French Residence Tax Healthcare

by David Hardy

"I have recently retired and would like to make my French house my primary residence as I will be spending more time there than in England. How do you do this? And what are the tax and health care implications?"

If you are planning to spend the majority of the year in France, you have to consider the implications of becoming a French tax resident. You are automatically considered French tax resident if your main home (or foyer fiscal) is in France. Alternatively, you would also be considered resident if you spend more than 183 days in France in any calendar year.

The main difference between the UK and the French tax system is that you are taxed on a household rather than on an individual basis. This means that if you are married, your tax liability is based on the combined income of both spouses. This can work in your favour especially if one spouse has a higher income, since you get to utilise the other spouse's lower rate bands in full.

French income tax rates are progressive up to 45%. In addition to income tax, social charges are levied on most types of income (7.4% on pension income and 15.5% on investment income).

Under the terms of the UK/France double tax treaty, pension income is only taxable in your country of residence with the exception of government service pensions (e.g. civil service, army or police) which remain taxable only in the UK. Government service pensions are not directly taxable in France but the income is reported on the French tax return and then a credit equal to the French tax and social charges is applied.

If you become French resident at the beginning of 2015 for example, your first obligation to the French authorities will be to complete a tax return in May 2016 for your income for the calendar year 2015. At the same time you would normally complete Inland Revenue form 'France Individual' informing the UK of your departure. In the meantime, you should inform the Mairie of your new home and of your decision to stay permanently.

If you are in receipt of your UK state pension, you will be entitled to a Form S1 from the Department for Work & Pensions. The form has two significant benefits: firstly, it exempts any UK source pension income from social charges and secondly provides household healthcare cover in France. If you do not qualify for Form S1, you will have to arrange private healthcare cover for at least the first five years of residence unless you enter the social security system by taking up employment or self-employment in France.

You also have to consider the implications on any other types of income such as investment income. It is important to note that what is tax-efficient in the UK (such as ISAs) is not tax-efficient if you become French resident. Therefore, leaving the UK and becoming French resident is an ideal time to look at your overall investments.

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