



Tax Efficient Savings and Investments in France 2023



The Spectrum IFA Group

International Financial Advisers

In most countries, tax-efficient savings and investment schemes exist with the aim of encouraging people to save for the medium and long-term so they don't become a burden on the state. However, when we become resident in France the tax-efficiency that we enjoyed from our home schemes is usually lost. This is because, as a French resident, you are liable to French taxes on all your worldwide income and gains, except for anything that might be exempted by the terms of a Double Taxation Treaty.

Even if certain income is exempt from French taxes, it is usually the case that this exempt income must still be declared in France and will be included with your other income when calculating your French income tax liability. The fundamental point to note is that including such exempt income has the effect of increasing the rate at which other sources of income are taxed in France, including investment income.

In France, there are several tax-free accounts available for short-term savings such as:

- the *Livret A*, available to both residents and non-residents, in which you can deposit up to €22,950 and earn interest of 3% per annum.
- the *Livret Développement Durable*, eligible to French resident taxpayers only for deposits up to €12,000, also earning interest of 3%.
- the *Livret Épargne Populaire*, eligible to French resident taxpayers only, paying an extra 6.1% interest for deposits up to €7,700 if your income doesn't exceed a certain threshold.

For medium to long-term investments (as opposed to savings), there is one product that stands head and shoulders above the rest and that is an *Assurance Vie*.



What is an *Assurance Vie*?

An *Assurance Vie* (AV) is an insurance-based investment product. It can be as simple or as complicated as you wish to make it. Think of it as that old shoe-box that you keep your documents in, or maybe that fireproof metal cabinet for certificates and the like. Old and battered it may be, but an AV has some rather special properties:

- The investments that you place within your AV are never touched by French income tax or capital gains tax whilst they stay inside the AV.
- The majority of investments are never subject to social charges whilst inside the AV. Be aware that this does not apply to Fonds en Euros, from which social charges are deducted annually.
- The AV is never locked. You can take your money out whenever you like, unlike a pension which has age restrictions.
- If you keep the AV going for at least eight years, you then qualify for a special income tax-free band on top of your normal allowances, together with low withholding tax rates.
- If your aim is to leave your financial assets to your chosen heirs (not just the ones Napoleon thought you should leave them to), you can leave each individual beneficiary a large sum completely free of French inheritance tax.

Millions of French people use the AV as their standard form of savings and investments and many billions of Euros are invested this way via French banks and insurance companies. In addition, there is a much smaller group of companies that are not French, but have designed French compliant AV products aimed specifically at the expatriate market in France. These companies are typically situated in well-regulated EU financial centres, such as Dublin and Luxembourg. Before choosing such a company, however, it is important to establish that the company has a French fiscal representative, to ensure that you receive the same tax and inheritance advantages as a French equivalent product.

Some of the advantages of an international AV policy compared to French policies are:

- It is possible to invest in currencies other than Euro, including Sterling and USD.
- There is a larger range of investment possibilities available, providing access to leading investment management companies as well as capital guaranteed products and funds.
- Documentation is in English, thus helping you to understand better the terms and conditions of the AV policy.
- The AV policy is usually portable which is of benefit if moving around the EU since in many cases the policy can be endorsed for tax-efficiency in other EU countries.

How does an Assurance Vie work?

Your single lump sum investment or regular premiums are paid to an insurance company, which then places the money with the investment manager(s) of your choice. These are usually unit-linked types of investments, for example in equity or bond funds, but can also be in deposits or special products on offer from various financial institutions. You can invest in any number of different funds or products and these are all collated together by the insurance company to form a collective bond, which is your AV policy.

If you have chosen your investments wisely (with the help of your financial adviser), over the long-term the value of units you hold in the funds is likely to increase and so too is the value of your AV policy. However, you must be fully aware of and comfortable with the amount of risk that you are taking, since with any type of unit linked investment your fund value can go down as well as up, as a reflection of what is happening in investment markets. Over the long-term, however, the effect of short-term market volatility will usually be reduced.

