

Bare Ownership

The Benefits of the Status



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If you're considering investing in real estate, bare ownership can be an interesting option. Before getting involved in this type of transaction, it's important to understand all the characteristics of the status, its advantages, and disadvantages.

Bare Ownership: Definition Being a bare owner means that you own a real estate property without the right to use or dispose of it. The property belongs to you, and you can sell it. However, you cannot live in it or generate income from it, such as rental income. The right of use and enjoyment is reserved for the usufructuary for a defined period, typically between 10 and 20 years if you purchase through a bare ownership professional. In the case of a sale with a life annuity (viager), the duration can extend until the death of the usufructuary. At the end of the cycle, the bare owner will regain full ownership of the property. In other words, they will be able to live in it or rent it out.

It's worth noting that bare ownership is a common solution for passing on wealth to one's children. In the context of a gift or inheritance, a parent may give the bare ownership of their real estate property to their heirs while continuing to reside in it until their death.

Becoming a bare owner: an attractive and little-known status

Attractive Benefits:

1. **Reduced Purchase Price** : The purchase price for bare ownership is significantly lower compared to full ownership. In fact, the discount can range from 30% to 50% off the acquisition price. In return, the bare owner does not reside in the property or receive rental income, making way for the usufructuary.
2. **Favorable Taxation** : Bare owners are not subject to income tax on rental income, unlike usufructuaries who may receive rental income. Additionally, they may benefit from tax deductions for certain expenses, property management fees, and major repairs.
3. **Simplified Management** : The usufructuary is responsible for maintenance work on private or common areas. However, the bare owner will need to take care of more significant renovations related to the structural aspects of the property, as outlined in Article 606 of the Civil Code (vaults, beams, roofing, etc.).
4. **Streamlined Wealth Transfer** : Parents can easily transfer their property to their children through bare ownership to reduce inheritance taxes.
5. **Long-Term Investment** : Bare ownership offers a long-term investment opportunity, allowing you to invest your savings in real estate. You benefit from a lower acquisition cost than the market rate and receive income at the end of the usufruct period.
6. **Status Under Common Law** : The articles in the Civil Code pertaining to bare ownership have been in place since their inclusion in the code in 1804 and have seen little change since. This stability contrasts with other real estate tax schemes that can be subject to revision with each new budget law.

Key Points to Master :

1. **Lack of Enjoyment** : Bare owners do not have the right to use the property and cannot generate income during the entire usufruct period, unlike traditional rental investments. Therefore, you cannot rely on rental income to repay your mortgage.
2. **Reduced Liquidity** : Selling a bare ownership interest can be more challenging than selling full ownership because there are fewer potential buyers in the market.

3. **Long-Term Investment** : Bare ownership typically involves a demerger period of 10 to 20 years, which can be extended significantly in the case of inheritance.
4. **Risks Related to the Usufructuary** : In the event of the usufructuary's bankruptcy, the property can be seized by creditors, potentially leading to the loss of rights for the bare owner. If the usufructuary passes away prematurely, it can impact the value of the bare ownership. Additionally, disagreements and management issues may arise if the property reverts to the usufructuary's heirs.
5. **Complex Legal Rules**: Purchasing bare ownership involves two distinct parties with specific obligations. Therefore, it often requires legal assistance from a notary, tax advisor, wealth manager, or lawyer. In cases where an operator is involved in the acquisition, the bare ownership contract is typically pre-negotiated, relieving you of this burden.
6. **Costs to Bear**: Bare owners are responsible for paying various costs associated with the purchase, such as notary fees, potential major renovations, and management fees if they use professional services. In a demerger operation, the usufruct contract usually covers most planned renovations and property restoration at the end of the agreement, minimizing the financial burden on the bare owner as long as the usufructuary has possession.

Taxation in the Case of Bare Ownership:

In terms of taxation, bare ownership status comes with several advantages:

1. **Wealth Tax (IFI)**: The buyer of bare ownership is not subject to the Wealth Tax on Real Estate (Impôt sur la Fortune Immobilière or IFI). It is the usufructuary who is obligated to declare the full property's value for IFI purposes.
2. **Rental Income Tax**: Since the bare owner does not receive rental income, they are not subject to income tax on rental income. Additionally, they are not liable for the Generalized Social Contribution (Contribution Sociale Généralisée or CSG) or the Contribution for the Repayment of the Social Debt (Contribution au Remboursement de la Dette Sociale or CRDS).
3. **Property Taxes**: The bare owner is not responsible for paying property tax or residential tax.
4. **Reduced Inheritance Tax**: When transferring assets to heirs, the inheritance tax is reduced because it is calculated based on the value

of the property in bare ownership, which is typically lower than full ownership.

5. **Capital Gains Tax on Resale:** However, in the event of a resale, the bare owner will be subject to capital gains tax, similar to a standard sale in full ownership.

It's important to note that tax solutions in the context of bare ownership can vary depending on individual situations and the prevailing regulations. A professional in the field, such as Ikory, can guide you to determine the best options based on your objectives.

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