

Charles Hamer Financial Services

INDEPENDENT FINANCIAL ADVISERS

87 Park Street, Thame, Oxfordshire, OX9 3HX

Tel: 01844 218957 Fax: 01844 261886

Email: Jon@charleshamer.co.uk Chris@charleshamer.co.uk

www.charleshamer.co.uk

“Continuing Wholesale Reforms to French Tax System – Changes to NIC, TVA & CSG”.

Following on from the three Finance Acts of 2011, Monsieur Sarkozy has carried on in 2012 where he left off, with further fiscal measures aimed at improving the structural competitiveness of the French economy whilst also reducing budget deficits going forward.

On 29th January, proposals were announced for French employer National Insurance Contributions to be reduced by up to 5.4% for lower paid workers. Whilst this may have a small beneficial impact for British Ex-pats employing staff, including domestic help under the “emploi à domicile” regime, the main consequences will be felt through the measures proposed to compensate for this NIC cut:

The first is a proposal to increase the standard VAT (“TVA”) rate from 19.6% to 21.2% from 01 October 2012.

It is also proposed to increase an element of the secondary income tax “Prélèvements Sociaux” when it applies to investment income. Contribution Sociale Généralisée or “CSG”, is to be increased from 8.2% to 10.2%. When combined with all other elements, this would result in a Prélèvements Sociaux tax rate of 15.5%. No date has yet been set for this to happen, but it is not impossible that it could be applied to all or part of income received in 2011, but if carried through we will have seen an increase of 3.2% in the Prélèvements Sociaux tax rate in less than 12 months and of 4.5% in less than 4 years. Increasingly, it seems that this tax is being used as a “stealth” tool to increase the French tax take but without political disadvantage.

Other than perhaps reducing spending or buying your goods and services from the UK there’s not much that can be done to avoid the TVA increase, but there are opportunities to reduce your exposure to Prélèvements Sociaux with some tax and investment planning. It should be noted that Prélèvements Sociaux, as a tax, is a far more wide ranging tax on investment income than the basic income tax (“Impôt Sur Le Revenu”) – most French income tax exempt investment products or nil rate tax allowances – including those available for French Assurances-Vie - tend not to escape. There is, however, one major class of income, relevant to the British Ex-pat, which does still fall outside the scope of Prélèvements Sociaux, whilst the tax can also be deferred by holding your investments in a wrapper which offers more tax efficiency than a French Assurance-Vie whilst offering a similar degree of investment risk

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