

NOTES ON FRENCH TAX TOPICS OF INTEREST FOR RESIDENTS OF FRANCE – January 2010

These notes are restricted to topics of general interest to private individuals and exclude measures for business, apart from those concerning *Micro-entreprise* or the *Auto-entrepreneur* status.

They are based on the following legislations:

Loi de finances rectificative pour 2009

Loi de finances pour 2010

Financement de la sécurité sociale pour 2010

Décisions du Conseil Constitutionnel

New international tax treaties entered into force

2009 INCOME TAX (*Impôt sur les Revenus*, IR)

Social contributions: Contribution Sociale Généralisée (CSG) - Contribution au Remboursement de la Dette Sociale (CRDS) - Prélèvement Social (PS)

<i>Contributions sociales – also referred to as Prélèvements sociaux</i>					
Base	CSG	CRDS	<i>Prélèvement Social Contribution additionnelle</i>	<i>RSA Contribution</i>	Total
Investment income and gains	8.2%	0.5%	2,3%	1.1%	12.1%
Pensions	6.6%	0.5%	0%	0%	7.1%
Salaries	7.5%	0.5%	0%	0%	8%

Progressive scale for income tax

SINGLE PERSON (1 part)				MARRIED or PACS COUPLE (2 parts)			
Band of income		Rate		Band of income		Rate	
Less than	€5,875	0 %		Less than	€11,750	0 %	
€5,876	to €11,720	5.5 %		€11,751	to €23,440	5.5 %	
€11,721	to €26,030	14 %		€23,441	To €52,060	14 %	
€26,031	to €69,783	30 %		€52,061	To €139,566	30 %	
€69,784	Upwards	40 %		€139,567	To Upwards	40 %	

The limits of the progressive scale's bands of income, as well as most of the limits and thresholds index-linked to the *barème*, are increased by 0.4% on last year. In particular, the abatement in favour of old age persons is set at €2,276 (net income below €4,010) or €1,138 (net income between €4,010 and €22,590).

Quotient familial

From 2009, the additional *demi-part* in favour of single, divorced, separated or widowed tax payers living alone and who have raised children, is subject to the supplementary condition that they have raised a child alone for at least 5 years. Taxpayers currently benefiting from the *demi-part* but who do not satisfy this new condition will keep the tax advantage until 2011 with progressive restrictions.



Gîte rural, meublé de tourisme and chambre d'hôte

From 2009, furnished letting activities under the micro regime are subject to a threshold of €2,000 and a 50% abatement for expenses, against €7,000 and 71% in 2008. However, this provision does NOT apply to *gîte rural, meublé de tourisme* or *chambre d'hôte* activities. For these, the threshold of €8,000 and abatement of 71% are applicable in 2009. For more information, read our article on [Gîtes and furnished letting tax reform](#).

Changes to tax credits for ecological home improvements

This tax credit applies until 2012 to certain expenses incurred on your main residence or a rented property used as the main residence of the person renting it. Expenses qualifying for the tax credit are capped at €8,000 for a single person or €16,000 for a couple, per house, over 5 successive years.

Heat pumps (other than air/air) and heating appliances using wood qualify for a 40% tax credit (previously 50%). Air/air heat pumps and *chaudières à basse température* are no longer eligible.

Installation costs (*main d'oeuvre*) are eligible for insulation of *parois opaques* (i.e. walls/roof). The cost of a *diagnostic de performance énergétique* (energy audit) qualifies for a 50% tax credit.

Tax reduction for domestic employees

Such expenses are capped at €2,000 per household (plus €1,500 per child or member of the household over 65, up to €5,000 maximum). From 2009, the limit is increased to €5,000 (€18,000 maximum) the first year the taxpayer benefits from the tax reduction for direct employment of a person at home or at a parent's home. For households including an invalid, the limit is €20,000. Furthermore, certain expenses within this ceiling are limited:

- to €500 for handy man services
- to €1,000 for computer and internet assistance
- to €3,000 for gardening

Capping of tax avoidance opportunities

The global tax benefit resulting from investments in a number of tax reduction/credit schemes referred to as *niches fiscales*, is limited to €25,000 + 10% of 2009 net taxable income.

