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INTERNATIONAL TAX & WEALTH MANAGEMENT

Why France is such an attractive tax regime for UK retirees

The France Show - London Olympia

25–26 January 2020

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Partner – South West France


Why
When


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Feedback Form

French Property Show, London | 15-16 September 2018

PLEASE FILL IN BLOCK LETTERS

Title .... Surname.. FirstName/s ....

Telephone .... Email ....

Which region/area in France would you be interested in moving to?

NOTES

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FOR OFFICE USE ONLY ☐ Contact ☐ Newsletter ☐ Book Request

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Visit us on **Stand 20** and complete a Feedback Form!

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Agenda

- Blevins Franks…who we are and what we do
- Personal taxation in France…types, rates, etc.
- The 'Foyer'
- Pensions
- Investments
- Conclusions

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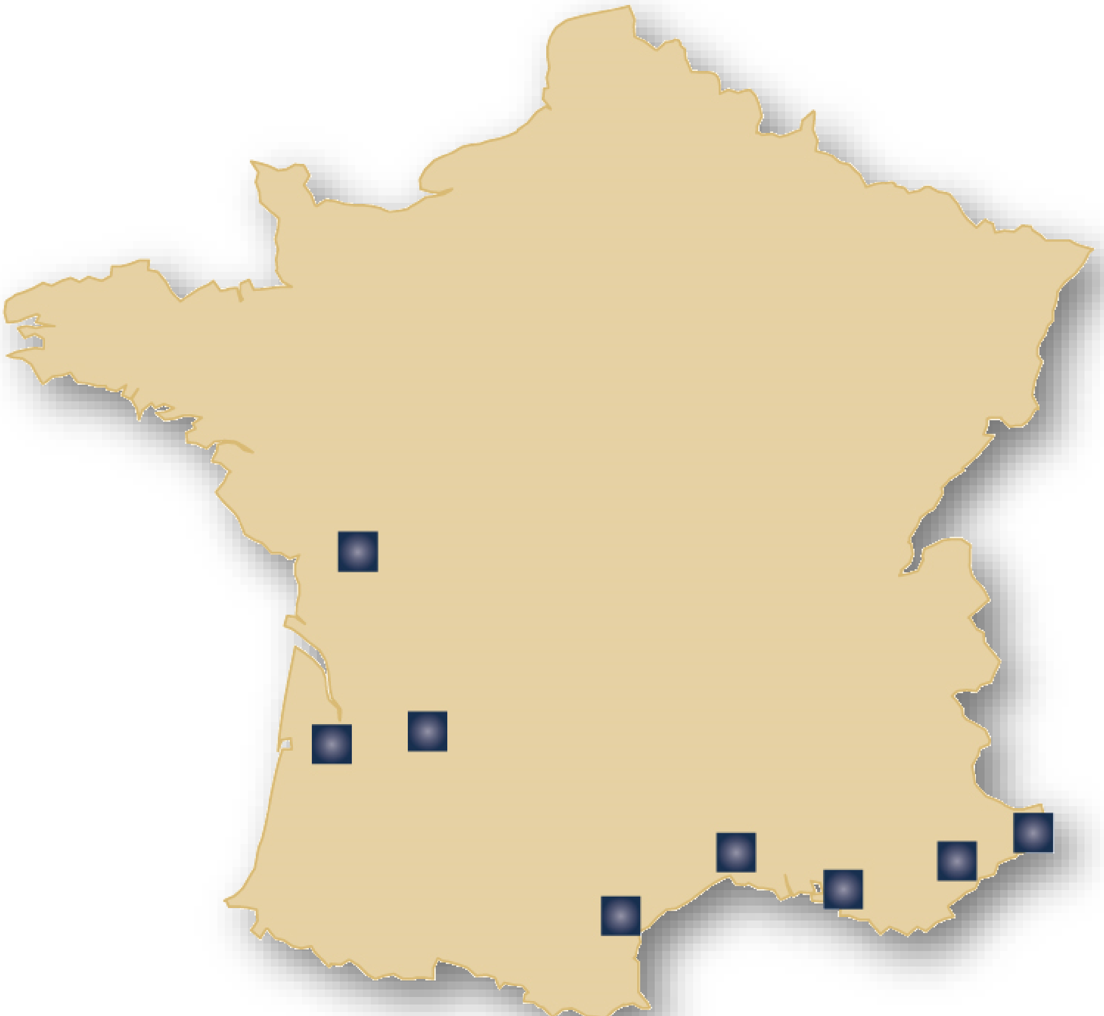
Blevins Franks…
Who we are and what we do

