FRANCE

Taxation – Key facts and figures

Comparison between a traditional asset portfolio and a life assurance policy

<table>
<tr><th></th><th>Traditional asset portfolio</th><th>Life assurance policy</th></tr>
<tr><td>Income Tax</td>
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From 1st January 2018, fixed- (interest) and variable- (dividend) income products arising from traditional investments (except life assurance and personal equity plans) are subject to the 30% flat-tax (“Flat Tax” or “PFU”) composed of a 12.8% income tax and 17.2% social security contributions. Taxpayers are, however, allowed to opt for the former regime (i.e. application of the progressive income tax instead of the Flat Tax) the following sliding scale*:
<table>
<tr><th>Taxable income (EUR)</th><th>Rates (%)</th></tr>
<tr><td>Up to 10.064</td><td>0</td></tr>
<tr><td>10.065 to 25.659</td><td>11</td></tr>
<tr><td>25.660 to 79.369</td><td>30</td></tr>
<tr><td>79.370 to 157.806</td><td>41</td></tr>
<tr><td>Above 157.806</td><td>45</td></tr>
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* After deducting a 40% abatement for dividends.
In all cases, an additional 17.2% withholding for social security contributions is applied.
When the income is paid, a non-standard flat-rate Prélèvement Forfaitaire Non Libératoire (“PFNL”) is applicable (except for taxable households which have an income under a certain amount). The rate of this tax is aligned with the “Flat Tax”.
This tax levy constitutes an income tax advance. Hence, the payment done on this income is attributable on the tax due. If it exceeds it, the excess will be returned.
Depending on the amount of income tax reference, an exceptional tax on high income the “Contribution exceptionnelle sur les Hauts Revenus” (“CEHR”) can be applicable at a rate of 3% or 4%.
When income is from a foreign source, a withholding tax could apply in the source country. Overall, tax treaties provide for a tax credit mechanism to credit foreign tax on French tax.
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<td>
Income generated by unit-linked life assurance policies are subject to taxation only on partial or full surrenders of the policy, which makes it possible to benefit from deferred taxation.
From 1st of January 2018, the tax treatment of gains on life assurance policies (subscribed after the 27 September 1997) changed and varies depending when the premiums were paid on the policy:
Premium paid until September 26th 2017:
Gains resulting from premiums paid before September 26th 2017 can either be taxable at the Prélèvement Forfaitaire Libératoire ("PFL") rates (scale of 35% for life assurance policies before 4 years, 15% between 4 and 8 years and a scale of 7.5% after 8 years*). Or the progressive sliding scale income tax rates. An additional charge of 17.2% for social security contributions applies.
Premium paid after September 27th 2017:
When paid, gains on surrenders are subject to the PFNL at rates which vary according to duration of the policy (12.8% < 8 years and 7.5% > 8 years). An additional charge of 17.2% for social security contributions applies.
The PFNL constitutes an income tax advance and may be returned in case of excess (in case of option for the standard income tax scale).
In the annual income tax declaration, gains on all premiums or top ups paid on or after September 27th 2017 will be subject to the Flat Tax (PFU) at a global rate of 30% or at the progressive sliding scale income tax after option. An additional charge of 17.2% for social security contributions applies.
However, income from life assurance policies over 8 years* benefit from a reduced tax rate of 7.5% (global tax rate of 24.7%) for the amount of premiums which does not exceed EUR150,000.
* After deduction of a tax allowance in the event of cash-in or surrender on the policy after eight years, of €4,600 for a single taxpayer and of €9,200 for couples subject to joint taxation.
Depending on the amount of reference taxable income, the CEHR can be applied at a rate of 3 or 4%.
In the event of a partial surrender, the taxable income should be calculated as follows: PSV - (TPP x PSV/TSV)
PSV: Partial Surrender Value
TPP: Total Premium Paid
TSV: Total Surrender Value
Depending on the country of the issuer of the assets making up any internal fund linked to the life assurance policy, withholding taxes may apply on interest payments and/or dividends in the source country of each asset concerned; this would then be reflected in the value of the fund and hence be borne by the policyholder.
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<table>
<tr><th></th><th>Traditional asset portfolio</th><th>Life assurance policy</th></tr>
<tr><td>Capital gains tax</td><td> Capital gains generated by sales and switches of assets in a portfolio of traditional securities (aside from personal equity plans) are also subject to Flat Tax (PFU) at the rate of 12.8%, and depending on the case, to the CEHR. In case of option for the sliding income tax scale, capital gains generated by sales and switches of assets in portfolio of traditional securities acquired before January 1st 2018 can benefit from an allowance for duration of holding: 50% allowance between 2 and 8 years of holding
65% beyond 8 years An additional 17.2% withholding for social security contributions applies. </td><td> Gains generated by sales and switches of assets underlying a life assurance policy are exempt from income tax, as well as from the 17.2% withholding on social security contributions. This favourable tax treatment allows active management (to a certain extent) of the underlying portfolio at a lower cost. </td></tr>
<tr><td>Exit Tax</td><td> Individuals moving their tax residence abroad after having been French tax residents during at least 6 of the 10 years preceding the date of their move, and who sell their securities less than two years after their transfer of residence outside France (five years if the total value of the securities exceeds EUR 2.57 millions) are subject to tax in France on their outstanding capital gains, as long as one of the following conditions is met: The taxpayer holds either directly or indirectly with close relatives at least 50% of the rights to a company;
Or the amount of his/her financial assets exceeds EUR 800,000. Automatic payment relief may nonetheless be granted for income tax and withholdings of social security contributions due to transfer of residence, for taxpayers who transfer their tax residence to a Member State of the European Union or a in another State or territory, which has concluded a convention with France for an administrative assistance in order to fight fraud and tax evasion as well as a convention on mutual assistance for recovery and is not uncooperative. Taxpayers who transfer their residence to a State other than these can benefit from the payment relief only if they make an express request for it and meet certain conditions. </td><td> Life assurance policies do not fall under the scope of such exit tax. </td></tr>
<tr><td>Wealth tax on Real Estate</td><td colspan="2"> French wealth tax (“ISF”) replaced by French real estate wealth tax (“IFI”) Until 1 January 2018, French ISF was assessed on all assets owned by a taxpayer when its net wealth exceeded a certain threshold (€1.3m). The basis for wealth tax included, subject to certain exemptions, worldwide assets for taxpayers domiciled in France and French assets for non-resident taxpayers. The representative value of real estate assets or rights held in a traditional asset portfolio (as of January 1 of each year) is subject to the following scale. Are concerned taxpayers holding (alone or jointly with the members of their taxable household): At least 10% of units of undertakings for collective investment of which the asset is composed (directly or indirectly) of at least 20% of property or property rights;
Directly or indirectly, at least 5% of the capital and voting rights of a listed real estate company (SIIC).
Shares and shares of non-operating companies that hold real estate assets, regardless of the composition of the company's published balance sheet and the percentage of the taxpayer's holding, provided that such companies do not qualify as a mutual fund.
<table>
<tr><th>Taxable net asset value (EUR)</th><th>Rates (%)</th></tr>
<tr><td>Up to 800,000</td><td>0</td></tr>
<tr><td>800,000 to 1,300,000</td><td>0.50</td></tr>
<tr><td>1,300,000 to 2,570,000</td><td>0.70</td></tr>
<tr><td>2,570,000 to 5,000,000</td><td>1</td></tr>
<tr><td>5,000,000 to 10,000,000</td><td>1.25</td></tr>
<tr><td>Above 10,000,000</td><td>1.50</td></tr>
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	Traditional asset portfolio	Life assurance policy

