

## Change of Capital Gains Tax rules - Plus-Value Immobilière From 1<sup>st</sup> February 2012 – and how this might affect you

If you are thinking of selling, are selling or thinking of having some building works done then you will need to consult these tables to give you an idea of how much capital gains you may be liable for. *Please note this information is only for guidance, you must take proper financial advice from a suitably qualified person. If you need help to find someone to give you this guidance we do have a list of professionals who will be able to help.*

Years of Ownership	CGT abatement before 31/1/2012	CGT abatement after 01/02/2012	Net Tax for Residents	Net Tax for EU Residents
1 year	0.00%	0.00%	32.50%	19.00%
2 Years	0.00%	0.00%	32.50%	19.00%
3 Years	0.00%	0.00%	32.50%	19.00%
4 Years	0.00%	0.00%	32.50%	19.00%
5 Years	0.00%	0.00%	32.50%	19.00%
6 Years	10.00%	2.00%	31.85%	18.62%
7 Years	20.00%	4.00%	31.20%	18.24%
8 Years	30.00%	6.00%	30.55%	17.86%
9 Years	40.00%	8.00%	29.90%	17.48%
10 Years	50.00%	10.00%	29.25%	17.10%
11 Years	60.00%	12.00%	28.60%	16.72%
12 Years	70.00%	14.00%	27.95%	16.34%
13 Years	80.00%	16.00%	27.30%	15.96%
14 Years	90.00%	18.00%	26.65%	15.58%
15 Years	100.00%	20.00%	26.00%	15.20%
16 Years	100.00%	22.00%	25.35%	14.82%
17 Years	100.00%	24.00%	24.70%	14.44%
18 Years	100.00%	28.00%	23.40%	13.68%
19 Years	100.00%	32.00%	22.10%	12.92%
20 Years	100.00%	36.00%	20.80%	12.16%
21 Years	100.00%	40.00%	19.50%	11.40%
22 Years	100.00%	44.00%	18.20%	10.64%
23 Years	100.00%	48.00%	16.90%	9.88%
24 Years	100.00%	52.00%	15.60%	9.12%
25 Years	100.00%	60.00%	13.00%	7.60%
26 Years	100.00%	68.00%	10.40%	6.08%
27 Years	100.00%	76.00%	7.80%	4.56%
28 Years	100.00%	84.00%	5.20%	3.04%
29 Years	100.00%	92.00%	2.60%	1.52%
30 + Years	100.00%	100.00%	0.00%	0.00%

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The bottom line is that capital gains exemption now starts at 30 years, not 15 years as before, and the rate has gone up too – though for EU residents (eg. English, Dutch) you will pay less than if you are a French resident. Please read on below the tables for more details.

### How is CGT tax composed?

The tax rate for vendors of property is broken down into 2 parts:

- Capital Gains Tax and
- Social Charges

The social charges element of the tax only applies to French tax residents.

The CGT rates from 1<sup>st</sup> February are:

Non residents (members of the EU):

**19% Capital Gains Tax CGT**

Residents of France :

**19% Capital Gains Tax CGT + 13.5% Social Charges = 32.5%**

Non-EU residents (eg Jersey):

To be confirmed

### How you can reduce your CGT liability

As before if you can provide invoices relating to building works then these may be used to further reduce the CGT liability. Please note that only invoices which include the labour will be allowable. Most notaires will not allow overseas companies' invoices.

Example: if you buy all your materials at Gedimat, or other builders' merchants and do the work yourself, and spend say 30,000€ on materials, not one euro of this total can be used to reduce your capital gains liability. Even if you are capable of doing the works it may make more sense to engage builders for some of the work.

***It is for this reason that we encourage our clients to work out carefully before they start works whether it is more tax efficient to do the work themselves or to bring in a full registered French company who can supply an invoice on completion of works to include the labour.***

### An aside regarding « assurance décennale »

Another very important consideration (though completely irrelevant to the CGT discussion) for using a French registered company is that in France for all structural works a 10 year guarantee (assurance décennale) will be provided, if not, you are personally liable for the guarantee for the whole of the 10 year period following the works. So, if you sell 6 years after works you are liable personally for these guarantees for a further 4 years.

On page 3 we enclose a chart to show how, if you bought a house 17 years ago, the change of rule might affect you. In fact the good news is that it might not even affect you if you engaged builders for your building works as these bills can be used to reduce your capital gains tax liability.

Again, just to remind you, in all situations regarding money and tax you should take professional advice as early as possible – this could save you a fortune in the long run! We will be able to help you find an appropriate advisor should you need this. This summary should be treated as just that as the rules are obviously far more complex than we have been able to illustrate and “**one size does not fit all**”.

PLEASE TAKE PROFESSIONAL ADVICE.

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## Capital Gains Tax in action for a non-resident with a holiday home purchased for 50,000€ in November 1994

Nom-resident example	Sale before 01/02/2012 No building works or uninvoiced building works		Sale after 1/02/2012 No building works or uninvoiced building works		Sale before 01/02/2012 With fully invoiced building works		Sale after 1/02/2012 With full invoiced building works	
	Purchase price in November 1994	50,000 €	50,000 €	50,000 €	50,000 €	50,000 €	50,000 €	50,000 €
Sale Price in December 2011, 17 years	120,000 €			120,000 €	120,000 €			
Sale Price in March 2012, 17 years			120,000 €				120,000 €	
<b>Taxable profit</b>	<b>70,000 €</b>	<b>70,000 €</b>	<b>70,000 €</b>	<b>70,000 €</b>	<b>70,000 €</b>	<b>70,000 €</b>	<b>70,000 €</b>	
Exemption rate	100%	24%	100%	24%	100%	24%	24%	
<b>Capital Gains tax to pay</b>	<b>0 €</b>	<b>16,800 €</b>	<b>0 €</b>	<b>16,800 €</b>	<b>0 €</b>	<b>16,800 €</b>	<b>16,800 €</b>	
Buildings invoices using labour	0 €	0 €	0 €	0 €	40,000 €	40,000 €	40,000 €	
<b>Amount left after tax &amp; invoiced building works</b>	<b>70,000 €</b>	<b>53,200 €</b>	<b>70,000 €</b>	<b>53,200 €</b>	<b>30,000 €</b>	<b>70,000 €</b>	<b>70,000 €</b>	
Invoices not including labour	40,000 €	40,000 €	40,000 €	40,000 €				
<b>What is left after purchase, sale, CGT and building works</b>	<b>30,000 €</b>	<b>13,200 €</b>	<b>30,000 €</b>	<b>13,200 €</b>	<b>30,000 €</b>	<b>70,000 €</b>	<b>70,000 €</b>	

This chart aims to show that although capital gains rates may have gone up, and the years of exemption may have changed, this may not adversely affect you as much as you thought if you have invoices for building works available to use against capital gains liability.

*Disclaimer: PWT has produced these notes as guidelines only. There may be errors within the document although it has been double checked and we would therefore advise you ALWAYS to check your own personal circumstances with a suitably qualified person to give such advice in France. We will not be held liable for any errors within this document. We can give the names of such professionals on request.*

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