



# GMS Flash Alert

2016-120 | October 21, 2016



## France – Withholding Tax on Professional Income ‘Bientôt’

The French government is planning to introduce a withholding tax system on professional income as of January 1, 2018.<sup>1</sup> This *GMS Flash Alert* discusses the main features, as they pertain to employees, contained in the draft Budget law for 2017, which is currently undergoing parliamentary review.<sup>2</sup>

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### WHY THIS MATTERS

France is one of the few countries where employers do not currently withhold employees’ personal income tax from their salaries – at least not from French tax resident taxpayers. At present, employees are responsible for paying their own income tax, upon the receipt of an assessment after the filing of a tax return usually in the year following the receipt of the income.

The new withholding rules, if enacted, could mean important changes to companies’ payroll systems, as well as the relations and information flow between the tax administration, companies, and individual taxpayers.

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### What the New Withholding System Entails

If the measures contained in the draft legislation are approved in their current form, then, effective January 1, 2018, French employers will be required to withhold personal income tax from the salary paid to employees each month.

The French tax administration will calculate the employee’s individual tax rate based on the prior year’s annual declaration. The calculation will take into account the income from the employee’s household. Employers will be notified of the employee’s individual rate via a government-administered secure portal.

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The tax authorities will determine the tax withholding rate in the second half of 2017 based on the 2016 tax returns submitted in May 2017, and communicate the rate to the employee and employer.

As of January 1, 2018, employers will deduct the withholding tax and pay the tax directly to the tax authorities.

Employees will still be required to file an annual income tax declaration. Monthly payments will be compared with the actual tax due. The balance, if any, will be paid by the employee to the tax administration.

The government has decided to cancel the annual income tax of calendar year 2017 – the so-called “transition” year. Exceptional income and tax credits pertaining to tax year 2017, however, will be taken into consideration for the calculation of the tax rate and could remain taxable.

Special rules will apply to income not subject to withholding (e.g., business income, rental income) or for employees where there is an employer not established in France. Rules relating to tax on passive income will remain unchanged.

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## FIDAL NOTE

If the proposals go ahead, the introduction of withholding tax will have a dramatic impact on the payroll processes of all employers with employees working in France. From a global mobility standpoint, employers will need to assess how the withholding tax will impact their global payroll processes and program costs. International assignment policies may need to be revised and clear communications to employees regarding the changes will be crucial.

If employers have any concerns about what will be required of them, they should consult as soon as possible with their qualified tax professional.

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## FOOTNOTES:

- 1 For prior coverage, see GMS [Flash Alert 2015-085](#) (July 14, 2015).
- 2 Readers may find the text of the draft legislation together with parliamentary debates (in French), by clicking [here](#).

## Contact us

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