

# LA NEWSLETTER NON-RÉSIDENTS

French tax information  
for non-résidents



## VIDEO

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## REAL ESTATE

**Purchasing** through an  
**SCI** as a **foreigner** in  
France: **what are the  
tax consequences** and  
the **pitfalls?**

# FEATURED ARTICLE

## Purchasing through an SCI as a foreigner in France: what are the tax consequences and the pitfalls?

Many foreigners, who are not tax resident in France, set up an SCI for the purchase of their French properties. What are the tax consequences of this option?

### **Purchasing through an SCI: is the taxation greater?**

The tax paid on the acquisition of a property through an SCI is the **same** as when there is no SCI, and is unaffected by the presence of non-resident shareholders. The SCI will be subject to tax at the standard rate of 5.90% or 5.19% depending on the location of the building.

### **I am buying shares in an SCI. Will I pay more tax?**

You will be subject to duty at **5%**; however, tax could also be payable in the country where you are a tax resident.

### **I have heard that there are SCIs subject to corporate tax and SCIs subject to income tax. What is the difference?**

The SCI can be subject to income tax, with shareholders being taxed directly on their holding. It can also be subject to corporate tax like a classic commercial company. For property purchases in France, the income tax option is often advisable. It should be noted that if the SCI leases the property, it will automatically be subject to corporate tax, which may be disadvantageous on a re-sale of the property.

### **I intend to use the property held by my SCI on a private basis. Are there any tax consequences?**

In France, it is common practice for an SCI (not subject to corporate tax) to make the property it owns available to its shareholders. This transaction is not taxable in France.

Nevertheless, the UK tax authorities take a different view on French SCIs. Under English law, UK shareholders in an SCI could therefore be subject to income tax in the United Kingdom on the basis that the private use of a second home amounts to a benefit in kind. To avoid being penalised, it is essential to take good advice on the constitution and management of the company.



## Will I have to make an annual tax return in France?

You only need to declare your income in France if you earn income in France. The principle is taxation in France of real estate income. All tax treaties signed by France give the State where the property is located the right to tax that real estate income.

A minimum rate of 20% will be applied, with 17.2% in social security contributions, unless the non-resident can show that his tax rate would be less than 20% if he or she were a French tax resident and therefore subject to French taxation on worldwide income.

It is possible that the non-resident will also be taxable in his or her own country. If there is a tax treaty in place, the situation will then depend on the double taxation relief clause.

In Belgium, for example, the tax authorities regard the income distributed by SCIs to shareholders as dividends, which are taxable in Belgium. This is therefore a case of double taxation: the non-resident taxpayer is taxed in France on his property income and in Belgium on the same income regarded there as dividends.

## I'm worried about a 3% tax that I heard about ...

All companies - whether French or foreign - with one or more properties located in France on 1 January of the tax year are liable to an annual tax of 3%, based on the market value of those buildings.

Nevertheless, an SCI will be exempt if it completes annual declaration No. 2072II.

## Will I be subject to IFI (Real Estate Wealth Tax)?

Non-resident shareholders in an SCI may be liable to IFI if the net amount of their real estate assets in France is greater than 1,300,000 Euros. The presence of the SCI is irrelevant.

Acquisition through an SCI can be a problem for Swiss residents. Some Swiss cantons may provide that SCI shares - although exempt in France - are taxed in France, whereas a direct holding would have enabled the property to be removed from the Swiss tax base.

## What tax will I pay on a re-sale?

You are likely to be taxed on the real estate capital gain.

The sale of the property in France is still taxable in France. The tax is calculated at a fixed rate of 19%. This applies in the event of the sale of the shares of the SCI by non-resident shareholders who are natural persons and to the SCI, in the event of a sale of the property. Additional tax of 2% to 6% will also apply.

French real estate revenues of non-residents are subject to social contributions, at a fixed rate of 17.2% since January 1, 2018.

## What if i transfer my SCI ?

In an international context, the transmission through inheritance or donation of real estate wealth located in France is regularly taxed in France. Shares of an SCI and the current accounts of this company are concerned.

International conventions are rare, but a few may be quite interesting because they can cancel the right to tax for France , As it is the case with [Belgium](#), [Spain](#), [Bahrain](#), [U.A.E](#), [Saudi Arabia](#), etc.

# 2017 overview of the real estate market in France

Notaries in France have published their real estate report allowing a review of the year 2017.

**965,000 transactions** were made over twelve months (against 969,000 at the end of January 2018), an increase of **10.9%** year on year. «The annual volume of transactions is changing at a slightly slower pace (...) and notaries now attend a soft landing, suggesting more reasonable volumes in 2018».

- Rising prices - Rising prices have been particularly felt for old apartments in Île-de-France.
- Increase in loans - Outstanding loans to housing continue to grow (5.8% year on year) and borrowing rates remain low (1.61% on average).
- Age of acquirers - The share of buyers aged 60 and over has increased steadily between 2007 and 2012, from 13% to 17% for all old dwellings combined.



# OTHER NEWS



## **Exemption from capital gains on the disposal of a main residence (even if occupied only briefly)**

The capital gain realized on the transfer of a principal residence is exempt from income tax (19% lump-sum levy) and social security contributions (at a rate of 17.2%), regardless of the type of housing. (detached house, chalet or apartment).

[Learn more](#)



## **Deduction at source: the impact on non-residents**

From 1 January 2019, withholding tax will make it possible to offset the one-year gap between income collection and taxation, and to adapt more quickly to changes in the financial and family circumstances of taxpayers. What impact for non-residents in France

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