

The Sarkozy Reforms (Le Paquet Fiscal): A Summary



DURING HIS PRESIDENTIAL CAMPAIGN, NICOLAS SARKOZY PROMISED TO INTRODUCE CERTAIN WIDE RANGING TAX REFORMS IN ORDER TO INCREASE HOURS WORKED AND TO ENHANCE THE SPENDING POWER OF THE FRENCH PEOPLE. THIS ALSO BENEFITS NON FRENCH PEOPLE WHO HAVE AN EXPOSURE TO FRENCH TAX.

The reforms include measures dealing with the following:

- Tax and social security contribution exemptions for overtime worked above the 35 hours week currently in place;
- Tax exemptions for certain students in employment;
- Income tax relief for mortgage interest paid on the acquisition of a main residence;
- Important reductions/exemptions from gift/succession duties;
- Enhancement of the 'bouclier fiscal' (tax shield) system;
- Wealth tax changes.

Here we will concentrate on the last four of these measures, which will have an impact on private clients.

1. Mortgage interest relief

- This measure gives relief for interest paid on mortgages taken out from 6 May 2007 to buy a main residence.

Limits to the relief are as follows:

- Applies only to the first five years of the mortgage;
- 20% of the interest paid each year, with the amount of interest capped at €3,750 for a single person or €7,500 for a married couple or couple under PACS. The caps are increased by €500 for each dependant child.
- It should be pointed out that this relief cannot apply to non-French residents. In addition, the concept of a 'foyer' applies, so relief is given to the household as a unit.

2. Succession and gift duty changes

The new law introduces material changes:

- As in the UK, transfers **on death** between spouses are now fully exempt, whereas previously transfers over €76,000 could be taxed up to 40%.
- The rights of partners under PACS are now equivalent to those of married couples.
- Gifts inter vivos between spouses and partners under PACS remain taxable over €76,000.

Remember that inheritance law in France often prevents the testator from leaving everything to a widow(er), or a surviving partner of a PACS.

- The exemption for transfers on death or gifts is increased to €150,000 on transfers from parents to children, and children to parents (previously €50,000).

Other changes include:

- increase in exemptions for siblings, from €5,000 on death only to €15,000 on both gifts and death;
- increase in exemptions for nieces and nephews, from €5,000 on gifts only to €7,500 on both gifts and death;
- abolition of the €50,000 exemption on death which was shared by various family members.

Lastly, there is a new exemption for cash gifts to your children, grandchildren, and great grandchildren, of €30,000 provided that the donor is over 65 years of age and the recipient is over 18 years of age.

Note that this exemption is in addition to the general gifts exemptions.

As previously, these limits apply cumulatively every 6 years. Also, it is worth noting that all of the exemptions, as well as the tax bands applicable will be increased in line with inflation on 1st January each year.

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3. Enhancement of the 'Bouclier Fiscal' (tax shield)

The 'bouclier fiscal' is essentially a measure under which certain taxes paid in France by a **French-resident** household are limited to a certain percentage of the household's **worldwide** income and additionally gains.

Previously, this was set at 60%, but in future this will be reduced to 50%.

Taxes previously included were:

- Income tax
- Capital gains tax
- Wealth tax
- Property taxes (*Taxe d'Habitation* and *Taxes Foncières*) on main residence.

The measure now includes the 11% social surcharge on unearned income and gains.

These changes represent a significant improvement to the regime introduced last year.

Note that the tax shield applies only to French residents. It is likely to benefit wealthy individuals moving to France who are able to live off capital, and with relatively little income.

4. Wealth tax changes

- The existing 20% allowance against the value of the main residence for the calculation of wealth tax is increased to 30% from 1st January 2008. Clearly this can only be of benefit to a French resident.
- A reduction of wealth tax payable will be given to those who invest in certain small or medium-sized trading companies based in the EU, Iceland and Norway. The reduction in wealth tax is calculated at 75% of the amount paid for share capital in the year, subject to a cap on relief of €50,000 per annum. Anti-avoidance rules will apply.

This update supersedes the relevant sections of our 2007 tax data card for France.

The new provisions will be incorporated into the 2008 data card which will be published in early February 2008.

This update is for information only and does not constitute professional advice. For advice on your particular circumstances or for further information, advice or assistance in relation to any matters raised above, please contact the authors or your usual Dixon Wilson partner.



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