Can my capital be guaranteed through an Assurance Vie?

A common feature of the French AV is the possibility of investing in Fonds en Euros. This is a special type of fund designed to form a very cautious base to your total investment, since your capital, as well as any interest and year-end bonus added to it, is guaranteed. The fund invests mostly in government and corporate bonds, although there can also be a little exposure to equities and properties with the aim of enhancing returns. During the year, your capital will earn interest and by law the insurance company must allocate most of your share of the return of the fund to your account, in the form of a year-end bonus. The balance of the return of the fund is kept in the insurance company's reserves, to smooth out future investment returns, for example in times of poor market investment performance.

Due to the nature of the guarantees with Fonds en Euros, the rate of return is typically low, but is usually better than the interest that you might earn from a bank deposit with immediate access. However, this type of fund is regarded by the tax authorities as being so secure that social charges are levied annually on the gain (rather than only at the time that you take a withdrawal as would be the case with other investments within the AV). This effectively reduces the rate of return over the long term. Through some international AV policies there is the possibility to invest in structured bank deposit offerings, where the investment return is linked to the stock market, but with the security of a capital guarantee.



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How do I choose what to invest in inside my Assurance Vie?

You may have strong views on this yourself, or you may have no ideas at all, but in all cases it helps if you have a good financial adviser at hand. His or her job is to help you understand the whole concept of investment and to help you establish your attitude to investment risk. Sadly, there is no realistic chance of a meaningful return on your savings without accepting some degree of risk. We have also seen in recent years that even leaving your savings in a bank can be risky, whether this is because you do not earn a real rate of return or because the bank fails due to poor management.

Your adviser will show you different types of investment options, explain how they work, what their track records are and how much risk is involved. You make the final decision, but his or her help can be invaluable. When the investments have been made, there should be follow-up meetings to review the performance of your investments. Your adviser may well recommend some changes depending upon the evolution of your own circumstances, or perhaps because of fund performance, or may have interesting new funds to introduce to you.

It is also possible to use the services of a Discretionary Fund Manager, with whom you agree an investment mandate (based on your specific investment objectives and risk profile), who then manages your money on a discretionary basis to achieve your financial goals.

How is Assurance Vie taxed?

Only the **gain element** of any amount that you withdraw is liable to income tax and the rate of tax is determined by the date on which premiums are paid.

Premiums paid before 27th September 2017:

For premiums paid before 27th September 2017, the taxpayer has the option to be taxed at the progressive rates of the barème scale or the *Prélèvement Forfaitaire Libératoire* (PFL) rates, as follows:

- during the first 4 years at 35%
- between 4 years and 8 years at 15%
- post 8 years at 7.5%

Social charges at the rate of 17.2%* are payable in addition.

Premiums paid from 27th September 2017:

The *Prélèvement Forfaitaire Unique* (PFU) – also known as the Flat Tax – was introduced in the *Project de Loi de Finances 2018*, published on 27th September 2017. From this date the PFU applies to the total amount of interest, dividends and capital gains on the sales of shares received by the taxpayer. It also applies to certain gains on withdrawals from assurance vie contracts.

The Flat Tax rate is 30%, made up as follows:

- a fixed rate of income tax of 12.8%; plus
- social charges at the rate of 17.2%*

For premiums to assurance vie contracts paid from 27th September 2017, the tax rate will vary according to the age of the contract, and for contracts older than eight years according to the ‘threshold’ amount of capital remaining in the contract as at 31st December of the year prior to the withdrawal being taken.

The threshold amount is €150,000 per individual person (across all assurance vie policies), which is determined by reference to the amount of the premiums invested, reduced by any capital already withdrawn, and not the value of the contract.

The threshold is not cumulative between persons and therefore couples who are taxed as a household cannot share in each other’s thresholds. Thus, one spouse may reach the threshold level whilst the other does not, for example where one has say €200,000 capital invested and the other only has €80,000 invested.

