The Tax Advantages of a French Mortgage when purchasing a French Holiday Let

Are you intending to buy a French property with a view renting it out?

If the answer is yes then you should seriously consider the merits in taking out a French mortgage to help finance your investment:

All profits accrued from rental income which have been generated by a French property are liable to French tax as a priority over any UK income tax assessment.

In France, all the mortgage costs (interest, set up costs, arrangement fees, broker fees)[1] are allowable as deductions against income in the course of arriving at taxable profits, thus reducing the French tax payable as compared to the cash purchase option.

When generating income on the property, such French tax savings therefore acts as a subsidy to your cost of borrowing.

Depending on the format adopted for calculating those profits, the nature and scale of the activity, (e.g. unfurnished rentals, furnished seasonal lettings, turnover above or below 23.000€, furnished holiday letting status for UK tax purposes), and allowing for the investor's tax status in the UK, ***the effect of this subsidy will currently vary from between 20% to 40% of your mortgage costs.***

Putting this into an interest rate context, ***this subsidy would reduce a 2% APRC borrowing cost down to between 1.2% and 1.6%.***

Borrowing rates in France are already historically low and mortgage schemes are available to allow these rates to be fixed for the full mortgage term*, so nailing down the euro borrowing cost at today's value and providing security against general rate rises in the future – since these would not be passed on to your French mortgage.*

The added benefit of the subsidy brings the effective cost of borrowing to even lower, secure levels.

When combined with the more general benefits in raising funds on the property in Euros for the purchase, namely:

- *Improving asset liquidity – by enabling funds otherwise earmarked for the purchase to be held in tradeable, accessible, investments, (unlike the UK, equity release in France is not a readily available option, tending to mean that the only way to recover funds is to sell).*
- *Reducing currency risk by matching the currency of the borrowing (the Euro) with the currency of the asset (Euro)*
- *Potential additional tax benefits – through French Inheritance Tax and/or Wealth tax mitigation – when the effective subsidy to the cost of borrowing could be even greater.*
- *Avoiding eating into the equity of the UK home to finance the French home purchase*
- *Having the freedom to retain the mortgage in the event of sale of the UK main residence, (which wouldn't otherwise be possible if the funds were raised on the UK home unless it was rolled over to any replacement).*

The subsidy achieved to the French mortgage borrowing costs, ***when the French property is to be let out****, for the most part makes the idea of taking up a French mortgage to help finance the purchase the default option, subject only to addressing the questions of the payments being affordable now and in the future and in meeting French lending criteria.*

Simply put, in such circumstances, the consideration should be: why should I not take out a French mortgage?

For a personal illustration of the net effective cost of borrowing :

-*based on your circumstances, projections of your intended letting activity,*

- an assessment of the feasibility of obtaining a French mortgage,

- and details of the schemes currently available in your circumstances.

Please contact our mortgage adviser : Kieron Harvey, enquiries@charleshamer.co.uk , 01844 218957.

For more information on the French and UK tax treatment of your intended rental activity *please contact our head of lettings in our sister company Charles Hamer French Tax Services Ltd: Alex Romaine, alex@charleshamer.co.uk , 01844 218956*

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[1] Note that the capital content of mortgage repayments are not tax deductible but these represent the investment you would otherwise make from personal resources which is also not tax deductible