

FRENCH



TAX GUIDE



BLACKTOWER
FINANCIAL MANAGEMENT GROUP

Introduction

If you are thinking of moving abroad to settle in France, there are a number of financial considerations to contemplate. Ideally, you should plan ahead with a view to optimising your wealth and reducing your tax liability.

France and England may be separated by only a 21 mile-wide body of water, yet the tax and investment landscapes of the two countries are markedly different. Professional advice is essential if you are to understand the tax ramifications of a move to France and this is a very specialist area. Effective planning requires an understanding of all the relevant cross-jurisdictional issues and how they affect you and your financial goals.

Whether you are looking to purchase property, sell property, receive pension income, to invest or to draw on savings, there are many implications you need to be aware of in France. At first glance some of these may seem the same as in the UK. However, in practical terms, particularly over the longer term, their impact can be significantly different. At Blacktower we have created this guide to help you make sense of all the relevant tax issues and how they might affect you.

The contents of this Tax Guide are believed to be correct at the date of publication. Every care has been taken that the information in this Guide is accurate at the time of release. However, all information and tax figures are subject to change and you should always make enquiries, check details and, where necessary, seek legal advice before entering into any transaction. The information is for guidance only and does not constitute advice. You should seek professional tax advice tailored to your needs and circumstances before making any decision.

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Your residency status and tax

Typically, your country of residence will tax you on income, capital gains, dividends and so on, so it is crucial to understand which jurisdiction you are a resident of.

French Residency

The French authorities consider you to be tax resident if you meet one of the following criteria:

- Your primary home is in France.
- You spend more than 183 days in the country during the course of the year.
- You spend more days in France than any other country.
- France is your main place of economic activity.

UK Residency

In terms of UK tax residency, your status is determined under the UK Statutory Residence Test. There are several possible statuses under this test:

- Automatic overseas resident
- Automatic UK resident
- Sufficient ties

In the event you do not meet the respective criteria for either of the 'automatic' residence tests, the third status is assessed based on the number of days you are resident in the UK together with an assessment of your applicable 'ties' to the UK.

Qualifying ties include:

- Having 'substantive' work in the UK.
- Having family in the UK.
- Having housing or accommodation in the UK.
- Spending more time in the UK than any other country together with at least 91 days in the UK over the preceding two years.

Whatever the case, you should always seek advice as how to best define and process your status and required application.

France - UK double tax treaty

The UK/France Double Tax Treaty allows for you to be tax resident only in one country at a time; the treaty's 'tie-breaker' rules determine where that location is. However, it is prudent to take advice in this regard as both your situation and the rules may change.

The Double Tax Treaty can prove a useful instrument in helping you manage your finances and reducing your liability, but only if you understand and follow the guidelines.

For example, it is possible to offset tax paid in one country in the other, but it is not always possible to get a refund if you have paid tax in the country with the higher rate. It is far better to plan ahead and to avoid the higher liability in the first place.

The UK/France Double Tax Treaty is in place to prevent income being taxed in both countries; however, it is possible to pay tax in the wrong country and to consequently pay more than you need to.

Establishing Tax Efficiency

There are further ways you can enjoy relief from double taxation. For example, if you receive income from UK rental property or a government service pension, you may be able to report this to the French authorities as part of your taxable income. This means that although the money is not directly taxable, a credit equivalent to the French income tax and social charges that would otherwise have been due is deducted from your total tax bill.

Without professional advice it is surprisingly easy to pay tax in the wrong country – risking penalty in the other – or even to pay tax in both countries when it is only due in one.

Unnecessarily high tax liability or avoidable penalties are two of the most common financial pitfalls for British expats who are resident in France.

Fortunately, it is possible to establish tax-efficient structures that reduce liability and increase cash flow while also ensuring you are in line with the law in both countries and not at risk of an unwelcome visit from either HMRC or the French tax inspector. Even mistakes made in good faith – for example, paying tax in the UK instead of in France – can be treated, and punished, as tax evasion.

Although it is possible to offset tax paid in one country against the tax due in the other, this does not always provide advantages. It is better to avoid the higher liability in the first place. Finding the arrangement that is most suited to your individual circumstances is rarely straightforward, so it is important to take advice regarding the most tax-efficient arrangement for your personal situation.

Your tax residency

When you move to France it is essential that you contact the authorities to declare your residency and tax status. This is true even if all your income, savings and pensions are UK-based.

Failure to declare and disclose tax and residency status may result in you breaking the law and incurring some form of penalty. For example, if you pay UK tax but have not declared some or all of your income to the French authorities, you could be penalised for tax evasion and become liable for sums related to underpaid tax.

