

# Annuities

## A useful French tax planning tool

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**A FRENCH TAX FIRM**

# What is a annuity agreement ?

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- **Sale of an asset**
- **Price paid as a lifetime annuity**
- **Can be set up over 2 or more person's lives**
- **Indexed & Guaranteed**

# What taxes ?

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- **IHT / Gift Tax**
- **Wealth Tax**
- **Income Tax**

# Inheritance and Gift Tax

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- **Sale not subject to IHT or GT**
  - **Sell for the right price !!!!**
  - **Sale spread over 2 or 3 generations**
  - **Sale to non-family avoids 60% IHT/GT**
  
- **NB: CGT due upon sale**

- **CGT due upon sale**
  - **Sale of main residence exempt**
  - **Opportunity to realize losses**
  - **Seller retains use of asset = lower price = lower CGT**
- **Annuities taxed only on a % for recipient**
  - **Under 50: ----) 70% taxable**
  - **50 to 59: ----) 50% taxable**
  - **60 to 69: ----) 40% taxable**
  - **70 + : ----) 30% taxable**

# Wealth Tax

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- **Tax Shield**
  - **WT+IT < 75% \* taxable income**
  - **Defer enjoyment of annuity to reduce taxable %**
- **Example:**
  - **Annuity = 100 keur**
  - **71 years old**
  - **30 keur taxable**
  - **Max Tax = 22.5keur**

# NO PLANNING / PLANNING

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|             |                     | ASSETS | Income (cash) | WT       | IT   | TAX SHIELD | IHT/GT |
|-------------|---------------------|--------|---------------|----------|------|------------|--------|
| No Planning | <i>Grand Mother</i> | 100M   | 2M            | 1.5M     | 0.9M | -0.4M      | 45M    |
| Planning    | <i>Grand Mother</i> | 50M    | 1.3M          | 0.7M     | 0.6M | -0.5M      | 22M    |
|             | <i>Daughter</i>     | 50M    | 0             | 0 / 0.7M | 0    | -0/-0.7M   | 22M    |
| Saving      |                     |        |               | 0.8/0.1M | 0.3M | 0.5/1.2M   | 22M    |

# Non Tax Benefits

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- **Pass management worries to next generations**
- **Avoid transfer of a large lump sum**
- **Oblige next generations to work on family wealth together**
- **Protection against dependence in old age**

# Typical Uses of Annuities

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- **One child is not able to manage wealth: too young, not versed in finance, drug pb, etc.**
- **One child is not interested in managing wealth**
- **Generation-skipping transfer**

# Thank You

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