AUTORITÉ DES MARCHÉS FINANCIERS

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AMF urges caution when investing in SCPI shares under the Malraux and Real Estate Loss regimes

The Autorité des Marchés Financiers (AMF) has noted that investors sometimes have difficulty understanding the rules on tax treatment upon liquidation of real estate investment companies (SCPIs), particularly those under the Malraux and Real Estate Loss regimes, and that the available documentation is short on detail. Given the renewal of interest in these tax-advantaged products, the AMF is advising retail investors to exercise due caution.

Investment in an SCPI under the Malraux regime qualifies for a tax rebate of up to 30% of the cost of renovation work, while investment under the Real Estate Loss regime is subject to a lower tax base. These benefits can be acquired on a one-off basis in the year of the investment, in contrast to other schemes with benefits spread over several years (e.g. nine years for Scellier, Duflot and Pinel SCPIs).

However, when assessing the return on a product, it is necessary to consider the tax treatment upon liquidation. When purchasing SCPI shares, a significant portion of the total amount is earmarked for restoration work, so the real amount used to acquire the asset declines correspondingly. When the SCPI approaches liquidation, generally between 13 and 15 years later, the capital gain is calculated on the difference between the purchase price prior to restoration and the sale price, and is taxable. In other words, although the work that gave rise to a tax benefit on the initial investment has generated a capital gain and made the asset easier to sell, that gain is tax-liable when the asset is sold. Investors sometimes misunderstand this arrangement. When advertising, management companies emphasise the tax benefits upon investment but are often vague about how the sale of the asset will affect the return on investment.

To improve investor disclosures, which have to be clear, precise and not misleading, the AMF is working to enhance its policy and tackle this issue. It also recommends that retail investors should ask for precise details about the tax treatment of the product they are thinking of purchasing. Some investments do indeed have attractive tax benefits, but it is important to scrutinise all their characteristics over the entire lifespan. The prospect of a tax break should not be the only motive for choosing a product, and the benefits should be weighed up on the basis of the capital gain and the investor's own tax situation.

The AMF also reminds investors to take the following precautions before making an investment:

- No advertising materials should hide the fact that high returns always involve high risk;
- Learn as much as you can about the company or intermediary who is trying to sell you the product (identity, country of incorporation, civil liability, organisational rules, etc.);
- Question the company or intermediary about the extent of your legal liability if you go ahead and invest;
- Ask yourself how, and by whom, the purchase or selling price of the advertised product is set and obtain precise details about how it will be sold.

If you have any questions, contact AMF Epargne info service on +33(0)1 5345 6200 between 9am and 5pm from Monday to Friday.

About the AMF
The AMF is an independent public authority responsible for ensuring that savings invested in financial products are protected, providing investors with adequate information and supervising the orderly operation of markets. Visit our website www.amf-france.org.

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