THE EXPAT GUIDE TO TAXES IN FRANCE

2023 version

Chase Buchanan

PRIVATE WEALTH MANAGEMENT

The Chase Buchanan Guide:
Taxes in France

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Part 1 – *Introduction*

Living overseas is an opportunity of a lifetime, and many UK nationals aspire to become expats, embracing local life and a new culture.

Whether you are looking forward to a peaceful retirement or considering investing in an overseas property market and educating your children in a different country, relocating is a compelling option.

France has long been a popular destination for British expats, and with a vibrant climate and an ideal work/life balance, it isn't difficult to understand why.

However, Chase Buchanan consultants deal with multiple enquiries from UK citizens considering a move abroad but concerned about how international taxes work.

Our team has created this guide to provide a comprehensive overview of the most important factors to consider when deciding to move to France.

Tax obligations, residency status and local laws are all equally important and can significantly impact the most beneficial way to structure your finances, income and investments.

To ensure that your assets are managed in the most tax-efficient way and that you are entirely up to date with all the regulations and filing rules applicable in your new home country, speak to the Chase Buchanan expert team for dedicated advice.

Your financial adviser must have current knowledge and experience in both the UK and French tax systems, be aware of all forthcoming legislation changes, and be available to support you with planning and structuring your finances for the long term.

As experts in expat tax management, Chase Buchanan are available from any of our international offices, including our regional hubs, to provide you with prompt and region-specific guidance.

Part 2 – *Understanding Tax Residency*

Tax residency means the country where you primarily live, file returns, and pay taxes. This is a crucial factor for expats, as it determines how much tax you pay, which national rules apply to you, and where you need to submit your tax returns.

In France, you are considered a tax resident if any of the following apply:

- Your main residential home is in France (called a foyer).
- You spend over 183 days in the country in any one calendar year.

- You spend more time in France than in any other country during the tax year.
- Your principal employment, business or activity is based in France.
- Your assets are primarily located in France.

UK Statutory *Residence Test*

The UK Statutory Residence Test is a series of tests to work through, to decide whether you are considered a UK tax resident – and therefore are required to pay British tax.

It is always wise to consult an expert for help with determining your residency status for tax purposes. That is because it is possible to misinterpret the rules, which can have severe consequences if you pay taxes in the wrong country.

The UK residency test consists of three tests, each of which have multiple parts:

1. Automatic overseas test.
2. Automatic residence test.
3. Sufficient ties test.

If you are not automatically non-resident, you consider whether you are automatically resident. If neither of these tests is definitive, your residence position is determined by the number of days you spend in the UK each year and the ties you have with the UK. The ties are whether:

- Your spouse or minor children are UK resident.
- You have accommodation available to you in the UK and you use that accommodation.
- You work in the UK for more than 40 days in a UK tax year.
- You have spent more than 90 days in the UK in either of the previous two years.
- You spend more time in the UK than any other single country during the year.

You can only be tax resident in one country at a time, so the double tax treaty between France and the UK has a 'tie-breaker' test to determine your tax residence, even if you are considered a domestic resident of both France and the UK at the same time.

Tax treaties are unaffected by Brexit and are independent bi-lateral agreements between the two countries. The UK has around 200 such treaties.

It is vital to seek professional advice if you are unclear about your tax residency status and to ensure that you are interpreting the tax residency rules accurately.

Although the test is reasonably straightforward, it is easy to misinterpret the findings.

Making an assumption incorrectly and failing to declare income or pay taxes in France or the UK can have severe ramifications, so it is best to approach with caution.

It is your responsibility to understand which country you must declare and pay taxes in. For example, if you relocate to France and mistakenly continue paying taxes in the UK, this can cause serious problems.

Therefore it is essential to have a firm grasp of the tax residency criteria and to be clear about your correct tax status in each country.

Undeclared *French Taxes*

Should you fail to register as a tax resident in France, the authorities are likely to investigate. This can include scenarios such as:

- Not submitting the correct tax returns.
- Under-declaring your income.
- Filing returns incorrectly in the UK.
- Paying taxes in Britain in error.

Unfortunately, even if this is an innocent mistake, the French tax inspector will issue penalties, fines and interest charges in any of these circumstances and may treat it as tax evasion.

Some French taxes vary significantly from the UK system, which means that even if you pay taxes in the UK if you are considered a tax resident in France, you will still be required to pay the local taxes.

