GENEVA GROUP INTERNATIONAL

GGI INSIDER

No. 54
July | 2011

See you in Toronto

25-30 October 2011:
GGI North American and World Conferences

News and Information for Members and Friends of Geneva Group International

Estate Planning, Trusts & Private Equity

Highlights on the Practice Group

By Prof. Robert Anthony

The Practice Group Estate Planning, Trusts & Private Equity is chaired by Prof. Robert Anthony. The concept is to enable cross jurisdictional support by member firms internationally, improving technical knowledge as well as exchanging information about investment opportunities. The ability to create our own technology, as well as cross fertilizing international projects, will create new business and openings for sponsorship by banks and other institutions.

The technical exchange, as well as the implementation of products, and the use of moral entities and insurance wrappers, is supported by members. The important evolution in domestic legislation in home countries concerning individuals is of essential interest to other members of GGI thereby benefiting their clients.

The main objective is to give us the opportunity to better support clients across borders as well as exchanging our knowledge in order to create opportunities and offer assistance to our colleagues.

Included in the subjects that would be useful in our daily business dealings, is 'Equity Release', as a solution for French civil code company's owners.

The Equity Release's offer might concern you personally, or be of interest to your contacts, if you are looking for a solution regarding the future changes in French tax legislation (Finance Act 2011).

For those holding their property through an SCI ('Société Civile Immobilière' – civil code company), the loan account treatment will be changed. The French Inland Revenue draft Finance Act considers disallowing shareholders current accounts (this does not mean bank loans) as a deduction for wealth tax purposes for non-residents of France. Therefore, Equity Release could be a solution.

If a property has a value of € 2,000,000, it could be subject to wealth tax under both the current and proposed new legislation. Where the property was held by a French SCI with a directors/shareholders loan it was previously deductible from wealth tax for non-residents .

© Yuri Arcurs - Fotolia.com

If the property was originally purchased with a 100% loan and it is nearly repaid, the capital repaid by the shareholder is represented as a loan to the SCI.

If the property value was under € 1,300,000, there would be no wealth tax due as a foreign resident. Wealth tax is always due on market value.

Under the proposed new legislation, wealth tax would be due on € 2,000,000, as the property is unencumbered.

The simplest solution is to refinance 100% of market value and invest the money raised prudently. This also has the advantage of resolving for non-residents future estate planning issues. The maximum rates of estate duties for direct line beneficiaries in France have just been increased by 5% to 45%.

- Mortgage to the value of the property = € 2,000,000
- Equity release assuming no debt = € 2,000,000
- Expenses to refinance: notary fees, commitment fees, etc Approx. € 60,000

Most banks want a minimum of 50% of the value of the property in assets

...*next page*

held in their books calculated by them as the lending value. Cash is valued at 100%. As collateral for the loan bonds are worth 70% to 80% and equities 60% of their value.

They will not normally accept private equity as collateral. The greater the investment risk, the less money is available to be released to a client.

If the bank wants € 1,000,000 in assets and the investment is made in equities, this means € 1,666,666 worth of assets needs to be held in their books, representing 60% of the value of the equities as collateral for the loan.

For bonds, this is between € 1,250,000 and € 1,430,000 of money invested. Risk means values can go up or down so banks need protecting with higher collateral tolerance levels when taking their security. Generally, a provision of 6 months' interest is required to be placed with the bank.

Euro value (cash) investment yields.

These are currently 3.6% to 3.75% net of annual fees capital and interest guaranteed as at 18 May 2011. Other investments with higher risks give potential higher yields but less lending value.

Bank loan rates currently for euribor 3 months were 1.431 as at 18 May 2011.

A bank margin of around 1.2% will be added which can increase to around 1.75% depending on the bank and the assets held as security.

The total cost of lending today varies from 2.631 to 3.181.

The use of an insurance policy depending on the residence of the client can be tax advantageous. Euro value (cash) investments have to be made through an insurance policy. Open architecture policies are dedicated policies and will increase the management fees but allow higher potential returns.

Do not hesitate to visit our Intranet's pages on www.ggi.com.

Join us: your ideas and contributions are welcome.

If you know colleagues who could be potentially interested or sponsors please help be part of GGIs future from today. This will give us the opportunity to better support clients' needs.

GGI member firm
Anthony & Cie, your family office
(International Trust & Estate Planning, Tax Consulting)
Sophia Antipolis, France
Prof. Robert Anthony
E: robert@antco.com
W: www.antco.com