Wealth tax on Real Estate (continued)

Concerning life assurance policy:

Unit-linked policies are included for the portion of their cash surrender value, as at January 1st, representative of the taxable real estate assets. Temporary non-redemption clauses have no impact on this rule.

Since the implementation of the Law on Modernisation of the Economy ("Loi de Modernisation de l'Economie"), dated 4th August 2008, individuals who have not been tax resident in France during the 5 years preceding the year in which they have established their tax residence in France, are taxable on their assets located in France only, their assets located abroad being excluded. This exemption lapses after a period of 5 years following the date of their establishment in France.

Inheritance Tax

Traditional asset portfolio:

- Spouses and partners under PACS agreement:

  Transfers are fully exempt from this tax.

  Entitlement to avail of the following allowances and sliding scales must take into account donations made during the 15 years preceding the inheritance.
- Descendants and ascendants: allowance of EUR 100,000 per beneficiary, above which transfers are subject to the following sliding scale:

Taxable estate (EUR)	Rates (%)
Up to 8,072	5
8,072 to 12,109	10
12,109 to 15,932	15
15,932 to 552,324	20
552,324 to 902,838	30
902,838 to 1,805,677	40
Above 1,805,677	45

- Brothers and sisters: Allowance of EUR 15,932 per beneficiary, above which transfers are subject to the following sliding scale:

Taxable estate (EUR)	Rates (%)
Up to 24,430	35
Above to 24,430	45

- Nephews and nieces: Allowance of EUR 7,967 per beneficiary, above which transfers are taxed at 55%.
- Any other beneficiary: Allowance of EUR 1,594 per beneficiary, above which transfers are taxed at 60%.

Life assurance policy:

- Spouses and partners under PACS agreement: Transfers are fully exempt from this tax.
- Any other beneficiary*:
  - For premiums paid before the 70th birthday of the life assured: Total allowance of EUR 152,500 (for all or any life assurance policies) per beneficiary, above which transfers are subject to the following flat rates:

Taxable estate (EUR)	Rates (%)
Up to 700,000	20
Above 700,000	31.25

  - For premiums paid after the 70th birthday of the life assured: Allowance of EUR 30,500 per life assured. Premiums exceeding this allowance are then subject to the same allowances and sliding scales as those set out as regards traditional asset portfolios depending on the family relationship.

The 17.2% charge for social taxes shall also apply in case of death on the proceeds which have arisen from a life assurance policy (with the exception of those which have already been taxed in case of surrender), irrespective of the effective date of the policy.

Particular situation of a life assurance policy taken out by a spouse married on the basis of joint ownership of property:

On 12th January 2016 the Minister of Finance and Public Accounts did, by means of a press release, issue the tax doctrine known as the "Bacquet" ministerial response. Now, the death of the first spouse will be tax neutral for heirs. They will only be taxed on the life assurance policy when the second spouse dies and thus will not have to pay inheritance tax upon the death of the first spouse as regards a policy which has not been executed.

(*) policies taken out as and from 20 November 1991 and premiums paid as and from 13 October 1998

The information in this document is based on OneLife's understanding of current laws and taxation practice in France as of February 2020, which may change in the future. Furthermore, the information is based on the life assurance policy being a unit-linked capital assurance without a guaranteed return. This document provides a summary and does not attempt to cover all related matters or situations. It is not intended to give specific legal and tax advice. Investors should seek their own independent advice relating to their specific circumstances. OneLife will not be held liable for any errors or omissions in this document, nor for the use or the interpretation of the information contained herein.

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