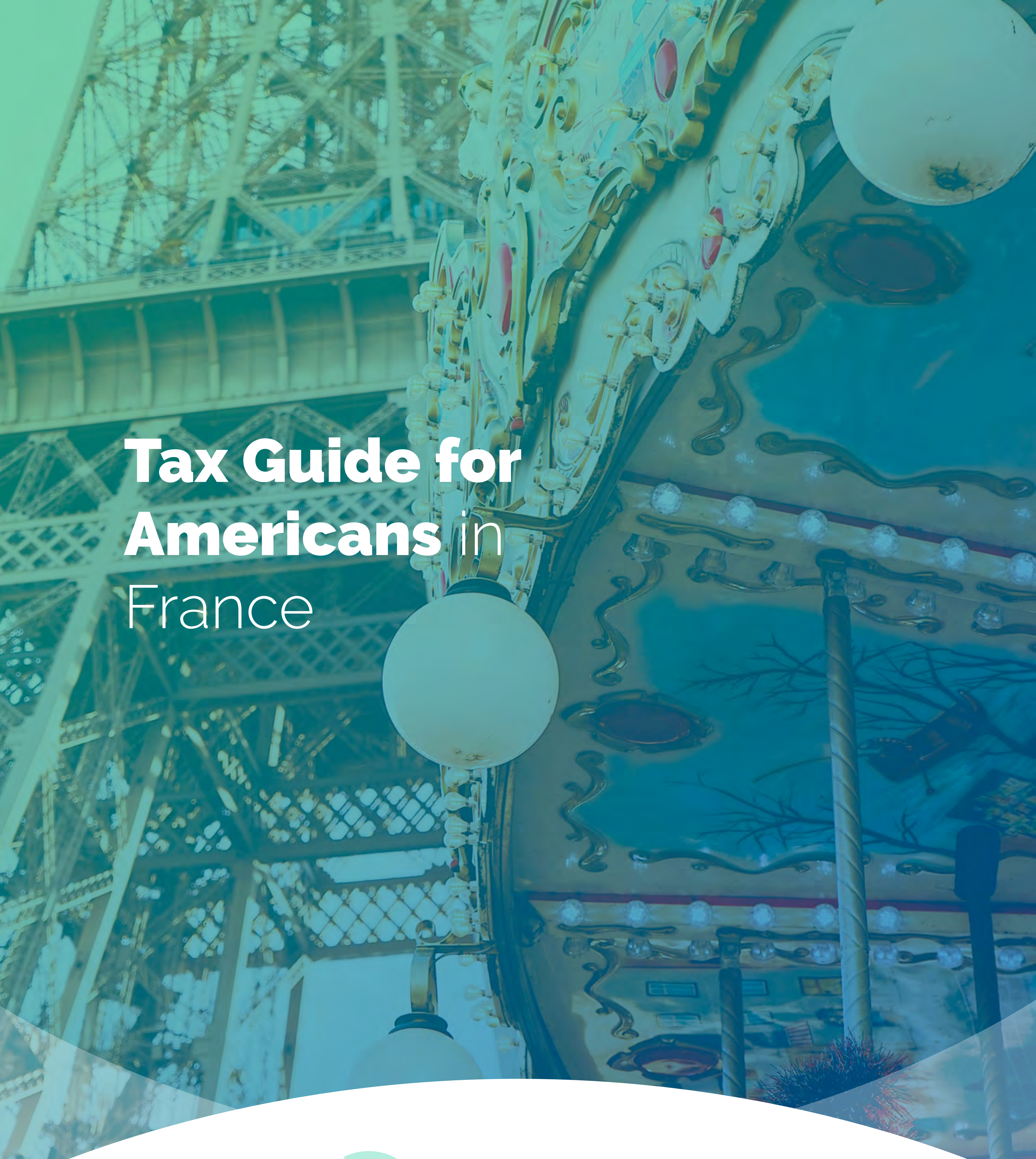

Tax Guide for Americans in France

Greenback Expat Tax Services®

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France: Facts at a Glance

Population: 67,022,000

Number of US Expats: an estimated 100,000

Capital City: Paris

Primary Language: French

Currency: Euro

Social Security Agreement: Yes

Tax Treaty: Yes

Tax Deadlines: What You Need to Know

WHEN IS THE FRENCH TAX YEAR?