Who we are

The leading international tax and wealth management advisers to UK nationals living in Europe

Our Offices in France



- Niort
- Bordeaux
- Bergerac
- Béziers
- Nîmes
- Aix-en-Provence
- Valbonne
- Monaco

Blevins Franks - Background

2018 - more than 45 years

Partners 27

Private Client Managers 16

Regional Business Managers 3

Over 225 Employees

Offices 22

Clients / Families more than 5,000

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Blevins Franks - Specialist Advisers

- Deep understanding of British Nationals living in France
- Cross-border expertise
- Based locally in the country where our clients live

Personal Taxation in France

Tax residency

Your French tax residency commences when….

- You arrive with the intention of residing indefinitely, then you become tax resident from the day of arrival
- Your main home or *Foyer* (‘household’) is in France
- You spend more than 183 days in France in a calendar year
- Your principal activity is in France (eg. occupation, trade, main income)
- France is where you have the majority of your assets. Known as centre of economic interests.

Tax residency

- French resident - liable to French taxation and social charges on your worldwide income and gains
- Not resident in France - liable to French taxation on your French source income and gains
- UK Statutory Residence rules - could mean you remain UK tax resident if you spend too many days in the UK
- Being dual tax resident in both France and the UK is complicated and administratively difficult
- Take advice early to avoid this situation.

French Income Tax Rates

Income	Tax Rate
Up to €9,964	Nil
€9,964 - €25,405	11%
€25,405 - €72,643	30%
€72,643 - €156,224	41%
Over €156,224	45%

- Starting tax rate reduced from 14% to 11%, saving taxpayers around €350 per year

French income Tax

- Employment, self-employment and pensions – taxed at marginal rates of income tax
- Investment income (interest, dividends, rental income) –
  - Flat rate of tax of 30% (income tax 12.8% and social charges 17.2% - see next slide), or
  - Marginal rates of tax, plus social charges 17.2%
- Taxpayers annual choice to use whichever is the most beneficial route

French Capital Gains Tax

- Capital gains tax rate - 19%
- Progressive surcharges on gains over €50,000:

Bands	Rates
€50K to €100K	2%
€100K to €150K	3%
€150K to €200K	4%
€200K to €250K	5%
More than €250K	6%

- Max rate 42.2% (incl. social charges)

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French Social charges

- No changes were announced in the budget for 2020

Source	Rate
Employed/self employed	9.7%
Pension	9.1%
Investment income/Capital Gains	17.2%

- BUT – see later section re tax and social charges on pension lump sums

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The *Foyer* System

Obligation to Register and File

- As a French tax resident, it is your duty to register with the French tax authorities
- You must declare your worldwide income and gains annually
- Do not try to do it yourself – work with a French accountant experienced at dealing with:
  - UK expatriate tax matters,

  and

  - Your local French tax office (each office is autonomous, and the degree of inconsistency can be considerable)

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The *Foyer* system

- *Foyer system* – where income taxes are calculated on a household basis
- Favourable basis of tax assessment
- Allows the total income of household to be shared across all its members
- Avoids one family member paying taxes at the highest rates, whilst another does not fully utilise their allowances and rate bands
- Almost always beneficial to utilize this basis of tax assessment in France.

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The *Foyer* system

- Number of parts available to a household is determined by number of spouses and children
- The total income of the family members resident in France is divided by the number of parts
- Married/civil couple equals 2 parts
    - Additional half part for 1st and 2nd child
    - Whole part for 3rd and 4th, etc
- The sub-divided income is then taxed at French income tax scale rates
- The income tax due is then multiplied by the number of parts to establish the household income tax liability.

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Buying a new home in France

UK and French Real Estate

- UK only introduced capital gains tax on non-residents selling UK real estate from 6th April 2015

- Prior to this date – no issue on sale as no liability

- Be careful when selling your UK home, if you have already purchased a French property to use as your main home

- If you are resident in France when you sell your UK home

    - Tax will be payable in both the UK and France
    - Need to understand how the two sets of capital gains tax rules interact

- Both the UK and France have tax reliefs for gains arising on sale of the main family home

    - Each set of tax reliefs is different
    - Each set of reliefs has restrictions

UK and French Real Estate

- If you have already moved to France - gains on UK property calculated on difference in value from 6th April 2015 to sale date price
- Gain apportioned between qualifying (when the main home), and non-qualifying periods
- Only the non-qualifying periods are taxable
- UK CGT paid can be off-set against French CGT liability (but not against social charges!)
- France main home relief rules completely different

UK and French Real Estate

- The French main home exemption is an 'all or nothing' relief

- France has a 12 month exempt, non-occupation period

  - Sell your UK home during this period – no tax liability
  - One day later - whole gain is taxable in France (though other CGT reliefs should apply)

- Take advice on:

  - Timing the sale of your UK property, and
  - The date you commence your tax residence in France

- Could be crucial in saving you (or costing you) a large amount of tax and social charges!

