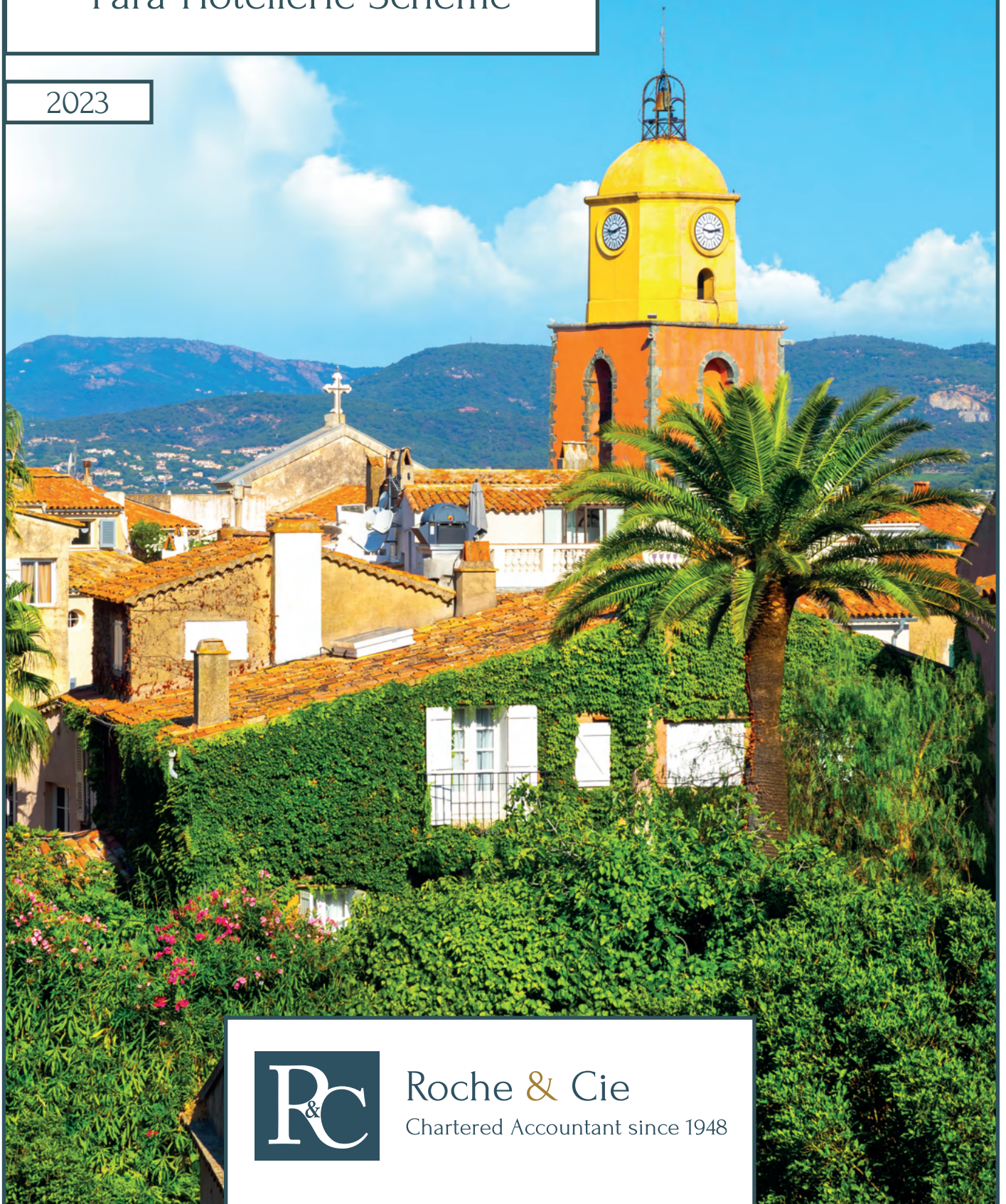


Para-Hôtellerie Scheme

2023



Roche & Cie
Chartered Accountant since 1948



Taxation and practical advice

Acquisition of para-hotel scheme for holiday rental (known in French as para-hôtellerie) is common in seaside and ski resorts with new real estate for sale. New owners of these properties can benefit, under certain conditions, from a refund of the VAT credit on the purchase price of the property. However, this is a particularly technical process and investors should be fully informed of the potential consequences on tax and social charges before buying.



