

Introduction to Wealth Tax in France

Since 1989 there has been a wealth tax in France, called *Impôt de solidarité sur la fortune (ISF)*.

ISF is an annual progressive tax, with rates from 0.5% to 1.5%, and liability triggered where your net personal wealth is greater than €1.3m, when it is then applied on net assets above €800,000.

It has been a tax that has attracted a lot of adverse publicity, much of it misinformed, because it is paid by only around 350,000 households each year, of whom around 250,000 pay less than €5,000 in ISF (2016).

Nevertheless, with the growth in house prices since the 1990s it is a tax that is imposed on those who are 'capital rich' but 'income poor'. Thus, in 2016 20% of those liable to ISF had an annual income of less than €49,000 and 10% had an income less than €33,000.

The unjust nature of this imposition on households with modest incomes has been made worse by the manner in which some of the wealthiest taxpayers have been able to use questionable tax planning optimisation strategies to minimise (and even escape) their own liability.

The tax is also a singular French exception, with most other countries around the world having no such tax, so it has caused some French households to become tax exiles and discourages rich foreign nationals from living in France.

The tax was also one heavily criticised by 2017 French presidential candidate Emmanuel Macron, who argued that it was unfair to those who invested in the 'real' (productive) economy, promising in his campaign to abolish it, stating: "*Je transformerai l'ISF en impôt sur la rente immobilière. J'exonérerai tout ce qui finance l'économie réelle*".

With his election to the presidency, as part of the *Loi de Finances 2018*, the scope of ISF was substantially reduced, with liability to the tax now based solely on personal real estate assets and investments.

Accordingly, the replacement tax has been retitled ***Impôt sur la Fortune Immobilière (IFI)***. It is noteworthy that the word '*solidarité*' has been dropped from the title.

The change has not been without its critics, who argue that:

- the tax remains unjust because the assets of the wealthiest are not concentrated predominantly in property but in a range of financial products and luxury goods which now escape the tax;
- it fails to deal with the inequity of those who own a valuable property but whose income is modest;
- it will represent a significant loss to the public treasury, reducing net receipts from around €3 billion to under €1 billion;
- there is no justification, on economic grounds, for excluding cash assets from the perimeter of the tax;
- it fails to acknowledge the contribution that property investment makes to the economy;
- the tax remains a peculiar French exception.

The new tax is also complex, particularly those aspects relating to property based financial instruments, leading many to consider that further reform will be necessary in the future.

Liability to French Wealth Tax

Your liability to the wealth tax will depend on a range of factors.

Residency

The assets that are included in the calculation will depend on whether you are resident in France.

- **Resident** - If you live in France the whole of your worldwide real estate assets and investments will be taken into consideration for the purposes of the tax.
- **Non-Resident** - If you do not live in France only real estate assets in France are considered, subject to the terms of any tax treaty between your home country and France.

In determining your residency status the tax authority will apply the general rules as set out in the French tax code, subject to any international agreements that may be in place on a country by country basis.

There is an exemption from the tax for five years on foreign assets for those who become resident in France. The concession applies irrespective of nationality.

Thus, for the first five years of you becoming resident in France (to 31st Dec of 5th year), you will only be liable for the wealth tax on those real estate assets located within France.

Household

The assets of the whole household living together will be taken into consideration, including spouse, children (minors), and partner. Similarly, if you live together as a couple in free union the wealth of both will be assessed.

Children of adult age, even though they may part of your household for income tax purposes, are separately liable on the value of their own assets, if greater than €1.3m.

The tax does not apply to company or commercial assets, except in relation to personal property held through a French property company, a *société civile immobilière (SCI)*.

Applicable Date

IFI is an annual tax, and the applicable date for valuation of assets and determination of the household is 1st Jan of each year.

Accordingly, whatever changes occur to either your assets or your household during the year of declaration is not relevant for the purposes of assessing liability to the tax, as it is based on the situation as at the beginning of the year.

As stated above, those who relocate to France but were not resident in France during the previous 5 years are only taxable on their property located in France for the first 5 years of their residence, subject to any tax treaty that may apply.

Assets

The scope and evaluation of assets is on the following basis.

i. Taxable Assets

The assets that are taxable under the IFI are all real estate and investments in real estate.

Specifically, they include:

- The main residence, as well as second homes, land, and rental property;

- Shares held in French property companies, called *sociétés civiles immobilières (SCI)*;
- Shares held in property funds, such as SCPI (*sociétés civiles de placement immobilier*) and OPCI (*organismes de placement collectif en immobilier*), including those held via an *assurance vie* policy;
- Shares held in companies up to the value of their property, where you hold at least 10% of the equity.

ii. Exempted Property

Business property assets are totally exempt, but only provided:

- They are used in the exercise of a business activity;
- The activity is exercised by the owner or their partner;
- It is the main activity of the owner;
- The property/investment is necessary for the exercise of the business activity

Furnished lettings are only exempt if the landlord is a registered professional landlord. That is to say, their rental income is greater than €23,000pa, which must also be greater than their other professional income.

