

## **French Government announces tax increases**

### **How this will affect non-residents**

As expected, the French government announced yesterday (4 July 2012) a series of tax increases that will affect non-residents owning French property.

#### **Wealth tax (ISF)**

ISF had been substantially amended by the previous government in 2011 reducing the tax to 0.25% between 1.3 M EUR and 3 M EUR and 0.5% above 3 M EUR.

The new government will revert to the previous schedule of 6 bands ranging from 0.55% to 1.80% with a nil-rate band of 800,000 EUR. As currently however, the tax will only apply above a threshold of 1.3 M EUR.

This, for a property worth 3 M EUR, will increase your ISF from 7,500 EUR to 16,750 EUR.

Since the deadline for declaring ISF 2012 is now fast approaching (16 July for non-residents), an “exceptional contribution” will be introduced in the autumn corresponding to the difference between the previous schedule and the new proposed schedule (i.e. 9,250 EUR in the example above).

#### **Lifetime gifts**

As previously, the transfer of French property to your children will remain taxable in France.

Currently, each parent can transfer 159,325 EUR per child free of tax every 10 years (i.e. 637,300 EUR for a couple with two children).

The new government will reduce this allowance to 100,000 EUR every 15 years. (i.e. 400,000 EUR for a couple with two children).

#### **Property income**

Income derived from property held by non-residents (rental income or capital gain) is taxable in France.

However, non-residents are exempt from social security contributions (15.5% since 1 July 2012).

The government regards this exemption as “unjustified” and has announced its cancellation (How this will be regarded by the French Constitutional Council and the EU, the government does not say).

This will increase income tax from 20% to 35.5% and capital gains tax from 19% to 34.5%.

The new tax regime will apply retroactively to the income received since 1 January 2012 (taxable in 2013) but not to capital gains which will only be subject to the 15.5 % from the date of the law entering into force.

A supplementary budget is expected to confirm the position before the end of July.

For further information please contact:

**Patrick Delas**

Solicitor - Avocat

+44 (0)20 8394 6387

Patrick.Delas@russell-cooke.co.uk

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