Sandy Dalmas
Chartered Accountant
Associate

Roche & Cie has been working in this field for ten years and our team are experts in the details of the unique tax system for serviced-accommodation rental. Do not hesitate to contact us if you need further information.

Cabinet Roche & Cie
40 rue du président Edouard
Herriot
BP 1222 Lyon Cedex 01
contact@cabinet-roche.com
+33 (0) 4 78 27 43 06
+33 (0) 4 78 27 00 95

Definition

The Para-Hôtellerie scheme is defined by article 261 D 4°-b of the General Tax Code:

«The provision of furnished or equipped premises on a regular basis including, in addition to accommodation, at least three of the following services, provided under conditions similar to those offered by professionally run hotel accommodation establishments: breakfast, regular cleaning of the premises, supply of household linen and reception, even if not in-person, of customers.»

Thus, the Para-Hôtellerie industry is characterised by the presence of:
The provision of furnished accommodation, AND
The provision of **at least three of the following four services:**



Regular cleaning of the premises
Simply cleaning at the beginning and end of the stay is not sufficient. At the very least, the operator must have the means to offer this service to the tenant during their stay on a regular basis

1



Breakfast:
The operator must be able to provide breakfast to all tenants in conditions similar to those of a hotel, either directly in the rented flats or rooms, or in a room dedicated to the consumption of food (such as a buffet). Providing a vending machine or even a coffee machine is not sufficient to meet this condition.

2



Provision of household linen: This must be provided during the stay for all tenants.

3



Reception of customers: The tax authorities are flexible on this point. They specify that reception can be carried out in a location other than the rented premises itself, such as a rental agency office. Similarly, electronic reception systems are acceptable.

4

Combining pleasure and optimization

Professional or non-professional?

Some tax benefits are dependent on the operator of the serviced accommodation being recognised as a professional.

The para-hôtellerie business falls under the tax category «Industrial and Commercial Profits», in which professional operators are defined as those **«participating in a personal, direct and continuous manner in the accomplishment of the acts necessary for these activities».**

The operator does not have to be the only professional contributing to the business

As the tax authorities specify that «it cannot be required that one person performs all the acts necessary for the business in order for the professional nature of the operation to be recognised». Thus, the involvement of employees or subcontractors is not likely to call into question the professional nature of a para-hôtellerie property. **However, the operator is expected to participate actively in the marketing of their property, in the coordination of the various parties involved, in the administrative and accounting management of his business, etc.**

The professional nature of the activity will have an impact on the treatment of any deficit and on the taxation of the professional capital gain on resale. These points are discussed in more detail below.



Calculation of taxable income

As with other furnished rental property, the para-hotel business falls under the category of «Industrial and Commercial Profits». All expenses incurred in the direct interest of the professional activity and evidenced by receipts are deductible for the calculation of taxable income. This includes electricity, water, heating, condominium charges, various subscriptions, interest on loans, depreciation of the property/ furniture, etc. Therefore, the tax base for Para-Hôtellerie is often particularly low, or even negative.

What tax rate?

When the tax result is positive, it is subject to the classic income tax scale (below) and, under certain conditions, to the CSG CRDS social security contributions at the rate of 17.2%. Or 7,5% if you are resident in and contribute to a social security scheme in another EU country or Switzerland.

Income Tax Rate

Income bracket per tax unit	Rate applicable
Up to 10 777 €	0%
From 10 777 € to 27 478 €	11%
From 27 478 € to 78 570 €	30%
From 78 570 € to 168 994 €	41%
More than 168 994 €	45%



What about operators not domiciled in France (non-residents)?

Non-residents are subject to a minimum tax rate of 20% + social contributions of 7.5% if they are resident in and contribute to a social security scheme in another EU country or Switzerland or 17.2% if they are resident in a country outside EU. Since Brexit, British residents are subject to social contributions at a rate of 17.2%.

Management of tax deficits

When the operator is **considered professional** (according to the conditions listed above), any deficit generated by the **para-hôtellerie business can be deducted from their overall income.**

When the operator is considered non-professional, any deficit can be offset against profits made from the same business in the same year or the following six years.