Just as in the US, the French tax year is the calendar year, running from January 1 to December 31.

WHEN IS THE DEADLINE FOR FILING?

Legally, taxes are due March 1, but the French tax authority recently extended most deadlines until mid-May. Now, the tax deadline varies depending on whether or not you're a citizen, and if you are e-filing. Residents who file a paper return have a deadline of May 18 of the year following the tax year. Residents who e-file have a deadline of May 24, 31, or June 7, depending on your address. For non-residents, French taxes are due June 7. For expats who are residing in France for their first year, income taxes are typically not due until September since no February or May estimated taxes are mandatory.

CAN I FILE FOR AN EXTENSION?

France offers extensions for taxpayers who file online, based on the location of their residence, as listed above.

WHEN ARE TAX PAYMENTS DUE?

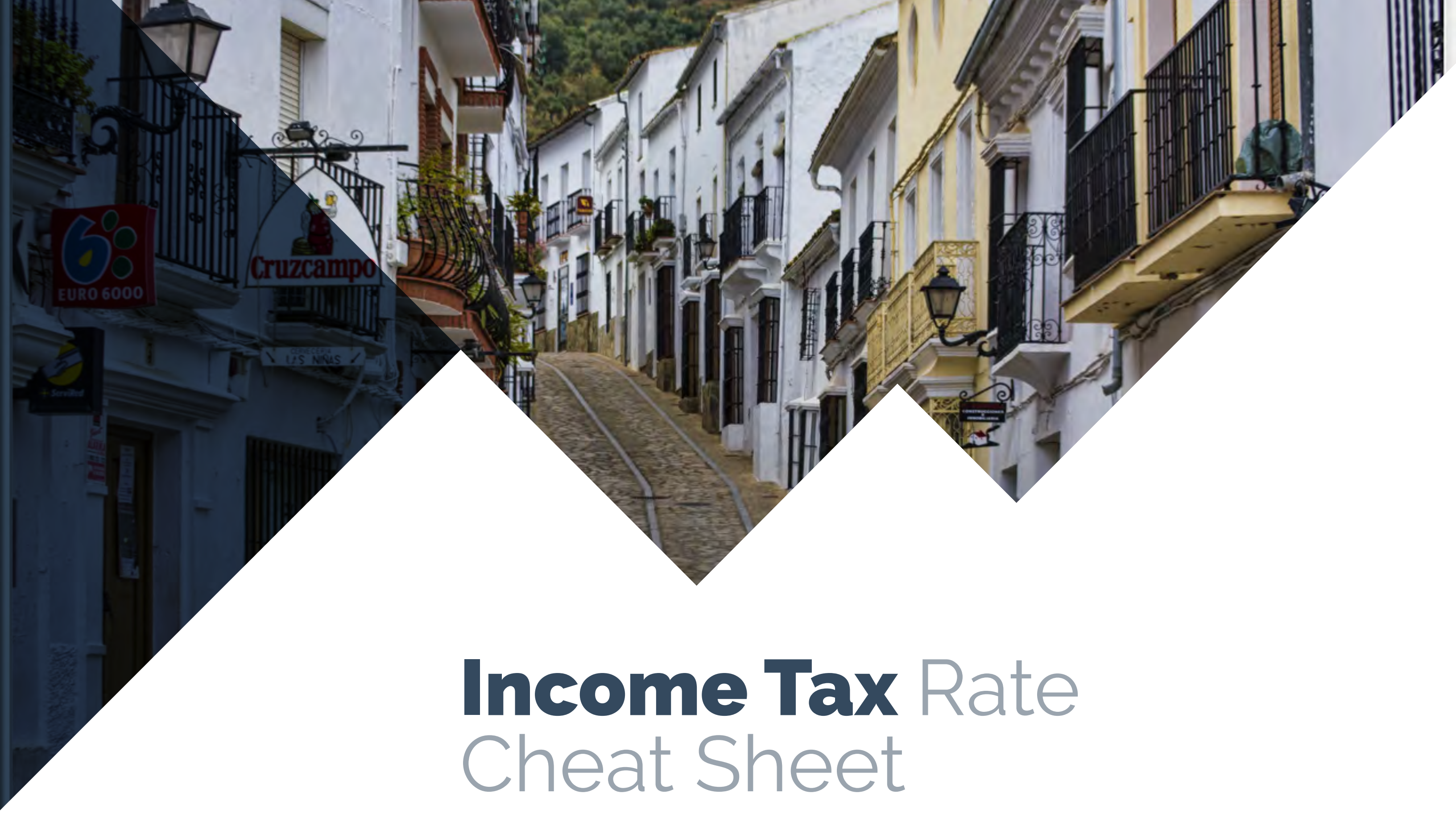
Since 2019, French resident taxpayers have paid income taxes using a pay-as-you-earn (PAYE) system.

