

Furnished holiday letting

Finding your way through the changes

By Virginie Deflassieux – French Tax Senior Manager at PKF (Guernsey) Limited

Holiday lets have always been a popular source of extra income for expatriates in France. The tax regimes applicable to furnished lets were substantially modified in the last two years: there are new conditions to qualify as professional landlords, the *auto-entrepreneur* regime has been introduced and the *micro BIC* regime conditions have been amended.

Unfortunately, these changes cross several areas of French tax legislation complicating the decision process when considering suitable options for letting furnished accommodation. Comparing the final tax bill or even the eligibility for each option has become increasingly difficult. Below is an outline of the available options.

1. Standard registration

All furnished letting (professional or not) must be registered through the filing of form P0 with the local tax registry office. The landlord is given a SIRET number. In the case of regular seasonal lettings, this may trigger a liability to the Contribution Économique Territoriale which has replaced the *taxe professionnelle* (local business tax). It also creates a liability to social security charges. *Chambres d'hôtes* were recently in the spotlight when it became compulsory to register them for social security. It was feared that it would impact negatively on very low-key operations so those with an annual taxable income below €4,670 will now be exempt from social charges.

2. Professional landlord status

The professional status offers the following attractions:

- ◆ Rental losses and pre-letting expenses may be set against the rest of the household's taxable income. Pre-letting expenditure may be spread over the first three years of activity.
- ◆ A capital gains tax exemption on any gain arising from the disposal of the rented property is granted to professional landlords whose turnover is below €90,000. Those registered as *gîtes ruraux*, *meublés de tourisme classés*, or *chambres d'hôtes* (sector of *para-hôtellerie* or hotel-like activities) benefit from the higher limit of €250,000.
- ◆ Wealth tax business asset exemption may apply to the rented properties.

Unfortunately, the conditions to register as a professional landlord are now stricter and must include all the following criteria:

- ◆ Registration as *loueurs en meublé professionnels* with the *registre du commerce et des sociétés* (RCS), and
- ◆ An annual turnover in excess of €23,000 (total per household), and

- ◆ A turnover exceeding the household's other total net earnings (including pensions and annuities).

All other furnished letting activities are treated as non-professional but if assessed under a *régime réel* (see below), losses can be set against the same type of income for up to 10 years.

3. Tax regimes: *micro-BIC*, *régime réel* or *auto-entrepreneur*?

a) A two-tier *micro BIC* regime

The *micro BIC* has always been a favourite tax regime as it was relatively straightforward and offered a generous 71% fixed deduction for expenses, provided the annual turnover was below €81,500.

With the exception of registered hotel-like activities (*para-hôtellerie*) such as *gîtes ruraux*, *meublés de tourisme* or *chambres d'hôtes*, furnished lettings are now subject to a lower limit on annual turnover of €32,600 and the fixed deduction for expenses is now only 50%.

As a result, *préfectures* and *mairies* have been swamped with landlords asking to register their properties as *résidences meublées de tourisme classées* in an attempt to remain under the old *micro BIC* regime. This has triggered a reform of the *meublé de tourisme* registration process which is now done through a dedicated website. The property ratings are carried out by the private sector rather than the administration, which unfortunately means another cost to the taxpayer. Below is the summary of the steps as of writing:

- ◆ Register on line at www.classement.atout-france.fr or download the application form 'Demande de classement d'un logement meublé dans la catégorie Meublé de Tourisme'.
- ◆ Appoint an accredited surveyor to inspect the property. His report issued within a fortnight is valid for three months and is available online.
- ◆ Submit the report and the completed application form to the local *préfecture*.
- ◆ Receive the agreement, normally within the month, and the establishment's details are published online. The owner must display the star rating sign in his property.

b) *Régime réel*

The *micro BIC* or real regimes apply by default, depending on the annual turnover. For instance, a non-hotel-like furnished letting activity with a turnover below €32,600 will automatically be assessed under the *micro-BIC* with the 50% deduction. Micro-businesses must still record income and expenditure details in a *livre-journal*. A furnished letting activity shared among unrelated partners is treated as a *société de fait* (company-like arrangement) and excluded from the *micro-*

BIC regime.

Activities which generate an annual turnover exceeding the *micro-BIC* limit are assessed under a *régime réel*. Nevertheless, taxpayers assessed under the *micro* regime may opt for the *réel* regime if they prefer to itemise their expenses. This has to be done in writing before February 1 for the current tax year. The *régime réel* requires the preparation of French accounts by an accredited France-based accountant or audited by a *centre de gestion agréé*, otherwise the taxpayer is assessed on the basis of 125% turnover instead of 100%.

c) *Auto-entrepreneur* regime

Subject to specific turnover limits, residents in France who are eligible for the *micro* regime may opt to pay their income tax and all social charges at source under the *auto-entrepreneur* regime. They must apply before December 31 for the following tax year, or within three months of the start of any new activity.

