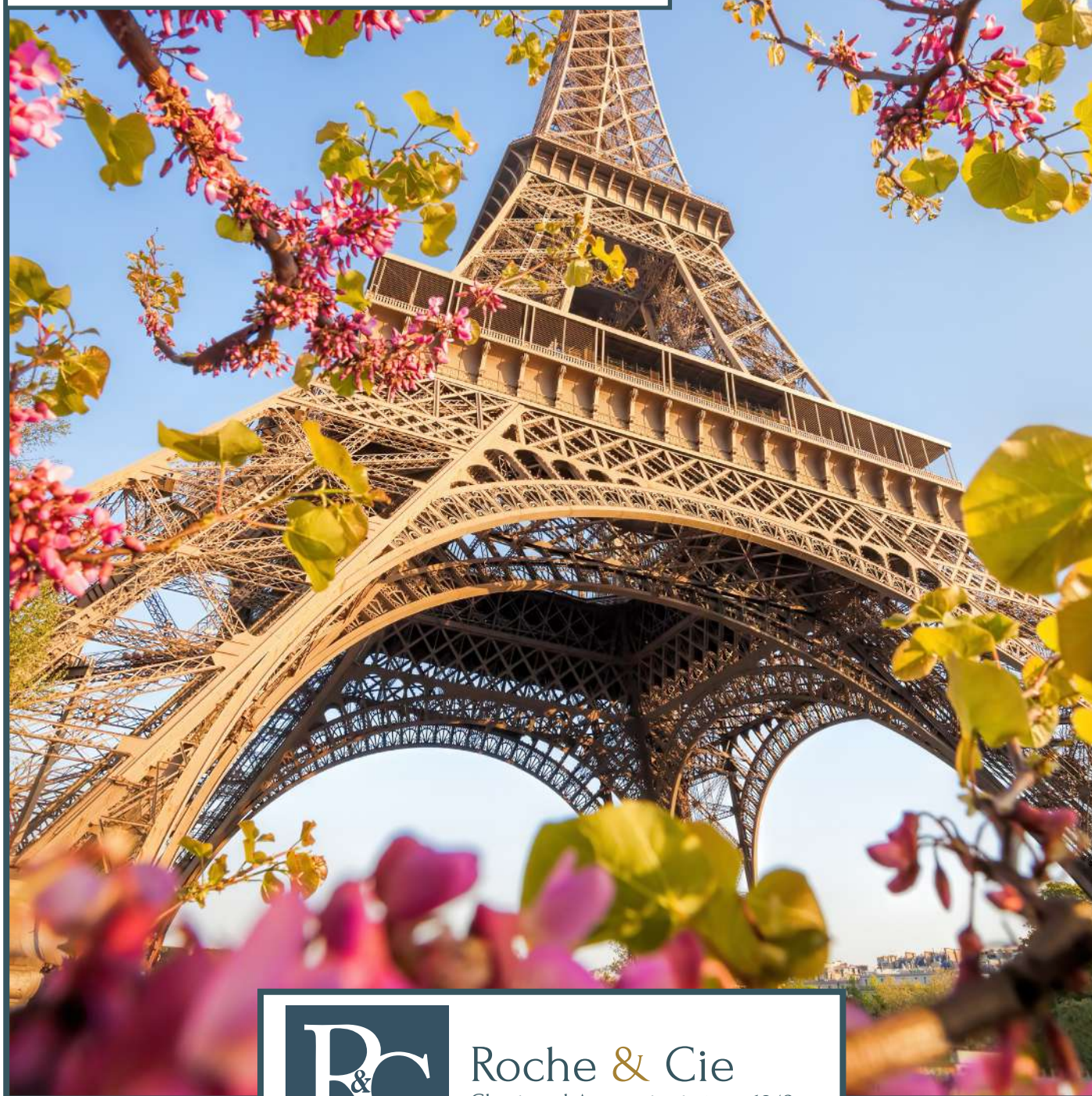