Who needs to File

Whether or not an expat needs to file a tax return depends on how much income was made throughout the tax year. If you earned over the minimum threshold for filing, tax will be due, and the level of tax has increasing income brackets.

Keep in mind that you are expected to file a declaration even if you do not owe tax so that you can receive a notice of non-taxation. Not filing this declaration can result in fines.

Non-residents will only pay income tax on their French-sourced income.



Income Tax Rate Cheat Sheet

In France, every part of income is taxed unless expressly classified as non-taxable by the French tax authorities. The French income tax rates are progressive and are capped at 45%, plus a surtax of 3% on the portion of income that exceeds EUR 250,000 for a single person, and EUR 500,000 for married couples, and of 4% for income that exceeds EUR 500,000 for a single person and EUR 1,000,000 for married couples.

France taxes "family units," and a married couple will be required to file a joint tax return.

Residents of France are taxed on all of their income, whereas non-residents are taxed only on French-sourced income.

You can find the current resident income tax rates on the **French tax authority's website** or **on our blog**.

Typically, non-residents are taxed at a minimum of 20%, but only on French-sourced income. Non-residents can also expect to pay 19% property tax on the taxable gain from a sale for EU citizens; for all others, the rate jumps to 33.33%.

French Residence Guidelines

France determines residency by looking at three different factors. If you meet any of the three following benchmarks, you will be considered a French resident for tax purposes:

- Your family's primary home (where your family gathers on a regular basis) is located in a French territory. Alternatively, if you do not have a family home, your primary residence is in a French territory, meaning you spent more than 183 days in France – or more time in France than any other foreign country.
- Your primary employment or professional activity is derived from France. If you have professional activities in many countries, you are considered a resident if most of your activities take place in France.
- France is the center of your economic activity.

Taxation and Reporting of Foreign Income in France

Residents are taxed on their international income in France, no matter where it was sourced. However, the US-France tax treaty defines certain types of income as excludable. The excludable income is still taken into account when determining which income tax rate you use.

The standard exclusion is not available to non-residents of France, and they can expect to apply progressive tax withholding rates of 0%, 12%, and 20% to their income. That rate is affected by the amount of total taxable compensation received for the tax year. If their income falls into the 20% bracket, they must file an annual individual non-resident tax return, even though their tax is withheld at the source.

However, a special tax regime applies for foreign nationals on temporary assignment in France, known as the Inbound Assignee Regime (Article 155B of the French Tax Code). The individual must not have been a resident of France in the five years preceding their arrival and must not be assigned to live in France for more than six years in order to qualify. The Inbound Assignee Regime can only be applied to French taxes for five years. Additional compensation or benefits are exempt from French taxation, including housing allowances or relocation costs, but keep in mind that these items must be explicitly stated in the employment contract before beginning the assignment. For assignments that started on or after July 6, 2016, the exemption applies through the end of the eighth year. Under the same regime, individuals who are recruited by a French employer can also elect a 30% tax exemption in place of the itemized exemptions mentioned above.

Other Taxes
in France

France does assess a value-added tax at a rate of 20%. However, two abridged rates are a 10% rate for books and restaurant meals and 5.5% for most groceries.

