

RECLAMATION OF VAT ON NEW-BUILD PROPERTIES IN FRANCE

VAT refund structure on new-build properties: Save 20% on the purchase price!

VAT applies on new-build properties in France but it is possible to get this refunded to you from the tax administration (or taken off the asking price when purchasing) if you are planning to rent your property furnished on a short term basis with rental services.

This letting activity is considered as commercial activity allowing you therefore to claim the VAT.

The conditions are quite simple

- you need to rent your property furnished
- on a short term basis
- at least 3 'para-hotel' services have to be offered to the tenants i.e. reception (handover of the keys), bed and linen changing, cleaning & breakfast (it can just be a breakfast delivery)...

Many high street rental management agencies propose these lease options to owners, especially in the French Alps. You just need to make sure you sign a flexible commercial lease agreement with them which also enables you to also use the property as you want.

The rental agency will manage, maintain and rent the property on your behalf. You will be of course free to use your property whenever you want (you'll just need to tell the agency before the beginning of the ski season when you are planning to occupy your property).

The rental agency takes care of everything and offers the rental services to the tenants.

This VAT refund structure is very advantageous as it essentially saves you 20% on the purchase price.

Payments and Rebates

If you are buying a new-build property which has already been completed, you must pay the full property price including VAT and then you will get the VAT back 3 to 6 months after the signature.

If you buy off plan, the VAT can sometimes be taken off the property price at the start of the purchase. Alternatively, as off-plan properties are normally paid for in stage payments, you pay each stage payment including VAT and then get refunded the VAT accordingly on each stage payment.

The VAT rebate is being provided on the basis that the property is being rented over 20 years, which means you have to rent your property during that period

It is possible to stop your rental activity after 10 years, but you may have to pay back 10/20th of the VAT rebate you were awarded. In practise very few owners choose to do this as this would then give them the burden of managing the rentals of their property themselves. So in this example the married couple would keep 20% of the SCI shares and the 4 children would have 20% each – 20% of the €5.4m asset = €1.08m which is under the €1.3m threshold.

Selling your property

As you own the freehold title of the property it is possible for you to resell your property before the end of the 20-year period. As the property is being managed by a rental company, there are a few important things to remember:

- 1) If you resell the property and the new purchaser carries on the rental activity there won't be any VAT to repay as the VAT will keep on being rebated with the new purchaser.
- 2) If you resell the property after year 10 for example and the new purchaser does not want to carry on with the lease activity, you may have to repay 50% of the VAT that you received initially.

In the unlikely event of scenario No 2 above taking place, buyers needn't worry for a number of reasons:

- 1) You will have already saved 10% on the VAT at the start.
- 2) Any repayable VAT is applicable on the original purchase price, not the resale price.
- 3) After 10 years of ownership any capital appreciation should be more than enough to cover the repayable amount of VAT.

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