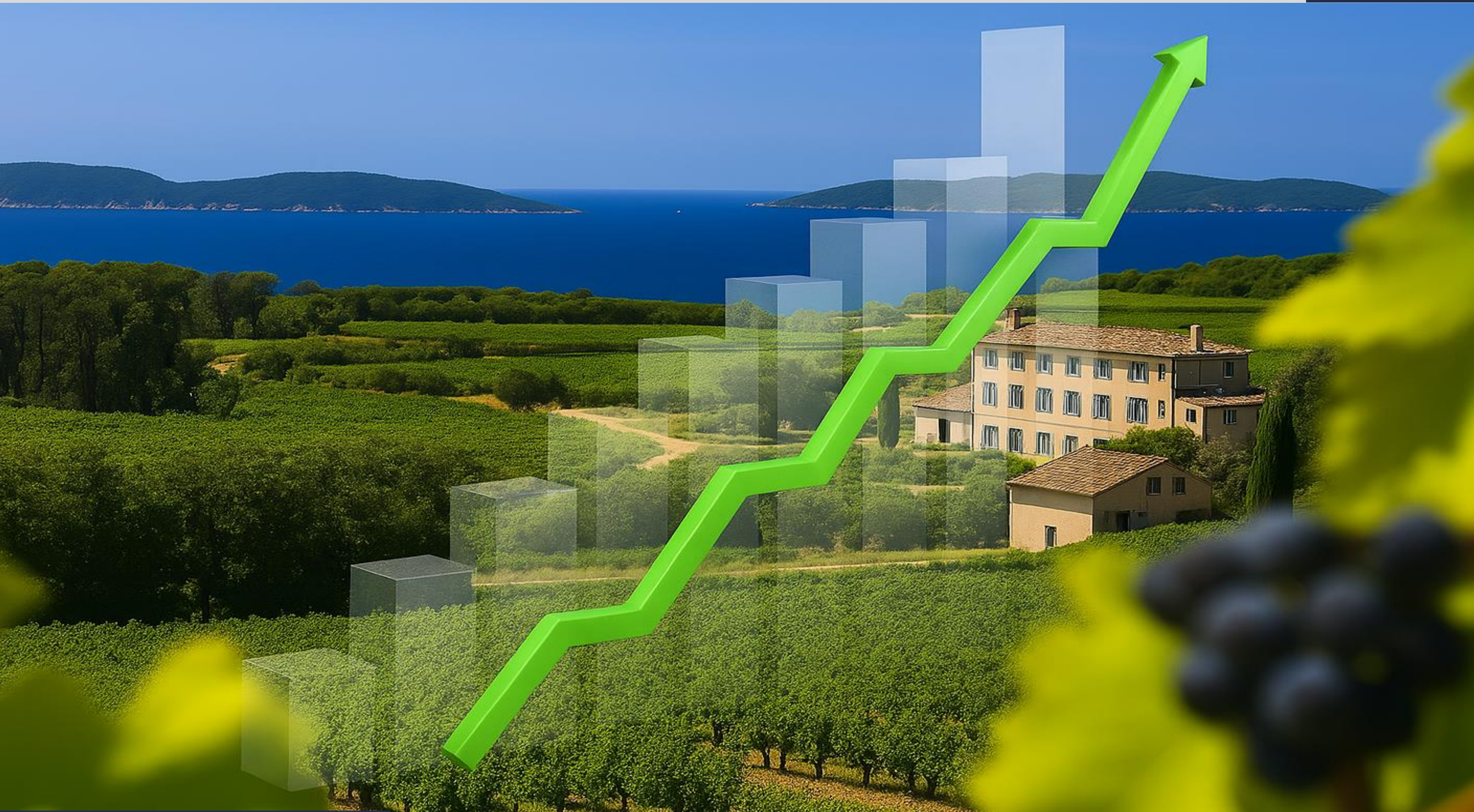
WINE HERITAGE

Structuring and Growth Strategy



Obtenir le dossier en Français

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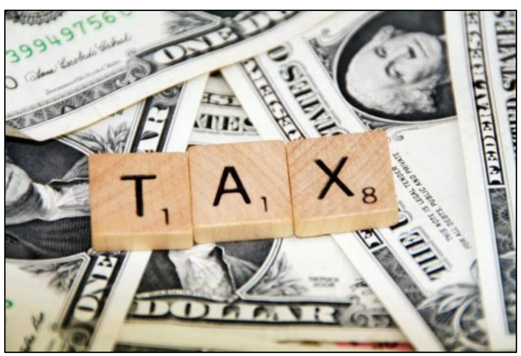
Understanding Key Issues:

➢ Advantages of investing in **professional assets**

➢ Mechanisms and opportunities of **contribution-sale strategies**



➢ The benefits of a **tailored tax structure**

The Strengths of Investing in Professional Assets Such as Wine Estates

Investing in **a wine estate in France** offers multiple tax advantages, particularly regarding **income tax, real estate wealth tax (IFI), inheritance, and depreciation**.