The PFU applies to assurance vie contracts of less than eight years regardless of the amount of the outstanding capital. Thus, the PFU rate of 30% replaces the pre-27th September 2017 rates detailed above.

Therefore, according to the age of the contract, the following tax rates apply:

- during the first eight years, the Flat Tax rate of 12.8%
- over eight years, 7.5% up to the threshold, plus 12.8% above the threshold

** A lower rate of social charges at 7.5% applies if you are resident in France and hold the EU S1 certificate, whereby you are covered by the health system of another EU or EEA country.*

Insurers are obliged to deduct the tax of 12.8% or 7.5% (depending on the duration of the contract) plus the social charges. Subsequently, for contracts older than eight years where the taxpayer has exceeded the threshold, any additional tax due is charged through the taxpayer’s annual declaration.

The following table summarises the situation:

Gains from premiums paid from 27/09/2017	Fixed tax rate applied		
	Deducted by the insurance company plus social charges of 17.2%	Additional tax payable if threshold exceeded	Additional tax payable if threshold not exceeded
Contracts < 8 years	12.8%	No	No
Contracts > 8 years	7.5%	Yes, to reach 12.8%	No

It is still possible, however, to declare the gain as part of your personal tax return. If you select this option you must bear in mind that it will also apply to all your gains from other sources, such as shares or dividends. Where selecting this option results in a lower tax bill than you have already paid, a refund will be due. Typically, you would choose this option if you calculated that your top level of tax would be lower than the 7.5% and 12.8% levels.



“We create solutions from our extensive knowledge of a broad range of insurance, savings and investment products, as well as mortgages and banking facilities, tailored to match your personal objectives.”

Tax-free allowance on all policies after the eight year holding period

In addition to this, and in all cases regardless of the ‘premium paid’ date, after holding a policy for eight years a single taxpayer receives an income tax allowance of €4,600 per annum against the gain element of any withdrawals during the tax year. For a couple who are subject to joint taxation, this is increased to €9,200. Hence, providing that the gain element of total withdrawals made during the year does not exceed the allowance, then there is no income tax to pay. This might not sound a lot, but it is a very useful allowance, as can be seen in the following simple example.

Peter and Pam have an AV policy, which they start in January 2018 with an investment of €100,000. They do not make any withdrawals on this investment for the next eight years, and it is then worth €160,000 (hypothetical). A new car is then needed, and they need some cash to help pay for it, so they withdraw €20,000 from their AV. In this case €60,000 of their AV worth €160,000 is profit, and that is 37.5% of the total, so it is logical that the gain element of their withdrawal is €7,500 and €12,500 is their original capital.

The insurance company (assurance vie provider) will deduct income tax and social charges on the gain element when they pay out the withdrawal. Since the policy is over eight years old however, and they are subject to joint taxation, Peter and Pam have a tax-free allowance of €9,200. The gain will then be declared on their next tax return and they will receive a rebate of the income tax charged.

Does an Assurance Vie have other advantages?

Without doubt, the AV is effective for inheritance planning. There are age restrictions, but via an AV policy you can leave up to €152,500 to any number of beneficiaries, each of whom will pay no succession tax. In addition, AV policies are exempt from the strict French succession rules. You can leave your money to whomever you wish. Should you wish to leave more than this amount to any one beneficiary, they will pay tax at a rate of 20% on the next €700,000, and then at 31.25% above that.

Is an Assurance Vie right for me?

An *Assurance Vie* is a valuable asset, helping you to shelter your capital and income from unnecessary taxation. It can provide protection for you during your lifetime and protection for your loved ones when you are gone. However, everyone’s circumstances are different and it is essential that you take professional financial advice before investing into this type of product.

If you would like to have a confidential discussion about your personal situation, please do not hesitate to contact us.

**For further information please visit our website: www.spectrum-ifa.com
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