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Please find below the overview on the wealth tax (« ISF ») that I have prepared.

I. Scope of Wealth tax or solidarity tax on wealth (“ISF”) :

The solidarity tax on wealth (“ISF”) has to be paid by individuals whose estate, globally appreciated at the level of the different individuals subjected to a common declaration, exceeds the taxation threshold.

The individuals that reside outside of France are taxed only on their goods that are located in France.

The taxation threshold is set at 1 300 000 EUR (Article 885 A of the French Tax Code “CGI”). The individuals whose net estate taxable on the 1st of January is equal or inferior to this sum are not subjected to the solidary tax on wealth (“ISF”).

Cabinet BRAHIN Société d'Exercice Libérale à Responsabilité Limitée inscrite au Barreau de NICE

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A. Taxable individuals:

This solidarity tax on wealth (“ISF”) is only subjected to individuals.

Legal entities are not subjected to this tax and thus do not need to apply for a declaration.

However, equity and shares in capital of companies are taxed by the solidarity tax on wealth (“ISF”) for the partners unless they benefit from an exemption (especially interests constituting professional property). This also applies to shares of companies with no legal personality.

Married couples are subject to a common taxation of the solidarity tax on wealth (“ISF”) except in two situations:

- If the couple have separated their marital property (“séparation de biens”) and do not live together anymore
- If they are going through divorce proceedings or judicial separation (“séparation de corps”) and have been allowed to have separate residences

Civil partners (“Pacte Civil de Solidarité PACS”) are also subjected to this tax.

Cohabiting partners (“concubins”) (in a stable and continuous relationship between two persons living as a couple) have to pay this tax unless one of the partner is married to another person.

The property of minor children are subjected to this tax with the property of their parents that have the legal administration of their property. If the parents are separated they will have to pay half of this tax whilst they share parental authority. The constitution of the tax household is appreciated on the 1st of January of the taxable year.

Individuals that have their tax domicile in France have a fiscal obligation for all their properties located in and outside of France.

However, as long as the solidarity tax on wealth (“ISF”) is paid for goods located outside of France, individuals will not have to pay this tax twice for those specific properties.

If individuals have transferred their residence in France, after having been fiscally domiciled in a foreign country since the last five years, they are temporarily taxable on only their French property.

Individuals that reside outside of France are only taxable on their property located in France. (Their financial investments are exempted).

The tax domicile is either defined by international applicable agreements or Article 4 B of the French Tax Code (“Code général des impôts”).

B. Taxable property:

1. Constitution of the estate:

All property despite their nature are subject to the solidarity tax on wealth (“ISF”). The constitution of the estate is appreciated at the date of the chargeable event (“fait générateur de la taxe”) on the 1st of January of the taxable year.

Changes in the estate that occur between the 1st of January and the date of the tax declaration will not be taken into account to determine the basis of taxation.

The proof of the property is regulated by several presumptions. The owner designated in an act is considered as such. The one that possesses personal property is considered the owner. The ownership of a property gives a right to things that unite incidentally to the property. These presumptions can of course be discredited by rebuttal evidence.

Property detained by a procedural representative (“mandataire”), a trustee, a guardian or a pledgee (“créancier gagiste”) are not taxable.

Property burdened by usufruct (“usufruit”), a right of residence (“droit d’habitation”) or an easement (“droit d’usage”) personally granted are included in the estate of the tenant for life (“usufruitier”) or the owner of the right for the value of the full ownership. However, that property will only be taxable on the fraction of the full ownership they are entitled to.

2. Exemptions:

Several categories of property are exempted from this taxation.

Art, antique and collectible objects as defined by the Common customs tariff (“tarif douanier commun”) are exempted and thus do not have to be declared.

The author of literary and artistic property rights and those that own rights related to copyrights are also exempted from this tax.

However, the successor in title of the author will have to take into account the value of their right of entitlement in the tax base.

An inventor or creator’s rights to industrial property will be exempted by this tax. However, this exemption does not cover the successor in title of the inventor or creator unless they prove that those rights are used for a solely professional activity.

Retirement pensions are not taken into account in the taxation of the solidarity tax on wealth (“ISF”).

