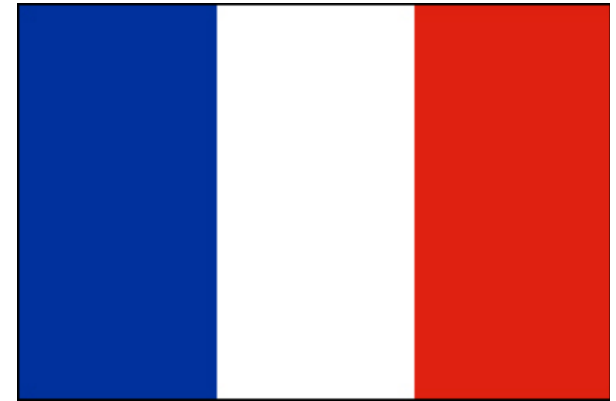


PURCHASING PROPERTY IN FRANCE

Click a heading to go straight to that part of the brochure

- A** [Purchasing by an individual](#)
- B** [Purchasing from/in the name of a company](#)
- C** [Purchase of land and construction](#)
- D** [Construction guarantees](#)
- E** [Inheritance Laws](#)
- F** [Running costs and taxes](#)
- G** [Wealth Tax](#)
- H** [Capital Gains Tax](#)
- I** [Mortgages](#)
- J** [Renting](#)
- K** [Starting a business](#)
- L** [Contact us](#)



A – Purchasing by an individual



In France one Notary, a semi-public official, will usually act for both the purchaser and the seller. However, the purchaser may choose to use their own notary in France and the two notaries will then split the fee.

The notary fees are charged on a sliding scale according to the value of the property, but typically they will be around 1% of the purchase price. The purchaser will also have to pay land registry fees and disbursements (also calculated on a sliding scale) and these are usually between 1% and 2% of the purchase price. The total legal fees are therefore between 2% and 3% in the case of new property.

However, if purchasing an old property (over 5 years old), additional purchase taxes must be paid to the department and to the commune and these will total 4.89% of the purchase price. If purchasing a new property (less than 5 years old, being sold for the first time) then you do not pay the 4.89% tax, but you will have to pay TVA (VAT) but this will be included in the sales price. The total legal fees and taxes for purchasing new property are around 2.5% and for old property around 7.5%.

Simon Malster
+44(0) 20 8905 5511
simon@investorsinproperty.com

 www.investorsinproperty.com
SKI PROPERTY SPECIALISTS SINCE 1986

B – Purchase from/or in the name of a company

If you are buying a property, which is already registered in the name of a single purpose company, a saving may be made, by transferring the shares of the company into the name of the buyer. There will be no land registry fees, and the government purchase tax on the transfer of shares is 4.89% irrespective of the age of the property but extra care will have to be taken to ensure the company has no undisclosed liabilities.

If you are buying a finished apartment or chalet, it may be worthwhile considering forming a French company (an SCI) but usually only if the purchasers are not married, or if there are two families or friends buying a property together. There is no tax saving on purchase, the usual government purchase taxes will apply (4.89% for old property, 0% for new property). The costs for setting up an SCI can be up to 1,500 euros plus annual maintenance fees.

One advantage of an SCI is that the company is not liable for wealth tax (see below) but if the company elects to make the property available for use by the members of the company free of charge then the members still need to declare in their personal tax returns any rental income and capital gains when the property is sold.

The main advantage is that an SCI enables your advisors to minimise inheritance taxes and permits greater flexibility for changes in ownership (such as giving a share in the property to your children during your life time) without triggering a taxable event or incurring notary and property transfer fees. These schemes are now under scrutiny by the Inland Revenue in the UK which will now seek to tax you on the benefit you derive personally from using a property owned by a company.

C – Purchase of land & construction

If purchasing land for the construction of a chalet, this is usually best registered in the personal name of the buyer, not in the name of a limited company (as VAT at the rate of 19.6 % is payable on the purchase price of the land if it is purchased by a company for the construction of a chalet).

Usually the chalet to be constructed should not have a total surface area (all floors) exceeding 15% of the surface of the plot. The advantage of buying a plot and then building is that the taxes are levied only on the value of the plot.

D – Construction guarantees

New constructions, by law, must have a ten year insurance-backed guarantee against latent defects.