There are many possible variables to consider: If you work and earn in the UK, whether on a self-employed basis or for an employer, you may still have to pay tax on this income in France. As such, you may need to apply for tax credit in order to offset the French tax.

By taking early advice, you can ensure your tax and residency statuses are structured in a way that means your affairs are both legal and optimised towards reaching your financial goals.

National Insurance, Healthcare and State Pension

It is important that you are clear about where you should be paying social security. If you get this wrong you could lose out on entitlement to state healthcare, state retirement pensions, and other protections and benefits.

Ultimately, errors in this regard may also lead to financial penalty and loss of pension rights.

French Social Charges

The 'prélèvements sociaux', also known as the contributions sociales, is made up of four different 'taxes':

- Contribution Sociale Généralisée (CSG).
- Contribution au Remboursement de la Dette Sociale (CRDS).
- Cotisation de solidarité pour l'autonomie (Casa)/Contribution additionnelle.
- Prélèvement de Solidarité.

Although the social charges help fund healthcare in France, they do not confer any social security benefit on the payer. The social charges apply to rental income, income from investments and capital gains, while social security contributions are sourced from wages and business profits.

Social charges of 17.2% apply to all investment income. While income from employment and self-employment is subject to the French social security rate of 9.7% and pension income attracts a rate of 9.1%. This can be problematic for British expats who are receiving pension income but are not yet at state pension age when they move to France.

Tax Efficiency of Investments Depends on Residency

What is tax efficient in the UK may not be tax efficient in France, and vice-versa. For example, both Premium Bond winnings and Individual Savings Accounts (ISAs) are tax-free in the UK.

However, they may attract considerable tax liability in France, as well as 'social charges' so you may want to restructure any investments of this type before your move to France.

Investment income among all but the lowest earners in France is subject to tax at 12.8% and social charges at 17.2%. This includes gains from shares and securities.

Capital gains tax and social charges also apply on the disposal of assets, so you should factor this into your financial planning. Furthermore, if you are one of the many British investors who have utilised investment for their tax-deferral benefits you should be aware that the 5% tax-deferred allowance is not available to residents in France.

It is worthwhile talking to your adviser about the various tax-efficient investment vehicles accessible to you as a resident of France and how these may be preferable to investments better suited to UK residents, particularly in regards to succession laws and gift tax. These steps may ultimately reduce your tax liability in other areas as well.

ISAs in France

Although it is possible to hold on to an ISA once you have left the UK for France, you will be unable to make any further contributions to the account. Furthermore, all income and gains derived from an ISA are liable for tax in France. If you are becoming, or are already, resident in France, you should consider the myriad alternative investments available as they are likely to prove more beneficial than keeping an ISA.

Offshore bank interest

French tax residents are subject to tax on their worldwide income, including bank interest arising anywhere in the world, even if you never use the accounts or withdraw any interest you earn.

All accounts, wherever they are situated and regardless of whether they are taxed at source, should be declared to the French authorities.

Those who fail to comply face prosecution for tax evasion in addition to fines of 10,000 Euros for every undeclared account per year.

It is important to declare all your assets and accounts. France is a signatory to the Common Reporting Standard, under which almost 100 jurisdictions automatically exchange tax and financial information on a global level. Failure to declare could result in significant fines and penalties.

Property and rental income

There are more than 1.75 million landlords in the UK and many of these are expats who have multiple properties in the UK. Often these serve as a kind of proxy pension fund. Owners may have one or more UK properties which they may no longer live in but do not wish to sell because of personal or familial attachments.

Rental income from UK properties remains taxable in the UK, regardless of residence status, and must be appropriately reported in both the UK and France. Tax credits, equivalent to the French tax and social charges, can be applied for in France to prevent double taxation.

Unless you have particular reasons for owning UK property while being resident in France, it may be worth talking to your adviser about the potential benefits of alternative investments.

Capital Gains on Property

For expats, there is no capital gains tax levied when you sell your main home in France, as long as it is your main residence at the time of sale.

However, the UK/France Double Tax Treaty dictates that you will be subject to a French tax of 36.2%, which comprises capital gains tax of 19% and social charges of 17.2%, on capital gains arising from the sale of any UK property. Furthermore, there is 2% to 6% surcharge in cases where the gain is greater than 50,000 Euros.

Unfortunately, this applies even if the property was your primary residence before emigrating to France. Where necessary, you should apply for French tax credit for tax paid in the UK in cases where you have already incurred UK capital gains tax.

IFI, the French Wealth Tax

France's IFI wealth tax (Impôt sur la Fortune Immobilière) is effectively a tax on property. The tax is calculated on the wealth of the household, including the wealth of any spouse or partner and/or children. Unmarried couples living together are treated as one household for wealth tax purposes.