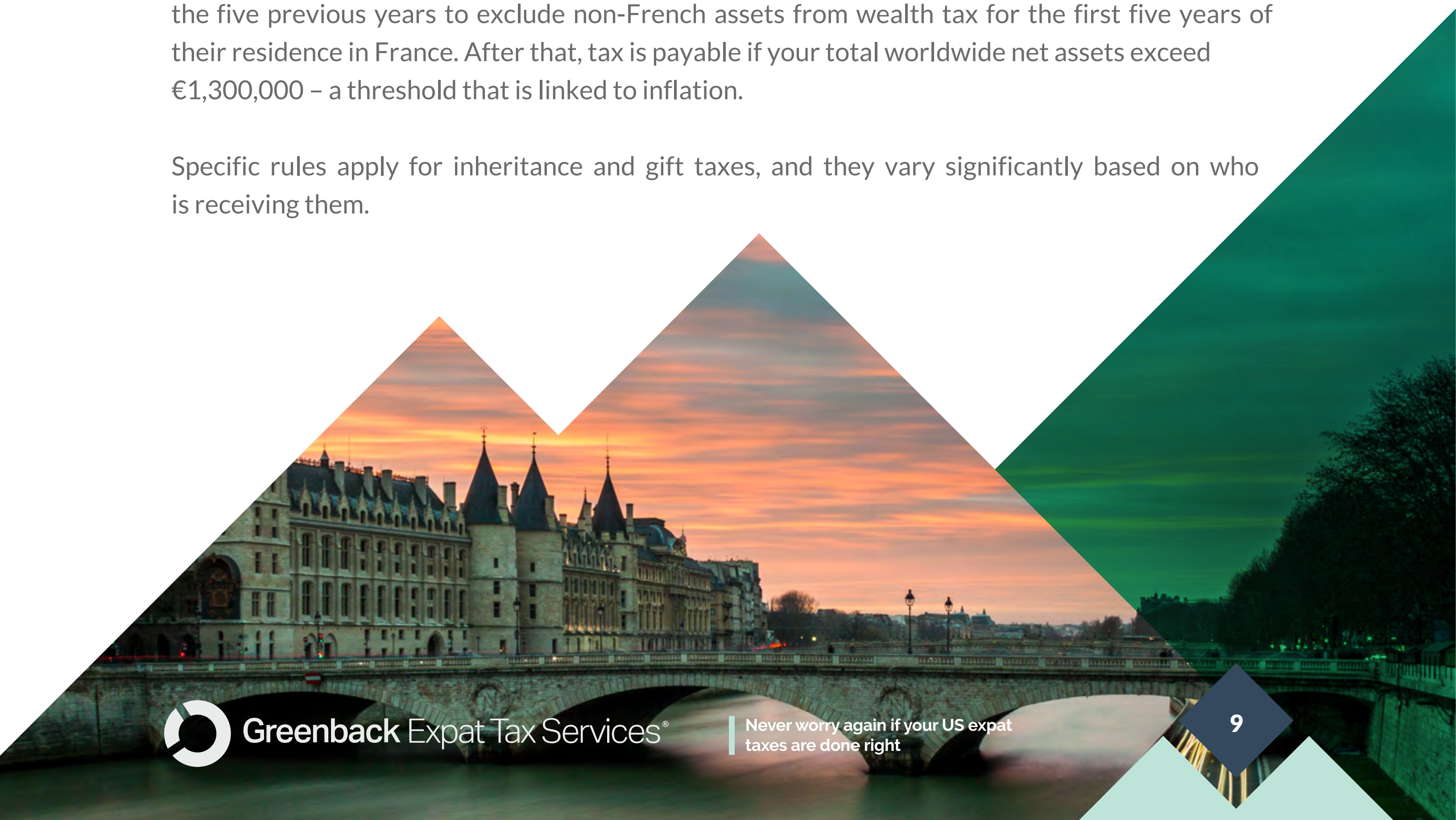
International capital gains are taxed as part of the income for French residents. All capital gains are taxed at progressive rates, though there are exemptions for items such as furniture, motor vehicles, and asset transfers due to death or gift.

Any sale of securities that results in a capital gain, as of January 1, 2018, is subject to PIT (personal income tax at a flat tax rate (PFU of 30% (12.8% for income tax, plus social levies at a rate of 17.2%, and, if relevant, to the exceptional income tax for high earners at a maximum marginal tax rate of 4%.

