

Tax Savings on a Move to France – new 50% income tax exemption



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Please note that tax law is a complex subject and you should not rely on this article without professional advice on the facts of your case.

Individuals leaving the UK, mainly because of the new 50% higher tax rate, have not usually considered France as a destination. This is because France is viewed as a high tax jurisdiction. However France has recently introduced a number of major tax exemptions, as part of its law on modernisation of the economy, which seek to encourage individuals to take up residency there.

This means that you may be able to benefit from a favourable tax regime, whilst remaining close to the UK and with the benefit of the UK - France tax treaty which makes it easier to both leave the UK for tax purposes and also come back to the UK to work on a restricted basis. These two aspects are always a problem for UK residents who move to tax havens such as Monaco which have no tax treaties with the UK.

France's income tax regime should already be of particular interest if your spouse does not work, due to the method of taxing income in France. This charge is calculated at banded rates on a household basis with the income divided into parts depending upon your family situation, meaning the lower bands can be used more than once, unlike in the UK. The new exemptions only serve to make France more appealing to those with families seeking to leave the UK.

Income Tax

A partial exemption from income tax has been introduced if you take up residency in France. This will apply for your first five years of residency in France.

To qualify,

- You must not have been resident in France during any of the 5 years prior to beginning their duties in France,
- You must either be recruited directly by French employers or be moved from a non-French company to a connected French company. You can be the sole/controlling shareholder in the French company which you can establish. There is no requirement for any prior trading history in France.
- Your new employer must have its registered office, or an establishment, in France,

- You must be a French resident from the date you start work,
- You must have your main residence in France and your job in France.

The French income tax exemptions

The effect of qualifying is that any salary payment

- Relating directly to you being in France is exempt from income tax. This will either be the amount set out in any agreement between the employer and the employee, or a fixed amount of 30% of the net pay (for employees recruited directly only). There is a requirement to ensure that the net assessable pay is at least the same as someone carrying on the same duties for other comparable French employers.
- Relating to any work carried out outside France is exempt from French income tax so long as the time spent abroad is in the exclusive and direct interest of the French employer.

The total exemption for these elements of income can amount to up to 50% of the total net taxable pay. Alternatively, you can claim an exemption of up to 20% of your net pay in relation to your work abroad.

The downside however is that you will still be required to pay French social contributions on your entire income.

Continuing UK duties

If you are to carry on duties in the UK for your new French employer, under internal UK tax law, you remain taxable on any income which relates to your UK duties. However, this will be overruled in most cases by the UK-France double tax treaty. Under the treaty, where a French resident is present in the UK for a maximum of 183 days in a year and is paid by a non-UK employer, the UK related income is outside the UK income tax net, and therefore should be tax free in both countries due to the new French rules.

There is less likely to be an issue with remaining UK resident when moving to France as the terms of the UK-France double tax treaty will determine where you are tax resident. This protection is not available to individuals moving directly to a tax haven such as Monaco and continuing to carry on UK work.

Wealth Tax

One of the main charges which has put people off moving to France is the annual "*impôt de solidarité sur la fortune*" (Wealth Tax). This is a tax on the net wealth of every household. For non-French residents, the wealth assessable is based on the value of French assets only (although even some French assets are exempt) whereas French residents are assessable on their worldwide wealth.

There is now a partial exemption from this tax for the first five years of residency in France. The charge is made only on the net value of French assets rather than worldwide assets during this period. This can be of great value to individuals whose French assets have a net value below the tax free threshold (currently € 790,000) but who have assets in other jurisdictions which would otherwise take their net wealth above this figure. With careful planning before moving to France, it should be possible to mitigate the potential exposure after this 5 year period ends.

Other exemptions

An additional benefit exists in that certain capital gains can be exempt from French tax. For example on the disposal of shares in a company which is based outside France, in a country with which France has a double tax treaty in place, only 50% of the gain would be taxable. This would apply to the disposal of a UK company which would not be chargeable in the UK due to the non-residency of the seller (so long as the individual remains non-resident for 5 tax years). France's capital gains tax regime in terms of share disposals allows the gain to be tapered depending on the length of time shares have been held. This can result in no chargeable gain for tax purposes. This will also apply for the first five years of an individual's residency in France.

Non-salaried individuals

Further exemptions may apply, upon approval of the budget minister, for individuals who move to France to carry out economical, but non-salaried, activities prior to 31 December 2011.

Before you move

Advice on your particular circumstances should always be sought before changing residency. The amount charged on income in France may not be advantageous for some individuals particularly when having regard to the social security charges in France, which are outside the scope of these exemptions. However for many people France can be a particularly attractive location to settle in and pay less tax than would have been the case if they had remained in the UK, particularly for the initial five year period.

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