

# PREPARING YOUR RESIDENTIAL PROPERTY INVESTMENT IN FRANCE

## PRIOR TO ACQUISITION

### SOME PRELIMINARY QUESTIONS

- Type of property: land, buildings or shares?
- Use: primary or secondary residence?
- Goal: private or rental use?
- Type of property: commercial or residential?
- Investment horizon: short or long term?
- Financing: own funds or debt?
- How to structure the acquisition?
- How will the investment be taxed?

The situation must be analysed in the light of your tax residence, the double tax treaties in force and the goals pursued. Each project requires a specific analysis by our experts.

## UPON ACQUISITION

### Fees and transfer taxes payable upon acquisition



## DURING OWNERSHIP

### Local taxes

#### PROPERTY TAX ("TAXE FONCIÈRE")

This tax is payable by the owner of the property

#### COUNCIL TAX ("TAXE D'HABITATION")

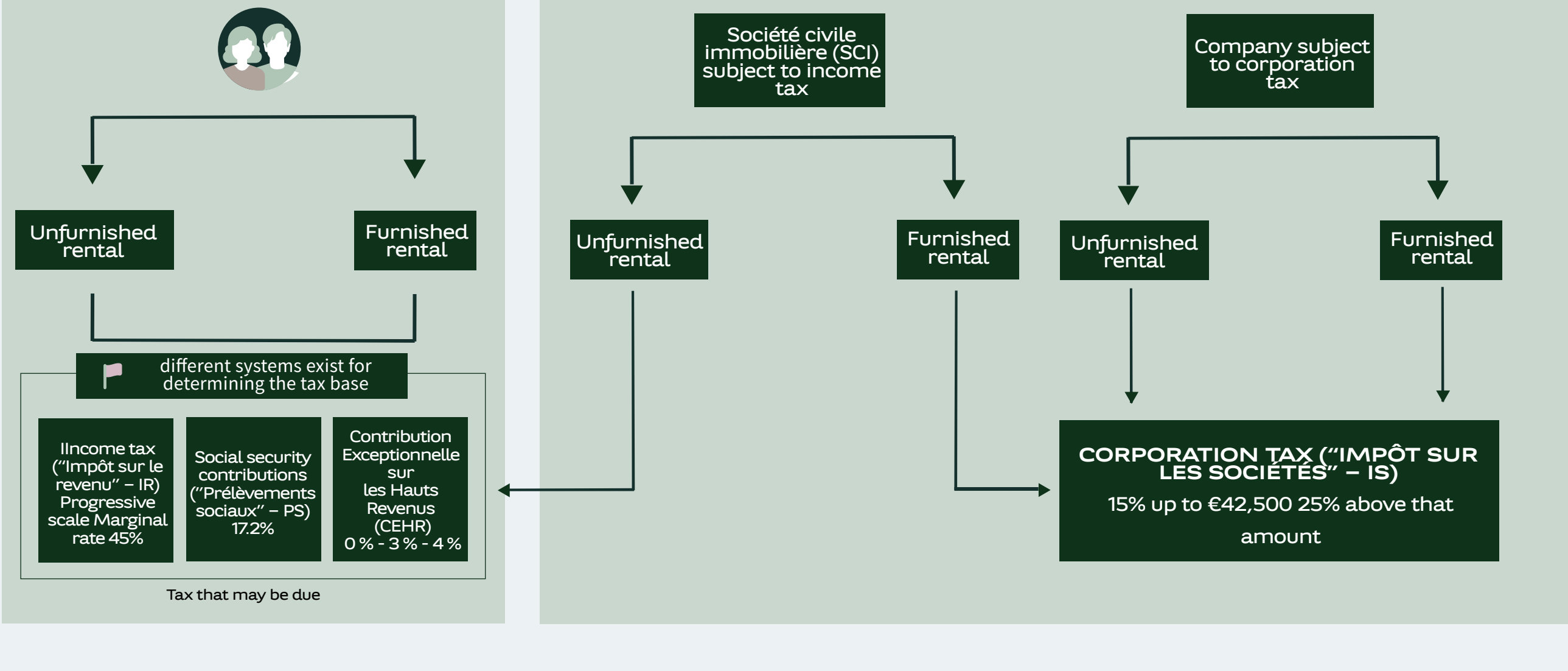
This tax is payable by the occupier of the property (for property used as second housing)

