

## FRENCH INHERITANCE TAX

French inheritance and donation taxes are quite heavy, since the tax rates are between 5% and 45% for inheritance for children or grandchildren and that the 45% rate applies to the portion of the inheritance above €1.805.677. For nephews, there is a flat rate of 55% and for other heirs the flat rate is 60%. However, inheritances between married persons (or persons who have entered into a civil union “PACS”) are tax-exempt.

Inheritance is taxable in France if the deceased person was a French tax resident or if the heir is a French tax resident. If it is not the case, only French assets are taxable.

When there is a tax treaty on inheritance between France and other countries (which is the case between France and Monaco), the inheritance is taxable in France only if the deceased person was a French tax resident. Otherwise (if the deceased person is tax resident of Monaco and, only for French citizens, if they have been resident in Monaco for at least five years), only French assets are taxable.

One way to minimize tax is to donate to the children the bare ownership of the assets and to keep the usufruct. In that case, the tax is due only on the value of the bare ownership which varies with the age of the donator. For instance, if he is between 61 and 70 years, the value of the bare ownership is reduced to 60% of the value of the assets.

For businesses, it is also possible to execute a shareholder agreement for at least 6 years, which allows to reduce by 75% the tax base.

Thus, by donating to the children the bare ownership of the shares of a business company with a shareholder agreement “Pacte Dutreil”, a donator being between 61 and 70 years, will reduce the tax base to 60% x 25%, i.e. to 15% of the value of the shares, which means in fact an effective tax rate of 6,75%.

For more details and to check the specific conditions under which these schemes apply, please do not hesitate to contact us.



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