



# The Expatriate Financial Guide to France

## French Tax Facts

### Introduction

Taxation in France is at a national level, although the taxes are calculated and the monies are collected by local tax offices. The tax regime in France is controlled by the Tax Administration.

### Tax Year

1<sup>st</sup> January to 31<sup>st</sup> December.

### Assessment Basis

French resident taxation is based upon worldwide income on a self assessment basis. In France the family unit is taxed and, as a general rule, married couples cannot submit separate tax returns.

The total amount of income tax, local property taxes assessed on the main household, as well as wealth tax and social surtaxes, is limited by the application of the '*bouclier fiscal*' or tax shield, which prevents more than 50% of income being paid in tax.

### Income Tax

The main tax in France is the "*impôt sur le revenu*" and is payable on assessable income less allowable deductions. Assessable income includes income from employment, namely wages and salaries, as well as property income, industrial or commercial profits, certain directors' remuneration, pensions and life annuities, non-commercial profits and investment income.

A French resident's tax liability is determined through the 'income splitting' or 'unit' system, whereby the total taxable income of a family group is divided into a number of units (dependent on the number of family members). The calculated tax liability applicable to a single unit is then multiplied by the total number of units to arrive at the total amount of tax payable.

Tax is charged at progressive rates up to a maximum of 40% on all net taxable income. Employment income is taxable after deducting mandatory social security contributions and a standard allowance for professional expenses of 10% of taxable employment income (up to a cap of €13,948 for the year 2009 (est.)) or actual documented expenses. Some other expenses are either deducted from taxable income or allow a tax resident in France to reduce the amount of the tax payable. These deductions, tax reductions or tax credits are permitted for items such as pension contributions, alimony, major equipment expenses for sustainable development, charitable donations, child care and schooling expenses and domestic help expenses. Mortgage interest payable on the principal residency of the taxpayer (loan concluded as of 6 May 2007) can be partially offset against personal income tax resulting from the application of progressive tax rates.

French resident income tax is not deducted at source by the employer, but is payable in one instalment (first year) or either three or ten instalments over the following fiscal year.

## Taxation of Investment Income

Generally, a French resident is liable to French income tax on investment income and is taxed at progressive rates. 60% of dividend income is taxable and resident individuals benefit from a tax free allowance of €1,525 (for a single taxpayer – €3,050 for married taxpayers) as well as a credit of €115 in respect of dividends (for a single taxpayer - €230 for married taxpayers). There is also an option to subject dividend income to a final levy of 18% (plus social surtaxes as shown below).

French-source interest is generally subject to income tax at progressive rates. However, a final levy (*prélèvement libératoire*) may also apply – and for certain types of interest it is compulsory.

A rate of 18% (plus social surtaxes as shown below) is levied on deposits, loans and current accounts.

Income from capitalisation contracts (namely life assurance contracts under which accrued proceeds are compounded) concluded as from September 26, 1997 are subject, upon election, to the *prélèvement libératoire* at variable rates depending on the date of their conclusion: 35% if less than four years, 15% between four and eight years and 7.5% if over eight years.

## Premium Taxes

Life insurance is exempt from premium taxes in France.

## Tax on Property Rental Income

Rental income forms part of taxable income after deductions for various expenses such as repairs, property taxes etc or after a flat deduction. Rental losses are deductible up to a certain level from other forms of income and thereafter from rental gains only. Further tax breaks are available depending on the type of property leased.

## Wealth Taxes

A wealth tax applies to households whose net assets exceed €790,000 as at 1 January each year.

French residents are taxed on their worldwide assets (unless otherwise provided by a tax treaty), whilst non-residents are taxed only on the value of their assets located in France (however, financial investment located in France are generally not taxable). Business assets, antiques and works of art are all exempt from wealth tax and a deduction of 30% of the value of the principal residence is granted. The rate levied is progressive, from 0.55% to 1.80%.

## Wealth Taxes

With effect from 6 August 2008, an individual who has become a French resident after having been a non-resident for at least five immediately preceding years is taxed only on his French-situ assets for the first five years of residence.