The levies known as the *micro-fiscal* (effectively the tax charge) and the *micro-social* are handled by the local URSSAF office. The *micro-social* includes the social security charges and the extra contributions known as CSG, CRDS and PS. The tax and social liabilities thus paid at source are final. Taxpayers still need to report this income on their tax return as it is included in the *barème* (income tax scale) computations.

The 2010 *micro-fiscal* (tax) and *micro-social* rates applicable on furnished lettings are as follows:

- ◆ For trading and hotel-like rentals: 1% tax and 12% social charges.
- ◆ For services and general furnished lettings: 1.7% tax and 21.3% social charges.

In summary, conditions to become an *auto-entrepreneur* and pay income tax at source are as follows:

- ◆ Respect a specific turnover limit updated every year by reference to the *barème*, the income tax scale.
- ◆ Register for the *micro-social*.
- ◆ In the absence of any income for 36 months or 12 quarters consecutively the *auto-entrepreneur* status is forfeited.
- ◆ Many non-professional resident landlords are not necessarily registered for mainstream French social security. By opting for the *auto-entrepreneur* regime these earnings become subject to the *micro-social* charges. It is not yet fully known how this affects taxpayers who already have existing health cover.

The *auto-entrepreneur* tax at source triggers the loss of the deductible portion of CSG (5.8%) on the rental income.

In the first year of application, *auto-entrepreneurs* effectively pay tax in respect of their previous year's earnings and their current ones. For instance, if the taxation at source applies to 2011 income, the tax



payments will take place throughout 2011, as well as the liability due in respect of 2010 income.

Conclusion

Although it is possible to change if one decides that a particular regime is not optimum, the reality is that such changes can be time-consuming and create extra administrative tasks. Therefore it is important whenever possible to weigh up all the consequences beforehand.

For further information or a review of your French tax affairs, please contact Virginie Deflassieux or Catherine Le Pelley at french.tax@pkfguernsey.com or visit www.pkfguernsey.com. A complete French tax guide, 'Taxation in France, a Foreign Perspective', is available on this website.

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Updates

New traffic regulations

A raft of new measures for road safety came in on November 16. Drivers must now give way to any pedestrian lawfully crossing a street or clearly intending to do so and to all pedestrians walking on the street in a signed pedestrian precinct or meeting point.

Children under 8 may cycle on the pavement or verge provided they don't exceed walking pace and don't hinder pedestrians (unless police have set up special provisions for an area).

On the roads, local authorities are being encouraged to install a right turn sign for cyclists at traffic lights. The Code de la route now allows cyclists to turn right even at a red light if there is a special cyclists' 'turn right' sign. The system has already been tested successfully in Bordeaux and Strasbourg.

Another novelty from next January, car drivers (with a Permis B) who wish to drive a three-wheeler or a moped/motorbike of more than 50cm³, will now have to take a seven-hour course unless they have already taken a three-hour course or can prove they have driven such a vehicle for at least the five previous years, via a statement from the insurer that the driver has insured such a vehicle for the last five years.

There will also be harsher penalties for driving a *débridé* vehicle – which has had the speed control governor removed.

Past users of Mediator should consult

The French agency for medicine safety (Afssaps) recommends that those who took the now banned slimming and diabetics' drug Mediator for at least three months in the past four years should seek advice from their GP. The drug carries a risk of heart valve problems. Symptoms which should trigger a visit to the doctor include breathlessness, feeling tired for no good reason or swelling (oedema) of the lower leg.



Technically speaking with Marcus Williamson

How can I use UK TV 'watch again' services in France?

If, like me, you've been enjoying the recent Attenborough 'First Life' TV series, or other gems, such as Simon Armitage's 'Gods and Monsters: Homer's Odyssey', you may be wondering how you can watch these and other programmes again using the BBC iPlayer.

Each UK TV broadcaster has its own way of allowing viewers to watch programmes after they have been first shown. Others are: ITV Player, Channel 4's '4 on Demand' and the Sky Player. The systems allow TV programmes to be seen on the internet in the browser programme (such as Internet Explorer or Firefox) or downloaded and played in an external programme (such as BBC iPlayer Desktop).

However, all the systems have the disadvantage that they normally only allow UK residents to watch the programmes and physically prevent internet users outside the UK from accessing them. So, how can we watch again when we're abroad? The answer lies in the use of a clever piece of technology called a Virtual Private Network (VPN). This provides a secure link between you and a server in the UK, to make the broadcaster's website think you are in the UK.

There's a list of 108 different VPN providers at: <http://www.start-vpn.com/>

The cost ranges from \$6.75 to \$19.99 a month, which would be extra to your normal internet provider charges. For UK

expatriates, the site recommends choosing one of the VPN providers which has a 'UK Internet Protocol [IP] address', meaning that you will appear to be located in the UK.

Using a VPN has the added advantage that all internet traffic is encrypted between France and the UK, preventing eavesdroppers from monitoring your Internet usage.

It's also worth knowing that many TVs now have inputs for connecting your computer via a VGA or HDMI cable, so that you can watch the programme on your TV instead of on your computer screen.

Email your technical questions to Marcus: cointechno@french-week.com