TAXATION

Date: April 3, 2019
Number of pages (including this page): 3 pages
Purpose of the memo: In this document, Gecina outlines the general principles for the taxation of shares in relation to dividends and capital gains.

TITLE 1: Income from securities

Creation of a Flat Tax (Prélèvement Forfaitaire Unique)

The 2018 French Finance Bill introduced a 30% Flat Tax, which applies to securities income (dividends, interest) and capital gains. It has been in force since January 1, 2018.

It breaks down as follows:

- Flat Income Tax at the rate of 12.8%,
- Social Security Charges at the rate of 17.2%.

It applies by default to transactions for dividends paid (unless a waiver request has been submitted to the paying institution before November 30 of the year prior to the dividend payment) and disposals made as from January 1, 2018.

Taxpayers still have the option to choose to pay their taxes according to the income tax scale. This option is comprehensive and will apply to all income and capital gains for the year.

Exemption from payment on account for income tax (12.8%)

Exemption thresholds have been defined based on the taxpayer’s reference taxable income. When dividends are paid out, the following may be exempted from this advance payment on account:

- Single men and women whose taxable income is less than €50,000,
- Couples whose taxable income is less than €75,000.

To be entitled to this exemption, taxpayers must submit a sworn statement by November 30 of the year in question confirming that they meet the conditions required to be entitled to the exemption when the payment is made the following year.

Reminder: the 2012 French Finance Bill withdrew the 40% tax allowance previously available on dividends drawn against exempt profits paid out by listed real estate investment trusts (REITs) and variable-capital predominantly real estate investment trusts (SPPICAVs). These dividends were therefore no longer entitled to benefit from the fixed-rate allowance (€1,525 or €3,050 depending on family status).

Taxation for non-residents

Dividends paid to individuals who are tax residents outside of France are now subject to a set rate withholding tax of 12.8%. Under the international tax agreements in place between France and the countries where beneficiaries are resident, a more beneficial withholding rate may be applied. Shareholders are responsible for submitting the form relating to the Certificate of Residence No. 5000 to apply for the more favorable rate compared with the standard 12.8%. This form will need to reach the company before any operation to pay out dividends.

For non-resident legal entities, the withholding rate is still 30%. The international tax agreements in place may also include provisions for a more beneficial withholding rate.
Title 2: Capital gains from sales of securities

Note: The period to be used for assessing the sales threshold for your 2017 sales declaration concerns sales made between December 28, 2017 and December 27, 2018.

A capital gain is the difference between the purchase price of shares and the net proceeds received from their sale on the stock market. It is taxed from the first euro of sales.

The 2018 French Finance Bill has amended the treatment of capital gains on sales. With the introduction of the Flat Tax, securities acquired before January 1, 2018 now need to be separated from securities acquired after this date.

For securities acquired before January 1, 2018, taxpayers can choose from the following options:

- applying the 30% Flat Tax (PFU) on capital gains (12.8% - income tax rate + 17.2% - social security charges) without a holding period allowance,
- keep the income tax system in addition to 17.2% social security charges, with possibilities of a holding period allowance according to the breakdown below:

  The allowance is equal to:
  - 50% of the amount of net gains for securities held for longer than 2 years and less than 8 years.
  - 65% of the amount of net gains for securities held for longer than 8 years.

Holding periods are counted from the exact date when shares were acquired.

For securities acquired after January 1, 2018, the options between the Flat Tax and the income tax scale (plus 17.2% social security charges) are still available, although the holding period allowances are no longer applicable.

Choice between the Flat Tax and the standard income tax scale. This option is chosen annually and covers all securities income and capital gains.

Allocation of capital losses Capital losses can be allocated against capital gains of the same type during the same year as their sale or the following 10 years.

Title 3: Specific cases: PEA – PEE – IFI

Special case of shares registered in a company savings scheme

Since October 21, 2011, the 2012 French finance bill has withdrawn the possibility for securities of listed real estate investment trusts (SIIC) and variable-capital predominantly real estate investment trusts (SPPICAV) to be held in share-based savings schemes and therefore entitled to benefit from an exemption from income tax on dividends paid out. SIIC real estate trust securities held in share-based savings schemes on October 21, 2011, i.e., the day when the current provisions were adopted, may remain within such schemes. SIIC real estate trust securities that remain within share-based savings schemes will continue to benefit from the exemptions applicable for securities held in such schemes in terms of both their dividends and their capital gains.

Specific features of shares from a company savings scheme

Capital gains realized when selling shares from a company savings scheme are exempt from income tax, but are still subject to social security contributions.

All capital gains recorded on payments made since January 1, 2018 will be subject to the rates in force on the day of the generating event (17.2% as of April 26, 2018).

Replacement of wealth tax with Real Estate Wealth Tax

Since January 1, 2018, the French wealth tax has been replaced with the real estate wealth tax. Interests held by investors representing less than 5% of the capital and voting
rights of a listed Real Estate Investment Trust (SIIC), such as Gecina, are excluded from the basis for calculating real estate wealth tax.

Extract:

Art. 972 iii. – For the application of Article 965, and under the same conditions, the shares of real estate investment companies covered by Article 208 C-I are not taken into account to determine the tax base when the taxpayer holds, directly and, if applicable, indirectly, individually or jointly with the persons mentioned in Article 965-1, less than 5% of the company’s capital and voting rights.