



The Société Civile Immobilière or SCI.

The SCI is a popular legal structure and an instrument for managing assets and taxes, and most importantly the tricky issue of inheritance.

French law distinguishes between two categories of “person”:

- *Personnes physiques* or “natural persons”
- *Personnes morales* or “juristic persons” (in English law). SCIs are regarded as *personnes morales*. They have a legal existence and can own assets. They have a name, and an address, and a function. They can make contracts and take legal action.

Real estate is not the only possible reason for setting up an SCI – it can also be used for holding “moveable property” such as valuable objects, a share portfolio, or shares in a holding company intended, for example, to make it easier to pass on a family business.

The most common form of SCI is the *SCI de gestion* bringing together (at least two) people and owning one or more properties.

The founders draw up a written contract or the articles, or governing rules of the proposed SCI – they are the *statuts*. This document sets out the purpose of the SCI, its name, its registered office, how long it is being set up for and the rules on how it will function.

The new SCI is required to register at the court registry (the *greffe du tribunal*), the registry of commerce, and with the tax authorities.

SCI’s are subject to the “tax translucency” regime (*regime de transparence fiscale*) meaning partners must pay personal income tax on profits received from the SCI. SCI’s can however also be subject to corporation tax (*impôt sur les sociétés*) if they are involved in any activity seen by the tax authorities as commercial – furnished rentals qualify. This is a reason to incorporate usufructs into the articles of the SCI, and rentals would be made in the name of the usufructee and not the SCI, leaving the SCI without income.

Once the SCI exists it is necessary to hold minuted partners meetings and not to forget tax obligations, even if it is a nil return.

Deductible expenses include loan interest and setup fees, repair and modernisation costs, management costs, and land taxes (*taxes foncières*).

When an SCI sells a property the capital gain is worked out according to the real estate capital gains regime for private individuals. Gross capital gain is reduced by 10% for each year the property has been owned after the fifth one, with complete exoneration after 15 years. Capital gain is taxed at 16% for EU residents and 33% for non-EU residents.

Partners can leave the partnership by transferring (e.g. selling) their shares or, if they cannot find a buyer, by withdrawing.

An SCI can be wound up and, in the event, capital gain is calculated on the SCI’s assets in just the same way as in the event of a sale by the SCI of some of its real estate.

Couples married or not, benefit from creating an SCI.

An SCI can facilitate the lifetime passing on of one's estate by gift or on death (gifts are not taken into account in tax calculations providing they have taken place at least six years before the giver dies). Setting up an SCI before such a gift can reduce the tax burden.

An SCI can make it easier to share out property among one's children – it is easier to divide up shares than actual real estate.

Parent donors who often hold a small minority of the shares usually keep, in the form of a usufruct, use of the property until their death so as to retain their lifestyle and their means of existence, as well as decision making over important management and policy issues. The usufruct is extinguished without further taxation at the death of the holder.