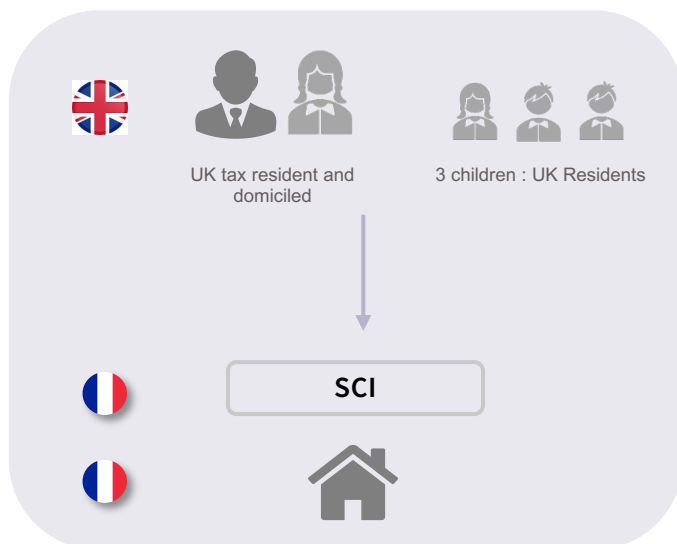
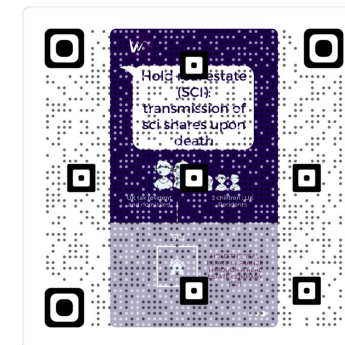


COUNTRIES	TAXATION	COMMENTS
FRANCE	YES	<ul style="list-style-type: none"><li>• <b>Gift tax:</b> Due by the donee depending on the net value of the shares at time of the gift</li></ul>
UK	YES	<ul style="list-style-type: none"><li>• <b>Gift Tax:</b> There is no gift tax in the UK</li><li>• <b>Inheritance tax:</b> Where donor survives 7 years from the date of a gift of shares in the SCI and is entirely excluded from the use of the property, potentially no inheritance tax due on the gift</li><li>• Property could remain exposed to inheritance tax on the death of donor where there was continued use by virtue of the 'gift with reservation provisions'</li><li>• <b>Capital gains tax:</b> Would potentially arise on any unrealised gain on the shares upon gift (assessed on the donor up to 20% (with no credit given to the French gift tax))</li><li>• Where the SCI sells the property (when the SCI is held by the UK resident donees), the donees would potentially be subject to capital gains tax on any gain realised by the SCI. However, no base cost uplift in the value of the actual property following the gift of the SCI shares</li></ul>
DTT	NO	<ul style="list-style-type: none"><li>• DTT in place concerning capital gains, <b>but does not deal with gift taxes</b></li></ul>

## 2 HOLD THE REAL ESTATE IN FRANCE THROUGH A REAL ESTATE COMPANY (SCI)

### About : transmission of sci shares upon death

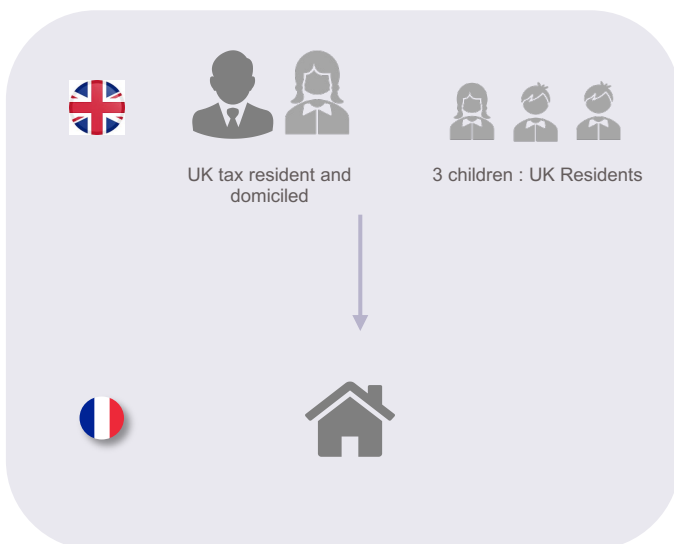
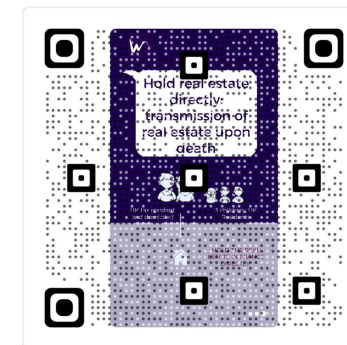
Care must also be given to the management and control of the SCI, as where the RD could be shown to be managing and controlling the SCI in the UK, it could potentially be regarded as resident in the UK for UK corporation tax purposes. If the SCI holding company is regarded as UK resident, then there are also potential income tax charges arising through use of property by RND shareholder or his family