Capital gains from the sale of shares are taxed at 34.5%. Real estate-related capital gains are taxed at 34.5%, though principal residences are tax exempt. For non-residents, only capital gains sourced from France are taxable at the same progressive rates. Several additional rules and holding period regulations apply for sales of real estate and capital gains.

Further, France enacted a law that permits those who have been non-residents in France for the five previous years to exclude non-French assets from wealth tax for the first five years of their residence in France. After that, tax is payable if your total worldwide net assets exceed €1,300,000 – a threshold that is linked to inflation.

Specific rules apply for inheritance and gift taxes, and they vary significantly based on who is receiving them.



What Has Changed:
Inflation Calculation

The taxe d'habitation, or the French Council Tax, is an annual tax levied on the occupants of French properties on January 1, whether the property is rented or owned. The local council (commune) determines the tax, but the central government tax authority calculates and collects the tax. The funds are allocated to the local commune where the property is located and are intended to cover community costs such as street lighting, street cleaning, collection of waste and recycled materials, and the cost of administrative services.

THE TAX VARIES DEPENDING ON WHO WAS OCCUPYING YOUR PROPERTY.

If you own a home in France and use it as your primary residence, this will be one of two property taxes you can expect to pay, in addition to the French property tax (Taxe Foncière). If you own a rental property in France, this tax liability will fall to the tenant if the property is actively rented with a long-term lease. However, if the property is vacant, it may be the property owner's responsibility to pay this tax. If you are on assignment in France and your employer provided you with housing, you will still be assessed this tax if you are living in France as of January 1. If you are a student renting an apartment as a primary residence for nine consecutive months or more, for which the period included January 1, you will be responsible for paying this tax. If you moved during the year, the amount of French Council Tax assessed corresponds to the previous residence you held as of January 1.

Essentially, French law assumes that if you have the right to occupy the property and it is furnished and habitable, then the tax is due.

The formula to calculate the French Council tax is complex. However, the amount you are required to pay is typically determined by the following criteria:

- The annual rent that the property would be expected to collect in the open market
- Discounts, family expenses, low-income households, and disabilities
- Property management costs
- The tenant's taxable income
- Tax rates set by the local commune level

The French Council Tax demand letter is normally sent out in August or September with the tax payable in October or November.

US-France Tax Treaty
and Social Security

The US and France have a tax treaty in place that helps determine which country should be paid specific taxes and at what point those taxes should be paid. Usually, your resident status in each country determines where your taxes will be paid. This treaty not only helps prevent double taxation but also is a helpful tool to explain other unclear tax issues between the two countries.

The US-France Totalization Agreement determines which country has the right to charge social security under various employment arrangements. The totalization agreement in place between the US and France helps avoid paying into two systems and receiving only one benefit. If a US employer sent you to work for less than five years, you pay into US Social Security. If your assignment is beyond five years, you pay into the French social security program. If you were hired in France by either a French or US employer, you pay into France's social security program. If you are on a US government assignment, you pay into US Social Security irrespective of your resident status.

