Private Equity and International Wealth Management

Changes in Wealth Tax announced

By Prof. Robert Anthony

The new president of France, François Hollande, has taken up his post on 15 May 2012. His arrival will see changes in legislation, notably in the area of fiscal matters. One of his key measures is to return the current Wealth Tax schedule that applied in 2010, effective for this year's payments.

Last year, we signalled to all our clients and partners the need to refinance to avoid this eventuality together with protection measures from previous changes. The threshold risks are to be lowered to € 790,000 which will incur considerably more tax. The proposed rates are listed in the table below.

Wealth Tax Schedule	
Thresholds for taxation	**Rates**
Not exceeding € 790,000	0%
From € 790,000 to € 1,290,000	0.55%
From € 1,290,000 to € 2,530,000	0.75%
From € 2,530,000 to € 3,980,000	1%
From € 3,980,000 to € 7,600,000	1.3%
From € 7,600,000 to € 16,540,000	1.65%
Over to €16,540,000	1.80%

The Equity Release's offer could be a solution to the future changes in French tax legislation.

The simplest solution is to refinance 100 % of market value and invest the money raised prudently. This also has the advantage of resolving 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 = € 3,000,000
- Equity release assuming no debt = € 3,000,000
- Interest rate of the loan = 2.42 % per annum (as per March 7th, 2012)
- Guaranteed fund = 3.5 % per annum (as per March 7th, 2012)
- Wealth Tax saved = 0.5 % per annum

Most banks want a minimum of 50 % of the value of the property in assets held in their books calculated by them as the lending value. Cash is valued at 100%. Bonds are worth 70 % to 80 % and equities 60 % of their value as collateral for the loan. 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 % to 3.5 % net of annual fees capital and interest guaranteed as per March 7th, 2012. Other investments with higher risks give potentially higher yields but less lending value.

Bank loan rates currently for Euribor 3 months were 0.92% as per March 7th, 2012.A bank margin of around 1.5% will be added which can be increased to around 2 % depending on the bank and the assets held as security. The total cost of lending today varies from 2.42 % to 2.92 %.

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.

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