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TEMPORARY AMNESTY ON EUROPEAN SAVINGS DIRECTIVE FOR UK NATIONALS LIVING IN FRANCE

The anti tax evasion aim of the European Savings Directive is now working!

The French tax office have offered an amnesty to individuals who send in details of any undeclared income received from foreign bank accounts by the 31st December 2009: providing a reduction in late interest and penalties on outstanding taxes otherwise due on income undeclared.

BACKGROUND

The European Union Savings Directive came into effect on the 1st July 2005, with the aim to counter cross border tax evasion by collecting and exchanging information about foreign resident individuals receiving savings income outside their resident state, so forcing the hand of the ex-pat who to date has not submitted French tax returns.

To implement the Directive, HM Revenue & Customs (HMRC) developed a scheme to collect information about the payment of savings income to certain overseas residents, and to exchange this with other EU member States, including France.

This applies to savings income paid to both Individuals & Trusts and included the following investments:

- Interest payments and sales proceeds on Bonds/Gilts
- Certain dividend payments from collective funds
- Cash interest from deposit accounts
- Interest payments on ISAs and PEPs

Therefore, for individuals who are French resident with any of the above investments in the UK, the HMRC will contact the Central French Tax Office to inform them of this additional income.

INITIAL PROBLEMS & CURRENT SITUATION

Whilst the European Savings Directive came into force back in 2005, due to a lack of resources and cohesion between the different tax authorities, information processing was extremely limited and large backlogs built up. The result of this was that very few cases were processed before the second half of this year.

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However, now the systems are in place, tax authorities both in France and the UK are working through their backlogs.

The second half of 2009 there has been a substantial increase in individuals with investments outside of France (as described above) receiving letters from French tax offices asking for justification of income declared in **previous years**, or more poignantly asking why no declaration at all had been made.

In working examples to date, when asking the individual to justify their disclosure, the French tax office has information of the account holders' name, account number, address and the amount of interest credited to the account in the **2006 tax year**.

There are many individuals who have either not been making declarations to the French tax authorities or have omitted certain income from the UK and are now being actively pursued by the French tax authorities for the years 2006, 2007 and 2008.

Clearly, the offer of amnesty is a warning shot across the bows. For 2010 onwards, for those individuals who are tax resident in France in practice but have not yet disclosed their status, the tax net is rapidly closing.

They should therefore take advantage of the amnesty from the French tax authorities before substantial penalties of 40% or worse and late interest are imposed not just against undeclared savings income from the UK but to all other French taxable income – including French rental income.

For further information on the French tax system, determining whether or not you are French tax resident and how we can help further please go to www.charleshamer.co.uk or e-mail alex@charleshamer.co.uk quoting HC1.