Capital gains tax on share disposals

Capital gains on share disposals are subject to a set rate of 18% and social contributions at 12.1% (total 30.1%). Losses can be carried forward 10 years to offset future capital gains.

If 2009 proceeds arising on disposal of shares are inferior to €25,730, the corresponding gains are entirely tax-free and need not be reported. Correlatively, losses cannot be carried forward.

Capital gains on the option and future markets are taxable from the first euro, whatever the level of annual proceeds.

Option for *Prélèvement Libératoire*

[Prélèvement Libératoire](#) is an option to pay income tax at source at a set rate, instead of the progressive tax rate. It is available for European Union-source investment income such as bank interest, life assurance gains and dividends. This option should be envisaged by those in the two higher tax brackets. Please see our information note for more details.

Exceptionally, for dividends received in 2009, the *Prélèvement Libératoire* option can be taken up until 15 June 2010 to allow tax payers to take the changes in the 2011 tax shield into account.



2010 INCOME TAX (*Impôt sur les Revenus , IR*)

Social contributions on capital gains arising from the disposal of securities

Starting from 1/1/2010, social contributions are payable on any gains arising from the disposal of securities, even when total proceeds for the year are below the threshold (€25,830 in 2010 – now applicable only for the purpose of income tax). Similarly, capital losses for years when proceeds are below the threshold can be carried forward to offset future gains for 10 years for the purpose of social contributions only.

Micro-entreprises - thresholds and abatements

In 2010, the micro regime is available for takings up to €80,300 for sales activities as well as for *gîte rural*, *meublé de tourisme* or *chambre d'hôte* activities. The micro-BIC abatement for these remains set at 71%. Services activities are subject to a €2,100 threshold in 2010 and 50% abatement for commercial and craft services and 34% for non-commercial services.

Tax credit in favour of sustainable development for the period 2010-2012

Thermodynamic heat pumps dedicated to hot water production as well as installation costs of underground heat exchangers for geothermal heat pumps are now eligible for a 40% tax credit. The tax credit for geothermal heat pumps is maintained at 40% but for other types of heat pumps (excluding air/air, which are not eligible) the tax credit is reduced from 40% to 25%. A similar reduction of rate applies for heating appliances using wood, except in case of replacement of a similar appliance where it is maintained at 40%.

The tax credit for double glazing and condensation boilers is reduced to 15% (from 25%).

The tax credit increase applicable to certain equipments installed in houses built before 1977 within the first 2 years of acquisition is eliminated.

Gifts to foreign charitable and general utility bodies qualify for tax reduction

Following jurisprudence rendered by the European Court of Justice, gifts made from 1/1/2010 to a body established in another European Union member state, Iceland and Norway, are eligible for income tax and wealth tax reductions subject to certain conditions. The onus is on the tax payer to demonstrate that the foreign body satisfies the requirements imposed by French legislation on similar French bodies.

Gifts up to €13 made to charities helping the needy by providing meals, accommodation, free medical or dental services, qualify for a 75% tax reduction. Donations above that limit and to other types of charities and organisations of public utility, including non-profit making educational, scientific, artistic and sporting bodies, or even political parties, are eligible for 66% tax reduction within the limit of 20% of your taxable income. Gifts over the limit can be carried forward 5 years (NB tax relief in excess of your tax liability cannot be repaid or carried forward).

Gifts to similar European organisations qualify for French tax relief.

Income tax deduction on mortgage interest to buy a main home

For new homes, unless they meet the BBC (*Bâtiment Basse Consommation*) energy efficiency standard, the income tax deduction will drop from 40% of the interest in the first year to 30% and from 20% in each of the next four to 15%. Further cuts will be applied for new houses bought in 2011 and 2012 before the reduction is phased out for non-BBC homes.

Tax credit re the carbon contribution

The *Conseil Constitutionnel* invalidated the carbon contribution (a tax on fuels that produce carbon dioxide and contribute to global warming). A tax credit of €46 per adult (€61 for those who live in the countryside) was to be paid in 2010 to compensate the extra cost of petrol, diesel and heating oils. Should the carbon contribution apply from July 2010, we assume the tax credit would be paid in September 2010 for half the above amounts.