Non-residents of France are only subjected to IFI for property that is located in France. Residents have to pay IFI on worldwide real estate, subject to the provisions of tax treaties.

However, you are not liable for IFI for the first five French tax years of your residency in France. In the sixth year following French tax residence, you then have to pay IFI on your worldwide real estate.

IFI can be expensive for the underprepared or uninitiated. You should take advice in relation to how you can best reduce your liability.

French succession laws

French succession law can be problematic for expats in the country, particularly those who have children from previous marriages or former relationships, and even for those who would rather their spouse inherited the majority of their estate in preference to their children. As such, careful planning in relation to succession laws and inheritance taxes is essential.

French succession law dictates that a person whose spouse dies without leaving a Will has the right to receive 25% of the deceased spouse's estate. Alternatively, he or she may opt to retain a life interest in the income of 100% of the estate, with the capital then passing to 'reserved heirs' once the surviving spouse has died. This latter arrangement does not apply to estates involving step-children.

Under France's reserved heirs laws, your children will automatically receive up to 75% of your estate.

This is broken down in the following ways:

- An only child receives half of the estate.
- Two children each receive one third of the estate.
- Three or more children divide 75% of the estate equally between them.
- If there are no children, the surviving spouse at the time of death qualifies as a 'protected heir' and receives up to 25% of the estate.

Brussels IV

In August 2015 France implemented an EU regulation known as 'Brussels IV'. Under the terms of Brussels IV, if you reside in France you can choose to have UK succession law apply to your estate, otherwise French succession law will apply automatically upon your death.

However, in November 2021 the Senate passed an amendment to Article 913 of the civil code around inheritance law in France. This law will effectively 'trump' the EU Succession regulation of 2015. If this new law remains in place, it will apply to everyone, of whatever nationality, who either dies in France or leaves property here.

This means that the estates of British nationals (and other non-French nationals) dying in France, will be affected by this new rule.

Under the EU Succession Regulation, the law of the place of residence on death is presumed to govern inheritance, so if France is the deceased's place of residence, French law will apply to his/her world-wide estate as the effect of the new law will be to disregard the deceased's possible choice of his/her national law made by Will. It is important to take professional advice in relation to this complex area of inheritance planning.

Unmarried Couples and Step-Children

Unmarried couples should be aware that French succession tax is 60% on gifts and bequeathed assets. Furthermore, unmarried couples have no automatic entitlement to inherit the assets of their partners. The same is true of step-children, who are also liable for the same 60% tax. It may not be necessary to marry in order to remedy this, but it is essential that you take advice.

Civil Partners

UK civil partnerships are legally recognised in France and are treated in exactly the same way as French civil partnerships, Pacte Civil de Solidarité (PACS) for tax purposes. Same-sex marriages are also legally recognised.

Inheritance Planning and Tax Mitigation

Both inherited assets and lifetime gifts, including property, are subject to French succession tax. This is true regardless of the residency status of any party involved.

Unlike in the UK, it is the responsibility of the beneficiary rather than the estate or donor to pay tax on inherited/gifted assets. This can cause difficulties, as the tax must be paid within six months of the donor's death, and sometimes beneficiaries may not have the means to meet this liability. Furthermore, they are not allowed to sell the asset first in order to release funds to pay the tax.

Fortunately, through careful advice and prudent planning there are methods you can take to reduce or even eliminate succession tax liabilities. This is particularly important in cases where the deceased owned both UK and French assets, as this can lead to tax liability in both countries. Although the double tax treaty seeks to cover some of these situations, it does not cover all eventualities, so plan carefully if you wish to pass on as much of your estate as possible.

Your Will in France

Although a UK Will may be enforceable in France, it is best to plan carefully to ensure that your wishes are carried out, particularly if you do not have children or a spouse. However, be aware that although it is a good idea to write a Will for your French assets, this may have the effect of invalidating your UK Will or contradicting some of its terms. Be sure to take advice in order to make the process as clear and unambiguous as possible for your heirs.

Probate

All UK Wills must undergo probate within the UK before then undergoing the probate process in France. The process can be stressful, costly and time-consuming. Careful planning can help mitigate the potential impact.

Conclusion

Professional, expert advice is critical when attempting to plan and manage your finances in France, particularly if there are possible cross-jurisdictional and language issues to consider.

France's taxation and succession laws are markedly different from the UK's – sometimes this may work in your favour, but at other times they may present obstacles and unexpected liabilities. It is only by carrying out full analysis of your situation and with careful planning that you can feel confident of striking a balance which most closely aligns with the interests of you and your family.

At Blacktower, we understand that everyone is different and it is therefore important that your adviser has an understanding of you, your circumstances, your long-term goals and your cash flow needs. We take the time to get to know you and will answer all your investing, saving and retirement planning questions so that we may provide a truly bespoke service.

