THE SUNDAY TIMES

Date: 16 March 2014
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Paradise costs

Property in Europe may offer a great escape, but you can't hide from the taxman in your foreign bolt hole. And new laws in France, Italy and Spain are proving costly for British expats. By Jessica Bown and Richard Torné

You may think that buying a holiday home on the Continent, or upping sticks and moving there permanently, would give you a measure of respite from George Osborne and his endless austerity measures. But while decamping to Provence or the Costas may release you from the clutches of the chancellor and his red box, you'll still need to contend with the taxmen in cash-strapped European nations, who are more desperate than ever to raise revenue from unwary foreigners. Here are the key changes to watch out for.

FRANCE

Britons living here are being warned to double-check their tax affairs after a surge in the number of investigations targeting expats. Like many European governments, the French administration is keen to clamp down on tax evasion and is working more closely with authorities in other countries to that end.

The fines imposed when people are found to be breaking the rules have also shot up. If you fail to declare a bank account held in another country, the charge is now €1,500 (£1,250) per account per year, up from €750 last year.

Iain Kershaw, who lives near Cannes, is one of the many expats caught up in the crackdown. The company director, 54, and his wife, Karen, 47, are fighting a bill for €25,000 after being investigated by the French tax authorities for failing to declare some old British accounts.

"We had nothing to hide — we just didn't realise we had to declare dormant bank accounts," Kershaw says. "The €3,900 tax bill we should have paid on them has been inflated to about €25,000 due to the huge fines we are being charged for not paying in the 2010-11 tax year. It seems a lot of expats are being caught out."

The rules apply to current and savings accounts, as well as prepaid cards and even Paypal accounts. "The French are really turning the screw," says Nicola Goldsmith, a tax expert at the financial adviser Blevins Franks. "It just goes to show how important it is to know the rules."

Britons who have taken French residency are not the only ones being hit by extra taxes. The Hollande government has also upped

the cost of renting out a second home in France, with owners now facing "social charges" of 15.5% on top of the 20% tax they pay on the rental income. This means anyone making €10,000 a year from rent would face a bill of €3,550.

"This social charge is basically another form of income tax," Goldsmith says. "It is particularly bad for Britons because they are unable to offset these charges against their UK income-tax bill — although that's the British government's fault."

Mischa Burns, a British resident who works for a tour operator in France, now has to pay social charges on her rental property, Maison du Midi, near Carcassonne. "Costs have definitely gone up over the past few years for nonresident homeowners," says Burns, 39, who bought the property in 2006. "I am planning to become a French resident this year."

Ways for nonresidents to reduce the tax burden on rental properties across the Channel include letting them furnished, in which case owners pay tax on just 50% of their turnover.

The news is no better for those selling a second home, who will have to pay capital gains tax of 19% and social charges of 15.5% — unless they keep the property for at least 22 years.

Rebecca Foster, a design illustrator, recognises that this will take a chunk out of any profit she and her husband, Tim, an architectural designer, stand to make on their second home near Courchevel, in the Alps, which they bought about six years ago. Foster, 38, who lives in Derby with Tim, 41, and their children, Harriet, 2, and Jack, 7 months, says: "We love our holiday home, but we know we will face a big tax bill if we sell."

The allure of Andalusia, left, and Portofino, above, has dimmed now expats face fines and taxes. The Kershaws, right, are fighting a bill; the Fosters, below, will face hefty charges if they sell their ski home

ITALY

A recent tax shake-up means expats must now tell the authorities about all their global assets, as well as any cash they bring into or move out of the country.

The changes — which mean that all assets, cash and investment transfers must be declared — are designed to ensure that foreigners living in Italy cannot avoid paying tax on accounts and properties overseas. And there are hefty fines if you don't comply.

"While not all the changes are aimed at non-nationals, they are always an easy target for politicians because they don't vote," Goldsmith says.

Jamie Brown, a managing director, is one of the many Britons affected by the new rules. Brown, 58, has been →

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TAX DUE

now has to pay tax on his property in Britain. He also faces high charges on everything from his income to his Italian home.

"Property taxes have gone up dramatically in the past two years, especially for those with two or more homes, who pay double tax on the second property and quadruple tax on the third," Brown says. "And tax in general is high in Italy. When you add income tax and national insurance, the top rate is 54%."

