



French tax changes and planning opportunities for 2023



The Spectrum IFA Group

International Financial Advisers

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This guide provides an outline of some of the valuable financial planning opportunities available for reducing and controlling personal tax exposure in 2023.

Whether you are considering a move to France, or are already resident here, with proper guidance there is scope to improve your finances, both immediately and longer term, by ensuring savings, investments and pensions are structured as tax efficiently as possible.

First, an update following Brexit

Since the UK left the EU on 31st January 2020 new rules have applied which have changed the status of British expatriates living in Europe. From state pension escalation to health care cover and rights on residency and employment, arrangements are now in place that govern how the UK and EU interact now and in the future. How this affects you will in some cases depend on whether you arrived in France before or after the 31st December 2020.

Income tax (*impôt sur le revenu*)

The main change announced in the French Budget for 2023 is the reduction in income tax rates for income received in the 2022 calendar year. The rates of income tax are now as follows:

Income	Tax Rate
Less than 10,777 €	0%
10,777 € to 27,478 €	11%
27,478 € to 78,570 €	30%
78,570 € to 168,994 €	41%
Over 168,994 €	45%

These rates have been adjusted by 5.4% since the previous year to take into account the effects of inflation.

Local residence tax (*taxe d'habitation*)

Continuing on from previous budgets, this tax will be completely abolished on main residences for all households in 2023. Second homeowners will continue to remain liable for the tax.

The television licence fee (*contribution à l'audiovisuel public*) that was collected with the *taxe d'habitation* will also be abolished.

Tax declarations and reporting obligations

Tax returns must be completed online unless there are exceptional circumstances or this is the first time you are completing a tax return in France. Worldwide income must be declared annually, though unlike the UK, assessment is by household (*foyer fiscal*) rather than individually. UK source income from dividends, property rental and government pensions (including civil service, military and teachers'), whilst taxable in the UK only, should also be included in your French tax return. The Double Tax Treaty between France and the UK should ensure an accurate tax assessment (*avis d'impôt*), but it is important to check that liabilities have been calculated correctly.

Note too that tax-free investments in the UK, such as ISAs and Premium Bonds, do not hold the same favourable status in France and any interest, dividends, capital gains or 'winnings' must be declared on your French tax return. For permanent and longer-term French residents, tax efficient alternatives are available, notably Assurance Vie policies.

Without exception, it is important to make full disclosure of income and assets, recognising that there is automatic exchange of tax and financial information between the two countries under the global Common Reporting Standard adopted in 2017 by the EU and many other countries (including the popular offshore jurisdictions of the Isle of Man and Channel Islands). This has not changed since Brexit.

Your investment income will be subject to the 30% flat tax or *Prélèvement Forfaitaire Unique (PFU)*, which applies to interest payments, dividends, capital gains on shares and, in some cases, withdrawals from Assurance Vie policies. If tax is not deducted at source you can opt for this rate to apply or elect to be taxed at your marginal rate and subject to available abatements. With simple planning it is possible to reduce or remove liabilities on investment income and gains whilst also preserving wealth for tax efficient transfer to nominated beneficiaries.

PAYE - *prélèvement à la source (PAS)*

PAYE was introduced with effect from 1st January 2019. The types of income subject to PAYE include:

- ◆ Income from employment; and
- ◆ French retirement income; and
- ◆ French source benefits such as unemployment benefits and sick pay

For these types of French source income, the employer, pension provider or benefits provider will deduct tax at source. Other types of income, where tax is not deducted at source, for example rental income, are subject to monthly deductions directly from the taxpayer's bank account.

Clearly, where income is generated from outside of France there can be no deduction at source by the French authorities, so many expatriates living in France will be subject to these monthly tax payments. The monthly payments are equal to 1/12th of the tax paid in 2022 (based on income declared for 2021). Excluded from PAYE is investment income, such as bank interest, dividends, capital gains and gains from life assurance investment bonds (Assurance Vie policies).

New residents of France who have not yet submitted a French tax return will have the option of paying a sum 'on account', or be taxed in September 2023, following submission of their first tax return by May 2023. Everyone will still be required to submit a French tax return in May of the following year. Thereafter, the final assessment of tax liability will be completed, and you will either receive a tax refund or be required to pay any additional tax due, over a four-month period.

If you do not currently pay any income tax, you will not be required to make provisional monthly payments. Similarly, if you anticipate a significant change to your income during the course of the year, you can request that the tax authority alter your tax code. However, if you do so, and your income is 10% greater than advised, you could face a tax penalty of at least 10%.

Reform of social charges (*prélèvements sociaux*)

There have been no changes to social charges in 2023, which is good news for some taxpayers. The main rates for social charges remain as follows:

Source of income	Rate
Pension	9.1%
Investment and property rental	17.2%
Employment	9.2%

◆ Social charges on pension income

The exemption from social charges on pension income still applies if you hold the EU S1 Certificate or if France is not responsible for the cost of your healthcare. Those pensioners who do not satisfy the exemption conditions above are liable to social charges if their pension income, as a household, is above a certain threshold (with liability determined by personal circumstances).