Personal use of the property

Owners are not prohibited from regular, personal use of the property. In return, the owner will have to **submit to taxation (VAT and income tax)** on a benefit in kind.

Attention: personal use occurring too frequently is likely to call the validity of the business and the tax benefits which result from it into question.



Professional activity subject to VAT

Para-hôtellerie business is a professional activity which, by nature, is **subject to VAT**. Accommodation services are subject to a reduced **VAT rate of 10%**.

As such, it is great opportunity for buyers of both new properties and those requiring major renovation work, as they will be able to obtain a refund of the **VAT credit resulting from the acquisition or renovation costs.**

Example: Xavier wants to invest in a new property project in the mountains. The value of the apartment is €1.5 million. If he develops a serviced-accommodation rental business subject to VAT, he will be able to obtain a refund of the VAT paid at the time of acquisition: $1,500,000 / 1.2 \times 20\% = €250,000$

Regularisation by twentieths

When the VAT credit is reimbursed, the operator tacitly commits to run the para-hôtellerie business for twenty years. If during this period they stop the business or transfer the property to a third party, they have to reimburse the «non-acquired» VAT by twentieths.

What if the VAT option is not of financial interest?

An operator who invests in an «old» property and who cannot obtain a VAT refund can apply for a basic VAT exemption. Provided that annual turnover does not exceed €91 900€, and on express option, they will not have to collect VAT on accommodation fees received.



Example: Six years after starting his para-hôtellerie business, Xavier decides to sell his apartment. He will have to pay back 14/20ths of the VAT initially recovered: $250,000 \times 14/20 = €175,000$.

Possible exemption from real estate wealth tax

Professionals for whom **para-hôtellerie business is their main business** activity are exempt from real estate wealth tax on the assets used in the context of their property. A principal business activity is defined as one that constitutes **the essential part of the taxpayer's economic activities, even if it does not generate the largest part of their income (such as in the case of a loss-making company).**

Other considerations apply if the business is carried out through a company.



Resale of the property: professional capital gains

Determining professional capital gains

Capital gain is equal to the **difference between the sale price and the net asset value of the property**. All para-hôtellerie operators are **subject to the professional capital gains tax regime**. The regime differs according to whether the capital gain is qualified as short term (ST) or long term (LT), depending on the length of time the asset is held and whether or not it is depreciable

	Capital gain for an asset held	
	For less than 2	For 2 years or
Depreciable	Short term	Short term for the part of the capital gain not exceeding the amount of depreciation Long term for the part of the gain that exceeds the depreciation
Non-depreciable	Short term	Long term

The **net short-term capital** gain is included in the business profits, and is therefore subject to income tax according to the common law scale and potential social charges. Short-term capital gain is also taken into account for the calculation of the operator's social charges.

The **net long-term capital gain** is taxed at an overall rate of 30% as a single flat rate levy.

Resale of the property: professional

Possible exemption after 5 years of professional activity

Article 151 septies of the General Tax Code states that capital gains from the sale of a commercial activity, carried out on a **professional basis for at least 5 years**, are **exempt from taxes when the annual gross income of the previous two years is less than €250,000**.

Operators who can prove the professional nature of their activity (supra) can benefit from a **tax exemption when reselling their property**.



Social charges

Social charges for «non-salaried workers»

When the operator carries out this professional activity as an individual or as the majority manager of a commercial company (such as a family SARL), **they are liable to pay social charges for “non-salaried workers”**. These social charges represent on average 40% of the company's net profit. If the company profit is zero or negative, which is quite common, minimum charges of about €1.100 - €1.600 / year apply.

Special considerations apply to operators not domiciled in France.



Social charges for “non-salaried workers” and short-term capital gains

When the property is resold, part of the capital gain, even if not taxable, is subject to social charges. As such, **the so-called «short-term» capital gain representing the accumulation of depreciation up to the date of sale** (see above) is included in the basis for calculating social charges for “non-salaried workers” for the sole proprietor or the majority manager in proportion to their rights in the company's share capital.

Questions ?

Do not hesitate to contact us

contact@cabinet-roche.com

www.cabinet-roche.com



Roche & Cie

Chartered Accountant since 1941