Tax relief on investments in unquoted small and medium sized companies

We bring your attention to the 25% tax relief on investments in unlisted Small and Medium sized companies, subject to keeping the shares for a minimum of 5 years.

You may invest in a company you know, including a company located in another European Union member state, Iceland and Norway or, until 31/12/2010, via a FCPI (fund specializing in innovative companies) or a FIP (*Fond d'Investissement de Proximité*) recommended by your financial advisor.

Stricter capping of tax avoidance opportunities

The global tax benefit resulting from investments in a number of tax reduction/credit schemes referred to as *niches fiscales*, is limited to €20,000 + 8% of 2010 net taxable income.

Abatements after 5 years of ownership of shares

We remind you that since 2006, a 1/3 abatement of gains arising from share disposals applies after 5 years of ownership of the shares, resulting in total income tax exemption after 8 years. **The first abatements will concern disposals made in 2012 of securities held since 2006 or earlier, with total exemption after 2014.** The abatements apply to capital gains and losses alike. **NB Social contributions are not concerned by the abatements and will continue to apply on the full gain.**

Income tax on capital gains/losses on share disposals		
Disposal of titles	Abatement	Taxable basis/ carried forward loss
Before 6 years of ownership	None	100 %
More than 6 years and less than 7 years	1/3	66,66 %
More than 7 years and less than 8	2/3	33,33 %
More than 8 years	3/3	0 %

2010 WEALTH TAX (*Impôt de Solidarité sur la Fortune, ISF*)

Threshold and rates for 2010

The 2010 taxation threshold for wealth tax is set at 790,000. The progressive scale is as follows:

Net taxable wealth			Rate	Tax Calculation B = net taxable wealth
Up to		€790,000	0 %	B x 0
€790,000	To	€1,290,000	0.55 %	(B x 0.55%) - €4,345
€1,290,000	To	€2,530,000	0.75 %	(B x 0.75%) - €6,925
€2,530,000	To	€3,980,000	1 %	(B x 1%) - €13,250
€3,980,000	To	€7,600,000	1.3 %	(B x 1.3%) - €25,190
€7,600,000	To	€16,540,000	1.65 %	(B x 1.65%) - €51,790
€16,540,000		Upwards	1.80 %	(B x 1.8%) - €76,600

Exemption of foreign assets

Residents of France are taxable on all their assets located in France and worldwide, in the absence of overriding international treaty provisions to the contrary.

Since 2009, a 5-year exemption of foreign assets benefits those who transferred their tax residence to France **after 04/08/2008**, provided they were not tax resident during the 5 previous years. From the 6th year of residence onwards, wealth tax is payable on worldwide assets. The exemption period starts again if a person stops being a tax resident in France for 5 years and then comes back to live in France again.

Although this measure was one of several in favour of expatriates carrying on a temporary professional activity in France, it concerns any person deciding to live permanently in France, including for reasons other than professional, such as retirement for instance.

The law has no retrospective effect. Those who became French tax residents less than 5 years ago but before 04/08/2008 do NOT benefit from foreign assets exemption for the remainder of the five-year period.

Tax treaties between France and the USA, Germany, Austria, Canada, Spain and Italy – and, from 2010, the UK, make a similar provision for 5 year exemption of foreign assets, with renewal after 3 (instead of 5) years minimum of losing French residency.

Wealth tax reduction for investments in SMEs

A wealth tax reduction is allowed on 75% of the amounts invested in European small and medium sized companies (excluding real estate or portfolio holding companies), either directly or via a holding company, capped at €50,000, subject to certain conditions.

Subscriptions into such companies but via funds such as *Fonds d'investissements de proximité (FIP)*, *Fonds communs de placement dans l'innovation (FCPI)*, *Fonds communs de placement à risque (FCPR and FCPR allèges)* qualify for the tax reduction at a reduced rate of 50%, capped at €20,000. Your financial advisor may assist you in identifying suitable funds.

The shares need to be kept at least 5 years or the reduction must be repaid.

For 2010, the reduction applies to subscriptions made between 16 June 2009 and 15 June 2010.

