

An Introduction to Capital Gains Tax in France

Capital gains tax or “*Impôts sur le plus value*”, as it is known in France, is another false friend, as it is a tax we think we understand and yet the way it works in France is very different to the UK.

As with the UK, this tax is levied on any gain on items, property or investments; however this is where the similarity ends.

As with income tax, there is no “allowance” as we would understand it, but there is an amount or value that you can sell before the sale has to be mentioned on a tax return, which is applied to the “*foyer*” or household. If you go beyond this threshold, the value of the sale must be added to your tax return and you pay on the whole gain with no deduction whatsoever.

Note, that this has nothing to with gain at this point, which is the only thing considered in the UK. Even if your gain is just €1 and you have only gone slightly over the threshold, the whole value of the sale must be entered on your return and that €1 gain will be subject to capital gains tax.

Therefore to maintain maximum tax efficiency in France it is important to ensure that any sales are below the threshold in any one year. One of the many errors we see relating to French capital gains tax is where people have maintained their managed portfolios in the UK, where the fund manager has made fund switches during the year on the client’s behalf. The client withdraws below the threshold and thinks they are safe from taxation; however the French tax office asks for a statement of the account and of course, it shows the switches made, which are deemed as disposals. This takes them beyond the threshold and they then find themselves with a tax bill they were not expecting.

One also has to remember that where tax is applicable, so are the social charges for French residents, thus you need to add this to the tax rate to arrive at an over tax cost percentage. Non residents of France are not subject to the social charge.

For property it is advantageous if you keep it for the long term, as after 5 years of ownership you begin to receive an abatement of 10% for each subsequent year of ownership, thus after 15 years, the property can be sold with no capital gains tax at all. For property, capital gains tax is generally dealt with by the notaire administering the sale, thus they calculate the gain and deduct the tax directly.

As in the UK, the ‘principal private residence’ is exempt from paying capital gains tax. However, it is common that people try and sell their French property as their main residence, when they are not registered income tax payers in France. If you are not paying income tax in France the notaire should not accept your property as a principal residence and apply capital gains tax. The rules on what makes a principal residence are vague, however, it is accepted that the notaire will need sight of at least one “*Avis d’impôts*” (advice of income tax payment) and it is considered best practice to be able to provide two.

This is only a very light overview and it is important to plan around this tax, as it is one of those taxes where people are unexpectedly caught out and receive a bill they were not expecting. This is often very much a voluntary tax as it can be easily avoided in so many ways.

To be read in conjunction with *Latest French Tax Rates*

The information on this page is intended only as an introduction only and is not designed to offer solutions or advice. Kentingtons can accept no responsibility whatsoever for losses incurred by acting on the information on this page.