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Tax rates in France

Income tax rates for 2022 (payable on 2021 income)

Net income subject to tax (Euro)	Band (Euro)	Tax rate	Tax on band (Euro)	Cumulative tax (Euro)
Up to 10,225	10,225	Nil	-	-
10,225 - 26,070	15,845	11%	1,742.95	1,742.95
26,070 - 74,545	48,475	30%	14,542.50	16,285.45
74,545 - 160,336	85,791	41%	35,174.31	51,459.76
In excess of 160,336	-	45%	-	-

Typically income tax rates in France are set at the end of the relevant tax year, and occasionally once the tax year has ended. Only rarely are they set in advance. A fixed rate of 30% (inclusive of social charges) is applicable to most types of investment income and gains on shares and securities from 1st January 2018.

Both salaried income and pensions will receive an allowance of 10%. For pensions, this allowance is up to 3,912 euros and for salaried income, it is up to 12,829 euros. If you are over 65 and receive an income lower than 25,040 euros you are also eligible for an age allowance. Your pension and salaried income will then be divided into the number of 'parts' within your household.

Social charges for 2021 income

	Salaries and unemployment benefits	Retirement or disability pensions	Investments, annuities, rental income and capital gains
CSG (Contribution sociale généralisée)	9.20%	8.3% / 6.6% / 3.8%	9.2% / 0%
CRDS (Contribution au remboursement de la dette sociale)	0.50%	0.5% / 0.5% / 0.5%	0.5% / 0%
CASA (Contribution additionnelle de solidarité pour l'autonomie)	-	0.3% / 0.3% / 0%	-
PdS (Prélèvement de solidarité)	-	-	7.50%
Total	9.70%	9.1% / 7.4% / 4.3%	17.2% / 7.5%

Succession and gift tax rates between married spouses/civil partners 2022

The following applies to lifetime transfers only. Transfers on death between spouses are exempt from inheritance tax.

Taxable gift (Euros)	To spouses and pacs partners (gifts only)	Tax on band (Euros)	Cumulative tax (Euros)
Allowance 80,724	Nil	-	-
The next 8,072	5%	404	404
8,072 to 15,932	10%	786	1,190
15,932 to 31,865	15%	2,390	3,580
31,865 to 552,324	20%	104,092	107,672
552,324 to 902,838	30%	105,154	212,826
902,838 to 1,805,677	40%	361,135	573,961
Above 1,805,677	45%	-	-

Succession tax rates between parents and children 2022

Taxable inheritance/gift (Euros)	In the direct line (including adopted children but not step children unless adopted)	Tax on band (Euros)	Cumulative tax (Euros)
Allowance 100,000	Nil	-	-
The next 8,072	5%	404	404
8,072 to 12,109	10%	404	808
12,109 to 15,932	15%	573	1,381
15,932 to 552,324	20%	107,278	108,659
552,324 to 902,838	30%	105,154	213,813
902,838 to 1,805,677	40%	361,136	574,949
Above 1,805,677	45%	-	-

Succession tax rates between grandparents and grandchildren 2022

Succession tax bands and rates are the same as those between parents and children, subject to the following allowances:

Grandparent allowance 31,865 euros	Nil
Great-grandparent allowance 5,310 euros	Nil
The next 8,072 euros	5%

Succession tax rates between siblings 2022

Allowance 15,932* euros	Nil
The next 24,430 euros	35%
Over 24,430 euros	34%

*There is an increased allowance if the deceased was disabled and the siblings were living together 5 years before death.

Succession tax rates between other relatives, including nieces and nephews, to 4th degree 2022

Allowance 7,967 euros	Nil
Over 7,967 euros	55%

Succession tax rates between unrelated persons 2022

Allowance 1,594 euros	Nil
Over 1,549 euros	60%

In addition to the above there is an allowance of 159,325 euros for handicapped persons.

Inheritance tax allowances are reset every 15 years

Wealth tax rates 2022

When the taxable household wealth (real estate assets only) exceeds 1,300,000 euros wealth tax will be payable using the following tax rates.

The value of your principal residence has an allowable deduction of 30%

Net worldwide assets of the household (Euros)	Band (Euros)	Tax rate	Tax on band (Euros)	Cumulative tax (Euros)
Under 800,000	800,000	0%	0	0
800,000 to 1,300,000	500,000	0.50%	2,500	2,500
1,300,001 to 2,570,000	1,270,000	0.70%	8,890	11,390
2,570,001 to 5,000,000	2,430,000	1.00%	24,300	35,690
5,000,001 to 10,000,000	5,000,000	1.25%	62,500	98,190
10,000,000 upwards	-	1.50%	-	-



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