A deposit of 5% of the purchase price will reserve an apartment until such time as the notary draws up a deed of sale. When this sales deed is signed by the Notary, the purchaser will be required to pay 30%, unless construction of the building is already well advanced, in which case the usual stage payments are:

- 35% foundations
- 50% first floor (slab finished)
- 70% roof
- 80% watertight (windows etc)
- 95% completion of the apartment
- 100% release of keys

E – Inheritance Laws

French inheritance laws will apply to a property in France even if the owner is resident outside France. The laws are complicated and in effect they prevent a parent from disinheriting his, or her, children. Unless special arrangements are made before buying the property, the surviving spouse will not inherit the property absolutely and following changes in the law in 2001, if there is no will, the surviving spouse shall inherit either one quarter absolutely or the whole in life interest (where there has been only one marriage).

It is therefore important to draw up a French will to deal with your French property and to register this at the French Wills Registry in Aix en Provence. Then you should amend your English will to specifically exclude the French property. If you are buying a very expensive property you could also take advice on structuring the purchase contract in a particular way so as to minimise the effect of French inheritance laws. You may have heard the term buying in “tontine” but this is rarely used nowadays, but it may be appropriate to consider adopting a special matrimonial property regime known as a ‘Communauté Universelle’ which would ensure that the entire property would pass to the surviving spouse without inheritance tax having to be paid at that time (as in the UK).

F – Running costs and taxes



Local property taxes consist of the ‘taxe d’habitation’ and the ‘taxes foncières’ which are both levied in October / November. The taxes are based on the cadastral value of the property. The rates of tax are set by the région, the département and the commune and will vary, but are much less than in the UK.

Service Charges

These usually include the caretaker and communal heating and structural insurance and the owner should pay for insuring their furniture and their private consumption of utilities such as electricity. Most apartment buildings have a resident or visiting caretaker who is responsible for the day to day running of the property, but who may also provide additional services such as cleaning.

As a rule of thumb, the total annual expenses for an apartment in a typical ski resort, including all local property taxes and service charges, are in the region of 75 to 100 Euros per square metre.

G – Wealth Tax



If a single family unit has net assets in France of over 720,000 Euros, they will be liable to an annual wealth tax which is charged at rates in progressive bands.

You should note however that if the property in France is subject to a mortgage then the mortgage may be deducted from the value of the asset before calculating the tax liability. Also if the property is owned by two families (even if related) then the value is effectively halved.

Wealth Tax rates on the net value of assets on the 1st of January 2003 are:

- € 720,000 to 1.16m 0.55%
- € 1.16m to 2.3m 0.75%
- € 2.3m to 3.6m 1.00%
- € 3.6m to 6.9m 1.3%
- € 6.9m to 15m 1.65%
- € 15m + 1.8%

Simon Malster
+44(0) 20 8905 5511
simon@investorsinproperty.com

 **www.investorsinproperty.com**
SKI PROPERTY SPECIALISTS SINCE 1986

H – Capital Gains Tax

Any capital gains tax payable in France may be off-set against any UK liability you do not pay the tax twice. Tax rates were reduced in January 2004 and capital gains are taxed over 15 years.

Inflationary relief has been abolished. For the first 5 years there are no allowances but for year 6 to 10 there is a fixed 10 per cent per year reduction. The headline tax rate for non-residents of France but who are resident somewhere else in the EU is 16%; for French residents you have to add on the social charges, bringing it up to 26%.

If you are not a citizen of the EU you will pay at the old rate of 33.1/3 %. All CGT calculations and deductions are now made by the notary at the point of sale. Some of the previous exemptions have gone and the treatment of improvements to the property is less favourable than it used to be.

I – Mortgages

Interest rates are currently much lower in France than in the UK. Typically, French banks will lend up to 80% of the purchase price over 15 years and at an interest rate of around 3.5%. Barclays Bank offers mortgages on French property via their French subsidiary. Subsidiaries of British Building Societies also have products - Abbey National France (call Gary Connell (English) Tel – 0033 320 181 981 and mention Investors in Property or e-mail: gconnell@abbey-national.fr).

French banks, which are experienced in offering mortgages to British clients, include Credit Agricole, BNP (Banque National de Paris), and Credit Lyonnais.

French law does not allow lenders in France to offer mortgages if the repayments on that mortgage amount to more than 30% of the borrower's monthly income (joint income for joint mortgages). This 30% includes any existing mortgage you may have in Britain. Therefore, it sometimes may be necessary to consider re-mortgaging your home in the UK to release equity.

J – Renting

Rental agencies in the major resorts provide a full rental and management service and charge around 20% commission for this. Most owners rent their apartments through agencies on a weekly basis and set aside a week or two for their own use. Alternatively you could rent out your property direct to a Tour Operator for the whole season and negotiate a week or two for your own use.

The higher resorts, such as Val d'Isère, have a longer winter season, and therefore a greater rental income potential. However, these resorts have virtually no summer season at all, so a good dual season resort, such as Megève, may produce as good a return.

