KPMG
cutting through complexity™

October 3, 2013
2013-135

flash International Executive Alert

A Publication for Global Mobility and Tax Professionals by KPMG's International Executive Services PrLawice

France – New Budget for 2014 and Plans to Reform Pension System

by Ann Atchadé and Didier Hoff, FIDAL Direction Internationale, Paris (FIDAL Direction Internationale has a cooperation agreement with KPMG International)

For coverage of last year's budget, see *Flash International Executive Alert* 2012-180, 5 October 2012.

In this *Flash International Executive Alert* we briefly describe proposals in the budget for 2014 and the proposed pension reform plan.

The French government released the budget for 2014 (*Projet de loi de Finances pour 2014*, PLF) in the Council of Ministers on 25 September 2013[1] and issued a communication concerning the reform of the pension system on 28 August 2013[2].

Budget for 2014

We highlight the key measures announced that may impact individuals – including those on international assignment – and their multinational employers.

Reinstate the Inflation / Cost of Living Index to the Personal Income Tax Brackets – Following two years without indexing, the government will reinstate indexing of the tax brackets to account for the rate of inflation. To provide additional relief for lower-income taxpayers, households declaring income up to EUR 1,564 (for a single taxpayer) and EUR 3,350 (for a couple with two children) will benefit from a "discount" of 5 percent above the rate of inflation – in other words, their applicable tax brackets will be the rate of inflation plus 5 percent. It is expected that 7 million tax households should benefit from the indexing and 200,000 households that are currently in the tax net will effectively be removed as a result of this measure.

The tax table below compares the current rates and thresholds with next year's, as proposed.

2013 Tax Brackets (2012 Income)	2013 Rates on 2012 Income	2014 Tax Brackets (2013 Income)	2014 Rates on 2013 Income
Up to €5,963	0%	Up to €6,011	0%
€5,964 to €11,896	5.5%	€6,011 to €11,991	5.5%
€11,897 to €26,420	14%	€11,991 to €26,631	14%
€26,421 to €70,830	30%	€26,631 to €71,397	30%
€70,831 to €150,000	41%	€71,397 to €151,200	41%
Above €150,001	45%	Above €151,200	45%

Exceptional Tax on High Remuneration – This new tax will be paid by companies and corporations that carry out activities in France (including French permanent establishment of foreign entities) on the fraction of the gross remuneration (salaries, golden parachutes, free shares / options, etc.) above €1 million. The tax rate is 50 percent (with a ceiling of 5 percent of turnover for the financial year) and is applicable to remuneration paid, or related to, 2013 and 2014.

Modify the Capital Gains Tax Regime on Movable and Immovable Properties – A new scheme is introduced to incentivize investors to hold on to their investments longer.

A general abatement of 50 percent on the capital gains will apply if the shares are owned between two years and eight years and 65 percent for more than 8 years. The benefit of the abatement will extend to mutual funds where more than 75 percent is invested in shares.

A new special regime will apply to the disposal of shares in a small- and medium-sized enterprises (SMEs) created less than 10 years before the acquisition of the shares (as well as in new innovating enterprises and certain inter-family transfers, etc.). The general abatement of 50 percent will apply to the sale of shares in movable property for taxpayers that hold their investments between one year and four years; a 65-percent abatement for those holding their investments between four years and eight years; and an 85-percent abatement for those holding their investments for longer than eight years.

Executive-level employees with SMEs who retire from employment with the SME will benefit from a supplementary abatement of EUR 500,000.

This measure will apply to the sale of shares realized as from 1 January 2013.

The capital gains taxation of immovable property sales will benefit from an abatement of 2 percent per year going forward. In practice, this means that the capital gain is exempt on the sale of a property owned for more than 22 years.

For social surtaxes, the abatement will be 1.65 percent for each year of ownership between the 5^{th} and the 21^{st} year, 1.60 percent for the 22^{nd} year of detention and 9 percent for each year beyond the 22^{nd} year – which means there will be total exemption when the property is owned for more than 30 years.

