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France – Plans to Institute Income Tax Withholding on Remuneration

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flash Alert

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The French government is planning to introduce income tax withholding on remuneration paid to resident taxpayers.

France's Minister for Finance and Public Accounts and the Secretary of State for Budget presented to the Council of Ministers on 17 June 2015, a communication on the introduction – as of 1 January 2018 – of income tax withholding on remuneration income (*prélèvement à la source*).¹

Why This Matters

Instituting income tax withholding could represent a major challenge for employers and even more so when considering inbound and outbound expatriates.

Currently in France, income tax is not deducted at source from the remuneration paid to resident taxpayers. Instead it is paid after the receipt of an assessment further to the filing of an income tax return in the year following the receipt of the income.

No concrete details regarding this proposal have yet been made public. It is expected that there will be more specific information on the mechanism in the Draft Budget law for 2017, which will be published at the end of 2016.

FIDAL Note

The government cited similar systems in place in many industrialized countries, such as the U.S., the U.K., and Germany, as a reason for the move to institute this type of withholding.

No major changes are expected in the calculation of income tax. Notwithstanding, the introduction of income withholding is likely to be a very complex undertaking. It is expected that taxpayers will still need to file an income tax return to take into account progressive rates of income tax as they apply to their household income and other miscellaneous income received by the household and to claim tax credits and reductions.

Measures are expected to be proposed as part of the 2016 Finance Bill to promote the use of e-filing and payment of tax by way of monthly installments.

Footnote:

1 See (in French) the 17 June 2015 Council of Ministers news release ("Compte-rendu du Conseil des ministres du mercredi 17 juin 2015") at:

<http://www.elysee.fr/conseils-des-ministres/article/compte-rendu-du-conseil-des-ministres-du-mercredi-17-juin-2015/>.

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