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## Costs of Ownership

### Essential Costs

When you take ownership of a property, you will need to apply to French utility companies for the electricity, gas, water, telephone and other supplies you require, to be registered in your name. You will be responsible for these bills from and including the date of completion, meaning this process should be started immediately.

As in the UK, both the size and efficiency of your building and the local area will directly influence the costs paid for utilities. For further information on the likely charges in a particular area, please [contact](#) a member of the team.

Edison Ford recommends that you consider opening a French bank account, from which you can manage your French accounts by direct debit. It is however important to note that you should never exceed any agreed overdraft limit on a French bank account, as the penalties for this are severe. On a similar note, it is often not realised that it is an offence in France, to write a cheque for which there are insufficient funds available in your account.

For more information on the ongoing costs you need to consider, please see our guide, [Buying Property in France](#), which details the essential costs you will be liable for from the moment of completion.

### Recommended Costs

#### Individual Property Maintenance

If you wish to have your property cleaned and inspected regularly during the year, above and beyond any standard rental package services, this will often be available from either a developer direct (if buying off plan), or many third party sources. Quotes will vary depending on the location of your property and the level of service you require. If you have any problems with your property, which are not covered by the building and manufacturers guarantees, then you will of course be liable to cover these maintenance costs.

#### Rental Packages

This will depend on your choice of company and their tariff. It is also important to consider what you wish to achieve from renting your property, as you may not want year round rental. Certain areas are more likely to support rental from the local market and others the holiday market, which should be directly considered in the selection of an appropriate property. For more information on what to purchase and which areas to consider, [contact us](#) today.

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## **Tax Overview**

### **Introduction**

The French tax rules and rates vary according to whether you are a tax resident in France.

- People who are domiciled in France will be taxed on their French incomes as well as foreign incomes.
- People who are not domiciled in France will be taxed on their incomes from French sources only.

According to the French Tax code, the following persons are deemed to be domiciled in France for tax purposes:

- any person who has his main residence in France;
- any person who is spending over 183 days each year in France;
- any person who carries on a professional activity whether salaried or not.
- any person whose centre of economic interest lies in France

If you are UK resident you will need to declare your French income at the Centre des Impôts des non-résidents in Paris. You must also declare the income on your UK tax return, although you are able to take into account the amount of tax already paid in France, by virtue of the double taxation treaties in force. If the taxation in France is at a lower level and you are a 40% taxpayer in the UK, then you will be required to make a balancing payment in UK tax; on the other hand if your taxation is higher in France, then you would not be entitled to a rebate in the UK. If you decide to move permanently to France, make sure that you notify the tax authorities in the country you are leaving. If you are leaving the UK, you will be required to inform the HM Revenue and Customs and complete a form P85. Once you arrive in France, you must register with the local tax centre ("Centre des Impôts"). Unlike in the UK, income tax is not deducted automatically from your salary. You are therefore responsible for making your own declaration each year. The tax year in France runs from 1st January to 31st December.

### **French Taxes**

#### **Taxe sur la Valeur Ajoutée - TVA (VAT)**

TVA is applicable on almost everything in France and is one of the principle sources of revenue for the French treasury. The standard rate of VAT in France is set at 19.6%. There is a reduced rate of 5.5% for most food and agricultural products, certain types of animal food, medical drugs not reimbursed by social security, books and certain services (mainly accommodation supply, meals supply to company and hospital canteens, passenger transportation and certain entertainments). The 5.5% rate applies also to the costs of improvement, converting and maintenance

works for dwelling premises. A special rate of 2.1% is charged on particular press publications and medical drugs reimbursed by social security.

### **Income Taxes (Impôts sur le Revenu)**

French Income Tax 2007 (on 2006 income) The amount of tax you are required to pay is calculated according to where your income fits in the following scale. However, the amount of tax to be paid is not determined only on the above scale. The tax system is highly personalised and will take account of your family situation

<b>Income Band (€) Rate (%)</b>	
Less than €5,614	0%
Between €5,615 and €11,198	5.5%
Between €11,199 and €24,872	14%
Between €24,873 and €66,679	30%
More than €66,679	40%

As well as other factors such as childcare and domestic help, household expenses and business expenses that have not been reimbursed (such as travel to and from work). Income tax is not based on the income of each individual but on the total income of the household. The net income figure is divided into parts (called "quotient familial"), which correspond to how many people there are in the household. These parts are determined by the marital status of the taxpayer and the number of minor children, or other dependent persons in the family as follows:

- One part for a single person with no children
- Two parts for a married couple with no children
- Two and half parts for a married couple with one child
- An extra half part for each additional child
- A whole part for the third and subsequent children

### **Rental Incomes**

The calculation of rental income is different according to whether the property is let furnished or unfurnished:

**1) The Property is Rented Furnished.** This is a business activity and is categorised as "Bénéfices Industriels et Commerciaux" (B.I.C). There are different regimes of calculation depending on the income generated:

- If Gross rental income is less than €76,300.00: the regime of "Micro BIC" applies. This is a simplified scheme that simply taxes 32% of the gross income (i.e. 68% of the gross rental income is automatically deducted in place of actual expenses). No expenses need be demonstrated, no accounts are required and no separate tax forms for the business need be prepared.