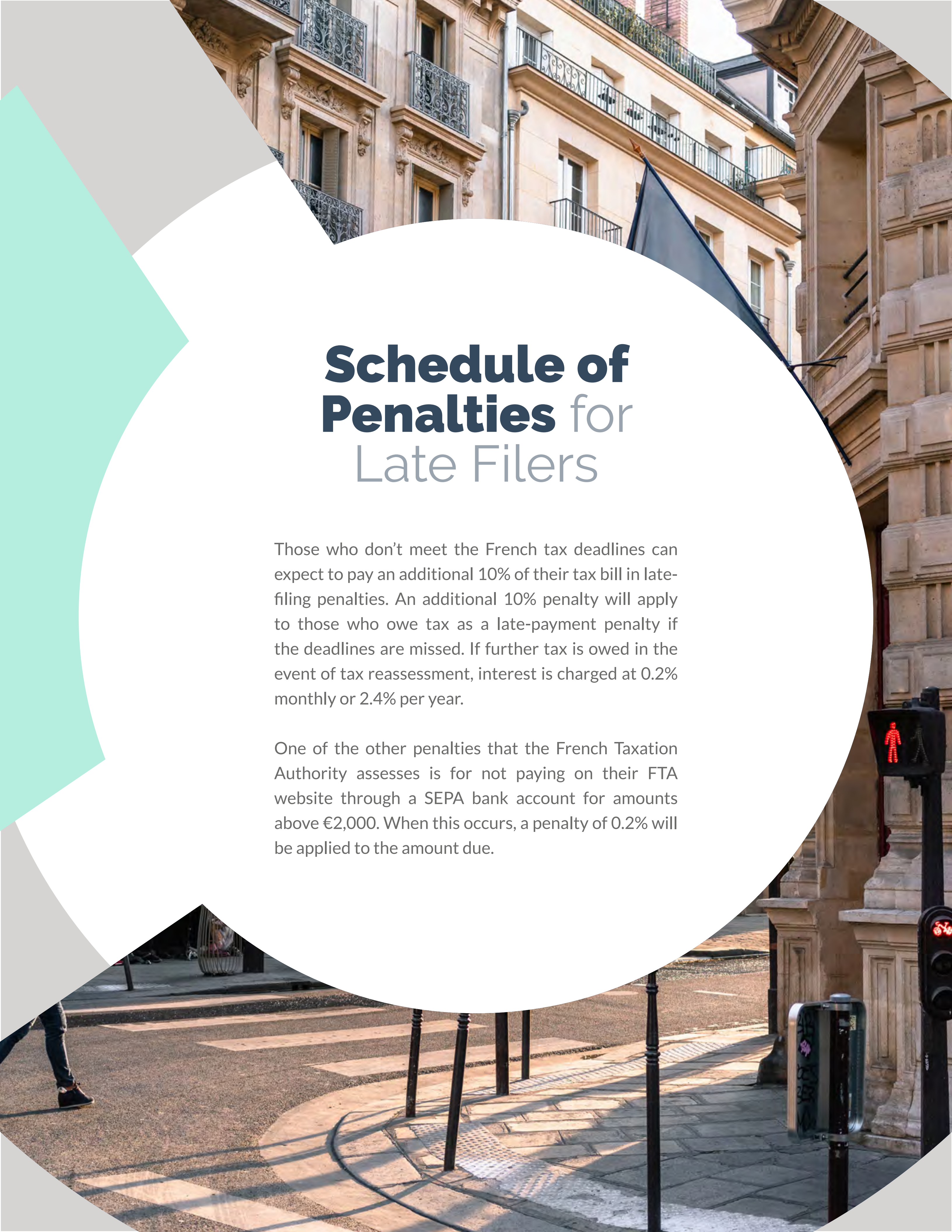
Refunds and the Foreign Tax Credit Limitation Removal

Recently, vast changes to taxation for Americans in France has meant that many of them can expect a refund if they are willing to file an amended return. This is because, in 2008, the American embassy in France stated that some French taxes would not be credited – via the Foreign Tax Credit – against US taxes. The taxes in question were considered social security taxes rather than income taxes, so the IRS did not deem them eligible for use with the Foreign Tax Credit. The social taxes that were excluded from use toward the Foreign Tax Credit were the CSG (Contribution sociale généralisée) and the CRDS (Contribution au Remboursement de la Dette Sociate). Two French-American dual-citizens contested the application of this Foreign Tax Credit limitation. They won.

The CSG was a 7.5% tax on income; the CRDS was .5% tax on income. These taxes also affect retirement and disability pensions, annuities, investments, and capital gains at different rates. So, expats faced more tax (8% of wages) than was legal, as this tax should have been taken as a dollar-for-dollar credit against US taxes paid via the Foreign Tax Credit.

Further complicating the taxation of expats is that France moved to a pay-as-you-earn (PAYE) system on January 1, 2019. Before this, in 2018, they had the "White Year," where a French program virtually eliminated 2018 income taxes. This meant expats had no taxes to use toward the Foreign Tax Credit. The problem this creates is that, in 2019, expats pay American taxes for 2018 income without the benefit of a Foreign Tax Credit, and they are required to pay French tax for 2019 income as well since it now moved to the PAYE system.