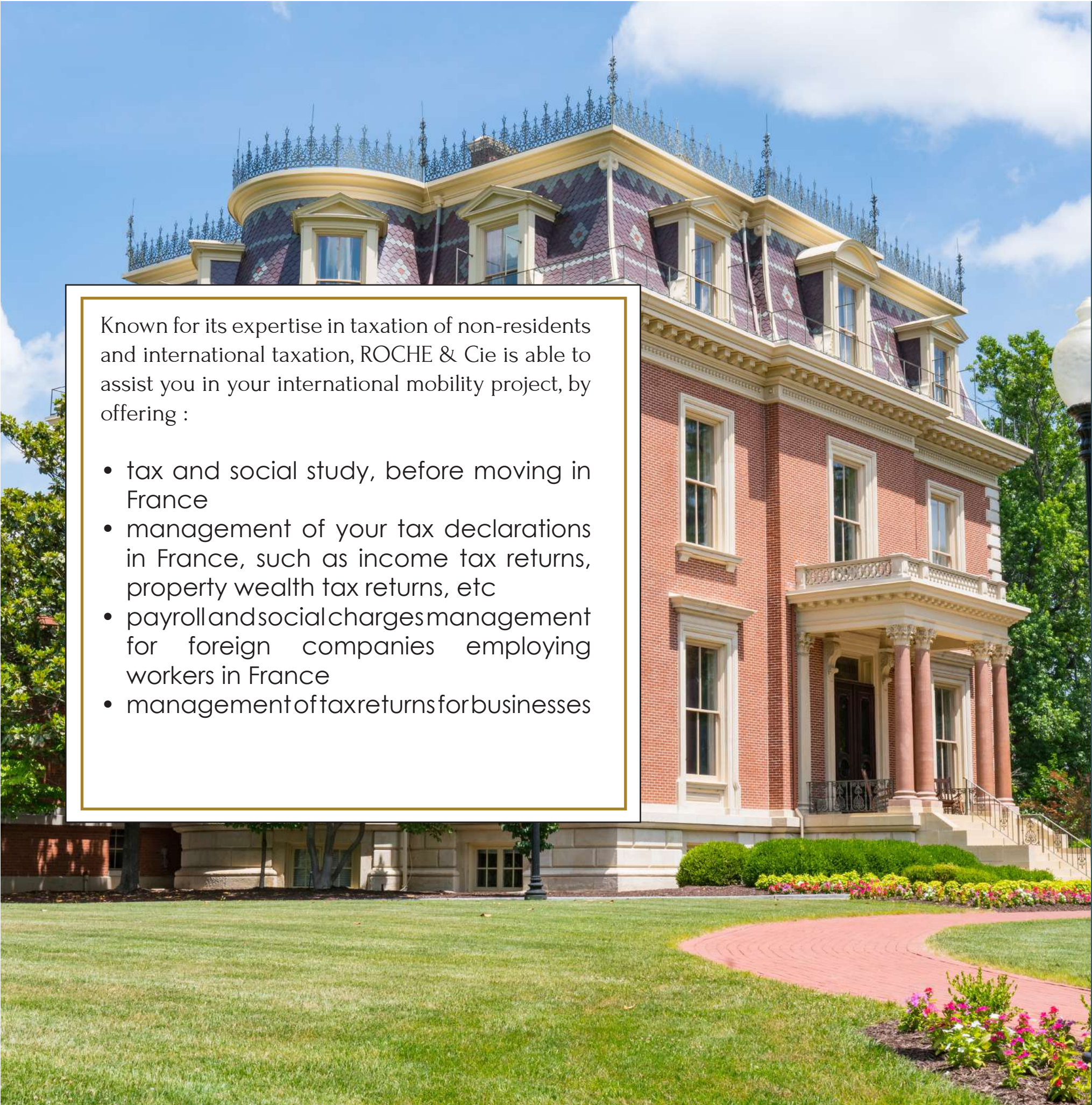