The French tax inspector will not grant a credit against taxes paid incorrectly in another country. You may be able to claim a rebate from HMRC, but this is not certain, so it is essential to get this right.

One of the most common scenarios is where a UK national moves to France and continues working for a British employer. In these situations, the double taxation treaties come into play to avoid paying tax twice, and you can offset taxes paid in one country against the other.

However, the critical factor is knowing how the rules work, how they apply to you, and seeking expert advice to ensure that you understand the tax residency criteria accurately.

Part 3 – Double Tax Treaties *and What They Mean*

Double tax treaties are agreements between two countries, designed to avoid the situation where income or gains arising in one country to a resident of the other country are taxed by both countries.

These avoid taxes being paid twice by the same person on the same income, event or gain.

The treaty gives taxing rights to one country or the other, or sometimes both, and then provides a mechanism to avoid double taxation, such as a credit in France for UK tax paid on the same income. However, it is important to note that each country applies its own rules in calculating the taxable income and the tax due so the amounts taxed may be different in each country.

For example, if you pay tax on the same income in both France and the UK, any tax paid in whichever country has primary taxing rights (usually the source country) can often be offset in the other country (but not always – see below).

Where tax relief is given by way of credit for the UK tax paid, the highest liability will always be payable. So if the French tax is higher than the UK tax, the difference between the two liabilities will be payable in France. If the UK tax is higher, no further tax will be due in France on that income, but you cannot claim the difference back.

Electing simply not to pay UK tax is not an option; expats must still declare all income and every taxable gain accurately and double tax treaty exemptions claimed where applicable.

Taxes on the same income in both countries, the amount reclaimable will differ depending on your correct tax residency status.

Your filing requirements will be specific to your circumstances, so seeking support from an expert familiar with the tax regulations in both jurisdictions is essential to avoid costly errors.

Part 4 – *Tax-Efficient Investments*

Some tax-efficient investments for UK nationals become less so when relocating abroad. For example, Premium Bond winnings and Individual Savings Accounts (ISAs) are tax-exempt in the UK, but not France.

French residents must pay tax on all investments of this type, in addition to social charges. This means that it is essential to understand the most tax-efficient investment options before you relocate.

Most investment income is subject to a flat rate of 30% tax in France, which includes capital gains on the disposal of shares and securities. This 30% rate includes social charges.

You can opt to pay taxes on investment products on the income tax band system if this is more beneficial for you, but the 30% is usually deducted at source from French products.

Another consideration is that only British residents are permitted to contribute to an ISA. Therefore, if you move to France and become a resident there, you can hold and draw on an ISA but may not make any further contributions.

Other factors to bear in mind include tax payable on disposals of assets - this includes shares held in ISAs and also attracts social charges. Many expats opt to switch their holdings to investment bonds since they have the flexibility of deferring tax on income or gains until they draw on the cash.

UK residents currently have a 20-year deferral window and can often withdraw a 5% cash advance without incurring an immediate tax liability.

The 5% tax-deferred allowance is not claimable by French residents, as this is a UK specific rule, so your tax residency status is an essential factor. UK bonds also have UK tax treated at source. France treats such bonds very differently, meaning that what may not be taxable in the UK, may be taxable in France.

It is crucial to know how your investment assets are taxable and decide whether to switch to more efficient products. There are very tax-efficient investments available to France residents that can minimise taxable income in your hands, as well as reducing succession tax on your death.

Part 5 – Renting Out

Property from Overseas

Many expats retain a UK property and let it out to generate rental income. This can be because the property market was low at the time of the move, because they could not sell their property, they wanted to retain a foothold in the UK or because they chose to keep it as a buy-to-let asset.

In any scenario, a British rental property remains taxable in the UK, and therefore expats must still submit a UK tax return each year.

However, as a French tax resident, this income is also declarable and taxable in France, calculated under French rules. A tax credit for the French tax and social charges must be claimed in France to avoid paying tax on the same income stream.

Part 6 – Selling Property

Capital Gains Tax

The French capital gains tax system works differently from the UK. If you sell your primary residential property, you are exempt from paying any capital gains tax, provided you were living in the home at the time that you sold it.

- UK properties sold by French tax residents are taxable at 36.2% capital gains tax, including social charges.
- A surcharge of between 2% and 6% is payable in addition if the gain is greater than €50,000.

- If the property was your primary residence before your move to France, these charges may remain payable.

- UK tax may also be payable, in which case a tax credit must be claimed for the UK tax paid.

