Purchasing A Yacht Through Property

Photograph: Tourism Auckland

FRENCH non-residents who own a villa in France often dream of purchasing a yacht and leaving it in a French port to fully enjoy their retirement. During the summer, the famous Quai des Milliardaires in Antibes offers a show of the most beautiful yachts in the world. The individuals who own these vessels often have beautiful villas in the area as well.

However, the question of finance for these luxuries, as is often the case, needs to be addressed. This can be looked at through the medium of loans – an option available to individuals with such ambitions as owning a yacht. There are two types of frequently used loans in the industry: marine finance and marine mortgages.

Marine loans are completely unsecured, a bit like a personal loan from a bank. They are available for amounts from £1,000 to £25,000, typically used for smaller value boat purchases such as dinghies and small inland waterway craft, but can also be used for sailing boats, motor boats, etc.

Marine mortgages are secured on larger yachts. They are the main (almost the only) way to fund purchases of boats when the amount of finance required is over £25,000. There is no upper limit to the amount available on a marine mortgage; it is limited only by the ability of the debtor to repay. The repayment periods vary according to the lender, more often than not between two and 10 years and are capital repayment mortgages.

The marine mortgage itself is secured only on the vessel in question not against the property. Therefore, in the event of defaulting on the repayment, the finance company has title to the boat and can repossess it. A contribution is nearly always required from the purchaser for a marine mortgage, in the same way as when buying a house. It can be as low as 10% of the cost price, whilst the norm is more than 20%. The lender takes a legal charge on the boat as security against the loan. If the interest rate changes and a boat owner has funded the purchase of their boat using a further mortgage advance, the amount of the monthly repayments will alter but the outstanding term will remain the same. This repayment adjustment, rather than term adjustment, is likely to suit boat owners looking to repay their loan by a set date.

Another interesting opportunity could be to arrange a French *crédit hypothécaire*, which can be compared to a UK home equity release mortgage. Typical equity release mortgages are obviously a suitable instrument for yacht purchases, considering the purchase cost ranges between US$5 million and US$250 million. It is the ideal solution for superyacht (50-m) purchases, but also applies to smaller yachts, depending on the value of the vessel.

Equity release is very useful and common in the UK and in the US. According to a survey dated November 2005 from the Bank of England, the total amount of re-mortgaged house purchases amounted to £11.9 bn. Contrary to this, France (and other countries such as Germany or Switzerland) does not often arrange such financing schemes. In our case above it could be very useful.

Basically, a home secured loan is like any other secured loan. It operates by placing a residence as collateral with the creditor. Lenders usually look favourably on people who are home owners as this demonstrates a commitment to repay the loan on time. Although the debtor is still living in his home, the creditor is in legal possession until repayment. It can also be used for an investment property or secondary home.

The interest rate offered on home secured loans can be lower, as here the creditor is taking on a lower perceived risk. The amount that can be borrowed relates to the equity in the debtor's property. Of course, the amount which can be borrowed also depends on the debtor's personal financial status and the lending company's outlook regarding his ability to repay the amount lent. The interest rate applicable for equity release is also cheaper than Marine Mortgages rates. The equity release rate runs around 1.5 % over EURIBOR and Marine Mortgages around 2% over LIBOR.

If a boat purchaser who owns a villa in France is interested in an equity release, he needs to carry out a survey of the property, in order to determine the property's value. The lending bank will then make available a loan and secure it through a security. For example, a bank could lend 70% of the property value and secure 50% of the amount through a life insurance policy.

A point to be considered when arranging an equity release in France is the wealth tax concern. According to the French General Tax Code, French non-residents are liable to wealth tax on their French assets, when exceeding €750,000. The net taxable basis is taxed at a marginal rate, which for the tax year 2005 was:

Taxable Basis

Tax Rate (%)	
Under €750,000	0.00
Between €750,000 and €1,200,000	0.55
Between €1,200,000 and €2,380,000	0.75
Between €2,380,000 and €3,730,000	1.00
Between €3,730,000 and €7,140,000	1.30
Between €7,140,000 and €15,530,000	1.65
Above €15,530,000	1.80

According to this table, a UK resident who owns a property on the Riviera valued at €5 million will have to pay approximately (after deduction of the local taxes) €40,000 per year, even though he does not receive any French source income. Should this individual purchase a yacht registered and based in France, the net taxable basis will be more important, and more expensive with regards to wealth tax. It is always an option to purchase and register a vessel abroad, so as to avoid any French wealth tax on the vessel.

One of the wealth tax interests of an equity release, compared with a marine mortgage, is its longer duration. A marine mortgage is generally arranged for approximately 10 years and an equity release has a 20-year duration. The net taxable basis for wealth tax purposes could therefore be reduced during 20 years, instead of 10, by financing a boat purchase through the equity release.

With regard to the security taken by the bank (a life insurance policy, in our example), the tax regime of the investment has to also be carefully analysed, according to the local legislation. If the policy is set up in France, it must be stressed that the French tax regime for life insurance is very attractive for residents. All French financial assets owned by French non-residents do not enter into the scope of French wealth tax. For French inheritance tax purposes, a mortgage secured through a life insurance policy is also attractive. There is a 100% total exemption if the individual is not yet French-resident at the time the policy is purchased, provided it is not a French policy. Moreover, for wealth tax purposes, all financial assets do not enter into the scope of the taxable assets.

Not forgetting that France is the number one tourist destination, the opportunity of converting one's holiday home into cash could be a floating dream. Once the finance scheme has been arranged and all the tax problems resolved, the non-resident will have to make another important decision: do they prefer enjoying the sun on their boat or at the pool in the garden of their villa drinking a glass of champagne?

Professor Robert Anthony
Anthony & Cie