



BANQUE POPULAIRE
CÔTE D'AZUR
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Professional Rental of Furnished Property (LMP) / Non-professional Rental of Furnished Property (LMNP)

Build up property assets and take advantage of tax benefits under either the professional or non-professional furnished property plan, in a special tax regime.

IN DETAIL

The package

As soon as an investor rents out a dwelling termed "furnished", that is, a dwelling that is equipped with everything the tenant needs for daily living, he is deemed by the tax authorities to be renting out a furnished property. His tax status (LMP or LMNP) depends on three essential criteria:

- Total annual rental income;
- The ratio of this income to the total professional income of his tax household;
- Whether or not this activity is registered in the Register of Companies.

Eligibility criteria for Professional Rental of Furnished Property status

- The renter or his spouse is registered in the Register of Companies;
- Withdrawal from this activity of an annual income
 - that exceeds €23,000;
 - and is higher than the net professional income of the tax household (before deduction of charges from overall income) including income taxable at a proportional rate.

Conversely, the Non-professional Renter of Furnished Property is one who fulfils none of these criteria.

Tax treatment of rents

Rental income from furnished property is taxed according to a "real" ("simplified" or "normal") taxation regime, namely the "micro-BIC" regime.

If annual rental income is below €32,600, the lessor may choose either one of these two regimes. If the income is higher than that, the "real" regime is used.

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- Under the micro-BIC regime, taxable income is calculated by applying a 50% allowance on incomes (a lump-sum deduction), with no deduction of costs allowed, and in particular no amortization of the dwelling and of furniture.
- Under the "real" regime, exact costs may be deducted.

Tax treatment of losses

- LMP: Losses are attributable on the total income of the renter-out, without limitation as to duration (1).
- LMNP: Losses are attributable on similar benefits realized in the current year, or in the following ten years.

(1) Subject to the provision that such losses are not due to amortizations excluded from deductible costs.

Tax treatment of amortizations

Note: the deductible amortization amount for property rented (buildings and furniture) by a natural person is limited. During the same year, it may not exceed the difference between the leasing amounts collected and the amounts for all other charges associated with the leased properties.

Loss of the right to an amortization deduction is purely provisional; such a deduction can be made in subsequent years, subject to certain conditions (cf. article 39 C II- 2 and 3 of the General Tax Code).

Tax treatment of capital gains

- LMP: professional capital gains regime in the short term or long term. Exemption if the activity has been in force for at least 5 years.
 - Total exemption if the average income for the last two calendar years is less than €90,000, excluding tax.
 - Partial exemption if it lies between €90,000 and €126,000, excluding tax.
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- LMNP: private capital gains regime. Under the general tax regime, capital gains on property (2) are totally exempted after the property has been held for 15 years.

(2) When they are taxable, capital gains on property are subject to income tax at the proportional rate of 19%, plus 12.3% of social security contributions (since the 1st of January 2011).

Special LMNP tax advantage

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Under the LMNP status, the acquisition of certain dwellings (3) gives rise to a tax reduction approximately equal to the Scellier reduction, whose basic features are presented below (4).

The portion of the reduction for each year will be taken into account in calculating the overall tax benefits ceiling.

In return for the tax reduction, the residence amortization deduction is removed in the amount of the price used to calculate the reduction.

The benefit of this reduction is exclusive of the micro-BIC regime.

(3) New or in state of future completion for at least 15 years; having undergone or undergoing rehabilitation or renovation work; situated in student residences, seniors' residences, classified tourism residences, etc.

(4) 9-year rental commitment, 18% reduction calculated on the cost of the investment capped at €300,000 for 2011 and 2012 - Reduction spread over 9 years. Carrying forward of the assignment of the portion of the reduction not assigned to tax due for one year, to the following six years.

Other special features of furnished property rental

In principle, rental of occasional, permanent or seasonal furnished property used for habitation is exempted from VAT, subject to six categories of operations covered under article 261 D, 4 of the General Tax Code.

Furnished rental is likely to result in payment of the Contribution Economique Territoriale (territorial economic contribution).

For the purposes of the ISF (wealth tax), the renter-out of a furnished property does not take into account rental property that has the nature of professional goods; in practice, this is the case when the lease is entered into under the status of an LMP, and when the revenues realised under this status represent more than 50% of the income of his tax household.

A renter-out of furnished property registered in the Companies Register (in the case of an LMP) meets the criteria for being liable to social security contributions and accordingly is subject to the CSG and to the CRDS under the category of occupational income; a non-professional renter (LMNP) is liable, on rental amounts collected, to social security contributions on income from capital and equivalent income (CSG, CRDS, 2.2% social security contributions and additional contributions of 0.3% and of 1.1 %, i.e., 12.3 %).

Non-contractual information

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