

## French Wealth Tax (ISF) and French Property Wealth Tax (IFI)

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As a high net worth individual - either resident or with significant property in France - it is critical to understand and track the changes in French wealth tax - until recently called ISF (*Impôt sur la Fortune*).

As from 2018, wealth tax is limited to property assets (net of associated loans). It is also renamed from ISF (*impôt sur la fortune*) to **IFI (impôt sur la fortune immobilière)** ie French “Property Wealth Tax”.

This change should bring a very significant reduction in wealth tax for a number of French residents.

The detailed IFI rules were confirmed at the end of September in the *Projet de Loi de Finances 2018* - and approved in December 2017.

All previous ISF rates and thresholds still apply to IFI, including the 30% reduction for the main residence.

The previous ISF [tax ceiling](#) also applies. Whilst this may not seem to be of interest at first sight (capping taxes at 75% of income), by living as far as possible off capital (eg withdrawing from a wrapper such as an [Assurance Vie](#)), your “income” is deemed minimal - and your taxes are therefore limited to a minimal amount too.

The wealth tax reduction for investments in small & medium sized enterprises available until 2017 is unfortunately no longer available.

### TAXABLE ASSETS

French residents are liable to wealth tax (IFI) on their worldwide properties (main home, second homes, rented properties, ...). Non-residents are only liable for wealth tax on assets physically situated in France.

Please note that residency is defined by French law and is not simply a matter of being present for 183 days.

For example, those whose French home is effectively their main home (used for family gatherings or where more time is spent than in any other of your permanent homes) would be normally considered French resident - even if also tax-resident in another country.

There is a **partial exemption** for five years from French wealth tax for most people moving to France. This exemption applies only to assets outside France. ***As part of France's policy to encourage post-Brexit high-earners to move to Paris, this partial exemption is extended from five to eight years for certain newcomers.***

Assets must be consolidated for all members of the household. Couples must make a joint declaration whether married or not. Assets held by children below 18 years of age must also be included.

Assets liable to the new IFI wealth tax are now limited to land & buildings (Principal & secondary residences, rental property, ...). Financial investments, jewelry, furniture, cars, boats, etc are now all excluded.

Even if you are not the direct property owner, simply having the right to live somewhere can be enough to make you liable on the capital value - as well as any properties owned via a [Trust](#) of which you are a beneficiary.

If you own shares in a property company (eg SCI - *Société Civile Immobilière*), your wealth tax declaration must include the **current** value of the underlying property.

## WEALTH TAX RATES

French Wealth Tax is payable by those with net assets above **1300000€** - evaluated as at 1st January.

To calculate the tax, add up the total value of assets for the household and deduct all outstanding debts and overdrafts as at 1st January

For 2018, the following bands apply (identical to the bands for 2017):

<u>Assets (k€)</u>	<u>ISF Rate applicable</u>
0 - 800	0%
800 - 1300	0.5%
1300-2570	0.7%
2570 - 5000	1.0%
5000 - 10000	1.25%
above 10000	1.5%

There is a reduction for those with assets just inside the entry level (1.3-1.4M€). The formula for this reduction is  $17500\text{€} - (1.25\% \times P)$  where P is the value of assets. The starting value for IFI (ie assets worth 1.3M€) therefore becomes 1250€ instead of 2500€.

French residents with net taxable assets between 1.3M€ and 2.57M€ declare their wealth on the normal annual income tax return in May (paper) or June (online) each year. These residents receive a wealth tax “avis” (statement) in August and must pay the wealth tax by September 15.

French residents with net assets above 2.57M€ complete a specific form by June 15 and must pay the associated tax at the same time.

Non residents subject to IFI on French assets must complete the form and send in their payment by July 15. Non-residents with net assets between 1.3M€ and 2.57M€ and who receive income taxable in France (such as French rental income) must declare and pay their ISF at the same time as their income (May for paper forms and June for internet declarations - precise dates not available at the time of writing).