Generally the most important factor if you are buying a property with a view to renting it is to purchase in a good and convenient location. Apartments in the centre of a resort within walking distance of the restaurants and the ski lifts will always rent out first, will have a high occupancy rate, and command a premium. Larger apartments (2 or 3 bedrooms) are more in demand than small studio or one bedroom apartments. Chalets rent best of all and generally appreciate more in value than apartments. A chalet may still rent well even if it is not near the centre or on the piste provided it is an attractive property, but usually it is better to buy a well-located apartment rather than a chalet in the middle of nowhere if rental income is important.

As an example, we recently sold a 2 bedroom, 2 bathroom apartment in the centre of Meribel for 380,000 Euros. This type of apartment could be used for 2 weeks by the owner and be let for 9 weeks during the winter season for approximately 7,500 net for the owner. The annual outgoings for such an apartment are: Taxe Habitation: 612 Euros per year, Taxe Fonciere: 569Euros per year. Service charge 2,404 Euros per year.

Sale & Leaseback scheme

These are the easiest and most dependable way of securing rental income. These are like 'buy to let', you buy a new chalet or an apartment freehold and then to lease it back to the developer. Under some schemes you will receive a guaranteed fixed income, under others the income varies according to the actual revenue produced, and sometimes it may be a blend of the two – a guaranteed minimum with a variable bonus.

Provided that the lease is for 9 years or more, then you will be able to reclaim from the French government the VAT (19.6%) which was included in the purchase price you paid. Some developers will simply discount the purchase price by 16.39% of the purchase price (this equates to the VAT element of the purchase price) and they will claim the VAT back themselves.

The arrangements may be quite flexible, you can usually use the property for a set number of weeks per year without charge and buy additional weeks at a discount off the usual public price. The lease operator pays most of the property taxes and at the end of the lease period, you can choose whether to renew the lease or not.

Tax on rental income

Rental income should be declared to the French tax office by 30th of April. If the income is less than around 75,000 Euros per year, the taxpayer may elect simply to pay tax on 30% of the gross receipts (effectively you are given an allowance of 70% of gross receipts to cover expenses). Above this level then allowances are given for all business expenses such as management / letting fees, interest on a loan, depreciation of 1% to 2% per year of the purchase price, insurance etc, and the net income is then taxed at a minimum rate of 25%.

Credit may be claimed for any French tax paid against any UK liability. Liability to French tax on rental income can now be enforced in the UK.



Simon Malster
+44(0) 20 8905 5511
simon@investorsinproperty.com

 www.investorsinproperty.com
SKI PROPERTY SPECIALISTS SINCE 1986

K – Starting a business

Investors in Property are not business transfer agents – we sell chalets, not businesses but if you are thinking of buying a chalet and then running it as a gîte or a catered chalet, here is some advice. Most new businesses fail in the first year and common causes are lack of experience, your planning and under-funding. Additional problems in France will be the language and the bureaucracy. You may get some assistance from the French Chamber of Commerce at 21, Dartmouth Street, London SW1H 9BP (Tel 020 7304 4040) and the local chamber of commerce in the Alps.

Even EEC citizens will need a carte de sejour to work in France or a K-Bis (business registration certificate). You must register your business before you start to trade as there are swingeing penalties for failure to do so – you should be able to get expert advice from an expert-comptable (chartered accountant) on the structure you need (sole trader / limited company) and get your business registered for under 2,000 Euros.



Simon Malster
+44(0) 20 8905 5511
simon@investorsinproperty.com

 www.investorsinproperty.com
SKI PROPERTY SPECIALISTS SINCE 1986



For more information contact
Simon Malster – Investors in Property
Tel: +44 (0)20 8905 5511

simon@investorsinproperty.com

www.investorsinproperty.com



Company Profile

Investors in Property specialise in the sale of ski chalets and apartments in Switzerland, Austria, France & Italy. We have over 20 years experience and an unrivalled knowledge of well established and up and coming ski resorts. We will provide expert advice and professional guidance through every step of your purchase. If you have any questions or need general advice please do not hesitate to contact us.

[France Fact Sheet](#) • [Buying Property in France](#) • [French tax rules and regulations](#)

Disclaimer

Whilst Investors in Property make every attempt to ensure the accuracy and reliability of the information contained in all brochures and the company website, Investors in Property, its employees and agents will not be responsible for any loss, however arising, from the use of, or reliance on this information. The sales deed prepared by the local Notary will contain all the terms of the sale and no warranty or representation made by an other person which is not specifically included in that deed of sale is legally enforceable.

Simon Malster
+44(0) 20 8905 5511
simon@investorsinproperty.com