◆ Social charges on investment income and capital gains

Since 1st January 2019, individuals covered under the health care system of another EU or EEA country are no longer subject to the standard rate of 17.2% on investment income or capital gains. Instead, they now pay a new flat rate of 7.5%. This flat rate is known as the 'Prélèvement de Solidarité' and represents a saving of 9.7%. It applies to investment income, such as property rentals, bank interest, dividends and withdrawals from Assurance Vie policies, and capital gains realised by both residents and non-residents of France.

In summary, taxpayers can benefit from the new 7.5% rate on investment income if:

- ◆ they hold the EU S1 Certificate;
- or
- ◆ they are non-resident in France earning French source income, for example rental income or capital gains on the sale of a French property, and are covered by the health system of another EU or EEA country.

Those who arrived before 31st December 2020 and already hold the S1 certificate, or will be eligible to apply for the S1 at a future date, will continue to benefit from the exemption of social charges on their pensions and the lower rate of social charges on investment income. Interestingly, the NHS has, up to now, continued to issue S1 certificates to new arrivals to France after the 31 December 2020. As this was not negotiated as part of the Withdrawal Agreement it is uncertain as to whether this practice will continue indefinitely.

Wealth tax on real estate - *impôt sur la fortune immobilière (IFI)*

There is no change to the current threshold of €1.3 million for 2023 and there are no changes to the scale rates.

Investments and savings - Assurance Vie

On the basis that UK assets are taxable in France, and that tax-free in the UK doesn't translate to the same in France, if you haven't already done so, you should consider switching to French approved tax efficient investments. Care is needed with the disposal of UK assets, to avoid unintended tax consequences, so always seek professional advice before restructuring existing UK holdings.

Assurance Vie – technically a life assurance policy but in practice an investment vehicle – is the most tax efficient means of investment in France, offering generous concessions on investment growth, income and capital withdrawals and transfer of benefits on death in the form of inheritance tax exemptions and reliefs for your nominated beneficiaries.

Assurance Vie solutions are available in Sterling, Euros and other currencies, in English language and with investment flexibility to match individual objectives and risk profiles. For British expatriates, it is important to check product portability and adaptability so that tax benefits can be maintained on any future return to the UK.

For 2023 there are no changes to Assurance Vie taxation. For policies held for more than eight years, the annual allowance remains at €4,600 for individuals and €9,200 for married/PACS couples.

Pensions

This is a technically complex subject where reliable advice is essential. From understanding UK state pension entitlement, to reviewing all existing personal and/or occupational schemes, there is scope to increase the value, flexibility and security of your retirement finances.

British expatriates living in Europe currently enjoy pension freedoms and transfer opportunities that are unavailable elsewhere. However, in relation to both Brexit and ongoing UK pension reform, it is unlikely this flexibility will remain beyond the short term. Further changes to pension regulations remain on the UK domestic agenda.

Consult an authorised, qualified and experienced specialist to arrange a comprehensive review of your existing pension arrangements. For defined benefit, or final salary schemes, this evaluation needs to be completed by a UK FCA authorised adviser. Be wary of any recommendation to transfer a UK pension without receiving a formal and detailed report explaining, in terms you understand, why a transfer could be in your best interests.

Wills and estate planning

French inheritance law restricts the extent to which you can freely transfer wealth during your lifetime. It also, unless you have planned properly, governs how your estate is distributed on death – most notably, prescribed heirship laws override individual choice when it comes to nominating beneficiaries. In particular, unless a married couple adopts a full communauté universelle marriage regime, the survivor is likely to be insufficiently protected in the presence of children and/or stepchildren.

However, if you are a British expatriate living in France, EU legislation allows you to specify that your estate be administered according to the laws of your country of nationality, rather than your country of residence. Doing so provides valuable flexibility and control over the eventual distribution of your estate. This has not been affected by Brexit, however, a recent change in French succession law supersedes the EU Regulations by making it obligatory for French notaires to inform children of the deceased of their right to challenge a will in relation to assets situated in France at the time of death.

It is important to consider marriage regimes properly and to establish and maintain a valid will or testament which fully reflects your intentions and in a format that suits your circumstances.

Regulated financial advice

Even for the financially experienced it is worth seeking professional advice, if only to ensure that all available investment and tax planning opportunities are being fully utilised. Financial services were excluded from the UK-EU withdrawal agreement, so UK based financial advisers, unless also operating and authorised in the EU, can no longer advise EU resident clients.

Only deal with an appropriately authorised adviser, ideally someone living and working locally who has been recommended by other expatriates in the area. The regulatory status of an adviser can be checked on-line at www.orias.fr and in any initial discussion you should be informed about the advisory process, from fact finding and presenting suitable recommendations to responsibility for investment management and ongoing client servicing.

To discuss your situation, or if you have any questions, please do not hesitate to contact us - info@spectrum-ifa.com

This guide is provided for general information purposes only and is based on our understanding of current French tax law. It does not constitute advice or a recommendation from The Spectrum IFA Group.



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