## Capital Gains Tax

Capital gains derived from the sale of a principal residence are tax-free and, if it amounts to less than €15,000, the capital gain realised on the sale of a secondary residence is also tax-free. Gains above this level are subject to tax at a flat rate of 16%, increased to 28.1% by social taxes of 12.1% (see social security contributions below), after deducting various allowances which depend on the duration of ownership. Properties owned for more than 15 years are exempt from capital gains tax.

A tax free allowance of €25,730 (2009) exists for capital gains derived from the sale of shares and once this is breached the whole of the gain is liable to a fixed rate tax of 18% increased to 30.1% by the 12.1% social surtaxes (see social security contributions). Capital losses on the sale of shares are creditable against capital gains of the same nature. Losses can be carried forward for ten years.

Capital gains derived from the sale of shares in companies resident in France or another EEA country (except Liechtenstein) benefit from a progressive exemption after 5 years: one third of the gain is exempt after 6 years, two thirds after 7 years and the total gains are

exempt after 8 years. The gains are still subject to 12.1% social surtaxes however.

### **Inheritance and Gift Tax**

French inheritance or gift tax is payable by the beneficiaries of gifts or inheritances. If the deceased or the donor is a tax resident of France, tax will be due in France on worldwide assets transmitted. If the deceased or donor is not a tax resident of France, tax will be due on worldwide assets transmitted to the beneficiary, if the beneficiary has been a tax resident of France for at least six out of the last ten years. Tax will be due on all personal and real property located in France, regardless of whether the donor or beneficiary is tax resident of France.

Inheritance tax is levied on assets at their fair market value, with allowances taking into account the relationship between the deceased and the beneficiary. Debts existing at the time of death are deductible in full.

No inheritance tax is due between spouses (or partner of PACS) and for inheritance between brothers and sisters living together under specific conditions for deaths after 22<sup>nd</sup> August 2007.

The gift tax regime follows the same principles, but looks favourably on gifts made during the lifetime of the donor. Tax free allowances exist for transfers between parents or grandparents and children. The tax is levied at various rates ranging from 5% to 40%, depending on the relationship between the donor and the beneficiary and certain allowances. Reductions in the tax payable are available if certain conditions are satisfied.

### **Regional & Municipal Taxes**

There are no regional or municipal taxes in France.

### **Property Taxes**

The owner of a property on 1<sup>st</sup> January pays the *taxe foncière*. This is computed by applying certain coefficients determined annually by the local authorities to 50% of the notional rental value of the property as determined by the local land registry. Various exemptions and exclusions exist.

A dwelling tax or *taxe d'habitation* is levied on any individual who occupies a dwelling on 1 January, even if he is not the owner or a French resident. The tax is assessed by multiplying the notional rental value of the dwelling as determined by the local land registry by coefficients determined by the local authorities. Various allowances are granted depending on the family situation of the taxpayer.

### **Stamp Duty/Transfer Tax**

Registration duties are applied on the purchase of properties that are not subject to sales taxes.

The duties are charged on the market value of the property, or purchase price if higher, at a rate of 5.09%. Other charges and notaries' fees bring the cost of purchase to between 7% and 8% if financed by a mortgage.

Other registration duties apply when disposing of capital shares or common stock (3% capped at €5,000 for common stocks and certain capital shares) as well as the transfer duty and some fixed duties. Stamp duty has been abolished, but tax on certain credits has been introduced, ranging from €6 up to €54 depending on the amount of the credit facility.

### **Sales Tax**

Sales tax of 19.6% is generally added to the sale price of goods and services, including property less than 5 years old. Some sales are exempt from sales tax, or are taxable at a reduced rate.

## Taxation of Expatriates Living in France

An individual is deemed a French resident for tax purposes if:

- They have a home in France or, if they have no home in France or abroad, France is their principal place of abode; or
- France is the place where they perform principal professional activities; or
- France is the centre of their economic interests.

