Tax benefits for individuals of residing and investing in France

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Individuals investing in property in France benefit from numerous tax advantages regardless of whether they are residents or not.

1. Inpatriates and non-residential foreign investors

1.1 Inpatriates

Due to their employment contract or corporate mandate, inpatriates based in France benefit from an attractive tax regime which lasts until the 31st of December of the fifth year following the start of their post in France.

In the five years following their commencement, inpatriates benefit from various income tax exemptions: (i) inpatriation bonus; (ii) the fraction of their payment from their post overseas whilst inpatriated in France; and (iii) 50% of the total of certain income earned overseas including investment income, capital gain from the sale of securities, stocks and shares and intellectual property products.

Inpatriates can also deduct numerous charges.

Furthermore, individuals who benefit from an inpatriate tax scheme are only required to pay wealth tax on their property situated in France during the 5 year benefit period.

1.2 Non-residential foreign investors

Generally, non-residents are submitted to wealth tax as their property is situated in France. Stocks and shares of a foreign corporation detained by non-residents are taxed on the basis of wealth tax. This is only if the investor detains either directly or indirectly more than half of the interest or the proprietor organisation of the property.

Consequently, real estate investment vehicles composed of at least two foreign investors, provided they are not related (spouses, children, parents…), are exempt from French wealth tax.

2. French resident investors

French residents also benefit from tax advantages regarding wealth tax (2.1) and income tax (2.2).

2.1 Wealth tax

Contrary to what is perceived in the media, French wealth tax has not been increased since 2011. More than that, it has been effectively reduced. Indeed, the marginal rate has dropped from 1.8% to 1.5% and the cap – or tax shield, which is the maximum taxation - on the combined amount of wealth tax and income tax has been reduced from 85% to 75% of the

income.

Moreover, property used for professional purposes remains exempt from wealth tax.

2.2 Income tax

Regarding income tax, favourable measures essentially concern the middle class.

The implementation of the “Duflot” measure, which favours intermediate letting investment, allows French residents to benefit from an income tax reduction of 18% for investments in mainland France and a reduction of 29% French overseas regions. Subject to certain conditions, the reduction is spread out over 9 years and applies to the cost price of the property with a 300,000 euro limit per year.

3. Fiscal benefits common to both residents and non-residents

Tax payers benefit from certain advantages, regardless of whether they are a resident, in relation to real estate invest vehicles subject to corporation tax (3.1), property tax (3.2) and property dismemberment (3.3).

It should be noted that the advantages listed below allow the development of wealth free of taxation, or with a very limited taxation, rather than the exemption on income or capital gain on exit. After significant accumulation of wealth, appropriate corporate structuring should be organized (e.g. with the French REIT “OPCI”).

3.1 Corporation tax

In France, the normal rate of corporation tax is 33 1/3%. This rate is competitive compared to the average rate of other developed countries. On a practical level, this competitive tax rate is again increased further with the low taxable basis, due to the right to deduct financial charges as well as the possibility of tax amortisation of constructions.

Financial modelling shows that investors can pay very little tax on a period in the region of 10 years, the higher period of a foreign investment cycle comprised generally between 5 and 7 years. In practice, the foreign investor will pay little if any tax in France during investment, with the exception of the capital gain on exit where investment is withdrawn.

3.2 Property tax

Where the investor does not use real estate vehicles subject to corporation tax and is taxed either directly or via a partnership, the taxable basis is particularly favourable when the proprietor does substantial repairs on the property. The taxpayer can deduct costs and charges such as repair, maintenance and improvement expenses. As a result, investors can develop their real estate portfolio free of taxation as long as they invest in substantial repairs.

3.3 Acquisition of dismembered property

Investors can acquire legal ownership of a property without the usufruct while the usufruct is given to the user for an average period of e.g. 15 years. Holding the ownership without usufruct allows a wealth tax exemption.

For the duration of the dismemberment, the owner does not receive income from this investment. However, after the period of usufruct, the reunion of the legal ownership and usufruct carries out a tax exemption. E.g. acquisition at 60 of the legal ownership without the usufruct, and reunion of usufruct after 15 years, the value of the property being 100, then the capital gain of 40 is tax exempt, and no wealth tax has been raised during 15 years.

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