Tax reliefs may be available in France, depending on how long the property has been held. Given the interaction of UK and French domestic taxes, if you have owned a UK property for a long time, it may be possible to sell such property more tax-efficiently as a French resident than as a UK resident.

Part 7 – Offshore *Bank Interest Charges*

As a French tax resident, you are liable to pay tax on any income earned from around the world. This includes any interest gained through bank accounts overseas and is payable even if you haven't accessed the interest earned or drawn any money from the account.

It is mandatory to declare such income to the French tax authorities.

Should you not do so, you can be fined up to €10,000 for every year where offshore bank interest was undeclared.

Also, this failure to declare interest income can be considered tax evasion, which carries serious consequences.

The Common Reporting Standard (CRS) was introduced in 2016 and constitutes an information-sharing agreement between around 100 countries. Each country provides information about income and gains made on any investments, bank accounts and assets held within their jurisdiction.

It is, therefore, crucial to declare such interest earned correctly and to ensure this matches with the statements provided by your offshore banking provider.

Part 8 – *Social Charges Explained*

Social charges are a type of tax paid in France and are not linked to social security, despite the name.

The current rate of social charges for investment income is 17.2% and is payable on:

- Interest.
- Dividends.
- Rental income.
- Capital gains.

Other variances in social charges apply to pension income which may be taxed at 8.3%, 6.6% or 3.8% depending on the type of pension fund and annual income level.

UK nationals who move to France in advance of their retirement or before reaching retirement age, and are claiming pension income, need to be aware of the social charges payable to avoid paying unnecessarily high tax rates. In addition, the tax-free lump sum is not tax-free in France, so you should take advice before moving if you have not started taking your pension yet.

Social security contributions are charged separately from social charges and are the French equivalent of National Insurance contributions in the UK.

For 2023, these rates are charged at 9.7% for employment and self-employment income. Pension income is set at 9.1%.

Part 9 – *Inheritance Planning*

France succession laws determine how inheritances and succession taxes are charged. These apply to all assets except for property held outside of France.

The same succession regulations apply to French property, even if it is held by a non-resident, and even if that property is owned by a company based in the country.

If a spouse passes away in France regardless of whether they have a Will or not, these laws dictate that:

- Any children are entitled to up to 75% of the deceased's estate as of right in equal shares.
- The surviving spouse has a right to receive 25% of the estate.
- Alternatively, they may opt to receive a life interest (called a usufruct) against the income of the estate of 100%.
- Ownership of the estate capital is passed to the reserved heirs when the surviving spouse dies.
- Life interest is not claimable when there are step-children.
- Any efforts to override the reserved heirship rights will be rejected, regardless of which country the Will was written in.
- One child is entitled to 50% of a deceased parents estate, two children are entitled to receive two thirds of the estate, split equally and three or more children are entitled to 75% of the estate, split into equal shares.
- If the deceased does not have children, then their current spouse becomes a protected heir and is entitled to a maximum of 25% of the estate.

These succession laws can create serious concerns for French residents who have children from either their existing marriage or from a previous relationship and wish for their spouse to inherit their estate.

Under an EU Regulation known as 'Brussels IV', UK nationals may opt for their estate to be distributed according to the law in their country of nationality – i.e. the UK. It is essential that such an option is made in the Will. In theory, this does override French succession law, but the French are trying to avoid it.

It is vital to seek expert advice, as some of the apparent solutions will cause additional problems. For example, putting your property in the name of your children to avoid paying succession taxes may, in effect, actually increase the tax liability rather than mitigating it.

In addition to succession law, succession tax (see below) has to be taken into consideration.

Part 10 – *Structuring Your Will*

Having a valid Will is essential to ensure that your assets are cost-effectively transferred to your desired recipients. This is particularly important should you not have children and/or a spouse.

Some UK Wills may be recognised in France. However, this typically involves going through the UK probate process, then being translated and notarised in France, and then passing through the probate system again.

This international handling of a Will can take a significant amount of time and be very expensive, and if the Will conflicts with French succession law, may be ignored in any case.

Creating a French Will may also carry problems and can render an existing UK Will void. In this scenario, your assets may be left intestate, which is a complicated situation.

Also, a French Will may contradict a UK Will, and give rise to disputes and conflicts.

We therefore strongly recommend seeking professional advice with structuring your Will correctly to ensure that it can be quickly processed and acted upon.

