

Using your income tax to fund your own portfolio.

Many people who have moved to France to work or retire will be aware of the popular tax efficient savings and investment products available in France such as Assurance Vie or Livret A; these can be very attractive schemes although they don't actually reduce your *current liability* to tax on your income from earnings, pension or property. By investing in special government incentivised residential buy-to-let schemes *you can build a property portfolio to help fund your own retirement using your income tax.*

Why do these schemes exist?

A significant proportion of the French population does not own their home so in some areas of France the need for good quality rental properties (*standing*) is much greater than the availability. The government has taken steps over the last 25 years to try and solve this issue by setting up residential buy-to-let schemes like 'Loi de Besson & Robien'; the current version is known as 'Loi Scellier'.

The main purpose is to develop the construction of properties in or near city centres where reasonably priced housing is difficult to find for young families or couples who will work in these areas. As the government is occupied with providing "social housing" they have to attract investment from the private sector for this level of accommodation and so offer tax payers some very attractive fiscal advantages.

What are the criteria for the 'Loi Scellier'?

'Loi Scellier' developments are available for all French tax residents who purchase a new build property (destined for the rental market) between 1st January 2010 & 31st December 2012. You are only allowed to make one investment per year under this law; the maximum investment amount is €300,000 per year.

The owner cannot occupy the property for a minimum of 9 years after the purchase date and the property must be occupied by a tenant within 12 months of the building being completed. The amount of rent that can be charged is limited to an amount per square meter/per month laid out in the law and the rent is reviewed on an annual basis in line with the fluctuation of the INSEE Cost of Inflation Index.

When deciding whether to use a Scellier project as part of your planning you must:

1. Pay tax in France - around €3000p.a.
2. Have some 'debt ratio' allowance - in order for you to be accepted for a loan.
3. Have the affordability to invest on a monthly basis.

How does the tax offset work?

You declare to the tax authority (on your *declaration d'impots*) that you have invested into a Loi Scellier and you can then reduce the tax you owe by a certain amount every year depending on the purchase price of the project and the year in which it is bought. The benefit reduces from 25% for a property purchased in 2010 to 15% in 2011 & 10% if you purchase in 2012. The reductions for 2011 & 2012 can be increased to 25% and 20% respectively if the new build property you purchase complies with the strict BBC (Batiment Basse Consommations) regulations.

Example – Investment of €300,000 in 2010

Overall tax reduction would be €75,000, which is €8,333.33 per year for 9 years.

Normally you would take a 104% loan to buy the property (to include notary & mortgage fees), so there is no capital expenditure and all costs and fees would be included in the loan. The repayments on the loan and the tax offset are deferred until after the completion and delivery of the property.

What return can I expect?

The true benefit and real return does not necessarily come from the growth in the property sector but from the fact that you are funding a loan with guaranteed rent *and your tax*.

Example case:

Mr. B buys a project for €180 000. The loan costs €1090pm and there are other charges of €135pm (insurance, management etc).

He receives €545pm in rent and can offset €415pm of his tax bill leaving him a monthly repayment of €265pm of his own personal investment.

After 9 years he decides to sell the property and assuming it has only grown by inflation (2%) he achieves a price of €207 000.

He has €108 000 to repay of the loan so he nets €98 500 profit. He pays capital gains tax of €5 300 on this profit and nets €93 200.

What has this cost him? The only cost to him has been his monthly investment of €265 as he would have paid the tax anyway if he had not invested in the Scellier. So $265 \times 12 \times 9 = €28\ 620$.

This profit is equivalent to a simple (non compound) return of 22.6% per annum.

What are the important things to consider when making this type of investment?

Andrew Robinson of ICA Patrimoine and member of the GPMP (Groupement Professionnel des Metiers du Patrimoine) has been assisting and advising investors in this field for over 12 years suggests the following checklist:

1. The development is with a reputable and nationally recognised builder with GFA cover by which he can guaranty quality, delivery dates, and pays penalties to the investor if he doesn't.
2. The management company for the development is experienced and professional; Try to limit the amount of empty time between tenants and ensure that the management firm will maintain all public areas to high standard to help hold the value of your investment.
3. The rent will be **guaranteed** by the management company or insured by a big, reputable insurance company for nine years. This will mean that even if you have empty months then the insurance company will reimburse you for missed months.
4. You buy at the right price; using a good developer should mean that they will source materials and complete the build on time and in an efficient manner meaning that the price set at the beginning will not be increased by problems that they haven't foreseen. In addition the bank lending for the project will carry out its own valuation as will the insurance companies, this should mean that you are getting it at a fair price. If there is no insurance then don't buy the project.
5. Only buy in the best zones. The French government has designated only 20% of the country where the need for quality housing is greatest to qualify for Scellier development. The resale value would be affected if you are buying a property in a zone which has sufficient housing so using Loi Scellier will reduce this risk dramatically.

Act now to obtain the 25% reduction

The delivery date is not relevant to the tax reduction applied but is relevant to the tax year in which your first deduction can be applied to your tax return. So if you sign at the notary office for a project before 31st December 2010 then you qualify for the 25% reduction, if the property is delivered during 2011 then you will declare the reduction on your 2011 income (in May 2012).

This information is only provided as a guide and is based on our understanding of current legislation at the time of writing the article (April 2010), 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 full financial review or just want further information for Northern France please contact Steve Grover via e-mail steven.grover@spectrum-ifa.com or www.financialexpat.com, and for Southern France please contact Peter Brooke via e-mail peter.brooke@spectrum-ifa.com or www.spectrumfrance.com

Spectrum IFA Group company TSG Insurance Services Sarl is registered and licensed in France." TSG Insurance Services S.A.R.L. Siège Social: 34 Bd des Italiens, 75009 Paris « Société de Courtage d'assurances » R.C.S. Paris B 447 609 108 (2003B04384) Numéro d'immatriculation 07 025 332 - www.orias.fr