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2025 FRENCH BUDGET ACT: IMPACTS ON WEALTH MANAGEMENT AND LIFE INSURANCE

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OVERVIEW

The 2025 French Budget Act (Loi de finances 2025) introduces significant tax changes affecting high earners, real estate investors, and wealth transfer strategies. With a new minimum tax on high incomes, stricter capital gains taxation on non-professional rental properties (LMNP), and revised tax treatment for management packages, financial planning in France is evolving.

At the same time, measures such as a temporary exemption on gift taxes for new property acquisitions, the clarification of tax residency rules for non-residents, and the inflation-adjusted income tax brackets reshape the fiscal landscape for investors and estate planning.

Amid rising taxation on real estate and high incomes, life insurance remains a key strategic tool for wealth optimisation. It offers tax efficiency, investment flexibility, and enhanced estate planning benefits, making it a compelling alternative to real estate in this evolving fiscal environment.

This article explores how these new regulations impact wealth structuring in France

A CHANGING FISCAL FRAMEWORK: OPPORTUNITIES FOR LIFE INSURANCE

The 2025 Budget Act No. 2025-127 of 14 February 2025 introduces several fiscal adjustments that could reshape wealth management strategies. While life insurance maintains its favourable tax treatment, new fiscal constraints on high incomes and real estate investments could drive a shift in asset allocation.

Key measures include the introduction of a minimum 20% tax on high incomes, the tightening of capital gains taxation for non-professional furnished rental properties (LMNP), a new tax framework for management packages, and the indexation of the income tax scale. These changes could reinforce the appeal of life insurance as a tax optimisation tool.

CDHR: A Minimum Taxation for High Incomes

The Differential Contribution on High Incomes (CDHR), introduced by Article 10 of the law, ensures a minimum tax rate of 20% for tax households with a reference income exceeding €250,000 for individuals and €500,000 for couples.

This contribution is in addition to income tax and the Exceptional Contribution on High Incomes (CEHR). It applies to income earned in 2025, with a mandatory advance payment of 95% in December 2025 and an adjustment in 2026.

> High-income taxpayers may seek to mitigate the impact of this new tax through strategies such as deferring capital gains taxation, diversifying assets, and optimising inheritance planning. In an environment where taxation on high incomes is increasing, life insurance could emerge as a key solution for wealth management.

LMNP Real Estate: Heavier Taxation on Capital Gains

Article 12 of the law modifies the tax treatment of capital gains on real estate, requiring the reintegration of previously deducted depreciation into the taxable base when selling a property rented under the non-professional furnished rental (LMNP) regime.

Effective February 15, 2025, this measure reduces the tax benefits of LMNP investments and could impact the profitability of property owners, particularly those who rely on capital appreciation upon resale.

For example, an investor who previously benefited from €60,000 in depreciation will now see that amount reintegrated into the taxable base upon resale, significantly increasing their capital gains tax burden.

With this tax increase, investors may reconsider their asset allocation, shifting toward more flexible and tax-efficient investment vehicles. Life insurance provides attractive tax benefits, increased liquidity, and access to diversified asset classes, reducing reliance on a single investment type. The declining tax attractiveness of rental real estate could drive investors to opt for more adaptable, tax-neutral placements like life insurance.

Tax-Exempt Donations for the Purchase of a New Home

The Finance Law for 2025 introduces a temporary exemption from transfer duties for family donations allocated to the purchase of new housing. This measure is in place until December 31, 2026.

Each donor can transfer up to €100,000 tax-free, within a limit of €300,000 per beneficiary, provided that:

- The funds are used for the purchase or construction of a primary residence.
- The property is retained for at least five years.

This initiative encourages intergenerational wealth transfer while supporting homeownership. However, while this initiative provides short-term tax relief, it lacks the flexibility and long-term benefits of life insurance. Unlike real estate, which requires a five-year holding period and is subject to market fluctuations, life insurance allows for structured wealth transmission across multiple generations with optimised taxation and greater liquidity. Investors seeking a strategic, long-term approach to estate planning may find life insurance a more sustainable solution.

Increase in Transfer Taxes ("Notary Fees")

The law grants French departments the ability to increase real estate transfer duties (DMTO) by 0.5 percentage points, effective from 1 March 2025 to 29 February 2028.

This could impact property investors' overall transaction costs, reinforcing the relative tax attractiveness of financial investments such as life insurance over real estate holdings.

Management Packages: A More Stringent Tax Framework

Article 18 establishes a stricter tax framework for management package gains, which previously benefited from preferential tax treatment under certain conditions.

From now on:

- Gains will be taxed as capital gains up to a threshold of three times the company's financial performance.
- Any excess will be reclassified as salary income and taxed under the progressive income tax scale, up to 45%.
- Gains subject to capital gains tax will not be liable for social security contributions but will be subject to a 10% sui generis contribution if taxed as salary income.

Executives and investors benefiting from management packages may turn to long-term capitalisation solutions like life insurance, which allows tax deferral, optimised asset management, and preferential inheritance tax treatment. As tax pressure increases on executive compensation, life insurance could become a key tool for wealth preservation and value enhancement.

Clarification of Tax Residence Rules for Non-Residents

Article 83 of the law reinforces the principle that a taxpayer who is not considered a French resident under an international tax treaty cannot be deemed a French tax resident under domestic law. This measure secures the tax position of non-residents and aligns with existing administrative doctrine.

Furthermore, Article 16 aligns the taxation of capital gains on securities for non-residents with EU law. Non-resident taxpayers may now claim a refund of any excess withholding tax beyond what they would have paid as French residents.

The clarification of tax residence rules strengthens legal certainty for non-resident policyholders, ensuring they are not subject to additional French taxation due to being non-French resident. In the context of unit-linked contracts, this change is neutral, in that French withholding tax would continue to apply to withdrawals or surrenders from domestic French policies owned by non-French resident individuals. Withholding tax does not apply to non-French policies, for example, those issued by Irish or Luxembourg insurers, thus making them more attractive for individuals who are, or may become, non-French resident.

Indexation of the Income Tax Scale: A Necessary Adjustment

Article 2 provides for a 1.8% indexation of the progressive income tax scale, ensuring that inflation does not lead to automatic tax increases.

TAXABLE INCOME	RATE (%)
Between **€11,498 to €29,315**	**11**
Between **€29,316 and €83,823**	30
Between **€83,824 and €180,294**	41
Over **€180,294**	45

While this measure does not directly impact life insurance, it helps limit the mechanical rise in taxation for some taxpayers.

LIFE INSURANCE: A RESILIENT SOLUTION IN A CHANGING FISCAL ENVIRONMENT

The 2025 Budget Act reshapes the taxation of income, real estate, and investment gains, prompting a necessary reassessment of wealth management strategies. With higher levies on high incomes, real estate transactions, and management packages, financial planning must adapt to these evolving constraints.

In this shifting landscape, life insurance remains an essential tool. With its stable tax framework, investment flexibility, and diversified asset options, it offers a sustainable response to rising fiscal pressures, a viable alternative to real estate's diminishing tax advantages, and a secure vehicle for intergenerational wealth transmission.

As fiscal policies continue to evolve, the need for adaptable, tax-efficient investment solutions has never been greater. As the fiscal environment evolves, strategic financial planning is more crucial than ever. Life insurance is not just a tax-efficient investment tool—it is a cornerstone for wealth protection, inheritance planning, and financial security in an increasingly complex regulatory landscape.

For further insights on these regulatory changes and their implications for wealth planning, please contact Marie Salvo, Head of Sales – France at marie.salvo@utmost.ie.

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