



# The Spectrum IFA Group

Independent Financial Advisers

## **Assurance Vie - An expatriate's guide**

Tax and estate planning figure prominently in the list of priorities of many financially secure expatriate residents of France. The Napoleonic code which forms the base of succession law in France produces a fiscal inheritance environment which is totally alien to most of us. We cherish our right to leave our estate to whomsoever we please, and are not happy to discover that in France our choice is strictly regulated. Worse still, our spouses do not rank highly in the *portio legitima* in French law. Real estate and capital are the two major concerns, and we should be relieved to learn that there are mechanisms available to us in both areas to help alleviate our worries. This article concentrates on the preservation and development of capital, and explains the huge benefits offered by the French life assurance product, Assurance Vie.

There are three major taxes that threaten the unprotected capital of even the moderately well-off expatriate in France. Income tax; wealth tax, and inheritance tax are all queuing up for a slice of our capital, and if we do not take steps to prevent it they can make serious inroads into our net worth. Ever resourceful in terms of personal finance, the French have over the decades evolved and streamlined a product that is capable of both protecting accumulated wealth and promoting its development for the future enjoyment of the investor's heirs. Effectively an investment within a life assurance wrapper, this product has been so successful that today there are over €1.4 trillion invested in Assurance Vie policies. Over 22 million individuals or couples have either invested lump sums or save regularly using this instrument.

To understand the success of this product we need to look no further than the tax concessions that it offers. Neither French capital gains tax nor income tax applies whilst the funds remain inside the policy and no withdrawals are made. Even where an amount is withdrawn only the growth element is then subject to income tax, so for example if your portfolio of assets held within the policy has grown by 50% only this percentage of the withdrawal would be taxable; the remaining 50% would be tax-free. Income tax on the gain is charged on a sliding scale, depending on how long the policy has been in force. Nominally the tax rate is 35% for a policy less than 4 years old, 15% for policies between 4 & 8 years old and then 7.5% for all policies over 8 years old. Whilst this may seem punitive for the first four years, you can elect to have the gain added to your taxable income and declared via your annual tax return, making it subject to tax at your prevailing rate. This is obviously advantageous if you have a relatively low income. As an extra incentive to let your funds grow for at least eight years, there is an annual tax-free allowance of 4,600 euros (single person) or 9,200 euros (married couple). This allowance relates strictly to capital gain within the policy, so depending on the growth enjoyed during the investment period, relatively large withdrawals can be made completely free of income tax. A quirk of the French tax system can work greatly to the investor's advantage with an Assurance Vie policy. The eight year qualifying period for the most beneficial tax regime is governed by what is known as the tax clock. This starts ticking at the instigation of the policy, even if the initial investment is a relatively small amount. It may not be wise to test this system to its limits, but if say €100,000 were invested on day one, and a further €200,000 a year later, the entire fund would still be subject to the lowest tax rates eight years later.

The Spectrum IFA Group - TSG Insurance Services S.A.R.L. - Siège Social: 34 Bd des Italiens, 75009

« Société de Courtage d'assurances » R.C.S. Paris B 447 609 108 (2003B04384)

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I N D E P E N D E N T F I N A N C I A L A D V I S E R S

The benefits of Assurance Vie policies are not restricted to income tax or CGT. In France succession tax is directly comparable to our inheritance tax, but it works in a slightly different way. In the UK inheritance tax is levied on the estate of the deceased, whereas in France succession tax is levied on the beneficiary(ies) of the estate. Any tax due is then deducted by the notaire from the proceeds of the will. The proceeds paid out from Assurance Vie policies largely override succession law and succession tax. Any number of beneficiaries may receive up to €152,500 completely free of tax, and pay only 20% on any further amounts received. Whilst recent changes to the tax regime regarding spouses and children have undermined some of this advantage, there is still a huge tax saving to be made when bequeathing legacies to unrelated beneficiaries such as friends or step-children, who would normally pay tax at 60%. There are restrictions to this tax *largesse* however; the policy must be set up and funded before the policyholder reaches the age of 70. After this age the tax advantage is restricted to a total of €30,500 for all beneficiaries combined.

Generally speaking, the value of an Assurance Vie policy is taken into account in wealth tax calculations, but there are circumstances where Assurance Vie can help mitigate wealth tax liability. This is probably best explained by using an example. If you have a large cash sum, say €500,000 held on bank deposit accounts, this figure will obviously be added to your wealth tax calculation along with the value of property and possessions. The interest earned will also be subject to annual income tax, and be counted as income. If you place this sum within an Assurance Vie investment and leave it there, you are not generating any income from it and it is not being taxed. If you have little other income you can then use another French financial tool, the Bouclier Fiscal, to ensure that your total tax bill, including residential taxes and wealth tax, cannot exceed 50% of your income. If you are asset rich and income poor, you can strategically limit your tax bill in this way.

Your capital grows by investing in the huge range of funds Assurance Vie providers have available, which will include as diverse a selection as they can ranging from the standard equities through to commodities and other fixed interest products. There will also be a range of risk on offer to cater for all from the most cautious to the highly adventurous. There are also a small number of the major investment houses who now offer funds which guarantee to preserve and protect an element of your capital and accrued gain.

One final point in favour of Assurance Vie - Some investment companies are domiciled outside France, yet still have French compliant Assurance Vie products to offer the UK expat. Under the terms of the new Double Taxation Treaty between the UK and France, contracts entered into on this basis will not be subject to wealth tax for the first five years of residency in France. Unfortunately this treaty, although signed, has yet to be ratified by the two governments. The existing treaty makes no provision for this, so it will be an advantage for the future. You do need to be aware however that only expats who move to France after the ratification of the new treaty will be able to benefit from it.

This information is only provided as a guide and, if you need assistance in this area you are strongly advised to seek the help of a specialist in this field as each individual case is different. If you have a question, want to arrange for a free financial review or just want further information I can be contacted on +33 (0)325461631, via my website

[www.financialexpat.com](http://www.financialexpat.com) or via e-mail [steven.grover@spectrum-ifa.com](mailto:steven.grover@spectrum-ifa.com)

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