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Simplified Summary of French Taxation for Individuals

General Principles

Tax residents meaning those with their core center of interest located in France are to file. What is "residence"? It will be where they live more than 183 days in a year and where their family resides or where they derive from most of their income. In essence, it will be where the core of their existence is located.

If they share their time between several countries, tax treaties will apply. In case of doubt the country of citizenship may prevail.

The filling system is a family unit system (one filling for one family or single). A family includes the couple, if not separated, and the kids till they are 18 years old (can be extended on option to 21 and to 25 if still studying). The size of the family, number of adults, one share and kids, half a share for the two first ones will determine a number of shares by which the tax schedule will apply to the taxable income (it will be divided) with a capping.

It is a worldwide income taxation system but as opposed to the system prevailing in some countries such as the US, it stops when the residence criteria stops (subject in some cases to the exit tax). To split income between earned before quitting and after moving the residence starts the day the family moved to France and ends when it quits.

For moving family or single the residence criteria when no physical moving might be the day when they intended to have moved whatever was the number of days spent in each country.

Even if nonresident an individual receives income from France source (salary, real estate, or business) other than on portfolios he may also have to file and be subject to withholding taxes depending on the nature of the income where from it derives. (As opposed to French tax resident only French source income is concerned).

As for all OCDE countries Real estate and direct income from businesses are taxable in the country where deriving from. For instance revenues of French source will be taxable in France even if the beneficiary is a non-resident. It is the same for non-residents in the US when US located source.
Taxation will occur either through a withholding process or with applying the tax schedule depending on the tax treaty and the nature of income and offsetting the with-holding tax from France. In any cases tax treaties will overcome internal law to address allocation of income to be taxed in one country only.

Both countries parties to a tax treaty tax payers have to file the relevant share of income in the relevant country meaning in most cases both countries as soon as they collect income from both countries. All foreign bank accounts should be reported.

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Remember that supplement to the general tax Schedule applying to all worldwide income except if differently set within an international tax treaty to avoid double taxation there is a Special contribution called Contribution Sociale Generalisée CSG at 15.5 % applying to all non-earned income (similar to passive income concept). Income supporting the CSG is for instance, real estate income, portfolio's income like dividends and interests and derived capital gains.

French tax residents are taxable in their worldwide income.

Income from professional practices as well as from employment are considered as earned income and are taxable under the general ordinary income schedule.

Ordinary Income Schedule

Income base brackets in €	tax rate
from 0 to 9.700	0 %
9.701 to. 26.791	14 %
26.792 to 71.826	30 %
71.827 to 152.108	41 %
Income over 152.108	45 %

Dividends from issuers based in the European Union are granted a 40% exemption. Tax treaties (Schedule 2047) will provide for the status and tax credit on dividends from other countries. They are taxable under the general ordinary income schedule but are subject as already explained to a withholding and the CSG (Contribution Sociale Généralisée) as all non-earned income (see after capital gains).

Impatriates

New taxpayers from outside France (including French citizens) who have not been taxpayers on a continuous basis over the 5 years preceding the moving to France are granted a special favorable tax regime reducing both the basis on salary income and on income from portfolios when from foreign source for 5 years. (See our specific separate note). They are also exempt from wealth tax.

<u>TAX HOLIDAYS AND REBATES:</u>

Several tax holidays are granted to French tax residents. Be careful they are disallowed to non- residents (PERP, PEA... ISF PME deduction).

Non-French tax residents are only taxable on their French source income only.

French source income is deemed to be real estate and business income if activity is deployed in France.

CAPITAL GAINS

- **REAL ESTATE:**

Principal residence (current residence after a sufficient presence or residence where the taxpayer when non-resident has lived for at least two years) is exempt from taxes on gain when sold but with limitation for non-residents.

Capital gains on real estate are taxable at a 19 % flat rate but exempt after 22 years for income tax and 30 years for the CSG (15.50%). The rebate to exemption is progressive over the year depending on the duration of the ownership. An additional tax is levied on capital gains over € 50.000 ranking between 2 and 6%. There was a special rebate for capital gains on real estate meeting same criteria (ask for details).

- **PORTOFOLIO:**

Capital gains on equity stocks are taxable under the ordinary tax Schedule. However, the basis is reduced depending on how long the stocks have been hold by the taxpayer. He will be granted a 50% rebate if 2 years and 65% if 8 years. This rebate does not apply for capital gains on currency denominated instruments (like bonds for instance). Losses can be offset without rebate raising the question of allocating the losses line by line to the capital gains.

Retiring tax payers from medium size companies (less than 250 employees and revenue not exceeding 50 million euros company) can benefit from increased exemption rebate (40% if they have been holding the stake for more than 4 years and 85% for more than 8 years) for the capital gain they make in selling the equity stake they have been holding.

FILLING AND DUE DATE

Filling is on line. Due date is end of May and Administration a press release to give the exact day

WEALTH TAX

Wealth tax is due on all assets of a French tax resident with a net value of 1,300.000 € and over. Businesses the taxpayer is engaged in (specific rules). Ownership of companies is they hold a 25% stake and hold certain executive positions and pieces of art are exempt. The valuation is at fair value and rates rank from 0.5% to 1.5%.

They are also special regimes for business owners exempting 75% of the base value (Pacte Dutreil between family members)

Nonresidents are exempt on portfolios and non-real estate assets. Be careful, tax residents quitting the country for non EU country may be subject to an exit tax on business investments.

Basic Schedule

Taxable base	**Tax rate**

≤ 800.000			0,00 %
800.000	and ≤	1.300.000	0.50 %
1.300.000	and	2.570.000	0.70 %
2.570.000	and ≤	5.000.000	1.00 %
5.000.000	and ≤	10.000.000	1.25 %
≥ 10.000.000 and <			1.50 %

With caps and rebates French tax residents may offset from the due wealth tax investments they make in SME's or gift to nonprofit charitable organizations

Non-residents are only subject to wealth tax on real-estate assets. If they want to keep anonymous the ownership of a real-estate asset they can also opt to pay a 3 % per year tax on the fair market value (form 2746). This tax is not specifically applying to nonresident but to any entity with 50% or more of its assets in real estate property when not disclosing its ownership. It is the entity closest to the building in the line of ownership which is taxable.

Tax Treaties

Tax treaties may have a significant impact on allocating income between two or more countries. Treaties may reserve taxation to one country. This is true for US citizens or US emigrant's status (green cards for instance) residing in France as they remain subject to taxation in the US on their worldwide income minus an exemption on earned income. In France, when residing there by exception to the general rule, they may not be taxable on their portfolio income.
Ask us for tax treaties between France and other countries.

WARNING: The above description is uncomplete and simplified. No precise calculation can be made from schedules without a thorough analysis to be done with a professional or using the administration filling system and fully completing it with requested detailed information. In most cases advises from a professional are needed.

WE ONLY SERVICE BUSINESS PEOPLE.

French Embassy in Washington deploys a very comprehensive tax site addressing many frequently asked questions by individual.

Non-residents tax center:

SIF Non-résidents TSA 1010 – 10 rue du Centre, 93 465 Noisy le Grand Cedex
Phone : +33 1 57 33 83 00
Email : sip.nonresident@dgfip.finances.gouv.fr
www.impots.gouv.fr

For matters relating the tax treaty between France and the US you may also contact the French tax attaché in Washington (impots.usa@attachefiscal.org)