Investment in eligible European SMEs	Wealth tax relief rate	Maximum reduction	Maximum investment
Subscription in the share capital of such a company	75%	€50,000	€66,666 per year;
Subscription to a FIP/FCPI/FCPR (prorata the % of the fund invested in eligible companies)	50%	€20,000	€40,000 per year

Wealth tax reduction for gifts to certain organizations of general interest

The wealth tax can also be reduced by 75% of the amounts given to organizations acting in the domain of research, higher education or professional integration, or foundations *universitaires* and *partenariales* (maximum reduction €50,000).

From 2010, gifts in favour of charities in the European Union, Iceland and Norway are eligible for wealth tax reduction.



2010 TAX SHIELD (*Bouclier Fiscal*)

Applicable rules

Taxpayers can claim repayment of tax paid in excess of 50% of their income.

For the calculation of the 2010 tax shield, the tax payments taken into account are:

- 2008 income tax and social contributions, including deductible CSG, paid in 2009 via assessment or in 2008 under *prélèvement libératoire*;
- 2008 capital gains tax;
- 2009 wealth tax;
- 2009 *Taxe d'habitation* and *Taxes foncières* for the main residence, excluding the tax on *ordures menagères* and *Redevance audiovisuelle*.

This is to be compared with the 2008 NET global income, after tax abatements and deduction of *CSG deductible*. Gains from life assurance contracts in euros, although not taxable if there are no withdrawals, must be taken into account. Gains on *multisupport* life assurance contracts (in both units and euros) are ignored provided the percentage of funds invested in units remains above 20%.

For those who became tax residents during 2008, foreign-source income realised before the permanent move to France is ignored. Any foreign-source income received after the date of installation in France is taken into account. When exempt by treaty, it is taken into account for the net amount, after deduction of the foreign income tax.

Amendments applicable to 2011 tax shield calculations (based on 2009 income)

Dividends paid during 2009 will be taken into account before any abatement for the calculation of the 2011 tax shield.

Capital gains on share disposals will be taken into account after deduction of the year's losses only (i.e. losses carried forward from previous years will be re-integrated into the gains).

In practice, these changes will reduce the tax repayable under the tax shield.

Autoliquidation

Taxpayers who are due a repayment by the Trésor Public under the tax shield can deduct it from their payment of wealth tax or local taxes on their main residence.

SOCIAL SECURITY

Couverture Maladie Universelle (CMU)

CMU is the medical cover of last resort for permanent residents of France (i.e. after 5 continuous years of residency) not insured by a compulsory social security scheme anywhere in the European Union through their present or past employment or self-employment.

Exceptionally, those who were covered under that scheme or via an E106 certificate before 23/11/2007 continue to benefit from CMU cover while they are neither retired nor professionally active, even if they have not been residents of France for 5 years.

For the period from 1/10/2009 to 30/09/2010, CMU contributions are calculated at 8% of 2008 net worldwide income (*Revenu Fiscal de Référence*) exceeding €9,020.

CMU contributions are payable quarterly to the URSSAF. They are tax deductible, and so are contributions paid towards a private basic health cover. Top-up health insurance contributions are NOT tax deductible.

OTHER TOPICS OF INTEREST

International tax treaty news 2009

The [new tax treaty between France and UK](#) entered into force on 18/12/2009. It is applicable in France for the tax year starting 1/1/2010 (2010 income tax and ISF 2010) and in the UK for the tax year starting 6/4/2010. Many things remain unchanged from the existing treaty, including:

- residence tie break rules,
- taxation of government pensions/property income/business profits in the country of origin,
- or taxation of interest /royalties/capital gains in the country of residence.

Please read our separate note on notable changes introduced by this new convention.

A convention with **Australia** signed on 20/06/2006 entered into force on 1/06/2009.

Amendments to the conventions with the **USA**, **Belgium** and **Qatar** entered into force during 2009.

Autoentrepreneur

The *autoentrepreneur* simplified self-employed status is encountering confirmed success as a good way of earning additional income on top of a salary or a pension, or of testing a new activity – but it is not suited to all business needs. See our note on the [pitfalls and opportunities of the autoentrepreneur regime](#).