The measure applies to the sale of property realized from 1 September 2013 (except for the part relating to the derogatory measures; these will apply from 1 January 2014).

Please note that exceptionally, relief of 25 percent on the capital gain is granted for sales taking place between 1 September 2013 and 31 August 2014.

Reduce the Family Coefficient (quotient familial) Ceiling – The ceiling is to be lowered from EUR 2,000 to EUR 1,500 for each half share under the family coefficient system that is designed to mitigate the impact of progressive tax rates for certain taxpayers, based on the number of their dependents.

Elimination of the Tax Reduction for Education Tuition Fees – The government proposes eliminating the income tax reduction of EUR 61 for a student going to college, EUR 153 for a student going to high school (lycée), and EUR 183 for a student going to grade school.

Abolition of Exemption for Pension Increases for Large Families – The exemption for pension increases for pensioners who have raised at least three children is abolished.

Next Steps

The Finance Bill has been submitted to Parliament for debate and will be voted on by year end.

FIDAL Note

The proposed budget does not contain many new measures. This provides a modicum of relief after the big changes introduced last year. Nevertheless, the passage through parliament may bring fresh measures and a few surprises.

Pension Reform

At the Council of Ministers meeting on 28 August 2013, the prime minster issued a communication on the government's plans for reform of France's pension regime. This communication followed consultation with the social and economic partners (trade associations, employers groupings, and labor unions, etc.).

The government has chosen to introduce various reforms given projected deficits in the social security accounts under current policies.

Below we highlight the main measures in the proposed reform plan.

Contribution Period – The contribution period before an individual can benefit from a full pension will be increased. Thus, the contribution period required to benefit from a full pension will be increased by a quarter every three years from 2020 to 2035, when it will reach 43 years for individuals who are born in 1973 and after. Special policies will make provision for "interruptions" in contribution periods for women taking maternity leave, students, and interns.

Old-Age Pension Contributions – Another measure intended to balance the social security accounts by 2020 will gradually increase old-age pension contributions (*cotisations vieillesse*) reaching 0.3 percent in 2017 for employees and 0.3 points for employers.

Cost of Living Adjustments – In addition, the adjustments to pension pay-outs that account for changes in the consumer price index (inflation) currently performed on 1 April each year, will now take place on October 1.

Tax Relief for Large-Family Pension Supplementary Allocations – The 10-percent increase provided on pensions for retirees who have raised three or more children will be subject to income tax (up until now, these increases have been exempt from income tax).

Future Reform Plans – The government intends to examine the work of a commission – *Haut conseil du financement de la protection sociale* – with a view to proposing measures that will render the social protection system less burdensome on employment and business.

Next Steps

The government plans to introduce pension reform legislation in Parliament during the month of October.

Footnotes:

1 See the *Projet de loi de finances pour 2014*, n° 1395, déposé le 25 septembre 2013 at: http://www.assemblee-nationale.fr/14/dossiers/loi_finances_2014.asp

2 See the announcement (in French) at the Council of Ministers' 28 August 2013 meeting: http://www.elysee.fr/conseils-des-ministres/article/compte-rendu-du-conseil-des-ministres-du-mercredi-28-aout-201/ .

* * * *

€1 = $1.36

€ = £0.842

For further information or assistance, please contact your local KPMG International member firm IES professional or the following IES professionals with FIDAL Direction Internationale at tel. +33 (0) 1 55 68 43 07:

Didier Hoff, Partner

Ann Atchadé, Director

Florence Esmoingt, Director

Alain Loehr, DirectorMarie Lynn Simmons, Director

Estelle Cupillard, Senior Manager

Gérôme Gbaya, Senior Manager

Stephanie Giraudet, Senior Manager

Cyrille Klajer, Senior Manager

The information contained in this newsletter was submitted by FIDAL Direction Internationale in France. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

Flash International Executive Alert is an IES publication of KPMG LLP's Washington National Tax practice. To view this publication or recent prior issues online, please click **here**. To learn more about our IES prLawice, please visit us on the Internet: click **here** or go to http://www.kpmg.com .