This is one of the reasons why Tony Samuel, 65, a retired car dealership manager, has decided to remain a resident of Britain for tax purposes, despite living in Portogruaro, near Venice. While British residency used to be based on how long you spent in this country each tax year, the statutory residency test, introduced in 2013, instead analyses your connections to Britain — such as family and work.

"I expect to return to live in the UK at some point, so I do not plan to become an Italian resident," Samuel says.

Yet's it's not all bad for Britons with properties in Italy. The controversial municipal real-estate tax (IMU), an annual levy paid by property owners, has been scrapped for those with just one home in the country, and replaced by a service tax that will be paid by tenants, rather than landlords. Homeowners who retain their UK residence and let their properties in Italy can also deduct up to 30% from the tax bill for rental income to cover maintenance costs.

The pound's strengthening against the euro should at least soften the impact of the new rules. "It has come as a welcome relief that rates have moved back above €1.20," says John Mullens, of the currency specialist Global Reach Partners."This time last year, owners were faced with €1.13, so it makes an enormous difference."

SPAIN

The country could be heading for a confrontation with Brussels after the European Commission demanded clarification on the country's controversial asset-declaration law, which was introduced almost a year ago.

The law, which is similar to that introduced in Italy, came into effect in April 2013 and requires foreign and Spanish residents to declare any assets held outside Spain if their total value exceeds €50,000. These include properties, bank accounts, shares, private pensions and bonds.

The move was intended to tackle the black economy in the country, which, according to government figures, generates more than €240bn — the equivalent of 23% of Spain's GDP. Yet it has come under fierce criticism from expat-led associations and financial experts, who claim it is incompatible with EU laws on the freedom of movement of people and capital.

In January, the European Commission announced that it would be "carrying out a thorough assessment" of member states' tax regimes to determine whether they created disadvantages for EU citizens, with a clear reference to Spain. It warned that it would initiate infringement procedures against any member states found to have breached these "fundamental freedoms". A decision is expected before the end of the year.

Charles Svoboda, president of the AUN property-rights association, says there could be an avalanche of complaints from expats in the wake of the next reporting deadline on March 31. "The rules are incredibly opaque, even by Spanish standards," he says. "So much so that financial advisers are finding it hard to understand the intricacies."

Much of the anger stems from the crippling fines imposed on anyone failing to report their assets, ranging from a minimum of €10,000 to 150% of the asset's value. Even minor reporting errors will incur €1,500 fines. "The penalties are tremendously high — much higher than any others imposed by the tax administration," says Gloria Diego, a tax consultant with Lextax Consulting.

This view is shared by the union of Spanish tax inspectors, Gestha. While dismissing accusations that the law targets expats, it agrees that sanctions are "excessive" because they do not differentiate between small savers and "those who hide huge fortunes in tax havens".

The Mallorca-based lawyer Alejandro del Campo, from DMS Consulting, has been vocal in expressing his opposition to the law. "A person who is an authorised signatory to their father's bank account holding €60,000 can be fined €10,000 if they fail to declare, so the government could easily wipe out the money you have abroad," he says. "It is utterly disproportionate."

At the centre of the debate is a seemingly innocuous-looking but in fact

highly complex form (Modelo 720), which can only be completed online and with the aid of a financial adviser. Tony Randle, a British solicitor, says he was forced to seek advice from

Madrid-based financial experts after discovering that local accountants were incapable of answering specific queries.

"I went to the Madrid office of a global accountancy firm, as they were the only ones who convinced me they knew what they were doing," recalls Randle, 51. "I knew what questions to ask, but a layman wouldn't, so my guess is that half the declarations could be wrong."

Another concern is that expats will have to report their assets again in full if their value has increased by

€20,000, or if they have acquired a new investment.

Although there are no official figures yet, there are concerns that the law will result in long queues of expats handing in their residence cards. Lucas Mayo, a financial consultant for Gecko services, in Mojacar, Almeria, says five of his clients have already given up

their residency, meaning that they will be spending fewer than 183 days in the country.

Del Campo also says that many of his clients have expressed a wish to change their residence status: "If expats previously had doubts about deciding whether or not to reside in Spain, the law has made their mind up."

Before you buy in Savoie, France, left, Tuscany, above, or Mallorca, right, find out about tax laws and what you must declare

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NLA eClips

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Pain in Spain Tony Randle, left, found local accountants were unable to answer his queries