Finally, an exemption exists concerning the capitalization value (“valeur de capitalisation”) of life annuities (“rentes viagères”) constituted as part of a professional activity or an individual retirement account (“plan d’épargne retraite populaire PERP”) that are ensured at standard premium rates regularly graduated in their amounts and their periodicity during a period of fifteen years and whose commencement date intervenes at the earliest from the award of the pension of the taxable person or at the legal age of retirement (article 885 J of the French Tax Code “CGI”).

Only compensation for bodily damage received by capitalization value of annuity or compensation is exempted not compensation for material damage.

II. Tax base and calculation:

The solidarity tax on wealth (“ISF”) is based on the net value of imposable property.

A. Assessment of taxable property:

The taxable person has to assess their estate on the 1st of January of the taxable year subject to controls by the administration.

The value to declare has to be done at current value.

For taxable property located in foreign countries, they will be assessed in the same conditions as property located in France.

A reduction of 30% will be applied to the current value of a building if it is occupied on the 1st of January of the taxable year as main residence by its owner. The assessment of buildings classified as historic monuments will take into account specific constraint they are subjected to (openness to public, considerable maintenance expenses).

Household furniture can be assessed either by:

- An appraisal of the taxable household furniture in a simplified inventory. This appraisal is valid three years, however, significant changes must be notified
- A global assessment in one number without having to specify the value and nature of the different objects.

Quoted transferable securities (“valeurs mobilières cotées”) are assessed according to the last known rate or according to the average of the last thirty rates before the 1st January of this year.

Non quoted transferable securities (“valeurs mobilières non cotées”) need to be declared. Real estate company security (“titres de sociétés à prépondérance immobilière”) are assessed without taking into account the detained debt, directly or by of one or more intermediary person, by its non-resident companies.

Saving bonds (“bons d’épargne”) need to be declared at their face value (“valeur nominale”) except for the accrued or non-received interests on the 1st of January of the taxable year.

B. The deduction of liabilities (“passif”):

For liabilities (“passif”) to be deducted they need to exist on the 1st of January of the taxable year, they need to be personally invested by the taxpayer and be justified by every means of evidence compatible with the written procedure.

The deduction of taxable liabilities will concern:

- The taxes whose taxable event is at the latest on the 1st of January of the taxable year and that need to be paid at that date;
- Loans for an amount equal to the capital owed on the 1st of January of the taxable year increased by accrued and unpaid interest as well as interests running at that date;
- Bank overdrafts on the 1st of January or a company’s receivable accounts (“comptes débiteurs”);
- Debts, invoices or fee notes before the 1st of January and that have to be paid at that date;
- The capital of life annuities (“rente viagères”) that is payable by the taxpayer;
- The value of capitalisation of a provision of compensation (“prestation compensatoire”) in the event of a divorce or a maintenance allowance (“pension alimentaire”);
- Maintenance margin (“dépôt de garantie”) received by tenants at the beginning of the tenancy.

The taxpayer will have to attach to their declaration all the elements justifying the existence, object and amount of debts where the deduction is applied.

The administration can ask for precisions in light of tax inspection.

C. Tax calculation:

The amount of the tax is calculated by applying to the net value of the taxable estate the rate of article 885U of the French Tax Code (“CGI”).

Fraction of the net value of the taxable estate	Applicable rate
Until 800 000 €	0 %
Between 800 000 € and 1,3 million € (included)	0,5 %
Between 1,3 million € and 2,57 millions € (included)	0,70 %
Between 2,57 million € and 5 million € (included)	1 %
Superior to 5 million € and inferior or equal to 10 million €	1,25 %
Superior to 10 million €	1,5 %

The calculated tax can be reduced according to the undertaken investments and can take the form of a levelling-off (“plafonnement”) according to the taxpayer’s income. Wealth tax (“impôt sur la fortune”) paid in a foreign country will also be deducted.

The levelling-off (“plafonnement”) allows to avoid that the total of the solidarity tax on wealth (“ISF”) and the income tax (“impôt sur le revenu”) does not exceed 75% of the earnings of the previous year. In the event of excess, it will be reduced from the solidarity tax on wealth (“ISF”) to be paid.

The taxes to be paid in France and abroad for the earnings and products of the previous year to the payment of the solidarity tax on wealth (“ISF”) will be taken into account for the calculation of the levelling-off (“plafonnement”).

I hope this overview will enlighten your opinion on the matter.

Best regards,

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