Activities	Examples of activities	Turnover limit	Pension fund	Social levies (Micro-social simplifié)	with option for income tax (<i>versement libérateur de l'IR</i>)
Sale of goods or provision of lodging (BIC)	Gîtes, B&B, trader, second hand goods dealer, sales on internet...	€80,300	RSI	12%	13%
Services (BIC)	Hairdresser, plumber, builder, personal services...	€32,100	RSI	21.30%	23%
Services (BNC)	<i>Agent commercial</i> , home hairdresser, taxi driver, astrologer...	€32,100	RSI	21.30%	23.50%
<i>Professions Libérales</i> (BNC)	Consultant, free-lance journalist, photographer, secretary at home, teacher, translator, interior designer, ...	€32,100	CIPAV	18.30%	20.50%

Existing *micro-entreprises* can opt for the autoentrepreneur social regime and for payment at source of income tax by 31/12 of the previous year. Exceptionally, **Professions Libérales created before 2009** can opt for the *autoentrepreneur* regime until 28/02/2010 for the year 2010.

Autoentrepreneurs setting up a craft activity (*artisans*) after 1/4/2010 will need to register on the **Repertoire des Métiers**. They will benefit from a 2 year exemption from the tax for *frais de chambre de metiers*.

The *autoentrepreneur* option is lost if no turnover is declared for **36 months** (initially 12).

Reduced VAT rate for building works on residential properties

The supply of air-conditioning equipments is now excluded from the benefit of the reduced VAT rate of 5.5% for renovation work. Installation or replacement work for such equipment continues to benefit from the reduced VAT rate, subject to conditions.

VAT applies until 31/12/2010 at the reduced rate of 5.5% on works of improvement, renovation, transformation, repair and maintenance work on premises over 2 years old and used "principally" as residential accommodation. The higher rate applies to domestic appliances, furniture and certain bespoke installations of major equipment.

EUR Exchange rates

Bank of France official exchange rates			
2009		2008	
Year end rate	Average rate	Year end rate	Average rate
GBP 1 = EUR 1.1260	GBP 1 = EUR 1.1229	GBP 1 = EUR 1.0499	GBP 1 = EUR 1.2582
USD 1 = EUR 0.6942	USD 1 = EUR 0.7196	USD 1 = EUR 0.7185	USD 1 = EUR 0.6833
CAD 1 = EUR 0.6610	CAD 1 = EUR 0.6311	CAD 1 = EUR 0.5883	CAD 1 = EUR 0.6419
AUD 1 = EUR 0.6247	AUD 1 = EUR 0.5663	AUD 1 = EUR 0.4932	AUD 1 = EUR 0.5773

Legally the rates to employ for income declaration purposes are those prevailing at the time of each transaction. Daily rates for currencies are available on www.banque-france.fr.

The only exception is for the calculation of *frais reels* on salaries: the administration makes provisions for the use of the average between the year end rates N-1 and N to convert in euros the cost of expenses incurred abroad (e.g. GBP 1 = EUR 1.0879).

Family gifts

Grandparents and great grandparents under 80 (previously 65) may give each grandchild or great grandchild up to €31,395 in 2010, free of gift tax. The age limit remains at 65 for gifts to a child or, in the absence of descendants, to a nephew or a niece.

2010 DEADLINES

15/02/2010	1 st interim payment on account of 2009 income tax (1/3 of 2008 income tax)
04/05/2010	Filing of 2009 self-employed income declaration to RSI
04/05/2010	Filing of 2009 declaration n°2072 for <i>Societe Civile Immobilieres</i>
17/05/2010	2 nd interim payment on account of 2009 income tax (1/3 of 2008 income tax)
31/05/2010	Filing of 2009 income declaration
15/06/2010	Filing of 2010 wealth tax return with payment
15/09/2010	Payment of balance of 2009 income tax, after deduction of interim payments
15/10/2010	Payment of <i>Taxe foncière</i> .
15/11/2010	Payment of <i>Taxe d'habitation</i> and <i>Redevance Audiovisuelle</i> .
15/11/2010	Payment of social contributions on 2009 income.
31/12/2010	Filing of 2010 tax shield claim (tax in excess of 50% of 2008 income)

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