Real estate wealth tax in France (IFI)



Roche & Cie
Chartered Accountant since 1948

www.cabinet-roche.com



Known for its expertise in taxation of non-residents and international taxation, ROCHE & Cie is able to assist you in your international mobility project, by offering :

- tax and social study, before moving in France
- management of your tax declarations in France, such as income tax returns, property wealth tax returns, etc
- payroll and social charges management for foreign companies employing workers in France
- management of tax returns for businesses



Sandy Dalmas
Associate
Chartered Accountant

contact@cabinet-roche.com

+33 (0)4 78 27 43 06

In 2017, French wealth tax underwent a major reform. Thus, since 1st January 2018, real estate wealth tax (impôt sur la fortune immobilière, IFI) has replaced the former, more general wealth tax (impôt de solidarité sur la fortune, ISF).

From this day forth, wealth tax in France only targets possession of real estate assets or real estate rights. We hope that reading this white paper will help you to better understand the outline of this tax and the consequences of owning real estate assets in France or electing to make France your tax domicile.

Who is liable for the real estate wealth tax (IFI)?

The IFI is a tax paid by individuals whose net value of the taxable assets exceeds the threshold of €1.3 million, set in article 964 of the French Tax Code (CGI).

The real estate wealth tax (IFI) is an annual tax. To calculate it, we consider the market value of the assets on the 1st January of the taxable year.

IFI



Who are the tax payers ?

Legal entities, both public and private, are not subject to the IFI. However, shares of the companies owning themselves taxable property or rights, are taxed as the shareholders' assets.

Exception : Are excluded shares of the companies containing properties allocated to the taxpayer's main professional activity.

Only private individuals are liable for real estate wealth tax (IFI).



The composition of the tax household

In terms of IFI, the tax base is assessed at the level of the tax household. It is therefore necessary to aggregate the real estate owned by the various members of the household including:

- spouses;
- PACSed couples (civil union partnerships);
- cohabitants;
- minor children for whom a parent manages legal administration for properties.

It should be noted that unmarried couples living as cohabitants are considered as a tax household in their own right with regards to wealth tax.

Example: Oliver and Sophie have been living together for ten years. Olivier owns several properties worth a total of €1 million. Following the death of her aunt, Sophie has just inherited an apartment worth €500,000. Although they are not married, Olivier and Sophie are considered a tax household for the purposes of real estate wealth tax. The value of their jointly owned real estate exceeds the tax threshold set at €1.3 million, so they are therefore liable for real estate wealth tax.

Impact of the tax residence



Tax domicile status is assessed on January 1st of the tax year (for example on 01/01/2022 for the IFI to be paid in 2022) for each person considered a member of the tax household.

This makes it possible to determine which assets are considered net taxable properties in France.



For people living abroad

For people residing abroad and subject to international tax agreements, taxable assets include real estate and rights located in France only.



For people residing in France or considered as such

For people residing in France, taxable assets include property and real estate rights located in France and abroad, held directly or indirectly (through a company, for example).

IFI Tax advantage for inpatriates

Under certain conditions, newly settled taxpayers in France benefit from a temporary exemption on property and real estate rights located abroad. They are taxed on property located in France and this until December 31 of the fifth year following the declaration of their residence in France, regardless of the reason for transferring their the tax residence (for example, professional mobility, retirement, etc.).



Taxable assets

The IFI is based on the net value of real estate assets owned by the tax household on January 1st of the tax year. Taxable assets consist of all property and real estate rights held directly or indirectly by the tax household for the IFI purposes.

DIRECTLY OWNED EXISTING AND UNBUILT PROPERTIES

BUILDINGS OR PARTS OF BUILDINGS HELD INDIRECTLY VIA SECURITIES AND SHARES IN COMPANIES

REAL ESTATE AND RIGHTS

existing buildings: houses, apartments and their outbuildings (garages, parking spaces, cellars) whether they are used for private or professional purposes;

buildings classified as historical monuments;

buildings under construction on January 1st;

undeveloped buildings (such as building land, agricultural land);

Combining legal security, optimisation
and pleasure

Valuation of taxable assets

Taxable properties must be reported at their market value on January 1st of the tax year. The market value is the price at which the property could be sold under normal market conditions, based on supply and demand.