### Taxes on rental income

Taxation of rental income varies according to:

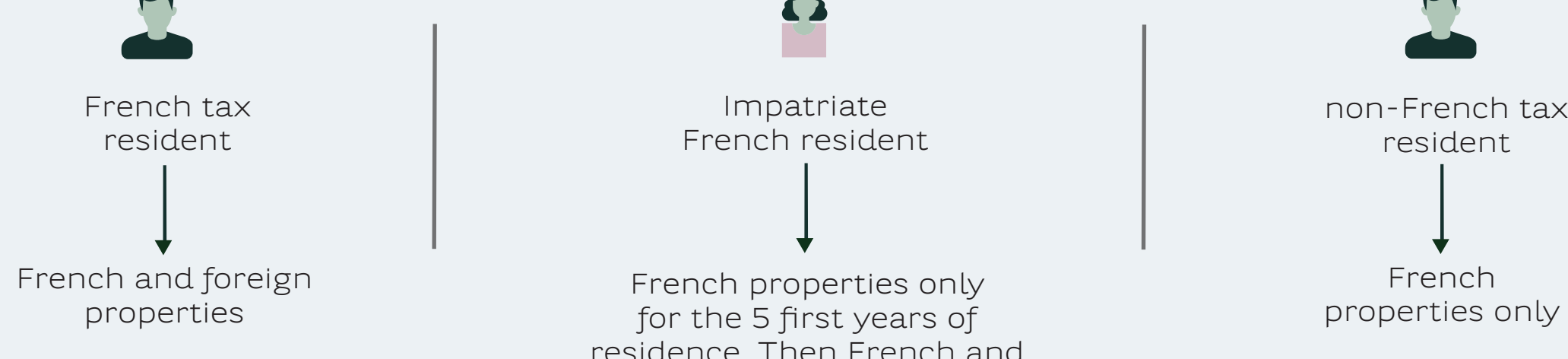
- the type of ownership (direct or through a company)
- the type of rental (furnished or unfurnished)

### Rental methods



## Property wealth tax ("Impôt sur la Fortune Immobilière" - IFI)

Tax on all individuals who own property directly or indirectly (e.g. through companies)



#### TAX BASE

NET ASSET VALUE = ASSETS - LIABILITIES (Value at 1 January)

30% allowance for primary residence

Strict rules for determining deductible liabilities

#### THRESHOLD FOR TRIGGERING IFI

NET ASSET VALUE ≥ €1.3m

#### IFI TAX RATE

PROGRESSIVE SCALE RANGING FROM 0% TO 1.5% FOR AMOUNTS OVER €10M

Possibility of reducing IFI through donations to certain organisations

## TRANSFERRING THE PROPERTY

### 1) Sale of the property

Are the capital gains taxable?

