New changes to the French wealth tax

By Prof. Robert Anthony

On April 12th the French government announced new changes to the wealth tax which are expected to be adopted by the Parliament by mid July at the latest.

Wealth tax

Although the wealth tax will be maintained, it will be reduced in principle, as it will only concern taxpayers whose net worth is over € 1.3 million.

Thresholds and rates would be modified as follows:

For a total wealth over € 1.3 million, taxation at 0.25% from the first euro. For a total wealth over € 3 million, taxation at 0.5% from the first euro.

For example, tax on net assets valued € 2 million, would amount to € 2 million x 0.25% = € 5,000; tax on net assets valued € 4 million would amount to € 4 million x 0.5% = € 20,000. Taxpayers with wealth just over one of these thresholds should obtain a reduction of the tax due.

A small Business Tax investment credit should still be applicable but will become less interesting (it currently amounts to 50% of the investment, and will be reduced by at least half).

Finally, this bill provides for the abolition of the maximum tax ("Bouclier fiscal") which limits the global tax burden to 50% of annual income.

This reform will come into force next year. However, the removal of the first threshold at € 800,000 will be applicable in 2011. Taxpayers who hold net assets worth less than € 1.3 million on January 1, 2011 will be not be liable to wealth tax this year.

The deadline to submit wealth tax forms and to pay tax will be postponed till 15 September 2011.

Loan accounts

For those holding their property through an SCI ('Société Civile Immobilière' — civil code company), the loan account treatment will be changed. The French Inland Revenue draft Finance Act considers disallowing shareholders current accounts (this does not mean bank loans) as a deduction for wealth tax purposes for non-residents of France. Therefore, Equity Release could be a solution...

Inheritance tax

Donations made 10 years prior to the death of the donor will be added to their estate for the Inheritance Tax calculation. This currently stands at 6 years.

Transfers to beneficiaries over € 900,000 after the allowance, will now be taxed at 40%, and 45% for transfers over € 1.8 million.

"Exit tax"

Taxpayers moving out of France will have to declare their potential capital gains on stocks and shares at the date of their move, so that they are taxed in France upon their sale.

Example

- Shares and stocks valued at € 100,000 upon the move out of France
- Buying price = € 40,000
- Potential gain taxable in France = € 60,000

Should the shares be sold for € 150,000 when the taxpayer is a non French resident, the total gain (€ 110,000) would be split for tax purposes between France (€ 60,000) and the State of residence (€ 50,000), subject to double taxation treaties and European legislation.

Trusts vs Taxation

Article 6 of the Finance Bill, rectified as of 2011, aims at confirming and at covering the taxation of trusts and comparable foreign legal entities for transfer taxes where there is no consideration and wealth tax.

Thanks to the procedure of regularisation as of 2009, the French administration was able to have a perfect knowledge of the schemes that made a certain numbers of French residents try to avoid taxes. They used this experience to prepare dissuasive texts which are now intended to become law.

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