IPTI Xtracts

Property Tax and Assessment News from Around the World

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FRENCH PROPERTY TAX: BUYING, SELLING, CAPITAL GAINS, INHERITANCE

Buying and selling property is a major part of moving to France. Likewise, if you move back to the UK or feel the time has come to downsize. I am frequently asked about tax implications.

Is the buying process straightforward in France?

The buying process in France is quite standardised, which does make it less stressful.

Your immobilier (estate agent) and notaire (notary) will help it all run smoothly, from the negotiations and drawing up of the compromis de vente (sales agreement), to paying the deposit and signing the acte de vente, which gives you legal ownership.

What should I think about before buying, selling or downsizing property?

The most common problem is underestimating costs.

This becomes more of an issue when selling one property to buy another. The combined costs of two property transactions can significantly dent your budget.

Property is often the most expensive purchase we make, so I urge caution.

Be sure the property is what and where will suit you long term (and not just somewhere you liked on holiday).

Research the various ownership methods.

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These can impact your estate planning options as well as inheritance tax liabilities, so you want to get this right from the outset.

France also has different types of marriage contracts, which can affect how assets are owned and, in turn, succession and taxation.

How does capital gains tax work in France?

When you sell your main home, any gain is tax-free in both France and the UK.

However, if you sell a property which is not your principal private residence (maison principale) there are major differences between the two systems.

In France, you get a reduction depending on the number of years you owned this maison secondaire.

For the tax element, after the first five years of ownership, your realised gain is reduced by 6% per year, then 4% in the 22nd year, giving you full CGT exemption after 22 years.

Social charges take longer.

From the sixth year, your liability reduces by 1.65% per year, then accelerates to 9% from year 23 to 30, after which you are completely exempt.

What is happening with social charges since Brexit?

This year, the French authorities confirmed that, after reanalysing the Brexit Withdrawal Agreement and law on social charges, British retirees continue to be exempt from the CRDS (contribution pour le remboursement de la dette sociale) and CSG (contribution sociale généralisée) social charges on rental income, capital gains and investment income.

They only pay the PdS (prélèvement de solidarité), which reduces the total social charges from 17.2% to 7.5%.

This highlights the importance of obtaining an S1 (available if you are entitled to a UK state pension).

Since you have not contributed to the French health system, your membership is effectively funded by the UK via the S1.

This is a bonus for British nationals enjoying retirement in France as they can benefit from a tax saving on dividends, interest and capital gains on stocks and shares.

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It is also welcome news for UK residents selling or renting French property.

Do I need to worry about wealth tax?

Since President Macron was first elected, wealth tax has only been applied to real estate.

The nil-rate threshold has remained €1.3million for more than 10 years, so while it might sound high, when you factor in property inflation it is much lower than it was in 2012.

Wealth tax applies to your total worldwide real estate if you are resident in France.

If you are buying investment property, or holding on to UK property for rental income, be mindful about this extra annual tax liability.

Also consider heirs who live in France. If you leave them property and they already own real estate, will this push them into the wealth tax net?

In the past, borrowing money against your property would reduce its net value, helping you avoid wealth tax.

This loophole has now been closed so you could end up paying both bank interest and wealth tax.

Can I reduce the inheritance tax liability for my heirs?

When a French resident dies, French succession tax is payable on their worldwide estate.

Each beneficiary pays tax on what they receive but there are some exceptions and allowances: transfers to spouses/Pacs partners on death are exempt; children receive a €100,000 allowance; and there are some smaller allowances for more distant relatives.

Since property is illiquid, there is less flexibility to plan or reduce succession tax.

There are more opportunities to reduce your heirs' tax bills with capital sums.

For example, holding investment assets in an assurance vie is an effective way of eliminating or substantially reducing succession tax, especially for distant or non-relatives, who pay 60% tax.

Does owning UK property present additional problems these days?

UK-based assets remain exposed to UK rules, including the freeze applied to thresholds and allowances over recent years.

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And as every year passes, the 2015 reform that closed the non-resident capital gains loophole gathers in more of your UK property gain.

The longer you own a UK property and the more it appreciates in value, the more UK capital gains tax you pay when you sell it.

UK rental income is liable to UK income tax.

Non-residents currently still benefit from UK personal allowances, but we cannot guarantee this will continue indefinitely.

Finally, when you die, your UK assets are liable to UK inheritance tax.

Beneficiaries do not pay tax twice, but will pay whichever rate is higher.

You may consider your residence a home rather than an investment and not be too concerned about tax, but if you own other property, taxation issues become very relevant.

And succession is always important. Understanding how it all works will help you take steps now to make life easier and cheaper for future heirs.

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