In addition, woodland or woodland investments are exempt at 75% of their value, but you need to declare at their full market value.

iii. Valuation of Assets

The value of the assets is as at 1st January of the tax year.

The principal residence benefits from a 30% discount on its open market value.

Tenanted property is ordinarily granted a 20% discount.

In relation to residential properties that are let the authorities would ordinarily accept valuation of such a property on the basis of capitalisation of the rent at the rate of 5%. Commercial properties can be capitalised at 8%.

Property held under usufruct (*usufruit*) is valued at its full freehold open market value, unless a spouse has inherited the property on this basis, when the usufruct is then valued on a discounted basis, in accordance with a scale based on the life expectancy of the usufructuary. Thus, between 71 and 80 years of age the value of the usufruct is 30% of the full freehold value of the property.

To take an example. A surviving wife, aged 73, opts for the full usufruct of a rental property portfolio valued at €3 million. Assuming the couple's two children hold the bare ownership of the portfolio and do not have any other real estate in France, the taxable assets will be respectively €900,000 for the usufruct (30%) and €1,050,000 euros (70%/2) per child. In this situation, the breakdown of taxable assets means that no member of the family is subject to the wealth tax.

iv. Debts

Debts are deductible, provided they existed on 1st Jan of the tax year, that they are the responsibility of the owner, and relate to the taxable assets.

Deductible debts include those for the purchase, improvement or maintenance of property, as well as debts in relation to the purchase of property investments.

A mortgage against the principle home is deductible from the value of the property, provided the debt does not exceed 70% of the value, due to the 30% abatement on the principal home. Thus, for a property with a value of €500K (€350K after 30% abatement) a debt is deductible up to €350K.

Non-deductible debts are those where the value of the property assets exceeds €5 million **and** the amount of the debt exceeds 60% of the value of the assets. Where this occurs the amount of the debt exceeding this threshold is only 50% deductible.

Similarly, debts between family members are not deductible, unless they are taken under normal market terms.

Debts in connection with fully exempt assets are not deductible.

Loans with the principle repayable at the end of the contract - known as *in fine* loans - are commonly used to reduce the tax base to the wealth tax. This scheme permits the taxpayer to ensure the deductibility of fixed-rate debt for the duration of the loan. Henceforth, it will only be possible to deduct a notional depreciated sum, not the totality of the capital still owed.

Rates of Wealth Tax in France

The tax bands and rates of taxation applicable for 2018 are shown below.

Fraction Taxable	Rate of Tax
€0 - €800,000	0%
€800,000 - €1,300,000	0.50%
€1,300,000 - €2,570,000	0.70%
€2,570,000 - €5,000,000	1%
€5,000,000 - €10,000,000	1.25%
€10,000,000+	1.50%

A wealth tax cap operates, so that total taxes should not exceed 75% of income, a rule that only applies to residents. The calculation is complex and if this is likely to apply to you then professional advice should be taken.

Wealth Tax Declaration

It is for each household to assess and determine for themselves whether or not they consider they are liable to pay wealth tax. There is no need for a professional valuation to be made.

To some extent, therefore, there is an element of voluntarism in the declaration of tax liability!

However, in the event that the tax authorities decide that you are liable to pay wealth tax, they are entitled to collect arrears of payment over the proceeding 10 years.

The French tax authority does have sight of all property transactions in the country so will be aware of the price you paid for a property.

In 2017 an interesting court case demonstrated very clearly the determination of the tax authorities in taking on those who underestimate their assets, which you can read about at [Wealth Tax Property Valuation Rejected](#).

The date for the tax declaration is normally around the end of May or early June each year.

The declaration must be made by in accordance with the timetable for your income tax declaration.

The form is Form 2042-IFI in which you give the figure of your gross and net assets.

If you are non-resident, and you do not have French income, you declare on Form 2042-IFI-COV.

The previous Form 2725, for those with assets over €2.57m, has been abolished.

You need to list on the form those investments and payments which you consider give you an entitlement to a reduction in your wealth tax liability. There is no need to provide supporting documentation.

As a non-resident in order to make a declaration you need to contact:

- Service des Impôts des Particuliers Non-Résidents,
- TSA 10010, 10 rue du Centre,
- 93465 Noisy-le-Grand

The e-mail address and tele no of the office for non-residents is:

- sip.nonresidents@dgfip.finances.gouv.fr.
- Telephone number (+33) 01 57 33 83 00.

If you are late in making the declaration, then an interest charge of 0.4% per month applies, plus a 10% increase in the level of the tax liability, which can be increased to 40% if you fail to respond to a reminder from the tax office to submit the return.

These same interest rate penalties apply if the tax office consider you have inadvertently underestimated your wealth. The penalty can increase to 80% in the event they consider you have been deliberately fraudulent.

That said, there is a tolerance of up to 10% (*tolérance du dixième*) allowed in the inadvertent under-declaration of assets, when no penalty is applied.

The tax office have up to six years to challenge any declaration.