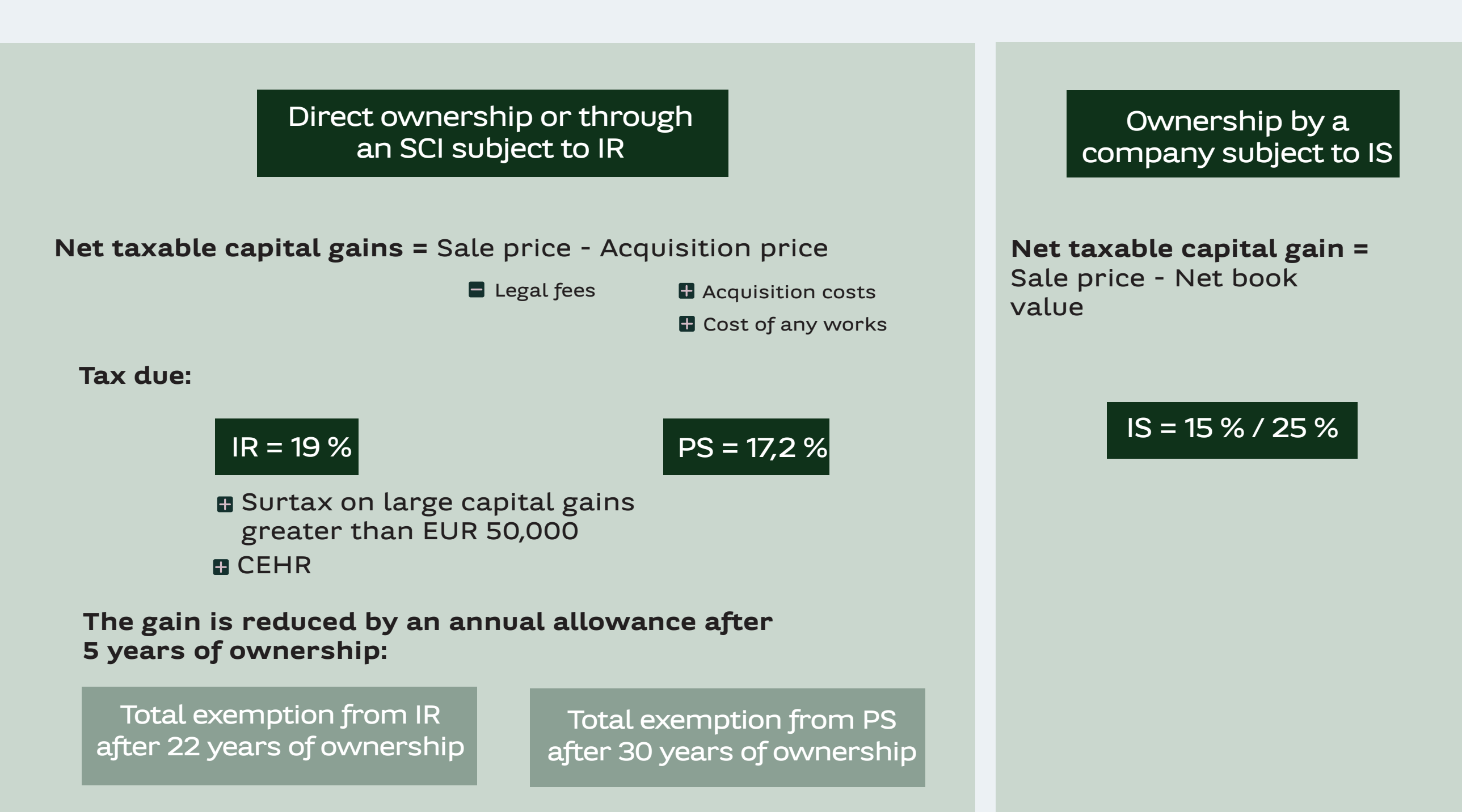
#### PRIMARY RESIDENCE

Capital gains exempt

#### SECONDARY RESIDENCE OR RENTAL PROPERTY

Capital gains taxable

### Taxation of capital gains



### 2) Gift/Inheritance tax

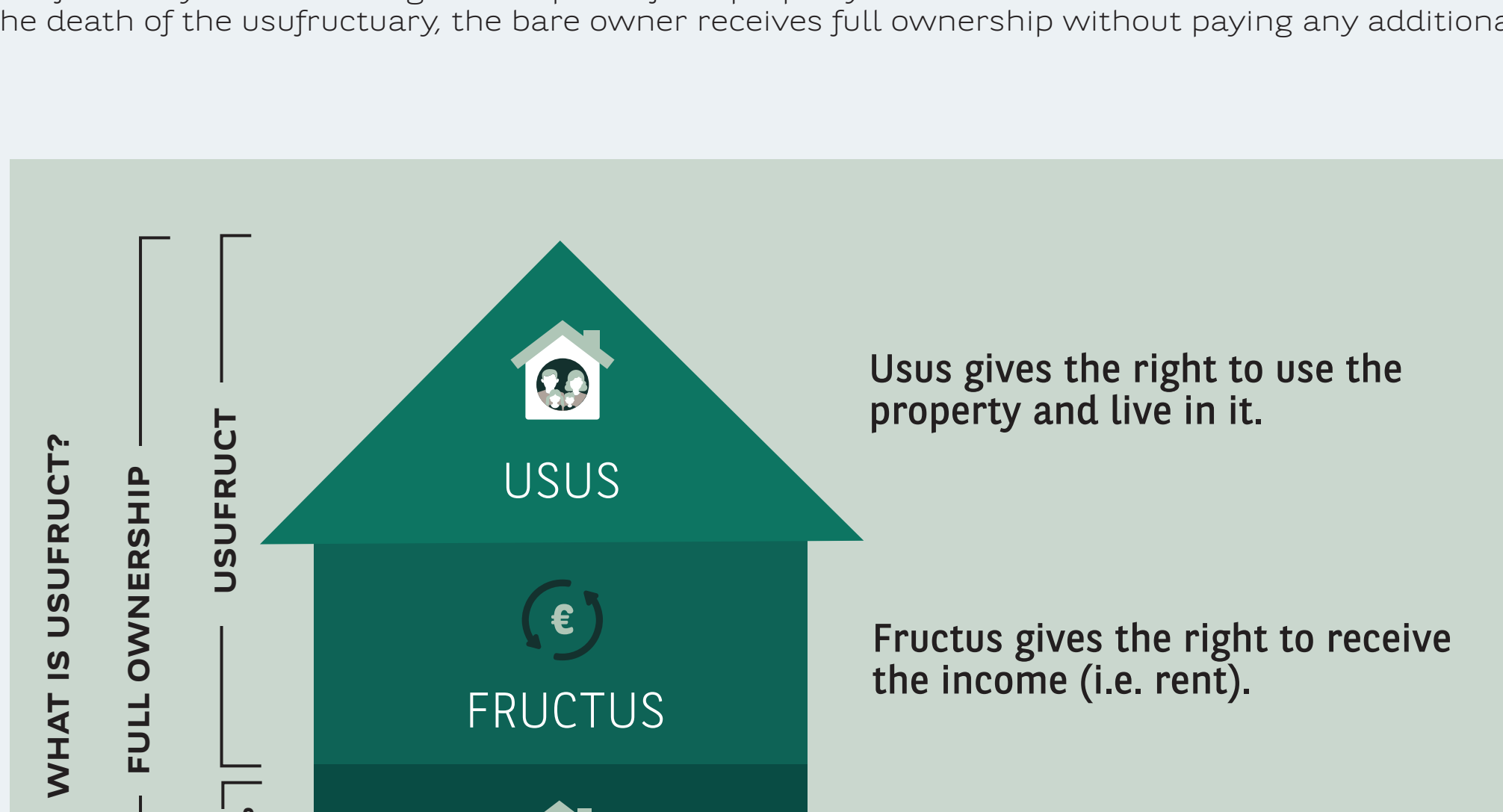
#### Some key points

- Duties are payable on the market value of the property transferred
- Duties are payable according to the family relationship:
  - Direct line gift/ inheritance: progressive tax scale with a marginal rate of 45%
  - No inheritance tax is due for inheritance between spouses
- Allowance of €100,000 per child and per parent / €31,865 per grandchild and per grandparent

#### Transfer of bare ownership while retaining usufruct

What are the benefits?

- Lower duties because they are payable on the value of the bare ownership only (which depends on the age of the usufructuary)
- The usufructuary retains the right to dispose of the property and receive the income
- On the death of the usufructuary, the bare owner receives full ownership without paying any additional tax



#### EXAMPLE

At the age of 63, a parent donates bare ownership of a property worth €2 million. The value of the bare ownership is estimated at 60% of the value of the full ownership; duties will therefore only be payable on €1.2 million.

