

How do the recent changes in the Inheritance/Gift Tax law affect me?

On the 21st August 2007 La Loi 'TEPA' (Law n°2007-1223) was introduced, which makes considerable changes to existing French Inheritance/Gift Tax Laws and took effect from 22nd August 2007.

What does it change?

Inheritance Tax Limits

- Inheritance Tax between married couples and those with a PACs (Pacte Civil de Solidarité) agreement on first death will no longer be applicable, before limit was set at €76,000 for married couples and €57,000 for PACs partners.
- The allowance for children & parents of the deceased has now been increased from €50,000 (per child) to €150,000 (per child)
- Brothers & sisters of the deceased can now receive €15,000 each before Inheritance tax.
- Nephews & nieces of the deceased will also now be able to receive €7,500 each before Inheritance tax.
- No Inheritance Tax between Brothers & Sisters who reside at the same address.
- Limit of the amount that can be left to a disabled person who is not a direct heir has been changed from €50,000 to €150,000. This exemption can also be cumulated with other allowances, (ie the €150,000 for children)

Life Time Gifts

- It is now possible under the new Gift Tax laws to donate €150,000 per child every 6 years without incurring any Gift Tax (Please Note - Lifetime gifts between spouses and PACs are still subject to the existing threshold of €76,000)

Cash Gifts

- This has increased from €20,000 to €30,000 and applies where the gift is made to a child, grandchild (or if there are no direct line descendants to nieces or nephews). However the donor must be less than 65 years old and the donee more than 18 years old at the time of the gift. Also the gift should be declared and registered by the donee at their local tax office within one month of the gift. This exemption can be cumulated with other allowances, (ie the €150,000 for children) but it does not renew after six years and can unfortunately only be used once.

What has not changed?

In France, assets pass according to French succession law rather than by will, and this favours any children of the deceased rather than the spouse (between 50% and 75% of the deceased's assets must pass to the children). PACS partners and unmarried partners have even fewer rights to the property. This can be circumvented, but if no action is taken to provide for the spouse, they are only entitled to 25% as of right. Any unreserved balance can be left according to your will. For UK residents, this rule will apply to the French property only; if you are French resident, it applies to your worldwide assets, except for real estate situated outside France.

Where assets are taxed in both countries, under the UK/France inheritance tax treaty, tax should be paid in the country where the property is located, and you can offset this against the tax due in the country of residence to avoid double taxation, even though the UK taxes the estate and the

French tax the recipient.

If you are French resident, from a UK point of view, you will be regarded as if you were domiciled in France, because of the UK/France treaty mentioned above. Therefore, only your UK assets will be subject to UK inheritance tax, with an appropriate double tax credit in France for any UK tax paid.

If you are UK resident and domiciled but own a property in France, the French property will be subject to UK IHT as part of your estate, and as it is located in France, it will also be subject to French succession tax, with an appropriate tax credit in the UK.

If you have a question, want to arrange for a free financial review or just want further information I can be contacted on +33 (0)325461631, steven.grover@spectrum-ifa.com or alternatively have a look at my website www.financialexpat.com

The information is only provided as a guide and, if you need assistance in this area you are strongly advised to seek the help of a specialist in this field as each individual case is different - This article does not constitute financial advice.

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