1. Income Tax (IR) Benefits

A. Deduction of Operating Costs

If the estate operates as a company subject to corporate income tax (IS) or as a sole proprietorship (under the actual taxation regime), the following costs are deductible:

- **Depreciation** of buildings, facilities, and equipment (excluding agricultural land, which is non-depreciable)
- **Operating expenses**: wages, fuel, fertilizers, insurance, maintenance, etc.
- **Loan interest**: deductible if the estate is financed through credit
- **Specific deductions** for new plantations: amortizable over 20–30 years

B. Loss Imputation

- **If held as a sole proprietorship**: agricultural losses can be deducted from **total household income**, up to €107,400/year (2024 threshold)
- **If held as a company**: losses can be **carried forward against future profits** or within a tax-integrated group

2. Wealth Tax (IFI) Exemption or Reduction

A. Professional Property Exemption

- If the estate is directly managed by the owner or via a company in which they have a leading active and remunerated role, it is excluded from the IFI base.

B. Passive Investors

- If the investor does not take part in management, the estate is included in the IFI base. However, a partial exemption is possible if held through an Agricultural Land Group (GFA) and leased to a farmer.

3. Estate Planning & Inheritance

A. Dutreil Pact (up to 75% exemption)

- For estates operated individually or through an agricultural company, inheritance or gift transfers can benefit from a 75% exemption on transfer duties, subject to:
  - A 2-year collective ownership commitment
  - Continued operation for 4 years post-transfer

B. GFA Structure

- The GFA allows for progressive ownership transfer with a 75% exemption up to €300,000 and 50% beyond.
- It reduces inheritance taxes and keeps land within the family.

4. VAT and Fiscal Recovery

A. VAT Recovery on Investments

- If the estate is under a real agricultural tax regime, VAT on purchases (equipment, labels, bottles, etc.) is recoverable. Wine sales are subject to 20% VAT, allowing offset.

B. Tax Regime of Vineyard Land

- If land ownership is separated from operations (e.g., lease or GFA), taxation on rental income is lighter and more flexible.

5. Holding Companies & Tax Integration

- Using a **holding company** allows the estate's losses to offset profits from other subsidiaries in the group, under the **tax integration regime**.
- **Key Advantage**: No tax liability on profits until the estate becomes profitable.

Conclusion

Investing in a wine estate offers several powerful tax advantages:
✅ **Deduction of expenses and depreciation** to reduce income tax liability.
✅ **Wealth Tax (IFI) exemption** if the investment is structured as a professional asset.
✅ **Favorable inheritance planning** through the Dutreil Pact or an Agricultural Land Group (GFA).
✅ **VAT recovery** and inclusion in an optimized tax-consolidated group.

The fiscal benefits are therefore **significant**, especially when the estate is properly structured from a legal standpoint (company-run operations, GFA for land ownership, and a holding company to optimize taxation).

Contribution-Sale (Apport-Cession): A Strategic Tool for Estate Acquisition

This French tax mechanism allows capital gains from the sale of a company to be deferred if reinvested into a new business like a vineyard.

1. Mechanism Overview (Article 150-0 B ter CGI)

- Business shares are contributed to a holding company controlled by the seller
- The holding sells the shares and reinvests the proceeds in a new economic activity (e.g., a wine estate)
- Capital gains taxation is deferred as long as reinvestment conditions are met

2. Conditions for Tax Deferral

- Holding must be over 50% owned by the contributor
- If the holding sells the shares within 3 years, at least 60% of the proceeds must be reinvested into a qualifying operational activity
- A wine estate qualifies as an eligible agricultural business

3. Contribution-Sale Strategy for Acquiring a Wine Estate

Using a contribution-sale (apport-cession) strategy allows for **fiscal optimization** by minimizing taxation and maximizing financial leverage.

A. Capital Gains Deferral and Exemption

- If the **proceeds are reinvested in the wine estate**, capital gains tax is **deferred** as long as the operating company remains active.
- **If the contributor passes away or the holding doesn't resell the investment, the capital gain may be permanently exempted.**

B. Easier Financing and Leverage

- This strategy allows the investor to mobilize **100% of the sale proceeds to finance the estate acquisition**, rather than losing part to tax.
- It is possible to **supplement the investment with a bank loan**, using the holding as collateral.

C. Optimized Wealth Structuring and Transfer

- **Wealth holding company**: Structuring the investment through a holding simplifies the gradual transfer of estate shares to heirs (e.g., Dutreil Pact, tax-exempt gifts, etc.).
- **Separation of land and operations**: The holding can **acquire only the operating business**, while a **GFA (Agricultural Land Group)** can own the vineyards and buildings to benefit from specific tax exemptions.