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UK and French Real Estate

- If property sale is taxable in France, then a taper relief should apply, depending upon length of ownership

Capital Gains Tax:

- From year 6 onwards, CGT reduced by 6% per year (4% year 22). Total exemption after 22 years.

Social Charges:

- From year 6, social charges reduced by 1.65% per year (1.6% year 22). Year 23 - reduction increases to 9%. Total exemption after 30 years.

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Pensions

UK Pensions

2015	Pension freedoms
2016	Brexit vote
2020	EU withdrawal
2021	Full EU exit
2021	Pension Exit Tax Charge?

UK Pension Freedoms

- You control how much you take and when you take it
- Easier to pass on to future generations

UK Pension Options

- Buy an Annuity
  - Offers certainty of income
- Annual, or regular drawdowns from the fund
  - GBP, charge post 75 years, and fund management
- Take the fund as a lump sum
  - Tax position?
  - Do what with the money?
- Move to QROPS
  - Really an offshore SIPP, with choice of all of above

Pensions

Is France a Tax Haven?

- Withdrawals in UK taxed as income (over the 25% tax free lump sum). Scale rates - max rate 45%
- In France - regular pension income taxed at scale rates - max rate 45%
- Lump sums in France are taxed at only 7.5%
- Plus social charges of 9.1%, but not if S1 held
- Danger if multiple lump sum payments

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Pension Concerns

- Brexit
  - Tax NOT governed by EU
  - Bilateral double taxation agreements
  - So – anticipate no change

BUT….

- Pension Exit Tax Charge?…..

HMRC Pension Concerns…

Tax free contribution + Tax free growth + Tax free/low tax payout

= **NEW Exit tax?**

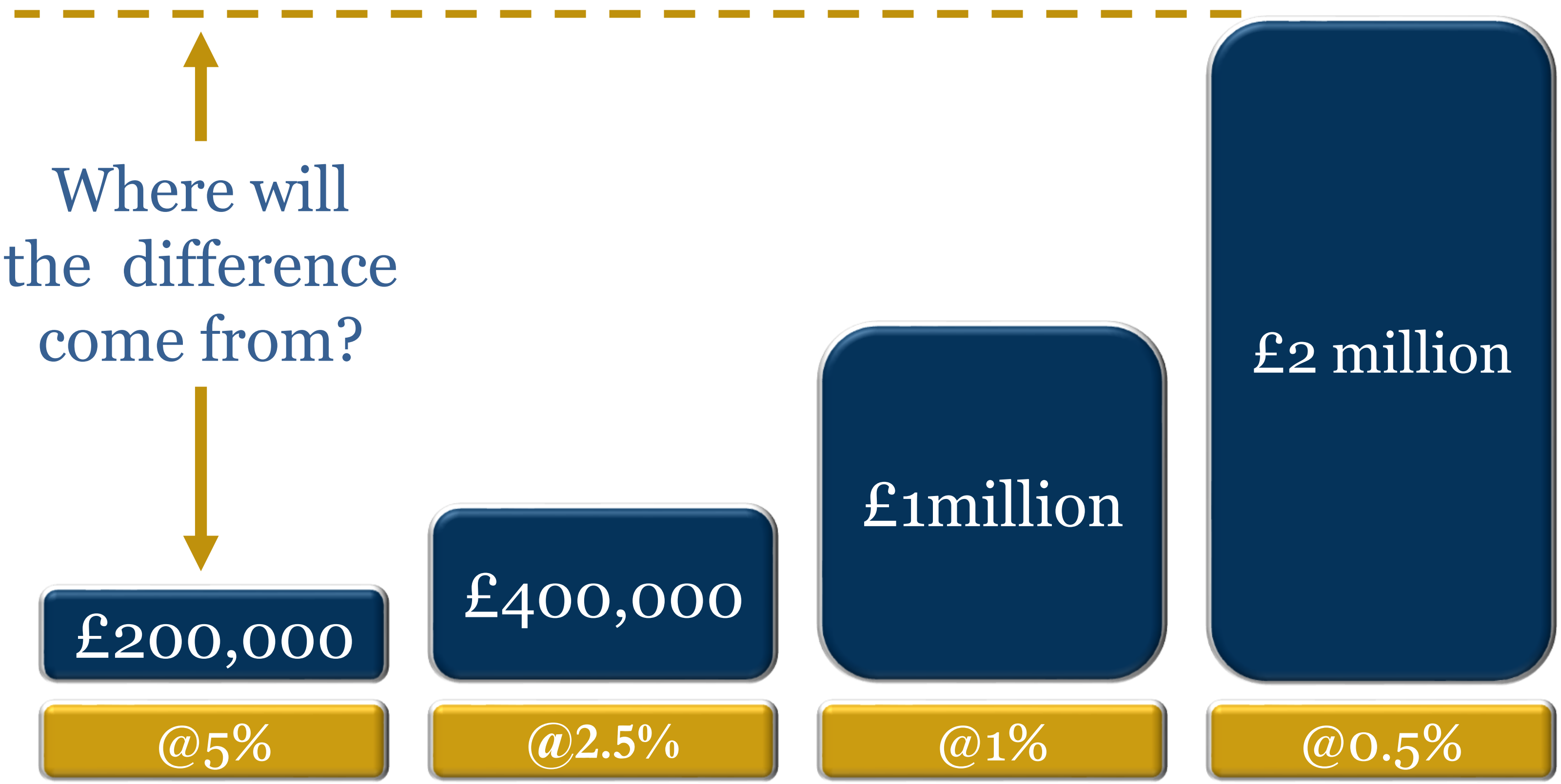
Note: 25% exit tax now imposed on non-EU movers or transfers to non-EU QROPS