To help them determine this value, taxpayers can use the online service «search for real estate transactions» (Patrim), accessible via their personal account on the official website impots.gouv.fr. They can also get help from a notary or use local real estate agencies.

Some particularities to know:

Certain properties can be evaluated according to particular methods. Here are some particularities to be known:

- The principal residence benefits from a fixed allowance of 30% on its market value provided that it is not held through a company (SCI for example).
- The market value of property owned in joint ownership may be subject to a discount (10 to 20%), as a lower liquidity is admitted.
- The market value of an occupied property is, in general, lower than the market value of the same property free of any occupation. The tax authorities allow a discount of 20%.

Property exempt from the IFI

Some properties may be exempt from the IFI:

Real estate and rights considered professional property are totally exempt when several conditions are met, including the following:

- The real estate or rights must be used in the context of an industrial, commercial, artisanal, agricultural or liberal profession. The professional activity concerned must include the actual practice of the profession on a regular and constant basis in a manner, that is likely to provide the person exercising it with the means to earn a living.
- This activity must be carried out by the owner of the property or real estate rights, spouse, civil union partner, cohabitant or legally recognized minor children.
- The activity must be the taxpayer's main profession and constitute an essential part of their professional activity.
- The property or rights must be essential for the practice of the profession.

The taxpayer may also benefit, under certain conditions, from a partial exemption (75%) for the following assets :

- woods and forests, shares in forestry groups, sums deposited in a forestry investment and insurance account (CIFA),
- rural property leased on a long-term basis,
- shares in non-operator agricultural land groups.

The list of exempted assets and the conditions for their exemption presented here are not exhaustive.

Special cases

Dismembered assets (usufruct/bare-ownership)

With some exceptions, in the case of dismemberment, the usufructuary must declare the full value of the property or real property rights.

Assets held through a foreign company

Unless otherwise provided for in international tax treaties, shares of companies established outside France are also included in the taxable amount of the IFI, up to the fraction representing real estate assets and rights located in France.

Assets held through a foreign trust

Holding real estate assets through a trust does not make them ineligible for the IFI. Since the 2011 amended Finance Act, all trusts are handled in the same way regardless of their nature:

- the settlor of the trust is the only person liable for real estate wealth tax in France;
- upon their death, the beneficiary “deemed to be the settlor” becomes liable for this tax.

Conditions for the deduction of debts

To be deductible, debts must meet the following cumulative conditions:

- They must be in existence on January 1st of tax year,
- They must be the personal responsibility of a tax household member.
- They must be related to taxable assets,
- They must be provable by various means of evidence.



Debts allowed as deduction

The law lists the debts allowed as a deduction, which are debts taken on in order to finance building or security acquisitions or to finance building works.

Deductible debts include:

- Debts relating to expenses for the acquisition of real estate or rights,
- Debts relating to expenditure for improvements, construction, reconstruction or expansion
- Debts relating to expenses for the acquisition of shares or stocks in proportion to the value of the real estate and rights,
- Certain tax debts (property tax, and theoretical IFI