4. Example Structures

Example 1: Direct Acquisition by the Holding Company

1. Contribution of company shares to a holding company created by the contributor.
2. Sale of the shares by the holding to a buyer.
3. Use of the sale proceeds to **purchase a wine estate** through the holding.
4. **Capital gains taxation is deferred** as long as the estate is actively operated.

Example 2: Acquisition through a Combined Structure (Holding + GFA)

1. The **holding company** acquires the wine business (goodwill, inventory, equipment).
2. The **GFA** (Agricultural Land Group) owns the land and buildings and leases them to the operating company (under a rural lease).
3. Advantages:
   - **Tax optimization and facilitated inheritance** via the GFA (75% exemption on transmission).
   - **Capital gains deferral is maintained** for the contributor as long as the reinvestment remains active.

5. Key Considerations

🔶 Strict timeline compliance: If the holding sells the shares without reinvesting within 3 years, the capital gain becomes immediately taxable.
🔶 Nature of reinvestment: It must be an economic activity, not a passive land investment.
🔶 Legal structuring: It is advisable to separate land ownership (GFA) from operations (SCEA, SAS, etc.) to maximize tax and wealth planning benefits.
🔶 Possible tax audit: The tax authorities monitor to prevent abusive schemes—having a genuine economic project is essential.

Conclusion

The **contribution-sale mechanism** is an excellent way to use proceeds from a business sale **to acquire a wine estate without immediately triggering capital gains tax**. This strategy allows:
✅ **Deferred and potentially exempt capital gains taxation**
✅ **Optimal financial leverage for acquisition**
✅ **Advantageous wealth structuring (holding, GFA, Dutreil, etc.)**
✅ **Better estate transfer to the next generation**

The Benefits of an Appropriate Tax Structure: Tax Integration

Tax integration in France is a favorable regime that allows a parent company to consolidate the taxable results of its subsidiaries. It is particularly useful when one or more entities in the group generate losses. Here's an overview of how tax integration works in a setup where a **holding company owns several profitable subsidiaries** and a **loss-making wine estate requiring significant investment**.

1. Principle of Tax Integration

Fiscal integration is based on creating a tax group led by a parent company, which becomes solely liable for **corporate income tax (IS)** on behalf of all member companies.

2. Eligibility Criteria

- The parent company must be subject to corporate tax (IS) in France.
- It must hold at least 95% of the capital of the subsidiaries.
- The subsidiaries must also be subject to IS and must not belong to another tax-integrated group.
- The integration must be formalized through an option for a minimum of 5 fiscal years.

3. Advantages of Tax Integration

In a structure with a **holding company** and multiple **profitable subsidiaries** (e.g., commercial, industrial, distribution, or other profitable sectors), tax integration allows several optimizations:

A. Result Offsetting :

- Profits from profitable subsidiaries can be offset against the losses of the wine estate.
- This automatically reduces the taxable base, and therefore the amount of corporate tax payable.
- Heavy investments in the vineyard, which generate losses, can be used to neutralize a portion of the group's overall tax liability.

B. Intra-Group Transaction Neutralization

- Dividends paid by subsidiaries to the holding company are **exempt from corporate tax (IS)** (without the 5% add-back that usually applies outside of tax integration).
- **Capital gains within the group can be fiscally neutralized**.

C. Optimized Depreciation and Financial Charges

- If the holding finances the vineyard through loans, **interest expenses are deductible** from the group's taxable income.
- Depreciation related to vineyard investments (equipment, buildings, vines, etc.) is also **consolidated at the group level**.

D. Better Management of Carryforward Losses

- If the group exits the integration regime, vineyard losses may still be **offset against the holding's results**, under certain conditions.
- Without integration, such losses could only be carried forward **against the vineyard's own future profits**.

4. Key Considerations

🔶 **Impact on capital gains**: If an integrated subsidiary is sold, **previously deducted losses may be reclaimed**.
🔶 **Financial expenses**: Since the corporate tax reform, **interest deductions may be limited** (typically to 30% of fiscal EBITDA).
🔶 **Compliance and tracking**: Tax integration requires **rigorous management**, including specific tax filings and well-structured accounting.

Conclusion

In this scenario, establishing a tax-integrated group via a holding company is particularly relevant to:
✅ **Optimize group taxation** by offsetting profitable subsidiaries' gains with vineyard operation losses
✅ **Facilitate investments** in the vineyard without facing an immediate tax burden
✅ **Streamline intra-group financial flows** and improve overall financial management

This tax framework is commonly used in the wine sector, especially when the operation involves **major investments in equipment, land, or infrastructure modernization**.

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☞ Wine Investment via a Holding company: Elegance of an Asset, Power of a Strategy

☞ Why continue to Invest in Vineyard land despite an uncertain economy and heightened geopolitical tensions?

☞ Wine Crisis: Provence Resilient

☞ For a Successful Transfer of your Wine Estate

☞ Who are we ?

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