Part 11 – Planning for *Succession Tax*

French succession tax, or inheritance tax, is payable on all lifetime gifts and inheritances. This tax is payable on:

- French real estate, regardless of the residence status of the owner.
- All assets of the estate of French residents (although this can be subject to the double tax treaty on estates between the countries).

Unlike in the UK where the estate pays the tax, the recipient of such assets is liable to pay the tax based on the amount they receive. Any allowances and the tax rate applied depends on their relationship to the deceased or donor. Assets passing between spouses on death are exempt, but not lifetime gifts. Children are each entitled to an exemption, which renews every 15 years.

Rates can reach up to 60% for assets passing to an unrelated individual, such as a partner with which you do not have a legal relationship with, or step-children, or other unrelated individuals

This tax must be paid before the assets can be transferred, and since the asset cannot be sold to raise the tax liability, this can cause a significant issue. Beneficiaries also have a limited time of six months to raise funds to cover the succession tax.

There are actions available to mitigate the cost of French succession taxes, and the earlier this planning takes place, the more beneficial.

For example, consulting a professional tax advisor before purchasing a property may save a considerable amount of tax in the future.

Another consideration for expats is that succession taxes may be payable in both France and the UK on British assets.

While the estate tax double tax treaty between the countries accounts for this scenario, it only covers inheritance taxes and not lifetime gifts.

In some circumstances, tax may be payable in both Britain and France, but relate to different events (for example, creation of a usufruct, which is a gift for French purposes where the tax is payable immediately, and on death in the UK). In this case, both taxes are owed, and no offset is available.

Planning can avoid such situations arising, minimise the tax payable, and ensure that your beneficiaries are well provided for.

Part 12 – *Wealth Tax in France*

French residents pay a tax that does not exist in the UK, called wealth tax (Impôt sur la fortune immobilière – IFI). Each year, all real estate assets must be declared, and then a tax charge is raised against the value of these.

This is not the same as capital gains tax, as the wealth tax is payable on long-term assets held and not on profits arising from a sale.

Wealth tax can be costly and cause severe issues for UK nationals who have relocated to France without being aware of the charges.

For UK nationals who are not also French nationals, wealth tax is payable only on real estate held within France for the first five years after becoming a French resident. However, in the sixth year and thereafter, all international property is subject to wealth tax.

The five years is known as a wealth tax holiday, although it should be noted that the charges become payable on French property from year one of residency.

Part 13 – Considerations *for Unmarried Partners*

French succession tax is charged at 60% of any inherited or gifted assets between two unmarried residents.

In addition, there is no eligibility to the Parts system, which entitles families to benefit from the lower income tax brackets of all household members.

However, unmarried partners are considered one household for wealth tax purposes, which means that for unmarried couples, they get the worst of all worlds.

While getting married would solve these problems, there are other alternatives available. It is critical to plan in advance, because when the first partner dies; their surviving partner will be subject to burdensome succession taxes, and they may not be able to leave them much of the estate if the deceased has children.

Surviving partners, where the couple is not married, may also not be entitled to inherit assets. If the deceased has children, the majority of the estate may pass to them regardless of their wishes.

Part 14 – *Civil Partnerships*

France recognises UK civil partnerships and also has a similar relationship, the Pacte Civil de Solidarite (PACS).

Same-sex marriages are also recognised in France, and carry the same rights and entitlements as opposite-sex marriages.

Part 15 – *Summary*

While moving abroad is incredibly exciting, it is crucial to seek expert advice about tax planning, structuring your assets, and choosing the most tax-efficient investment options before your relocation.

French tax laws are significantly different from those in the UK, and you must understand how tax residency works and which taxes you are liable to pay to be able to budget and plan accordingly.

Every expat has a different set of circumstances and unique aspirations. Chase Buchanan is on hand to help you strategise and have the peace of mind that your estate and assets are perfectly positioned to provide a secure lifestyle.

Contact our team today for tailored advice to ensure you have accurate and up-to-date information to make informed decisions before moving to France.

Section 2 –
Tax Rates

Income Tax

The below tables show income tax rates payable per individual against income earned in 2022 declared in 2023.

Income band from	Income band to	Tax rate	Tax on band	Cumulative tax
€0	€10,777	0%	€0	€0
€10,778	€27,478	11%	€1,837.11	€1,837.11
€27,479	€78,570	30%	€15,327.60	€17,164.71
€78,571	€168,994	41%	€37,073.84	€54,238.55
€168,994	And above	45%		

A PAYE system was introduced in France in January 2019, and some types of income will fall under these new rates, but most income received by expats in France will not be.