• If Gross rental income is greater than €76,300.00: there is a choice between RRS or "Régime Normal". Under the RRS ("Régime Reel Simplifié") actual expenditure related to the letting of the property is deducted e.g. management expenses, insurance, property tax, mortgage interest due in France, depreciation allowance, repairs, maintenance and improvement expenditure (generally where the property has been modernised, or made more comfortable, but where the structure of the property has not been changed). Such an option is currently valid for a minimum period of two years, and due consideration should be given as to whether the additional costs of preparing near-complete accounts and separate tax forms outweigh any tax saving made. In some circumstances, the option may be more beneficial, such as where there is a high level of expenses.

## 2) The Property is Rented Unfurnished

- "Micro Foncier" Where the income is generated through letting of land or an unfurnished property, a similar simplified deduction scheme called the "Micro Foncier" can be applied, provided the gross rental income does not exceed €15,000.00 per annum. In this case the percentage deduction is 30%. Like the "Micro-BIC", expenses need not be demonstrated, and accounts and a separate tax form need not be prepared.
- "Régime Réel" The total income is over €15000 or the owner decides not to use the "Micro Foncier", the calculation is made on the difference between the money coming in ("encaissement") and some expenses. A list is given by the law regarding the expenses which can be deducted.

## Capital Gain Taxes (CGT) ("impôt sur les plus values immobilières")

The rate of CGT for both French and non-French residents (who are residents of an EU country), is 16% of the net gain. If you are a French resident, you will pay an extra 11% in French National Insurance\* making the effective rate 27%. \* The "Contribution Sociale Généralisée" (CSG) and the tax created by the Government to finance the Social Security deficit "Contribution pour le Remboursement de la Dette Sociale" (CRDS) are not payable by individuals who are not resident in France for tax purposes. If you are not resident of a EU country the rate goes up from 16% to 33.3%. The taxable profit is calculated by taking the difference between the price at which the property is sold, reduced by the selling costs, and the purchase price, increased by purchase costs.

### **Tax allowances:**

- After 5 years of ownership the net gain is reduced by 10% for each subsequent complete year of ownership.
  - There is a general allowance of €1,000.00
- You will benefit from a total exoneration if the property sold has been your main residence in France.

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## **Wealth Tax ("Impôt de Solidarité sur la Fortune")**

In France, wealth tax is payable by people whose assets exceed (in 2007) €760,000.00. The wealth tax rates for 2007 are:

<b>Impôt de solidarité sur la fortune (2007)</b>	
<b>Net Worldwide Assets Rate</b>	
Less than 760.000 EUR	- 0%
Between 760.001 and 1.220.000 EUR	- 0.55%
Between 1.220.001 and 2.420.000 EUR	- 0.75%
Between 2.420.001 and 3.800.000 EUR	- 1.00%
Between 3.800.001 and 7.270.000 EUR	- 1.30%
Between de 7.270.001 and 15.810.000 EUR	- 1.65%
More than 15.810.000 EUR	- 1.80%

If you are a non-French resident, the value is based on your assets in France alone.

## **Local Taxes**

In France, there are two main local taxes which are equivalent to the UK Council Tax. They are: "Taxe Foncière" (a property/land tax) and "Taxe d'Habitation" (a residence tax). They are paid annually to the local authorities.

- The owner of the property is liable for the "Taxe Foncière". It is apportioned on a pro-rata basis and you will be required to reimburse your seller for the remaining part of the year. Owners of new properties are exempt from this tax for the first two years of structural completion.
- The Taxe d'Habitation is payable by the person occupying the property at 1 January and is not apportionable. You will therefore not be required to pay this until 1 January following completion of your purchase. Both taxes are based on the rental value of the property and vary from region to region. In some parts of France, sundry taxes or taxes assimilés such as for the supply of snow sweeping or other amenities are also payable. These taxes are often apportioned between the seller and the purchaser at the date of completion of the purchase.

## **Inheritance tax**

Given the recent changes in the law regarding French Inheritance tax, please contact us for further up-to-date information.

The above information was provided by the French legal specialists at the International Property Law Centre. If you would like to discuss how the International Property Law Centre could help you safeguard a purchase in France, you can visit their [website](#), or contact a member of the Edison Ford team, who will happily make an introduction for you.

The above information is prepared to the best of our knowledge. Edison Ford and The International Property Law Centre accept no liability for errors or omissions.