Pensions: What does Benefits reduction mean?

- Only applies to Defined Benefits (DB) schemes
- Combination of:
  - Long-term reduction in interest rates
  - People living longer

Pensions: Reduced interest rates

A simple example, securing £10,000 of income....



Pensions: A real life story…

Male early 40's, RPI linked DB pension of £9,700p.a.

Transfer values….

May 2015	Apr 2016	Jun 2016	Jul 2016
£348,400	£379,300	£393,300	£456,800

+ 30% in
14 months
£108,405

Something needs to change....

- 25% Pension Exit Tax Charge on pension transfers to non-UK pension schemes
- Reduced benefit guarantees?

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Review all of your options before the Government does it for you!

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Investments

UK tax efficient investments

- Investments like ISAs, Venture Capital Trusts or Enterprise Investment Schemes do not have tax efficient status in France
- French income tax (12.8% or scale rates) and social charges (17.2%) payable on any interest, dividends arising
- Consider cashing these in before you leave the UK
- Selling them prior to leaving the UK means you should pay little or no tax in the UK or France

French investment structuring – the *Assurance Vie*

- A form of tax efficient, life insurance policy
- A wrapper that holds long term savings and financial investments
- 33%+ of the French population has an Assurance Vie
- As a French resident, it's one of the best ways to protect and grow your savings efficiently
- Also suitable for providing retirement income - no restrictions on when or how much you can withdraw.

French investment structuring – the *Assurance Vie*

- No tax is payable on dividends and income received, nor the gains arising on buying and selling of investments
- They are all accumulated in the policy
- Only the 'profit' element contained within any withdrawal is taxable
- An *Assurance Vie is* outside of French wealth tax
- There are considerable French succession tax savings

French investment structuring – the *Assurance Vie*

- At every withdrawal, the overall growth is measured
- Withdrawal is deemed part capital/part gain – just the "gain part" is taxable
- From 1 January 2018 – the "gain part" is taxed at single, flat rate of 30% (12.% income tax and 17.2% social charges)
- Option to use old regime – scale income tax rates, plus 17.2% social charges.

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Conclusions

Conclusions

- Buying a property in France, or moving permanently to France are big steps
- Hopefully this seminar has shown you should take account of the necessary tax and financial advice before you take action
- Afterwards could be too late…
    - You might not be able to reverse or remedy the situation
    - You might miss out on certain benefits or tax reliefs
    - You might pay higher taxes and social charges than you need too

So come and talk to us on Stand 20!

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