Income tax is assessed on a household basis, and so you should consult a tax advisor familiar with the French taxation system to help calcu-late specific tax liabilities.

Note that:

- Investment income remains taxable at a flat rate of 30% for the 2023 calendar year.

Social Charges 2023

	Wages and unemployment Benefits	Pension income – retirement or disability	Investments, capital gains, rental income and annuities
CSG – Contribution Sociale Generalisee	9.2%	8.3%*	9.2%**
CRDS – Contribution au Remboursement de la Dette Sociale	0.5%	0.5%	0.5%
PDS – Prelevement de Solidarite	N/A	N/A	7.5%
CASA – Contribution Additionnelle de Solidarite pour l'Autonomie	N/A	0.3%	N/A
Total	9.7%	9.1%	17.2%

* Reduced social charges of 6.6% or 3.8% apply to some types of pension income.

** Some earnings in this category are exempt from CSG.

Wealth Tax
on Real Estate Assets

Net household assets (inter-national) from	Net household assets (inter-national) to	Band	Tax rate	Tax on band	Cumulative tax
€0	€800,000	€800,000	0%	€0	€0
€800,001	€1,300,000	€500,000	0.5%	€2,500	€2,500
€1,300,001	€2,570,000	€1,270,000	0.7%	€8,890	€11,390
€2,570,001	€5,000,000	€2,430,000	1%	€24,300	€35,690
€5,000,001	€10,000,000	€5,000,000	1.25%	€62,500	€98,190
€10,000,000	And above		1.5%		

Wealth tax falls payable, where household real estate wealth exceeds €1,300,000 in value.

Succession
and Gift Taxes 2023

Gifts paid to Spouses
and PACS Partners

Taxable value from	Taxable value to	Tax rate	Tax on band	Cumulative tax
€0	€8,072	5%	€404	€404
€8,072	€15,932	10%	€786	€1,190
€15,932	€31,865	15%	€2,390	€3,580
€31,865	€552,324	20%	€104,092	€107,672
€552,324	€902,838	30%	€105,154	€212,826
€902,838	€1,805,677	40%	€361,135	€573,961
€1,805,677	And above	45%		

Inheritances and Gifts
Paid to Children

Taxable value from	Taxable value to	Tax rate	Tax on band	Cumulative tax
€0	€8,072	5%	€404	€404
€8,072	€12,109	10%	€404	€808
€12,109	€15,932	15%	€573	€1,381
€15,932	€552,324	20%	€102,278	€108,659
€552,324	€902,838	30%	€105,154	€213,813
€902,838	€1,805,677	40%	€361,136	€574,949
€1,805,677	And above	45%		

- Direct beneficiaries include adopted children, but not step-children.

Inheritances and Gifts
Paid to Other Relatives

Taxable value	Siblings	Other relatives up to four degrees of separation	Remote relatives and non-relatives
Under €24,430	35%	55%	60%
Over €24,430	45%	55%	60%

Succession and Gift Tax

Exemptions 2023

Eligible exemptions	Exemption value
Spouses and PACS partners, gift receipts (excluding inheritances)	€80,724
Natural or adopted children from or to each parent	€100,000
Siblings	€15,932
Grandchildren gift receipts (excluding inheritances)	€31,865
Great-grandchildren gift receipts (excluding inheritances)	€5,310
Nieces or nephews	€7,967
Cash gifts to children, grandchildren and nephews or nieces dependent on the age of the parties	€31,865
Other inheritances (excluding gifts)	€1,594
Disabled recipients – in addition to previous exemptions	€159,325

MISSION STATEMENT

Chase Buchanan differentiates itself from our local and global competitors by establishing a truly professional organisation that continues to push the boundaries in forward thinking international tax and wealth management solutions.

Chase Buchanan consistently provides world class, international financial solutions and standards of advice and service to our clients. In respect of our approach to client relationships we seek to advise and not simply sell a product. Our aim is to take on each client for the long term and manage their wealth effectively. It is our hope that by doing so we will continue to operate in niche markets and to compete on an equal basis with the larger private banking groups for the attention of wealthier clients.

THE SERVICES WE OFFER

The primary services we offer are:

Investments and portfolio management	Stocks and shares analysis	Life, medical and critical illness insurance
Retirement and pension analysis	Savings	Wills and estate planning
UK pension advice including SiPPs/QROPS/ QNUPS	Bespoke specialist tax planning and repatriation planning	Property and mortgages

Trusted advice made simple

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