Only one of these criteria needs to be met in order to qualify as a French resident for tax purposes. If an expatriate working in France is considered to be a resident in both France and in their home country, reference will be made to the relevant tax treaty, if any, to determine the country in which the individual will be regarded as resident. France has an extensive network of double taxation treaties, with over 110 negotiated and in place.

Allowances and annual progressive tax rates apply in the same way to part-year and full-year tax residents. However, because of French income-splitting rules, a married taxpayer with children may not reach the maximum marginal tax rate during their first year in France. This means that there may be a significant benefit to an expatriate in shifting income into the first year or last year of the assignment, depending on the date of arrival/departure. When a French tax resident leaves France during the course of a tax year, they remain liable to French personal income tax on the aggregate of world-wide income earned as a French tax resident and also their sole French-source income earned as a non-French tax resident, subject to the provisions of an applicable tax treaty.

A new 'inbound assignee' regime came into force on 6th August 2008 (Article 155B of the French Tax Code) and is applicable to employees assigned to France by their foreign employer as from 1st January 2008 or to employees directly recruited abroad by a French company as from 1st January 2008. In both cases, the individuals must not have been French tax resident during the five calendar years preceding the year of starting their assignment/employment in France. Under this new regime, individuals assigned to France by their foreign employer can benefit from a French income tax exemption in relation to salary supplements connected with their assignment. For employees directly recruited abroad, the new regime would offer an option with regard to their tax treatment as follows:

- The exemption of the actual amount of salary supplements received; or
- In the event that there are no such salary supplements, upon election, a flat rate exemption of 30% of the total remuneration.

However, the new regime provides for a "floor" of reportable compensation (i.e. the taxable compensation cannot be lower than the taxable remuneration paid for a similar job in the same or a similar company established in France). It also provides for an exemption of part of the remuneration based on foreign workdays. However, the total exemption (i.e. on salary supplements – actual or not – and foreign workdays) is limited to 50% of the total remuneration, or the individual can elect for an exemption of French tax connected with foreign workdays limited to 20% of the taxable remuneration.

The availability of this new inbound regime is limited to five years as from the year of arrival. Inbound assignees who benefit from the new inbound regime can also exempt 50% of the amount of their foreign interest, dividends, royalties, capital gains and industrial and intellectual property gains, under certain conditions.

### Social Security Contributions

The French social security system comprises various social taxes providing a wide range of benefits, but the impact of these taxes is substantial. Social security contributions on employment income are shared between employer and employee, with employees on average contributing 15%.

Contributions are assessed using various ceilings and the average rate will decrease as the gross salary increases. Social security contributions are fully deductible to determine net taxable employment income.

French tax residents are also liable to a Generalized Social Security tax ('CSG') and Contribution to the Reimbursement of the Social Debt ('CRDS') which are levied on 97% of employment income. The current rates are 7.5% for CSG (of which 5.1% is deductible) assessed on employment income and 6.6% on pensions and similar income, and 0.5% for CRDS.

The CSG and CRDS surtaxes are also due on French rental and investment income and on capital

gains: the CSG is levied at 8.2% (of which 5.8% is deductible from the taxable income of the following year – except for CSG on capital gains) and the CRDS is levied at 0.5%. An additional social tax of 2.3% and a new social tax (called the RSA) of 1.1% are due on French rental and investment income and on capital gains.

Investment income and income from immoveable property is also liable to a 3.4% social levy, taking the total social taxes on this form of income up to 12.1%.

## Taxation of 'Non-Residents' Living in France

If an individual is deemed to be a non-resident for tax purposes, they are subject to income tax on their French-sourced income only. However, a basic distinction is made depending on whether or not the non-resident taxpayer has a dwelling at his permanent disposal in France. If not, the general rule is that he/she is taxed exclusively on French-sourced income using the same income tax rates as residents.

