Retiring to France - Tax, Pensions, Visas and Forced Inheritance

During the last 18 months, no less than 5 of my clients and friends have retired to France after a working lifetime in and around Asia, so an overview of tax, inheritance and visa rules seems in order.

This is not intended to be comprehensive, and for each person their individual circumstances will differ.

Why France? Well, France seems to provide for most retirement lifestyles, with the Mediterranean coast, the Alps, or small provincial towns for those with a preference for the rustic.

How Much Money Will You Need?

The French government is quite relaxed in terms of the income it requires expats to have, compared to other European countries, such as Spain.

Non-EU citizens must have an income or available savings of €14,667 per year for individuals or couples, so a couple with a net income of €1,231 per month would meet the resources test for a long-stay visitor's visa.

The national minimum wage, the ‘smic’ in France, is €18,655 per year but falls to €14,667 after deduction of social insurance charges.

The French consulate in London confirms it uses this lower figure as the minimum income threshold as the requirement for a British couple.

Anyone (non-EU) planning to retire in France must be able to prove they have this as a ‘resource’, which includes any type of accessible capital.

For Brits, the current full rate of the British state pension is £179.60 a week, or £9,339 a year, (€10,740pa). British citizens therefore only need to find an additional €3,927 each year to qualify.

A couple with £100,000 in pension wealth should be comfortably able to sustain this income throughout their entire retirement. Note, however, that this is the minimum income requirement to qualify for the visa, and your planned lifestyle may demand rather more cash.

The British Government confirmed in January that anyone moving to the EU or Switzerland after Brexit will continue to receive their British state pension, increased each year in line with the ‘triple lock’.

Obtaining the Right to Move and Arranging a Visa

The long stay ‘VLTS-TS Visiteur visa’, is ideal for retirees intending to live on their savings and pensions. You can apply for the visa within 90 days of your planned move.

This visa will be valid for between three and 12 months.

The visa must be validated through the France immigration office, once in France. At expiry, it can be replaced by a visitor’s residency permit, at the local ‘préfecture’.

After five years of living in France, Brits and EU citizens can apply for permanent residency, the ‘carte de résident de longue durée’, valid for 10 years, and this gives the right to work in the country. Certain rules apply, such as the requirement for health insurance, and presence in France for most of the previous 5 years, but do check on the rules for you and your own circumstances.

French Tax Rules

Anyone planning retirement in France should consider their financial and tax situation before they relocate, to avoid big tax bills.

British tax-efficient investments such as Isas (CGT & income tax-free) and venture capital trusts (CGT exempt, tax-free dividends after 5 years) do not have the same tax treatments overseas.

A major difference in France is its higher rate of capital gains tax (CGT).

Brits used to benefit from a reduced rate of social charges but post-Brexit that no longer applies, so CGT is now charged at 36.2pc rather than 26.5pc. This is also applied to gains on rental property.

Retaining your family home in your own country after becoming resident in France could mean a big French CGT bill when you do eventually sell. This is regardless of the fact that there may be little or no tax to pay in your own country on the sale of your home. (The UK for example, essentially treats the sale of your home as tax-free).

As well as the charges on the sale of a home, there is a surtax, charged at five different levels depending on the size of the gain. Any gains from €50,000 to €100,000 are taxed at 2%, rising gradually up to a 6% charge on anything above €250,000.

Any pension income taken is taxable in France. The 25pc tax-free pension cash available from UK pensions (30% from QROPS) does not apply. As France does not have a non-taxable element of a pension fund, the whole lot is taxed as income. This suggests it may be effective to take the tax-free cash before residing in France.

A lot of expats continue to wrongly pay tax in their home country, which can cause mayhem. The French tax inspector treats any cases where people have not submitted the correct French tax returns, or have under-declared, very seriously. This is considered tax evasion, however innocently it happened. Explaining that tax was wrongly paid in your home country rather than in France is not a defence under French law.

Tax efficient investments like UK ISAs can be held, but not contributed to, so long as the owner lives outside the UK. Note that capital gains made on shares held in these Isas will be taxed by the French whilst you are resident. France has its own tax-efficient investments that can be used to reduce taxable income.

French tax residents are taxed on their worldwide income, including bank account interest, even if is not actively used to draw money from. Everyone must declare all bank accounts to the French authorities and failing to do so can incur a fine of up to €10,000 per undeclared account as well as potentially criminal charges.

Wealth Tax

France also has its infamous wealth tax, introduced in 1989. This tax applies to all with a net wealth above €1.3m, re-valued each year. A spouse's assets are included.There is a threshold of the first €800,000 tax free, with tax at 0.5% for assets between €800,000 and €1.3m. This rises to 1.5%on assets over €10m.

The wealth tax is only payable by Brits (and possibly other nationals) five tax years after they become a resident in France. For the first 5 years, the tax is based on real estate assets in France only.

Beware Inheritance Rules

Strict inheritance rules in France could mean money going to the wrong beneficiaries.

Under French 'Forced Heirship' laws, children, whether from a current or previous relationship, are classified as 'reserved heirs', and are entitled to up to 75% of the deceased's estate. This rule even supersedes the current spouse.

One child is automatically entitled to 50% of the parent's estate, two children receive two-thirds and three or more get 75% of the estate in equal shares.

These rules are effectively 'cast in stone' for the French. However, there is way around these rules for non-French nationals. European succession regulations allow people to elect in their will, for the inheritance rules of the country of their nationality to apply. It is important to note that this election must be specifically stated, as it is not assumed

Buying a Property in France

The national average house value was €284,294 in France at the start of 2021, according to Knight Frank.The most expensive region in France was Auvergne Rhône-Alpes, which had an average house value of €438,316, while the cheapest houses were in Normandie at €205,099.

- If you are thinking of retiring to France or any other country, please do not hesitate to contact me for no obligation advice on the financial/tax aspects of such a decision