Due to the White Year, expats now have an additional reason to submit for a refund. Because expats in France do not get a 2018 Foreign Tax Credit, they likely are relying more heavily on carryovers from prior years to reduce the tax burden for this year. Refunds will correct this problem.



Schedule of Penalties for Late Filers

Those who don’t meet the French tax deadlines can expect to pay an additional 10% of their tax bill in late-filing penalties. An additional 10% penalty will apply to those who owe tax as a late-payment penalty if the deadlines are missed. If further tax is owed in the event of tax reassessment, interest is charged at 0.2% monthly or 2.4% per year.

One of the other penalties that the French Taxation Authority assesses is for not paying on their FTA website through a SEPA bank account for amounts above €2,000. When this occurs, a penalty of 0.2% will be applied to the amount due.

French Tax Deadlines

As mentioned above, on January 1, 2019, French resident taxpayers now pay income taxes on a pay-as-you-earn (PAYE basis. The scope of income subject to the new withholding tax system is extensive and covers most categories: employment income, pensions, self-employment income, and rental income, amongst others.

US Expat Tax Deadlines

FEDERAL TAX RETURNS

If you're an expat living abroad on Tax Day (typically April 15 unless this date falls on a weekend, in which case it's the following business day), you receive an automatic two month extension to file your federal expatriate taxes, changing the due date to June 15 (unless this date falls on a weekend). However, you may file an extension on top of that, postponing your tax due date until October 15 (unless this date falls on a weekend). Please note that any taxes owed are technically due on Tax Day and you are accruing interest on any amount owed until the IRS receives payment.

STATE TAX RETURNS

You may also have to file a state tax return if you lived or worked in the state at any point during the prior tax year, depending on from which state you moved. Most state deadlines follow the federal deadline, but there are some with their own due date requirements.

US Expat Tax
Exclusions and Credits

US EXPAT TAX EXCLUSIONS AND CREDITS

The US is one of two countries that taxes the international income of its citizens and permanent residents who are living overseas. However, there are a number of ways American expats in France are protected from double taxation, including:

Foreign Earned Income Exclusion (FEIE) – This decreases taxable income on expat taxes for a portion of foreign earned income. The amount you can exclude is over $100,000 USD and is adjusted annually for inflation (click here for the current amount).

Foreign Tax Credit – This lowers your tax bill on any remaining income (less the FEIE excluded amount) by certain amounts paid to a foreign government.

Foreign Housing Exclusion – This allows for an additional exclusion from income for certain amounts paid for household expenses occurring from living abroad.

FBAR and FATCA
Form 8938

WHAT IS FBAR?

Foreign Bank Account Reporting (FBAR) was introduced by the Bank Secrecy Act of 1970 to discourage and prevent tax evasion. The FBAR is reported to FinCEN rather than the IRS. FinCEN is the Treasury Department's Financial Crimes Enforcement Network, and it is the organization that enforces FBAR compliance. FinCEN Form 114 is another name for the FBAR! You will need to file FBAR if the total amount of all of your foreign bank accounts exceeds $10,000.

WHAT IS FORM 8938?

The Foreign Account Tax Compliance Act (FATCA) was enacted in 2010 as part of the HIRE Act, which includes legislation requiring US persons to report their foreign financial accounts and assets. US taxpayers use Form 8938 to satisfy their FATCA reporting obligations by submitting the form with their annual federal income tax return. For American expats living in France, you will need to file Form 8938 if the total value of assets is more than $200,000 on the last day of the tax year or more than $300,000 at any time during the year for expats who are filing singly. Married individuals will need to file if the total value of assets is more than $400,000 on the last day of the tax year or more than $600,000 at any time during the year.

Final Thoughts

In order to take advantage of all of the special credits, deductions, and exclusions and to maximize your savings, you must first understand the tax filing requirements for American expats in France. We hope this guide answered most of your questions about filing taxes in France as an expat, but if you want to learn more, our experts are always standing by to help you navigate the complex expat tax process.

Consult with one of our expat tax professionals so that you never worry again if your US expat taxes are done right.

NEED TO FILE YOUR AMERICAN EXPAT TAXES?

In addition to our US expat tax services, we offer tax preparation for your French tax-filing needs – **get started with us today to cross taxes off your to-do list**.