Non-deductible debts or debts with limited deductibility

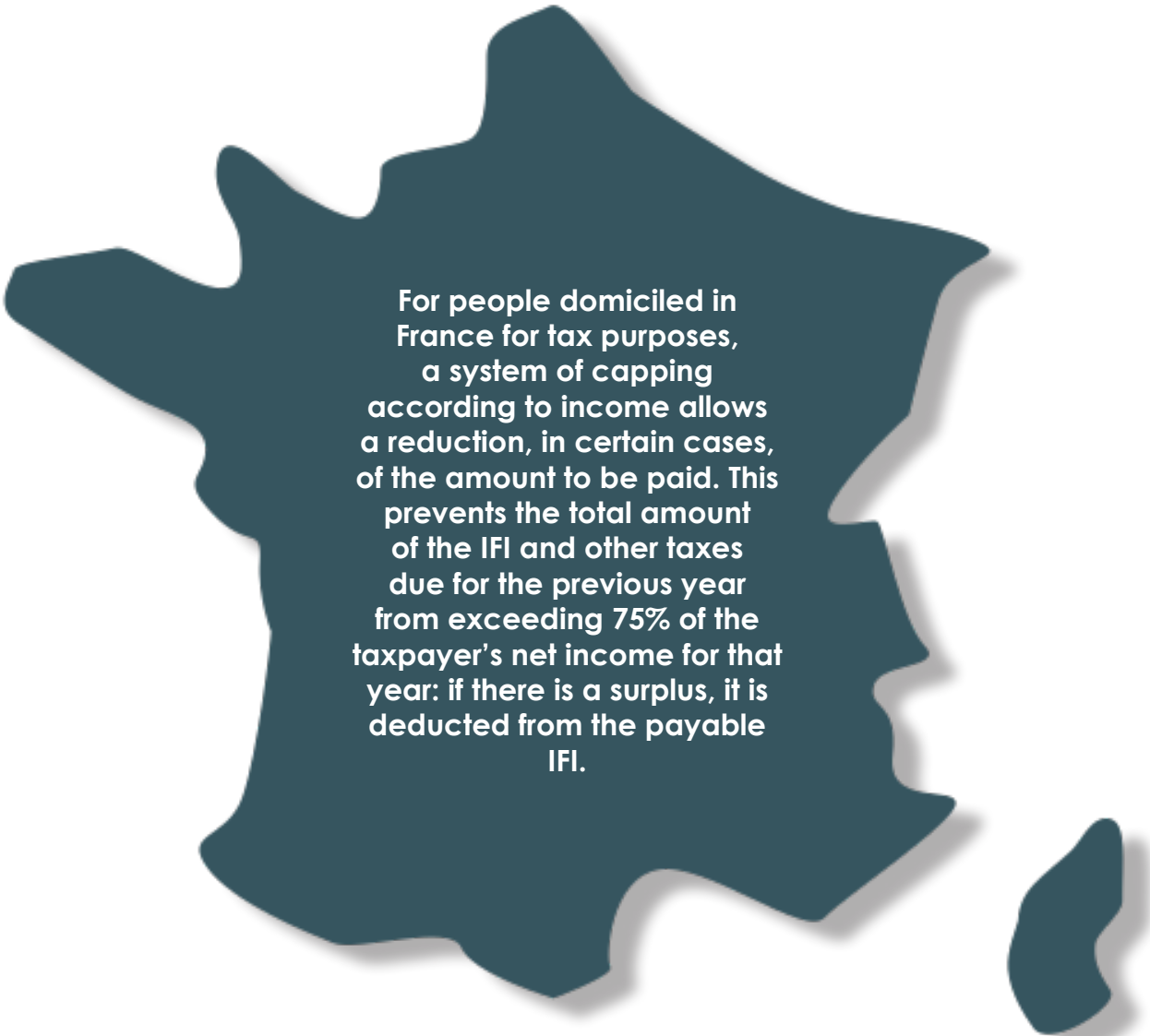
Debts within the family circle	Debts taken on directly or indirectly (through interposed companies, for example) by the taxpayer, his or her spouse or civil partner, civil union partner or minor children are no longer deductible. Debts taken on directly or indirectly with an ascendant, descendant (except minor children), brother or sister are no longer deductible EXCEPT if the taxpayer can justify the normal nature of the transaction (for example, a loan agreed under market conditions).
Bullet loans (including "interest only" loans)	Taking out a loan repayable in one lump sum at the end of the contract was a practice commonly used to reduce the taxable base for the ISF (the former wealth tax in force before January 1st, 2018). This scheme allowed the taxpayer to deduct a fixed-amount debt throughout the term of the loan. Now, these debts are only deductible up to the total amount of the loan reduced by a prorated amount taking into account the number of years elapsed over the total number of years of the loan.
Limitation beyond €5 million of assets	When the value of the taxable assets exceeds €5 million and the amount of the deductible debts exceeds 60% of this value, the part of the debt exceeding 60% is deductible only for half of its value.