## **PENALTIES FOR INCORRECT or INCOMPLETE DECLARATIONS**

French tax authorities carry out regular controls to determine if wealth tax declarations have been correctly submitted. Specific events, such as sales or inheritance of high-value property, can also lead to a tax control.

If the authorities consider that you have underpaid wealth tax, they will challenge not only your last declaration - but may go back up to 10 years. The time available for the tax authorities to question valuations or omissions is variable:

### Assets in France

- 3 years if the asset description on the wealth tax form was sufficiently precise requiring no further research
- 6 years if the description was insufficient or omitted
- 10 years if there was intentional fraud

### Assets outside France

- 3 years if the asset description on the wealth tax form was sufficiently precise requiring no further research
- 10 years in all other circumstances

Those with net assets between 1.3M€ and 2.57M€ declare only a summary on their income tax forms with no requirement to provide “precise descriptions”. However, it is considered that sufficient information has been provided unless the authorities specifically request full details from you and you fail to provide this within the time allowed (usually 30 days).

If the authorities consider that you have underpaid wealth tax, they can claim

- the additional wealth tax that should have been paid
- annual interest on the unpaid wealth tax (approx 4% pa) as from the initial due date
- a penalty of 10% (on the additional tax due) for late payment
- an uplift of 40% (on the additional tax due) if they consider that you have not been of good faith (*mauvaise foi*)
- an uplift of 80% (on the additional tax due) if they consider you have used fraudulent techniques to hide assets

The above is only an outline of the key rules. If you receive correspondence from the tax authorities challenging your declarations it is always important to react quickly and take legal advice.

## **OPTIMISATION : HOW TO REDUCE WEALTH TAX**

### **1. Know your rights.**

Don't over estimate property values, for example:

- As a French resident, for your principal residence, you can deduct 30% from comparable sales value
- For each rental property you can often deduct up to 20% if let unfurnished - representing the reduction in value due to the property being occupied at the time of sale - though no percentage is specified in any formal texts.

Don't include any assets used for company or professional purposes if they meet the appropriate conditions.

All outstanding loans formally linked to the declared properties (eg registered mortgages) and relating to purchase, improvement and maintenance work can be deducted, subject to the following restrictions

- interest only loans are deductible at the capital value multiplied by the proportion of outstanding years to total years
- loans must be at arms length (with no direct or indirect links to you or your immediate family). Loans to close family (parent, sibling, ...) are allowed if the loan meets normal conditions with regular reimbursements.
- if total gross property assets exceed 5M€, total deductible loans cannot exceed ---60% of the gross property assets
- plus half of any excess loans above the 60% limit.

Do declare all liabilities outstanding on the evaluation date (1st January) and relating to the declared properties, such as :

- purchase, improvement, and maintenance costs - based on unpaid invoices at the year end
- property taxes (Habitation and Foncier) - using the amounts shown on the prior year notices (*avis*)

These items reduce your net taxable assets.

## **2. Tax ceiling (plafonnement ISF) at 75% of income**

There is a wealth tax cap known as “plafonnement ISF” (similar to the previous Bouclier Fiscal) so that total French & Foreign taxes should not exceed 75% of income. The calculation compares prior year taxable income to the income & social taxes due on that income - plus current year wealth tax. If the ratio is over 75%, the wealth tax is reduced (potentially to zero).

Retired or semi-retired high net worth individuals should therefore consider living off capital - and leaving income & gains to build up inside private investment companies or capital wrappers (such as [Assurance Vie](#)).

Despite two attempts by the government to take unrealised “wrapper” income into account, the *Conseil Constitutionnel* has confirmed that no interest or gains received within an assurance vie are taken into account in the 75% calculation.

### **LOANS within SCI's held by NON-RESIDENTS**

Loans by non resident individuals or companies made to French property companies (SCIs) are no longer deductible when calculating the value of the property shares for wealth tax purposes.