COUNTRIES	TAXATION	COMMENTS
FRANCE	YES	<ul style="list-style-type: none"><li><b>Inheritance tax:</b> On the net value of the french property on death (up to 45% in direct line)</li></ul>
UK	YES	<ul style="list-style-type: none"><li><b>Inheritance tax:</b> Imposed on value of SCI shares on death, but with credit for any equivalent taxes levied in France on the property on death – (UK inheritance tax rate of 40%)</li><li><b>Capital gains tax:</b> There is no capital gains tax levied on death and the shares in the SCI a revalued up to their market value as at the date of death leading to higher base cost for the UK resident heirs going forwards</li><li>However, whilst the shares in the SCI are revalued as at the date of death, the underlying property held in the SCI is not. This can give rise to an effective double UK tax charge when the UK resident heirs are assessed to capital gains tax on eventual sale of the property by reference to the original purchase price paid by the SCI, when they have in principle already suffered UK inheritance tax on that gain element</li></ul>
DTT		<ul style="list-style-type: none"><li>Inheritance tax treaty in place between France and the UK</li></ul>

## 2 HOLD THE REAL ESTATE IN FRANCE DIRECTLY

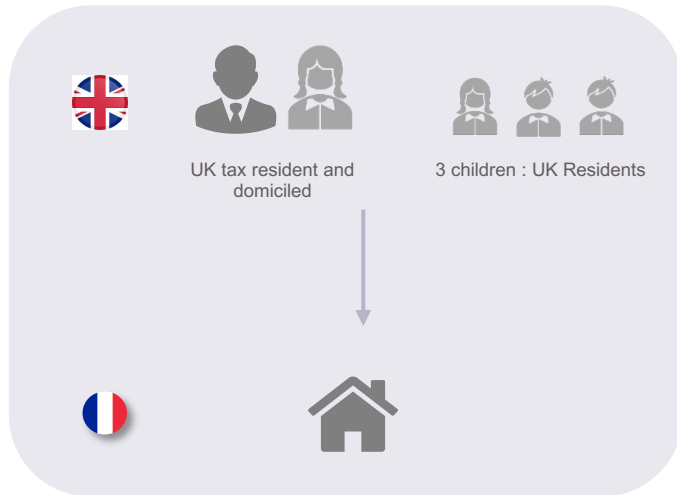
### About : transmission of real estate upon death



COUNTRIES	TAXATION	COMMENTS
FRANCE	YES	<ul style="list-style-type: none"><li>• <b>Inheritance tax:</b> Due on the net value of the french property on death (up to 45% in direct line)</li></ul>
UK	YES	<ul style="list-style-type: none"><li>• <b>Inheritance tax:</b> Imposed on the value of French property on death, but with credit for any equivalent taxes levied in France on the property on death – (UK inheritance tax rate of 40%)</li><li>• <b>Capital gains tax:</b> There is no capital gains tax on death and the heirs receive the property with a base cost uplifted to the market value as at the date of death</li></ul>
DTT		<ul style="list-style-type: none"><li>• DTT between France and UK concerning inheritance taxes should ensure no double taxation issues</li></ul>

## 2 BEST WAY TO OWN REAL ESTATE IN FRANCE BY A UK TAX RESIDENT AND DOMICILED

### French property held directly

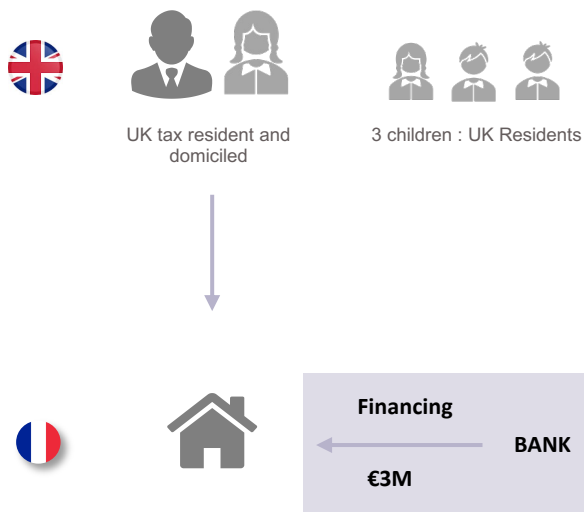
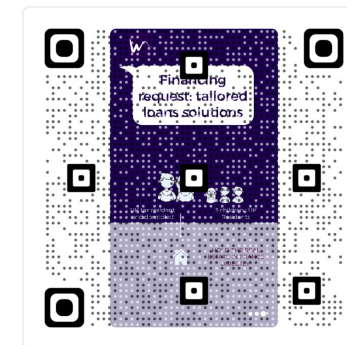


#### ADVANTAGES

- **French taxes** (income/capital gains/inheritance tax) are fully creditable against the UK taxes
- **French and UK inheritance tax** exposures can be easily dealt with through death benefit life insurance coverage
- **Bank loans** are potentially allowable liabilities for inheritance tax purposes in both the UK and France
- **The children** receive the property on death with a base cost uplift
- **Uncomplicated**
- **NB** : the gift/inheritance taxes would be calculated on the market value at the time of the transmission

## 2 FINANCING REQUEST

### Flexible and tailored loans solutions



Société  
Générale  
Private  
Banking



#### FOCUS WITH OUR PARTNER

#### COMMENTS

- **Mortgage loan (financing or refinancing):** residential or commercial real estate as main residence, secondary residence, rental investment, construction / extension / renovation works
- Real estate and financial loans can be warranted by real estate

#### Several options:

- Fixed or floating interest rates (or combination of both)
- Amortizing loans (up to 20 years) or In fine loans (up to 10 years)
- Currencies: EUR,USD,CHF,GBP

#### Financing condition:

- Loan to value\*\* (maximum): 50 % In fine loan
- Loan to value (maximum): 60 % Amortizing loan

*\*\* Loan To Value could be increased or decreased in function of quality and location of the property*



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# Your wealth planning team



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Expert du marché Royaume-Uni  
Kleinwort Hambros







individual Net wealth