

## French Wealth Tax (Impôt de Solidarité sur la Fortune or ISF)

### What is French wealth tax?

French tax residents are subject to an annual wealth tax in each year where the total net fair market value of their worldwide assets on January 1<sup>st</sup> exceeds € 790,000\* (unless provided otherwise by a tax treaty).

Individuals who are not French tax resident are liable to French wealth tax in each year where the total net fair market value of their French located assets (ie less any debts or mortgages taken out to acquire the French located asset) on January 1<sup>st</sup> exceeds €790,000\* (unless provided otherwise by a tax treaty).

Taxable assets include property, cars, shares, bonds, bank accounts, investment portfolios, jewellery, horses, yachts, furniture and debts owed to members of the household. For married couples, the wealth tax is based on the total net assets of the household including spouses and minor children (under 18 years old). Unmarried couples may be assessed as a single household depending upon their circumstances.

### Wealth tax rates

Wealth tax is due where the net taxable assets exceed €790,000 (2009 tax year)\* at the following rates:

Value of assets	Tax rate
Up to €790,000	0%
€790,000 - €1,280,000	0.55%
€1,280,000 - €2,520,000	0.75%
€2,520,000 - €3,960,000	1.00%
€3,960,000 - €7,570,000	1.30%
€7,570,000 - €16,480,000	1.65%
Over €16,480,000	1.80%

\*Tax year 2009 threshold. Allowances are subject to annual revision.

### Exemptions, reliefs and reduction

#### *Exemptions for shareholdings and business related assets*

There are a number of exemptions and reliefs available for assets used for the main professional activity of the taxpayer. Complex rules govern these exemptions and reliefs and professional advice should be obtained. Please note:

- Antiques over 100 years old, art collections, historic cars, the value of artistic, industrial and literary rights are excluded from wealth tax; and
- Other assets eg forestry or agricultural assets or shares held in a company by employees or in a Pacte Dutreil agreement may also benefit from a partial exemption from wealth tax under certain conditions.

#### *Charitable activity*

Wealth tax may be reduced for contributions made to specific charitable causes.

#### *Contribution to the capital of small business companies ("PME") located in European Countries*

Individuals can benefit from a wealth tax credit equal to 75% of the amount invested in the authorized capital of a PME which has its headquarters either in France or in another country of the European Community and which carries on a commercial, industrial or agricultural business activity. The reduction of wealth tax is capped at €50,000 per year.

#### *Coming to live in France – temporary exemption*

Individuals who have not been tax residents of France during the 5 calendar years preceding their arrival in France are not subject to French wealth tax on their foreign located assets for the first five years of their tax residency in France. This rule applies for individuals who have set up their residence in France as from August 6, 2008. Certain double tax treaties also provide a temporary exemption with other conditions.

### **Specific rules for French tax residents**

#### *Main French residence*

The fair market value of the main French residence of a French tax resident will be reduced by a rebate of 30% for wealth tax.

#### *The 85% ceiling*

The 85 % ceiling rules provide for a reduction of the wealth tax due, to prevent the tax payer from being liable to a total amount of taxes exceeding 85% of his worldwide income received in the previous calendar year.

Where total net wealth exceeds the upper limit of the third wealth bracket (€ 2,520,000 for 2009), the reduction of the wealth tax is limited to 50% of the theoretical full wealth tax. Relief under the 85% rule is provided by the annual wealth tax return.

#### *The 50% tax shield*

Following the Bouclier case, the tax burden of a French household cannot exceed 50% of its taxable income and income deemed as realized. Relevant taxes include wealth tax, income tax, additional welfare contributions and local taxes (tax fonciere and tax d'habitation). The tax burden is calculated as the total tax paid in the current year compared to the total income of the household in the preceding calendar year. The taxpayer can claim a refund of the excess tax paid.

☞ **Please note:** the income taken into account for the calculation of the 85% ceiling and the 50% tax shield are not the same. If you require further information, professional advice should be obtained.

### **Specific rules for Non-French tax residents**

#### *French real estate held by foreign entities (eg corporate entities or partnerships)*

Where French real estate is held indirectly (eg through a non-French company or partnership) the ownership of the shares or partnership interest itself may attract wealth tax in France. The rules are complex and professional advice should be obtained.

#### *Exemption for financial assets located in France*

French non-residents are not subject to wealth tax on the value of French located securities such as bank accounts, shareholders current accounts and shares in French companies in which they do not hold a substantial shareholdings (over 10% in general) and where the assets of the company are not composed of French real estate held for commercial, industrial or agricultural business activity.

### **Mortgages (non-French residents)**

Mortgages taken out in connection with the purchase of the property (or for improving the property) will be treated as a liability and can be deducted from your net assets. Mortgages obtained which are not in connection with these purposes will not be treated as a liability for wealth tax purposes.

### **Wealth tax return filing and payment deadlines**

15 June for French residents

15 July for European Union but non-French residents

31 August for residents of all other countries.

### **Obtaining professional advice**

There are a number of ways to structure the acquisition of real estate in France which can help mitigate French wealth tax and other taxes for resident and non-residents alike. It is recommended that professional advice is obtained before any property purchase.

If you require any further advice please contact either Edward Jennings ([Edward.jennings@gordonblair.com](mailto:Edward.jennings@gordonblair.com) / +377 93 25 84 42) or Veronique Moujon ([vm@gordonblair.com](mailto:vm@gordonblair.com) / +377 93 25 84 04) who is in charge of the French tax department at Gordon S. Blair.

***Please note that this summary provides a high level overview of the French wealth tax regime. The note is provided for information only. The application of tax and other laws can vary widely depending upon individual circumstances. Tax law is subject to change.***

*Gordon S. Blair Law Offices is one of Monaco's oldest professional services firms and through its Monegasque, French and English professionals provides specialist legal and tax advice from its Monaco office. Main switchboard telephone number +377 93 25 85 25. More information is available at our website [www.gordonblair.com](http://www.gordonblair.com)*