However, the rate must not be less than 20% of income, unless it can be proven that the overall rate of French tax on his worldwide income would be lower than 20%, in which case the tax liability is reduced accordingly. If the non-resident taxpayer has one or more dwellings in France, and subject to large exceptions, he/she is taxed on a deemed income equal to three times the annual rental value of his/her residence(s). If their French-sourced income exceeds this deemed income, they are subject to tax on the basis of their French-sourced income. In general, this flat tax does not apply to residents of countries which have concluded a tax treaty with France.

Non-residents who are liable to French personal income tax on employment income are subject to withholding tax. Following deduction of the mandatory French employee social security contributions and the standard 10% salary deduction, employment income is then subject to withholding tax at source by the employer, at the rates of 0%, 12% and 20%. The withholding tax at 0% and 12% frees the corresponding portion of net annual salary from further income tax. The French complementary personal income tax is computed on the part of the remuneration liable in the 20% band. It is computed based on the French normal income tax rates, with a minimum of 20%. If the resulting tax is lower than the withholding tax already paid at a rate of 20%, the total withholding tax is the final tax liability of the employee. If the resulting tax is higher than the 20% withholding tax, the 20% withholding tax levied by the employer is offset but an additional income tax is due by the employee.

In respect of social security contributions, France has entered into agreements with more than 40 countries. Under these agreements, where expatriates are temporarily transferred to France, they may remain under their home country's social security schemes.

## Expatriate Financial Planning

If you are an expatriate currently living in France, you should review your finances with a suitably qualified financial adviser and/or tax adviser who is either authorised directly by the French regulator, or is based in another EU market and recognised by the French regulator following prior notification by the adviser under the Insurance Mediation Directive. If you are planning a move to France, you should review your finances with a suitably qualified and experienced financial adviser who is familiar with French tax matters before making the move.

Expatriates who are non-resident in France for tax purposes may be advised to use offshore life products to keep their assets outside of France to avoid creating French-sourced investment income which will be subject to income, capital gains, and wealth taxes. There are also advantages to using trusts as part of succession planning to mitigate liability to local inheritance or gift taxes, although professional guidance should be sought on this matter as the tax treatment of trusts in French law is complex.

Expatriates who become resident in France may wish to consider offshore investments, including offshore life products, in order to manage tax liability and/or control when tax charges are made, as well as considering options available for estate planning. In particular, holding fund assets within a life insurance wrapper for longer than a four-year period provides an effective way of housing and switching multiple collective investments in a tax efficient manner. However, care should be taken when selecting the underlying investments held in portfolio bond structures in particular, as the authorities require that, in order to benefit from more favourable tax treatment. Only certain assets (e.g. UCITs) may be held within wrapper products.

Whilst the specific benefits of an offshore life product will depend upon an individual's circumstances, they do offer a number of potential benefits:

- Investments in an offshore life product grow virtually free of tax throughout the time the product is held, suffering only a small amount of irrecoverable withholding tax on investment

funds located in certain countries. Please note that tax may need to be paid on an arising basis in the individual's country of residence.

- They allow you, in general, to manage when you take benefits and potentially to defer the benefits to a period that may be more advantageous to you from a taxation perspective.
- Offshore products can offer significant benefits over and above what might be available in the local domestic market, particularly in relation to product features, investment flexibility and investment choice.
- Offshore bonds often feature a range of the life company's own individual offshore funds and managed offshore funds specifically tailored to fit with the spread in clients' attitudes to risk, but also offer access to household name fund managers, including many international and specialist fund managers, which may not be available in local domestic fund and insurance markets.
- An offshore product has the flexibility to adapt to changes in your individual circumstances, including changes in your residency status.
- Most companies offering offshore life products are subsidiaries of global financial services companies.
- The offshore life companies are regulated in first class jurisdictions which benefit from strong regulatory controls.

***Your independent financial adviser can help you ensure that you maximise the financial benefits of your expatriate status and help you to assess if offshore life products are right for your individual circumstances.***

***Further information about offshore life products and their use in financial planning please contact your local Blacktower Consultant or email us at [info@blacktowerfm.com](mailto:info@blacktowerfm.com)***

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