

UK INVESTMENTS v ASSURANCE VIE

There is still reluctance amongst the UK expatriate community to commit their investment portfolios to France, seemingly in the belief that UK-based deposits/investments perform better than their European counterparts and are still tax efficient.

Quite simply, investments which are tax free/paid in Britain may attract an income tax liability in France. Withdrawal of gains/interest on ISAs, 5% withdrawals from bonds, gains on unit trusts, share dividends, etc. must all be declared on the annual tax return and are potentially liable to tax. Additionally, on death, these UK cash assets may also be taken into account for the purposes of French succession tax. It is the beneficiaries that have to pay this tax which can be penal dependant on the relationship of the beneficiary to the donor.

A simple solution to these problems is not to hope that the French authorities don't find out about these investments, but to use a French compliant product that has tax and inheritance advantages to the holder. A 'Contrat d'Assurance Vie' can help provide a solution to mitigate the inherent disadvantages of UK held investments. They can be arranged with a number of well known international companies with whom most expatriates are familiar, such as Prudential, SEB (formerly Irish Life), etc. Dependant on the investment funds selected, performance can be considerably better than UK deposit based accounts.

Funds invested in an Assurance Vie benefit from a number of tax advantages including no tax liability within the fund (ie. your money grows free of tax) and a tax free withdrawal allowance after a qualifying period. The only tax liability on withdrawal is to the capital gain element of the withdrawn amount only, with the remainder being considered a return on capital. This withdrawal can be made either net or gross of French tax, giving the policy holder the ability to take advantage of the French banding of income tax. Opting for the withdrawal to be made with tax deducted may well be beneficial to 'higher rates' tax payers.

Assurance Vie becomes more tax efficient with duration of investment, the tax element on the capital gain reducing over a period of time. Importantly, the policy start date is the date on which this tax calculation commences.

It is possible to leave funds invested in the Assurance Vie to nominated beneficiaries without 'interference' from the Napoleonic Code and free of liability to succession tax (generous limits to tax free gifts apply). The rate of succession tax applicable to any balance in excess of this allowance is particularly favourable to the beneficiaries who may otherwise have to pay tax up to a rate of 60%.

Should the Assurance Vie holder decide to return to the UK on a permanent basis, a simple nomination to HMRC will ensure the investment then qualifies under UK investment bond rules.

So, with the tax and inheritance advantages of Assurance Vie, why are we so reluctant to make use of this investment?

Most often heard answer is that we don't understand the complexities of the contract when written in French and we don't wish to be unknowingly penalised. Assurance Vie from an International Company has all the documentation in English and it is the legal duty of the adviser arranging the investment to explain the contract to you. It can also be arranged with an international company with whom we are comfortable and familiar.

If you would like any further information on this topic or have any other financial query, please feel free to contact:

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