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French Taxes 2004

- The Survival Guide -



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Description :

New French tax rates and rules for 2004 Review of the Loi de Finances for 2004

Southern Times

The Loi de Finances for 2004 has recently been voted in. It reflects the Government's long-term policy of reducing income tax rates with further reductions in the 2003 rates. A number of tax reductions and deductions have been introduced, increased or their scope has been extended. It also includes a number of measures to simplify certain taxes and the related filing obligations.

PERSONAL TAX MEASURES

" The scale rates of income tax for 2003 are as follows:

Band of income	Rate of Tax
₤	%
Less than 4,262	0
4,263 - 8,382	6.83
8,383 - 14,753	19.14
14,754 - 23,888	28.26
23,889 - 38,868	37.38
38,869 - 47,932	42.62
47,933 +	48.09

The maximum tax credit for the employment of a home help, gardener etc, has been increased from ₤7,400 to ₤10,000 with effect from 1 January 2003. The tax credit is calculated as 50% of the amount paid, up to ₤10,000.

" The avoir fiscal (tax credit) will be abolished with effect from 1 January 2005. It will be replaced by a mitigating system under which French residents would only be taxed on 50% of their dividend income. A tax credit of ₤75 or ₤150 (depending on marital status) will be granted to compensate lower-rate taxpayers for the suppression of the avoir fiscal refund.

" The amount used in determining the tax rebate known as the *décote* is increased to ₤786.

" The maximum relief a taxpayer may obtain through the application of the family parts system (*quotient familial*) is fixed at ₤2,086 per extra half share in the tax household.

" The maximum deduction in respect of a dependent child not included in the household's total quotient is increased to ₤4,338.

" The limit of the 10% abatement from the household's total pension income is a minimum of ₤334 and a maximum of ₤3,268. The limits on the same abatement against salaries are ₤376 (minimum) and ₤12,648 (maximum). The

maximum amount of the 20% abatement applicable to both pensions and salaries is – 23,180.

" In accordance with a European Directive dated 22 October 1999, France has reduced VAT from 19.6% to 5.5% in respect of the following activities:

- i) Building works, other than construction or reconstruction work, on dwellings more than 2 years old.
- ii) Services provided to individuals including cleaning services carried out by approved companies.

It is proposed to make the 5.5% rate permanent and extend it to "traditional" restaurant services, subject to the approval of the European Commission. The EC's answer on this is expected around the end of 2004.

" The cost of accommodation in a nursing home, hospital, convalescence or special care retirement homes gives rise to a tax credit against the taxpayer's liability calculated as 25% of the expense. This has been increased from –2,300 per person per year, to –3,000.

TAXES ON CAPITAL

Wealth Tax largely unchanged In the absence of any mention regarding wealth taxation in the 2004 Loi, the threshold of – 720,000 net taxable wealth and the scale rates remain the same for 2004:

Taxable wealth	Rate
–	%
Less than 720,000	0
720,000 - 1,160,000	0.55
1,160,000 - 2,300,000	0.75
2,300,000 - 3,600,000	1
3,600,000 - 6,900,000	1.3
6,900,000 - 15,000,000	1.65
15,000,000 +	1.8

New Capital Gains Tax (CGT) Regime on the Disposal of French Real Estate The tax regime for capital gains on the sale of properties has been simplified. The principal characteristics of the new regime are as follows and are effective from 1 January 2004:

" All principal private residences in France are exempt from French CGT. No time conditions need to be fulfilled.

" The first sale of a residence in France of French or EU nationals residing outside of France is exempt from French CGT provided that the person has been fiscally resident in France for at least two years prior to the sale.

" Acquisition costs can be set at 7.5% and renovation costs at 15%, provided the property has been held for at least five years. The costs can be deducted for their real amount if they can be evidenced (invoices etc).

" Total exemption for capital gains realised after 15 years of ownership through the application of a 10% reduction per year of ownership from the fifth year.

" The allowance for indexation to reduce the effects of inflation is suppressed

" The new CGT rate is fixed at 16% (to which 10% social surcharges need to be added) for French residents. Other EU residents also benefit from this reduced rate, and in addition, do not pay the social surcharges. Unfortunately, residents in non-EU countries are still liable to French CGT at 33.33%, regardless of nationality.

" Exemption for sales with a price below – 15,000.

" A new tax-free allowance of –1,000 per disposal instead of – 915 annually.

" Any inheritance tax and gifts tax is taken into account for the determination of the acquisition price of property inherited or received as a gift.

" Taxpayers no longer need to file a CGT returns [form 2049]. Instead, the onus will fall on the notaire to establish the gain and to collect the tax due out of the sales proceeds.

" The sale of shares of commercial companies (SCIs liable to French corporation tax, SARL and foreign limited companies) of which more than 50% of assets consist in French real estate, is taxed under the rules applicable to the sale of stocks and shares. The rate applicable is 26% (including 10% social surcharges). There is no indexation nor taper relief. It is the nominal value of the shares that is used as the base cost so this can present difficulties for companies with a low share capital.

Temporary Reduction for Lifetime Gifts in "Full-Ownership" Lifetime gifts in full-ownership are being encouraged by a tax reduction of 50%, applicable regardless of the age of the donor and for the period from 25 September 2003 to 30 June 2005.

New Barème for Gifts of Nue-Propriété (Bare-Ownership) Where an asset is gifted but the donor retains a life-interest, the donee receives the bare-ownership of the asset. The barème for determining the value of the gift and the value of the remainder has been updated and the new scale is as follows:

Age of the Life Tenant	Value of the Life Interest	Value of Remainder
-	% of market value	% of market value
Less than 21	90	10
21 - 30	80	20
31 - 40	70	30
41 - 50	60	40
51 - 60	50	50
61 - 70	40	60
71 - 80	30	70

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81 - 90	20	80
91 +	10	90

However, to compensate for the increased gifts tax reduction granted for gifts in full ownership, the tax reduction for gifts with a reserved life interest is reduced to 35% (instead of 50%) for donors aged under 65 and to 10% (instead of 30%) for a donor aged between 65 and 75.

Reduction of Filing Obligations for Inheritance Tax In order to reduce the formalities of inheritance tax, descendants, ascendants and the surviving spouse are dispensed from filing a déclaration de succession when the gross value of the estate does not exceed -10,000. For all other beneficiaries, the dispensation applies where the value of the estate does not exceed -3,000.