Fraction of the net taxable value of the assets	Applicable rate (in percentage)
Not exceeding 800 000 €.	0
More than 800 000 € and less than or equal to 1 300 000 €.	0,50
Greater than €1,300,000 and less than or equal to €2,570,000	0,70
Greater than €2,570,000 and less than or equal to €5,000,000	1
More than 5 000 000 € and less than or equal to 10 000 000 €.	1,25
More than €10,000,000	1,50

Application of a progressive
scale

Example: For a real estate asset worth €1.4 million, the calculation will be $800,000 \times 0\% + (800,000 - 1,300,000) \times 0.5\% + (1,300,000 - 1,400,000) \times 0.7\%$: €3200. The IFI will therefore be €3200.

Real estate wealth tax
ceiling



Taxpayers who make donations to certain organizations can benefit from an IFI reduction equal to 75% of their payments. The tax benefits for donations are capped at €50,000 per year.



To be taken into account, donations must be made between the deadline for filing the return for the year preceding the year of taxation and the date of filing the return for the year of taxation.

Tax reduction for donations to public interest organizations

Public or private, non-profit, research, higher education or arts institutions and some higher education institutions

Foundations recognized as being of public use which make assets available for general interest causes (examples: the Abbé-Pierre Foundation, the Salvation Army, etc.);

Companies that help the unemployed rejoin the workforce

Intermediary associations that help people with social and professional difficulties reintegrate and return to work (examples: Ardie Fédération Francilienne des associations intermédiaires)

Sites offering activities and professional support for people in social and professional difficulty

Companies adapted for people with disabilities;

Employers groups which are part of the GEIQ ;

The National Research Agency

Certain university foundations and partnership foundations (in accordance with art. 200 of the Education Code)

Recognized associations for financing and supporting the creation or resumption of companies.

Certain accredited organizations whose headquarters are located in a member state of the European Union are also eligible.

Reporting procedures

The IFI tax return is an annex to the regular income tax return form in France. The deadline for the IFI tax declaration is therefore the same as for the income tax return deadline, between the end of May and the end of June, depending on the taxpayer's place of residence.

If the taxpayer does not file an income tax return, they must file a specific return n°2042 IFI-COV with annexes. The deadline for filing the return is usually the end of May.

Paying the IFI

IFI taxpayers receive a separate tax notice for IFI payments, as well as an income tax notice. IFI tax notices are generally sent between the end of August and December (sometimes later for non-resident taxpayers).

It is possible to make IFI tax payments online, by cheque or TIP SEPA. If the IFI payment is higher than €800, it must be paid online.

Recovery periods

The time allowed for the tax authority to make checks on declarations varies depending on the case:

In case of insufficient declaration (under-assessment): the right to review is exercised by the tax authority until December 31 of the third year following the year during which the tax liability was established. Example: for the IFI 2021 return, the right of recovery is exercised until December 31st 2024.

In other cases (absence of declaration, omission of an asset, need for further research): the right to review applies until December 31 of the sixth year following the year of the taxable event, in this case January 1 of the tax year. Example: for the IFI 2021, the right of recovery is exercised until December 31st 2027

An exceptional right of recovery may be exercised until December 31 of the tenth year following the taxable event when the tax liability of assets held abroad in bank accounts, life insurance policies or in trusts has not been sufficiently disclosed by the annual income tax return and its annexes.



Sanctions

In case of late payment, the administration applies a late payment interest of 0.20% per month and an increase of 10% of the amount of the sums for which the payment was deferred.

- In case of failure to file a tax return, a procedure of automatic taxation is applicable. However, the administration must first establish that the taxpayer is indeed liable for the IFI and implement an adversarial procedure during which the taxpayer can correct their omission.
- Failure to file a return is punishable by late payment interest of 0.20% per month plus a surcharge of: 10% if no formal notice is given to file the declaration or to submit the document for registration, or if the document is filed within thirty days of the first formal notice; 40% if the document has not been filed within 30 days from the date of receiving a first notice of default;
- In case of fraud, the penalties can be as high as 80%.



Questions ?

Do not hesitate to contact us
contact@cabinet-roche.com
www.cabinet-roche.com



Roche & Cie
Chartered Accountant since 1948

