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France – 2015 Budget Law Contains Some Changes, for Individuals, Employers

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France's 2015 finance law and 2014 amended finance law, enacted at the end of December 2014, introduced some minor changes to France's personal tax system, including measures related to tax rates and thresholds, the "quotient familial," and capital gains tax treatment of real estate dispositions by non-French-resident taxpayers, amongst others.

This newsletter highlights the changes affecting employees – including those on international assignment – and their employers further to the enactment of the French Finance Law for 2015 at the end of December 2014 (French Finance Law for 2015 and the French Amended Finance Law for 2014)[1].

Unless otherwise indicated, these measures took effect on 1 January 2015.

Why This Matters

In contrast to previous years, the new laws include only limited changes to the tax system; recent budgets had seen tax reforms imposing higher taxes for most assignees and employees.

Despite the removal of the basic-rate income tax band (5.5 percent) and a lower starting rate for the 14-percent rate (€9,691, in contrast to last year's €11,992) the increases in exemption amounts, personal tax allowances and credits, the adjustment to the personal tax brackets – though offset by limitations for some taxpayers in the "quotient familial" – mean basically little to no change in the tax burdens for taxpayers and no significant changes in international assignment costs.

However, international assignment cost projections and budgeting for assignments to France, and for assignees outside France still subject to French taxation, should reflect these changes.

(For coverage of last year's budget, see *Flash International Executive Alert* 2013-135, 3 October 2013.)

Tax Thresholds

The main change this year is the removal of the 5.5-percent income tax band (net taxable income ranging from €6,011 to €11,991). The other income tax thresholds are increased by 0.5 percent to keep in line with inflation.

The 2014 (on 2013 income) and 2015 (on 2014 income) tax brackets and rates are as shown on the next page.

2014 Tax Brackets (on 2013 income) Net taxable income (one unit)	Rate	2015 Tax Brackets (on 2014 income) Net taxable income (one unit)	Rate
Up to €6,011	0 %	Up to €9,690	0 %
€6,012 to €11,991	5.5 %		
€11,992 to €26,631	14 %	€9,691 to €26,764	14 %
€26,632 to €71,397	30 %	€27,765 to €71,754	30 %
€71,398 to €151,200	41 %	€71,755 to €151,956	41 %
From €151,201	45 %	From €151,956	45 %

One small further change is that the *décote* (the income tax credit where tax liability is below a certain level) will increase from €1,016 to €1,135 for a single person and from €1,016 to €1,870 for a couple.

The contribution on high income (3 percent or 4 percent) remains unchanged.

Limitation of the Personal Allowance "Quotient Familial" Threshold for Nonresident Taxpayers

The amount of French income tax is based on the number of dependents in the household (known as the "quotient familial" system). From 2015, 2014 nonresident taxable income will not benefit from the full dependents' allowance. The additional half unit of the dependents' allowance will be capped at €1,508, and €754 for each additional unit.

As nonresidents are already taxed at a minimum 20-percent flat-rate tax, this measure will likely lead to higher taxation.

Real Estate Capital Gains by Non-French-Resident Taxpayers

The rate of capital gains tax on real estate transactions depended on the state of residence of the seller. The French basic rate of 33-1/3 percent was reduced to 19 percent when the seller was tax resident in a country of the European Union (EU) /European Economic Area (EEA), and 75 percent if resident in one of the Non-Cooperative States or Territories (NCST).

From 1 January 2015, the rate will be 19 percent irrespective of residence (except for NCST).

(For prior coverage of changes to the real estate capital gains taxation regime, see *Flash International Executive Alert* 2012-180, 5 October 2012.)

Increased Dwelling Tax Rate

An increased dwelling tax rate within a limit of 20 percent is now applicable to furnished housing not used as a principal residence in those cities where housing is in short supply[2].

Obligation to Appoint a French Tax Representative No Longer Required

The Finance Law does away with the obligation to appoint a French tax representative, in particular for real estate transactions, where the taxpayer is a resident in an EU/EEA country.

Footnotes:

1 For the 2015 budget legislation, see *Loi n° 2014-1654 du 29 décembre 2014 de finances pour 2015,* (in French) at: http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000029988857&dateTexte=&categorieLien=id or http://www.assemblee-nationale.fr/14/projets/pl2234.asp or http://www.vie-publique.fr/actualite/panorama/texte-discussion/projet-loi-finances-pour-2015.html .

And for the amended finance law for 2014, see *Loi n° 2014-1655 du 29 décembre 2014 de finances rectificative pour 2014* published in the *Journal Officiel* of 30 December 2014, (in French) at: http://www.assemblee-nationale.fr/14/dossiers/deuxieme_collectif_budgetaire_2014.asp or http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000029990432&dateTexte=&categorieLien=id .

2 For a list of the cities eligible for the new 20-percent tax, see: http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000027399823&dateTexte=&categorieLien=id .

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