

From The Sunday Times

March 14, 2010

Why the rich flee to France

Crossing the Channel has its attractions



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France has emerged as the latest destination for wealthy individuals fleeing Britain to escape the 50% top rate of income tax due to take effect next month.

The country, traditionally seen as highly-taxed, has introduced several measures recently to encourage entrepreneurs to settle there.

Analysis shows the exodus is fuelled by Britain becoming the most expensive of all big financial centres from April 6, when earnings more than £150,000 will be taxed at 50% and personal allowances reduced for income above £100,000.

The research, by KPMG, the accountant, shows London is now the sixth most expensive of eight top financial centres. From April, however, it will become the most expensive in certain circumstances.

For example, a married banker with two children earning £150,000 with a £350,000 bonus would pay tax today of £198,690 in London; £214,228 in Paris; and £205,583 in New York. From April, the tax burden in London will shoot up to £236,279.

David Anderson at Sykes Anderson, the adviser, said he deals with at least one case a week of people wanting to relocate. The type of individual moving has also changed.

"The average net worth of people leaving today is about £10m. Five years ago, it would be more like £1.5m. The people moving are more economically active and not just the Aga/Volvo brigade of retirees," he said.

While traditional destinations have been Switzerland and Monaco, more are considering France. Anderson said: "Countries such as Monaco and Switzerland have historically been the tax havens of choice but are not always practical when wishing to continue to work for a UK employer."

France has been made more attractive by a change to tax rules in 2008. This includes an exemption from wealth tax on assets outside France; a 50% rebate on interest, capital gains and dividends generated in any country within the EU; and a 30% reduction in income tax. The benefits last for five years from when you move to France.

Reader Paul Duffin, 47, a software engineer from Andover in Hampshire, moved to France at the start of the year. He is still employed by a UK-listed company but is becoming non-resident for tax purposes.

He has moved with his wife Gretchen, 35, to Lorgues, about 50 miles west of Nice. They have sold their UK property. He said: "The total tax I pay will be much less because of the way tax is calculated in France."

Duffin said he also saves on everyday living expenses. "The cost of food and wine is far lower in France," he said.

However, there are many potential pitfalls. Andrew Tailby-Faulkes, a tax expert at Ernst & Young, the accountant, said: "There is still a climate of uncertainty over what people thinking of moving abroad and leaving the UK tax system need to do."

In the past, it was thought you could qualify as non-resident if you spent no more than 91 days a year in the UK, on average, over a period of four years, or 183 days in any one tax year.

However, last month, the Court of Appeal ruled that Reading-born entrepreneur Robert Gaines-Cooper was liable to pay UK tax despite spending fewer than 91 days a year in Britain. This was because “the centre of gravity of his life and interests” remained in the UK, the court said.

Here we answer your questions about moving abroad:

What do I need to do to become non-resident?

To avoid British tax, you must demonstrate that you plan to work outside the country for at least one tax year and be working full time.

If you left in June 2010, you would need to work until at least April 6, 2012, to qualify, for example.

However, there is no definition of “full time”. HM Revenue & Customs states your employment must show that it has “a standard pattern of hours that can be compared to a typical UK working week.”

You will also need to adhere to the 91-day rule, although you can still spend most weekends in Britain. You cannot spend time working in Britain, as this would mean you are not working full-time abroad.

Why France?

Anderson said it is easier to maintain non-residency status if you do not move to jurisdictions regarded as tax havens.

To become a French resident you must meet one of four criteria: have your main residence in the country; spend at least 183 days a year there; ensure your “principal activity” is in France; or have most of your assets, such as property and investments in the country.

Caroline Cohen at The French Law Practice said: “If at least one out of the four tests is conclusive, a person is resident in France and taxable in France on his worldwide income.”

How much would I save?

The KPMG report suggests that from April France will become the fourth-most expensive compared with the UK, which will become the most expensive.

Someone earning £200,000, with a non-working spouse and two children will pay £69,930 in tax this year in Britain. From April, that will be £77,520. In France, it would be £45,935 — a £31,585 saving compared with the UK after April 6.

There are five income tiers. The lowest, for earnings up to €5,875 (£5,335), has no charge. The next level, up to €11,720 is charged at 5.5%; 14% on earnings up to €26,030; 30% up to €69,783; then 40% above this.

French income tax is also calculated on a household basis. You work out the total household income and then divide this by a certain number of parts. Each parent counts as one part and children under 21 (or under 25 if they are studying), count as half a part.

You then work out the tax liable based on the divided sum. Multiply this by the total number of times you divided the household income. It means you benefit from the lower tax rates more than once. “Anyone with a large family will almost certainly be better off in France,” said Anderson.

You are also subject to a wealth tax of 0.5% to 1.8% of net assets above €790,000 every year. The highest rate applies to assets worth above €16.54m.

How is France attracting UK residents?

French tax law changed in July 2008 providing a five-year exemption of wealth tax on overseas assets for anyone moving to France and becoming resident there. Normally wealth tax is calculated on all worldwide assets.

You also qualify for a 50% reduction in tax from income generated from interest, capital gains and dividends, in any European Union country, or a country with a tax treaty with France, such as America.

If you receive a bonus from your employer for moving to France, this is also exempt from income tax.

If you do not, 30% of your total income is assumed to be a welcome bonus when tax is calculated.

These benefits apply for five years and start from the date you become a non-resident in the UK and a resident of France.

The regime applies to individuals who have not been resident in France for five years.

What if I move to France but work elsewhere?

If you become resident, you do not pay tax on income made outside the country if you work for at least 120 days outside France in a 12-month period. In some cases, you may not pay income tax at all.

Anderson said: “We have one client in France who does contractual work in Russia for about four months of the year. He does not pay any tax on the income from this work.”

Another client had established a similar arrangement working in Italy, he said.

Anderson added: “This is not a loophole or tax avoidance scheme but a specific provision in the French tax code designed to promote French business.”

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