

French Tax on Pension Lump Sums

by Isabelle Want

After last month's grim article on terrorism, I promised you to be more cheerful for February so..... I decided to do an article on tax. No, it is not my favourite subject. But in the wake of the new Law on pensions in the UK, I get lots of questions on how things are taxed in France now that it can be tax free in the UK.

1. UK or French Tax

If you are French resident (meaning you live in France more than 6 months per year), you must declare your worldwide income to the French tax authorities once a year (in May for the previous year).

So, if you cash in a pension lump sum and are a French resident, you must declare it and it will be taxed in France. It should not be taxed in the UK, thanks to the double taxation agreement between both countries (as long as you have filled in the HMRC France UK individual form to tell them you live in France). That means that the UK tax-free lump sum will be taxed in France.

If you are thinking of moving to France or are in the process of doing so, I think you should cash it in while you are still in the UK.

2. How you are Taxed on it in France

In the UK, the lump sum is taxed at source (not for the tax-free part). In France, you declare the amount on your income tax form once a year, in May (2047 and 2042 forms). The amount is added to your normal, usual income (pensions, salary, rental income, interest, etc...). Therefore, you are taxed according to your total annual income and the % you are taxed depends, not only on the total amount, but also on how many people are on the tax form or tax credits (you can get extra allowance for children or even ecological work done on your main residence).

However, you can also choose different ways for it to be taxed, depending on what kind of pension you are cashing in.

3. The 4 Ways to Declare It

I) Declare it all in one year:

It is the simplest way but probably also the most costly. You simply declare it in one go, so if you cashed in the lump sum this year, you declare it all on the 2017 tax form for the revenues of 2016. This is probably OK if it is a small lump sum or if you have a low regular income e.g. you are a couple and your regular income is 20 000€ per year. You cash in a lump sum of 20 000€ so you would have to pay 2 368€ of income tax the year after you cashed it in. Normally you would not pay income tax as your income is lower than 26 000€.

II) Only declare the profits:

If you can get a statement from the pension fund company showing how much you put into it yourself and how much interest your pension has generated, you can choose to declare the interest only. e.g. You cash in a pension lump sum of 100 000€ Euro and only 20 000€ is interest and 80 000€ is what you have contributed to it over the years. Then you only have to declare the 20 000€ interest.

You cannot do this without a statement proving the interest part or if it was your employer that contributed to it by putting money in instead of you. I realise that it is not straightforward to get a statement from the pension company.

III) Spread the declaration over 4 years: YES YOU CAN!

The French tax authorities allow you to spread the declaration of the lump sum over 4 years to lower the impact on the income tax. This is what they call a revenue exceptionnel, an exceptional revenue, meaning it is unusual and it is not recurrent every year so you can divide the amount in to 4. E.g. You are a couple with a regular income of 30 000€ per year and one of you cash in a lump sum of 100 000€ in 2015. In 2016, 2017, 2018 and 2019 you will declare an income of 30 000€ + 25 000€ (100 000/4) so you will pay 4 468€ of income tax during those 4 years. Whereas, if you declare it all in one go, you would have to pay 26 610€ of income tax (about 10 000€ more) in 2016.

IV) Tax at 7.5%:

For certain pensions, you can choose to be taxed at 7.5% on the lump sum. BUT there are conditions:

- The payment is done in one go and not spread out.
- The contributions that you or your employer put into the pension scheme gave you a tax advantage (were deductible from your taxable income).

Those conditions are clearly stated on page 100 (out of 378) of the French income tax guide. So just because there is a line saying pensions de retraite en capital taxable à 7.5% on line 1AT of the 2042, it does not necessarily mean that you are entitled to it.

In France, we have a pension scheme called PERP and the contributions you make to it are deductible from taxable income. e.g. I earn 20 000€ per year and put 1 000€ into my PERP, then I am only taxed on 19 000€. When I cash in my PERP, I can have it taxed at 7.5%.

If you have a similar scheme in the UK or elsewhere, you can ask for it to be taxed at 7.5% instead of being added to your income and taxed accordingly.

Conclusion

OK, I know it can get pretty confusing but basically option B or C are the best ones for you, apart from cashing the lump sum in before you move to France.

And obviously, if you need advice (free), email or phone me and I can estimate the tax you would have to pay and the best way for you to declare it. Furthermore if you cash in your pension and have not spent it all on renovation, contact me for advice on investments (free as well).

Don't hesitate either to contact me for any other subjects such as funeral cover, inheritance law, car, house, professional and top up health insurance. And check out our website www.bh-assurances.fr for my previous articles on the 'Practical Pages' of the English site.

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